



PILLAR INDEX AND REGIONAL DEVELOPMENT: AN INTEGRATED APPROACH TO ECONOMIC AND SOCIAL PROGRESS

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Praise be to the presence of God Almighty for the completion of the book "**Pillar Index and Regional Development: An Integrated Approach to Economic and Social Progress.**" This book is compiled as an academic contribution in enriching the study of integrated regional development, with a focus on the analysis of the main pillars that underpin the economic and social progress of the region. In the context of increasingly complex global dynamics, the need for a multidimensional approach to development is becoming increasingly important, not only to understand the linkages between sectors, but also to formulate policies based on synergy and sustainability. The Pillar Index concept developed in this book offers a comprehensive analytical framework to assess and compare the level of progress between regions based on the strategic dimensions of development. This approach not only measures economic performance, but also considers institutional, infrastructure, information and communication technology (ICT), health, and macroeconomic stability. Thus, the Pillar Index is expected to be a conceptual and practical tool for development planners, researchers, and policymakers in understanding the resources and capacities of each region.

Chapter after chapter in this book is arranged to illustrate the interconnectedness and interdependence between the pillars of development. The first chapter provides a conceptual framework regarding the Pillar Index and its role in regional development. The second chapter highlights the importance of institutions as a key foundation in economic growth and development governance, while the third chapter discusses how infrastructure plays a catalyst in creating sustainable development. Furthermore, the fourth and fifth chapters explore the dynamics of ICT adoption and macroeconomic stability as determinants of a resilient innovative and digital ecosystem. In the sixth to ninth chapters, the discussion is directed at the social and structural aspects of development, including health, skills, and the synergistic relationship between infrastructure and institutional performance. The tenth and eleventh chapters then review regional competitiveness strategies by emphasizing the importance of integrated policies based on the results of meta-analysis from various empirical studies. Chapters twelve and thirteen expand the perspective by discussing the contribution of infrastructure and health to market size and the role of structures and institutions in driving innovation. The final chapter presents conclusions and policy recommendations formulated based on the main findings of the entire chapter, emphasizing the urgency of inclusive and sustainable development. The preparation of this book is based on the awareness that regional development can no longer be understood partially. Separate sectoral approaches often ignore the interconnectedness between factors that actually reinforce each other. Therefore, the book offers an integration between theory, empirical data, and policy analysis to create a more holistic understanding. This approach is expected to contribute to the development of development evaluation methodologies and assist policy makers in designing more targeted strategies.

We realize that the preparation of this book is inseparable from various challenges, both in data collection, empirical analysis, and in formulating theoretical concepts that can be applied across regions. However, thanks to the close cooperation between the authors, researchers, and editors, the book was finally resolved well. We would like to express our deepest gratitude to all parties who have provided academic support, substantial input, and collaborative spirit in the process of compiling this work. It is our hope that this book can be an important reference for academics, students, researchers, and development practitioners interested in regional, economic, and public policy issues. More than that, we hope that this book can encourage further discussion and research that strengthens the knowledge base on integrated development, while enriching the literature on regional competitiveness and sustainability in various socio-economic contexts. Finally, I hope that this book can provide real benefits in the development of development policies based on data and scientific evidence, as well as a contribution of thought for the realization of equitable economic and social progress in all regions.

Authors

With great gratitude and appreciation, we welcome the publication of the book "Pillar Index and Regional Development: An Integrated Approach to Economic and Social Progress." This book is the result of an in-depth academic process, where each chapter is structured based on strong theoretical studies, careful empirical analysis, and critical reflection on regional development practices in the era of digital transformation and economic globalization. As editors, we view that the main substance of this book lies in its integrative approach to understanding regional development. The approach used not only highlights economic aspects as the main measure of regional progress, but also places institutions, infrastructure, technology, health, and macroeconomic stability as interacting pillars in shaping sustainable regional competitiveness. The Pillar Index framework introduced in this book is an innovative effort to assess development more comprehensively—not only from the end result, but also from the quality of the foundations that underpin the sustainability of growth itself. The substance of this book emphasizes that economic development cannot be separated from the institutional and social context that surrounds it. As illustrated in Chapter 2 and Chapter 9, strong institutions play a key role as the main drivers of economic efficiency and social innovation. Meanwhile, the discussion of infrastructure in Chapter 3 and Chapter 12 shows that physical and digital accessibility are important catalysts for inclusive growth and increased productivity. The empirical approach used strengthens the argument that investments in these development pillars must be carried out in a balanced and mutually supportive manner. Another aspect that is a substantial strength of this book is its focus on the dimensions of technology and health as determinants of long-term development. Chapter 4 and Chapter 7 highlight the dynamics of information and communication technology (ICT) adoption that are not only related to economic modernization, but also to increasing human resource capacity and institutional efficiency. Meanwhile, Chapters 6 and 12 affirm that the development of the health sector not only has an impact on improving people's welfare, but also plays a role in strengthening productivity and enlarging the potential of the domestic market. From a policy perspective, this book provides significant added value through a meta-analysis-based approach as discussed in Chapter 11. This approach allows the integration of various empirical findings to formulate a more evidence-based regional development policy strategy. The concluding chapter then crystallizes all the findings into concrete policy recommendations, emphasizing the importance of cross-sectoral coordination, participatory planning, and data-driven policies in strengthening regional competitiveness at the national and global levels. As a scientific work, this book has an important contribution to the development of regional development literature and institutional economics. By combining theory, methodology, and policy analysis, this work serves not only as an academic reference, but also as a practical guide for regional policymakers, development planners, and research institutions. More than that, the substance of this book opens up a wider academic dialogue on how development measurement can evolve from just an economic indicator to a more inclusive and equitable multidimensional framework.

We would like to express our appreciation to all authors and contributors who have devoted their time, knowledge, and dedication to the preparation of this book. We would also like to express our gratitude to institutions and academic partners who have provided substantive support in the editing and publishing process. It is our hope that this book can be a strategic reference in developing a new paradigm of regional development—one that not only emphasizes economic growth, but also pays attention to the social, institutional, and environmental sustainability dimensions. Thus, the Pillar Index is not just a measuring tool, but a conceptual guide towards more inclusive, resilient, and equitable development.

Editors

Editor Profiles

Prof. Dr. Bohari Mohd Yamin is a well-known chemist from Malaysia who was born in 1950 in Port Dickson, Negeri Sembilan. With more than four decades of experience, he has made major contributions in the fields of statistics, inorganic chemistry, organographic chemistry, and crystallography, which places him as one of the most influential scientists in the Southeast Asian region. He currently serves as Professor Emeritus at the Faculty of Science and Technology, Universiti Sains Islam Malaysia (USIM).

Prof. Bohari obtained his Ph.D. in Chemistry from King's College London after completing his undergraduate studies at the University of Malaya. His academic career began in 1974 as a tutor at Universiti Kebangsaan Malaysia (UKM), and in 1994 he was appointed as a full professor. During his career, he has served as the Head of the Department of Chemistry, Deputy Dean of the Faculty of Science, and Head of the School of Chemistry and Food Technology at UKM.

As a researcher, Prof. Bohari focuses on the synthesis of organographic compounds, the study of chemical kinetics, and the application of X-ray crystallography. He has published more than 336 scientific papers in reputable international journals, with an H-index of 18 and more than 1,900 citations, reflecting his extensive scientific influence. For his dedication, he received various prestigious awards such as P.J.K., K.M.N., and D.N.S., which recognized his contribution to the development of chemistry.

In addition, Prof. Bohari is active as a keynote speaker and guest lecturer at various international conferences in Asia, Europe, and the Pacific, as well as being involved in academic networks such as SAFEnetwork which strengthens cross-border collaborations between Malaysia, Indonesia, the Philippines, and Thailand. Since his retirement in 2017, he has remained an active role in mentoring young academics through professional training activities and social initiatives to enhance research and publication capacity at regional and international universities. With his dedication and extraordinary achievements, Prof. Dr. Bohari Mohd Yamin became a role model for the next generation of scientists in advancing chemistry and the academic world.

Salisu Ameh Amodu, PhD, is a prominent philosopher in the field of African Philosophy with a doctorate from the University of Nigeria, Nsukka. He also obtained further education at Prince Abubakar Audu University and Kogi State University, Anyigba, which strengthened his academic foundation in various branches of humanities. Her areas of expertise include metaphysics, epistemology, ethics, humanism, gender studies, public policy, and peace and conflict resolution from an African perspective.

Currently, Amodu, PhD, serves as a lecturer in the Department of Philosophy and is a board member at the Center for Diploma and Pre-degree Studies, Prince Abubakar Audu University. His dedication to academic development is reflected in the "Educate 500 Students on Quality Research" program, which aims to improve students' research skills and intellectual quality.

A prolific writer and editor, Amodu, PhD, has made significant contributions to the treasure trove of African philosophy through works such as *Land in African Ontology* and *Rational Proof of the Existence of God in Igala Ontology*, as well as several edited books focusing on African philosophy, ethics, and socio-cultural studies. For his scientific contributions, he has received a number of awards, including the Award of Excellence in African studies. In addition to his academic work, Amodu, PhD, is active in various professional organizations such as the Association for the Promotion of African Studies (APAS) and the Association of Philosophy Professionals of Nigeria (APPON), as well as serving as an editorial board member and manuscript reviewer in several scientific journals. Through his work, leadership, and devotion, Amodu, PhD, continues to strengthen the African intellectual tradition and inspire a younger generation of thinkers in the field of philosophy.



ACKNOWLEDGEMENTS

We praise and gratitude to the presence of God Almighty for His grace and grace so that the book **"Pillar Index and Regional Development: An Integrated Approach to Economic and Social Progress"** can be completed properly. This book is the result of a long process of research involving a research process, academic discussions, and critical reflection on various complex and multidimensional regional development issues. We would like to express our deepest gratitude to all parties who have provided support, both directly and indirectly, in the preparation of this book. To our fellow academics, researchers, and public policy practitioners who have shared their views, ideas, and empirical data, we express our sincere appreciation. Your input and collaboration have enriched the content of this book, making it more comprehensive and relevant to today's development challenges. We are also grateful to educational and research institutions for providing moral and material support during the writing and editing process. This support allows us to conduct in-depth studies, data validation, and the systematic preparation of the Pillar Index conceptual framework. Not to forget, we would like to express our appreciation to the editorial team and publishers who have worked with dedication, precision, and professionalism in ensuring the academic and technical quality of this book. We would like to extend special thanks to the reviewers and peers who have provided critical and constructive assessments of this manuscript. The feedback provided is invaluable in improving arguments, strengthening methodologies, and clarifying the theoretical and practical contributions of each chapter. We also realized that the compilation of this book is inseparable from the support of family and colleagues who always provide motivation, patience, and enthusiasm during the writing process. Without their prayers and encouragement, the compilation of this book would certainly not have run smoothly. Finally, we hope that this work can be beneficial for the development of science and regional development policy practice. Hopefully, this book will be an inspiration for further research and studies oriented towards inclusive, just, and sustainable development.

CONTRIBUTORS



Dr. Himawan Estu Bagijo, S.H., M.H. is a constitutional law researcher at the Regional Research and Innovation Agency (BRIDA) of East Java Province, Indonesia. He currently serves as Vice Chairperson of the Indonesian Association of Constitutional and Administrative Law Lecturers (APHTN-HAN). His work focuses on constitutional law, legal policy analysis, decentralization, and inter-institutional relations within Indonesia's governance system. He actively contributes to legal scholarship, policy discourse, and national legal education, and regularly participates in academic and public forums on constitutional and administrative law. His research is published in reputable national and international journals.



Dr. Agustinus Hartopo began his education in Yogyakarta, where he completed his primary and secondary schooling, and later earned his Bachelor's degree from Universitas Cenderawasih in Jayapura, Papua. As a Senior Researcher, he has conducted significant studies focused on regional economic development in Papua, with published books addressing critical topics such as sago farmers' income analysis, the economic impact of customary-based development in La Pago, and cocoa development strategies in Papua Province. His research reflects a deep commitment to understanding and addressing localized economic challenges, particularly in Eastern Indonesia. Dr. Hartopo actively participates in international academic forums and contributes to scientific discourse through peer-reviewed journal articles, demonstrating both his dedication to regional development and his engagement with broader scholarly conversations.



Prof. Dr. Drs. Ir. H. Achmad Tarmizi, S.E., S.H., S.T., M.T., M.Si., M.H., M.Pd., Ph.D. is a distinguished Indonesian educator, senior civil servant, and multidisciplinary academic from Ogan Komering Ulu Regency, South Sumatra, renowned as a pioneer of vocational education in the region. He holds an extraordinary academic record—five bachelor's, four master's, and two doctoral degrees—earned with distinction and scholarships across engineering, economics, law, agribusiness, and educational management from leading Indonesian universities. His public service career includes key roles such as Regency Secretary of OKU (2017–2023), Acting Regent (2021), Head of the OKU Education Office, and currently Expert Staff to the Regent. A former award-winning vocational school principal (National Outstanding SMK Head, 2007), he remains active as an accredited lecturer at Baturaja University. In February 2025, he was conferred an Honorary Professorship by The Thames International University Paris, France, in recognition of his lifelong contributions to “Vocational Education in Indonesia,” further affirming his status as the MURI (Indonesian World Records Museum) holder for the most academic degrees in the country.



Heri Wahyudiyanto, is a Functional Researcher at the Regional Development Planning, Research, and Innovation Agency of Papua Province, Indonesia, based in Jayapura. He completed his Master's degree in Financial Management in 2004 at Universitas Hasanuddin Makassar, specializing in Geography. He also earned his undergraduate degree from the Surabaya Institute of Technology in East Java, where he obtained a Master's in Technology Management, with a concentration in Urban Development Management. Heri is an active writer and researcher, contributing to international journals and participating in academic activities at universities in Papua Province. His research focuses on regional development, urban planning, and sustainable growth, with particular attention to addressing the economic challenges and opportunities in Papua. Through his work, he continues to play a key role in advancing knowledge and innovation in the region's development.



Dr. Ir. Herrukmi Septa Rinawati, M.M. is an accomplished academic and researcher, specializing in human resources and public policy. She earned her doctoral degree from Universitas Airlangga in 2014, cementing her expertise in these critical areas. Currently, she serves as a researcher at the Regional Research and Innovation Agency of East Java Province, Indonesia, where she plays a vital role in advancing regional innovation and knowledge development. Herrukmi also dedicates her efforts to education as a lecturer at Satya Widya Tourism College in Surabaya, where she mentors and prepares future professionals for the dynamic tourism sector. Her academic endeavors are complemented by her prolific writing, which includes publishing books and contributing international academic articles. Through her works, she actively engages in enriching the discourse on public policy, human resource management, and regional development. Bridging the realms of research and education, Herrukmi exemplifies a commitment to knowledge dissemination and interdisciplinary collaboration, impacting both local communities and the global academic sphere.



Lisa Yuniarti, M.Si., is a Senior Researcher (Peneliti Ahli Madya) at the National Research and Innovation Agency (BRIN). She holds a Bachelor's degree in Agriculture from Mercu Buana University (1999) and a Master's in Administration and Public Policy from Universitas Muhammadiyah Jakarta (2008). Her research centers on village development, transmigration, and empowerment of underdeveloped regions, with notable studies on village planning in East Belitung, OVOP-based commodity development, customary-based village clusters in Papua, and minimum infrastructure standards in transmigration areas. She also explores community empowerment through local wisdom and agricultural technology, as well as women's economic participation—such as cashew processing in East Nusa Tenggara. Her work informs rural policy and promotes context-specific, sustainable solutions for Indonesia's marginalized communities.



Prof Agus Fanar Syukri, Ph.D., is a senior researcher and expert in business and management, currently serving as a Principal Expert Researcher (Professor Riset) at the Research Center for Public Policy (PRKP), National Research and Innovation Agency, since 2024. He earned his B.Eng. from Saga University, Japan (1994), M.Eng. from the Japan Advanced Institute of Science and Technology (JAIST, 1998), and Ph.D. from The University of Electro-Communications (UEC), Tokyo (2005), all under the Japanese government's Science and Technology Manpower Development Program (STMDP/STAID). A civil servant since 1989 under the Indonesian Institute of Sciences (LIPI), he began his full-time research career in 2005 at LIPI's Center for Quality Systems and Testing Technology (P2SMTP), where he held various leadership roles, including Head of P2SMTP (2016–2019). Since 2012, he has held the rank of Senior Expert Researcher, focusing on research, technology, and innovation policy and governance, as well as quality, information, knowledge, and innovation management.



Hendy Gunawan received a Bachelor's degree in computer science from Gunadarma University, Depok, Indonesia, and took part in a non-degree postgraduate program specializing in Information systems at the state administrative college - Institute of state administration, Jakarta, Indonesia. Currently serves as a researcher at the Public Policy Research Center - Governance, Economics and Social Welfare Research Organization - BRIN. His current research interests include: information systems management, public policy, bibliometrics, and technology acceptance model.



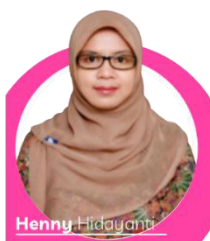
Ir. Yanter Hutapea, M.Si. is a Principal Researcher at the Research Center for Social Welfare, Village, and Connectivity, National Research and Innovation Agency (BRIN). Holding degrees in Agricultural Development (B.Sc., UNSRI, 1986) and Agribusiness (M.Si., UNSRI, 2002), he focuses on agricultural innovation, rural development, and value chain enhancement in key commodities like coffee, rubber, rice, and corn. Recent projects include improving Semendo coffee quality through farmer-SME partnerships (2023), digital fertilizer recommendations for rice (2022), and post-harvest innovations in rubber (2021). His work has been published in high-impact outlets such as *Sustainability*, *Transactions of the Chinese Society of Agricultural Machinery*, *Springer Nature*, and *E3S Web of Conferences*.



Askalani, SST, MP, is a dedicated researcher and expert in agricultural economics currently serving at the Regional Research and Innovation Agency (BRIDA) of South Kalimantan Province, Indonesia. He earned his Diploma IV in Agricultural Extension from the Agricultural Extension College (STPP) Bogor in 2007 and later obtained a Master's degree in Agricultural Economics from Lambung Mangkurat University (ULM) in 2022. Askalani began his career in 2011 as a staff member at the Integrated Agricultural Research and Development Center (BP3T) under the Regional Research and Development Agency of South Kalimantan. After being appointed as a civil servant on study leave in 2017, he advanced to become a Research and Development Analyst in 2022, focusing on governance and regulatory studies. Since October 2023, he has served as a Junior Researcher specializing in agricultural economics at BRIDA. Based in Banjarbaru at the Provincial Government Office Complex on Jalan Dharma Praja I,



Noviati Fuada, SP, MKM, is an Associate Researcher with extensive experience in public health and nutrition, particularly in maternal and child health, anemia, breastfeeding, low birth weight, and health information systems. She holds a Bachelor's in Agricultural Science and a Master's in Community Health Nutrition. Her scholarly output includes publications in nationally accredited journals (e.g., *MGMI*), international journals (*Sustainability*, *Frontiers in Nutrition*, *International Journal of Innovation, Creativity and Change*, *Medico-legal Update*), conference proceedings, book chapters, and policy-oriented reports. She has contributed to numerous national health surveys and research projects since 1998, including *Riskesdas*, the Indonesian Basic Health Research, and cohort studies on child development and elderly quality of life, often serving as a technical officer or team leader across regions like West Java, South Kalimantan, and Central Java. Her recent work explores topics like green economy adoption through rural credit banks and GIS applications in public health, reflecting her commitment to evidence-based, interdisciplinary approaches to health and nutrition in Indonesia.



Henny Hidayanti is a First-Level Public Health Researcher at the Research and Development Agency of East Java Province. She holds a Bachelor's degree in Public Health from the Faculty of Public Health, Universitas Airlangga. With a research career spanning over a decade, she has led and contributed to numerous policy-relevant studies focusing on health equity, community empowerment, primary healthcare services, and disease prevention in East Java. Her key research projects include evaluations of health workforce distribution, legal protection for patients and providers (2015); community-based health promotion through active village and subdistrict health posts (2016); effectiveness of integrated health posts (2017) and rural health clinics (2018); hospital service models in Pamekasan and Bangil (2019); the role of social media in improving health access for Madura communities (2021); and a 2024 study on the determinants of Dengue Hemorrhagic Fever incidence. Her work consistently supports evidence-based health policy and equitable healthcare delivery in the region.



Dr. Ari Sasmoko Adi, is a professional in the field of Transportation Engineering and Highway. He holds the position of Junior Researcher and serves as a lecturer in the Faculty of Engineering, Civil Engineering Program, at the University of 17 August 1945 Samarinda. He completed his bachelor's degree in 2000, followed by a Master's degree in 2003, and obtained his Doctorate in 2017. Dr. Ari Sasmoko Adi is actively involved in research and development in the field of Transportation Engineering and Highway as part of his role as a Junior Researcher. As an academic, he is likely engaged in teaching activities, sharing his knowledge and experience with students in the Civil Engineering Program. Overall, his profile reflects a dedication to higher education, research, and a commitment to advancing knowledge in the field of Civil Engineering.



Andjar Prasetyo, SE, M. Si, a seasoned researcher specializing in regional economics, resides in Magelang City, Central Java, Indonesia. He is actively engaged in authoring internationally recognized scientific articles and books, collaborating with both domestic and international publishers. His works primarily focus on economic and regional issues, addressing a wide spectrum of challenges and opportunities. Beyond his prolific writing, Prasetyo is deeply involved in multidisciplinary research collaborations, bridging diverse fields to provide innovative solutions to complex regional and economic problems. His dedication to advancing knowledge and fostering interdisciplinary approaches has made him a respected figure in his field.



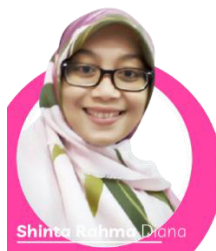
Sahlan was born in 1956 in Cepu, Blora, Central Java, Indonesia. He graduated from the Oil and Gas Mechanical Engineering School in Cepu in 1975 and earned his bachelor's degree from the Nuclear Technology College in Jakarta in 1983. He completed his Master's program in Materials Science at the Faculty of Mathematics and Natural Sciences, Universitas Indonesia, in 1990. From 1980 to 2020, Sahlan worked at the Agency for the Assessment and Application of Technology (BPPT), where he served as Project Leader for the Defense System Study (1985–1997) and as a Senior Principal Researcher (Grade IVe) from 2006 to 2020. Since 2020, he has continued his career at the National Research and Innovation Agency (BRIN). Sahlan is an active author of scientific articles published in international journals, reflecting his dedication to research and advancements in science and technology.



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Mahmud Thoha, APU is a Principal Expert Researcher at the Research Center for Macroeconomic and Finance, National Research and Innovation Agency (BRIN), Indonesia. He earned his Master's degree from the Faculty of Economics, University of Manchester, UK, in 1991. With a distinguished research career spanning decade, he specializes in Islamic economics and finance, financial inclusion, SME development, and agricultural fintech. His recent work explores topics such as environmental sustainability in Islamic banking, innovative credit scoring, conservation economics, and the role of peer-to-peer lending in enhancing financial literacy among smallholder farmers. His research consistently bridges policy, finance, and sustainable development in the Indonesian context.



Shinta Rahma Diana, SE., M.Si is a Senior Researcher at the Research Centre for Public Policy, Research Organization for Governance, Economy, Community Welfare part of National Research and Innovation Agency, Indonesia. Currently, she is a member of the Research Group of IPTEKIN Policy and Governance. Was born in Cilacap on 1978. She graduated from Bachelor of Accounting in 2000 and Master of Accounting in 2003 in Yogyakarta. During college, she filled her time by becoming a Lecturer Assistant for several courses, including Financial Management and Financial Statement Analysis. She is currently pursuing Doctoral studies at the Faculty of Administrative Science, University of Indonesia. Her career journey started from working in several private companies, state-owned enterprises, and teaching at several universities. Starting her career as a Civil Servant at the National Institute of Aeronautics and Space in 2010 and joining BRIN since 2021. Functional researcher started in 2014 until now.



Dr. Ir. Roosganda Elizabeth, M.Si., MS. PNLP is a distinguished Indonesian researcher and academic with a Bachelor's degree from Universitas Sumatera Utara, a Master's from Bogor Agricultural University, and a Ph.D. from Universitas Pakuan Bogor. Recognized with the Satya Lencana Karya Satya XXX award for 30 years of dedicated public service, she has authored or co-authored over 600 scholarly outputs—including international and national journal articles, books, and research reports—and holds approximately 50 intellectual property rights (HKI). Her work spans agricultural policy, rural development, agro-industry competitiveness, and institutional empowerment, with 1,344 citations and an h-index of 18 (Google Scholar). She actively mentor's students, supervises theses, and collaborates with researchers from institutions such as Andalas University, UNPAK, UGM, PKN STAN, IPB, UI, UNPAD, ACIAR, FAO, ACTIVE, USAID, MARS Project, CTSS IPB, BRIN etc. , while also contributing as a reviewer, editor, trainer, and keynote speaker in over 600 national and international seminars, workshops, and congresses. Her scholarly profile is indexed in Scopus (ID: 57218892768) and ORCID (0000-0003-4937-9739).



Mahmudi received a Bachelor's degree in Agricultural Cultivation from Brawijaya University, Malang, Indonesia, and a Master's degree in Administration and Public Policy from Indonesia University, Jakarta, Indonesia. He is currently a researcher at the Research Center for Public Policy, National Research and Innovation Agency (BRIN), Jakarta, Indonesia. Current research in public policy, quality management, behavior change. Some of the article titles that have been published include: A Technique to Enhance Two-Node Methods as Accurate as Multi-Node Methods: A Case for Human Body Temperature Measurements (IJASEIT, 2025); The water balance concept modification for the development of web-based rain gauge calibrator, AIP Conf. Proc. (2025); A proposed model for the conduction and convection in series: A case in a tightly closed enclosure of a web-based rain gauge calibrator, AIP Conf. Proc. (2025); A Control System for Pepper Submersion Tub Actuators, IOP Publishing (2025); A Performance Evaluation of Repetitiv



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ABBREVIATIONS

AI	Artificial intelligence
ANN	Artificial neural networks
ANOVA	Analysis of Variance
ARDL	Autoregressive Distributed Lag
ASEAN	Association of Southeast Asian Nations
AUROC	Area under the receiver operating characteristic curve
BNPT	National Counter-Terrorism Agency
BPD	Village Consultative Body
BPVAR	Bayesian Panel Vector Auto-Regressive
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
BRIN	National Research and Innovation Agency
CASE	Complex Adaptive Systems
CDI	Composite Digital Index
CRE	Community Resilience and Empowerment
CSR	Corporate Social Responsibility
SAF	Special Allocation Fund
DCT	Dynamic Capabilities Theory
DEA	Data Envelopment Analysis
DGT	Digital and Green Transformation
DID	Difference-in-differences
DI	Digital innovation
DRAPE	Deep Ranking Analysis by Power Eigenvectors
DTPS	District Team Problem Solving
ECI	Economic Complexity Index
ECOWAS	Economic Community of West African States
EFL	English as a Foreign Language
EIA	Environmental Impact Assessment
ESG	Environmental, Social, and Governance
FDI	Foreign Direct Investment
FMOLS	Fully Modified Ordinary Least Squares
GCC	Gulf Cooperation Council
GCI	Global Competitiveness Index
GDP	Gross Domestic Product
GLPI	Green Logistics Performance Index
GMM	Generalized Method of Moments
HDI	Human Development Index
HR	Human Resources

ICOR	Incremental Capital Output Ratio
ICT	Information and communication technology
IDED	Index of Digital Economy Development
IDI	ICT Development Index
IDSD	Regional Competitiveness Index
IFAD	International Fund for Agricultural Development
IMSD	Integrated Model for Sustainable Development
INA	Indonesia
IoT	Internet of Things
IPPIS	Integrated Payroll and Personnel Information System
IT	Information Technology
ITU	International Telecommunication Union
JKN	National Health Insurance
KBE	Knowledge-Based Economy
SME	Kaiser-Meyer-Olkin
KNT	Knowledge Network Theory
LCA	Life Cycle Assessment
LPI	Logistics Performance Index
MEA	Mean Absolute Error
MANOVA	Multivariate analysis of variance
MAP	Mean Absolute Percentage Error
MCDM	Multi Criteria Decision-Making
MCS	Management Control System
MDA	Model-Driven Architecture
MDI	Mean decrease in impurity
MINA	Middle East and North Africa
ML	Maximum Likelihood
MSA	Metropolitan Statistical Area
MSE	Mean Squared Error
MSME	Micro, Small, and Medium Enterprises
NCA	Necessary Condition Analysis
NDPR	Nigerian Data Protection Regulation
NIS	National Innovation System
NMS	National Monitoring System
NRECDP	National Rural E-commerce Comprehensive Demonstration Project
NRI	Network Readiness Index
OLS	Ordinary least squares
OOB	Out-of-bag
OPEC	Organization of the Petroleum Exporting Countries
PB	Participatory budgeting
PCA	Principal Component Analysis
PCT	Patent Cooperation Treaty

PFM	Public Financial Management
PPP	Public-Private Partnership
R&D	Research and development
RCI	Resilience and Competitiveness Index
RBV	Resource-Based View
RCEP	Regional Comprehensive Economic Partnership
RCI	Regional Competitiveness Index
RF	Random Forest
RFR	Random Forest Regression
RIS	Regional innovation system
RMSE	Root Mean Square Error
RPJMN	National Medium-Term Development Plan
RSS	Residual sum of squares
SADC	Southern African Development Community
SDG	Sustainable Development Goals
SEM	Structural Equation Modeling
SII	Sustainable Infrastructure Index
SMEs	Small and medium-sized enterprises
SNT	Social Network Theory
SPAN	Treasury System and National Budget
SPBE	Electronic-Based Government System
SROI	Social Return on Investment
STEM	Science, Technology, Engineering, and Mathematics
TAM	Technology Acceptance Model
TFP	Total factor productivity
TNI	Tentara Nasional Indonesia
TOE	Technology-Organization-Environment framework
UAE	United Arab Emirates
UCS	Universal Coverage Scheme
UMIC	Upper-middle-income countries
UTAUT	Unified Theory of Acceptance and Use of Technology
VECM	Vector Error Correction Model
VIF	Variance Inflation Factor
VRIN	Valuable, rare, inimitable, and non-substitutable
VRIN	Valuable, Rare, Inimitable, Non-substitutable
VRIO	Valuable, Rare, Inimitable, Organized
WHO	World Health Organization's
WS	Watts-Strogatz



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CHAPTER 1

CONCEPTUAL FRAMEWORK OF THE PILLAR INDEX AND REGIONAL DEVELOPMENT

Himawan Estu Bagijo • Agustinus Hartopo

Regional development is a multidimensional and dynamic process formed by the interaction between economic, social, institutional, and technological factors. The theoretical foundations underlying this process—such as endogenous growth theory, institutional economics, and sustainable development—emphasize that long-term prosperity grows from a region's internal capacity to build human capital, strengthen governance, and optimize local resources. This chapter introduces the Pillar Index Conceptual Framework, which is an integrative analysis tool designed to measure and evaluate regional performance through the interconnectedness between the main pillars that are the basis for competitiveness and resilience of development. The Pillar Index serves as a diagnostic as well as a strategic framework that integrates key components such as institutions, infrastructure, information and communication technology (ICT), health, skills, and business dynamics. Each pillar not only represents a specific development domain, but also interacts with each other in a complex system, which together determines the quality and sustainability of regional growth. By understanding the interconnectedness between these pillars, the framework goes beyond traditional sectoral approaches, providing a holistic perspective on how institutional efficiency supports innovation, how infrastructure strengthens market accessibility, and how human skills development enhances adaptive capacity in the digital economy era.

Through the exploration of the mutual relationship between the pillars, this chapter emphasizes that regional competitiveness is not the result of stand-alone variables, but rather the output of synergy between development dimensions that encourage inclusive and sustainable growth. This analysis is in line with contemporary development economics approaches that emphasize the importance of integrated policy frameworks to address structural inequalities, while fostering regional innovation and resilience. The final part of this chapter describes the analytical and methodological approaches used in empirical synthesis in the following chapters. The approach combines quantitative analysis, theoretical integration, and policy evaluation to operationalize the Pillar Index. Through this perspective, the framework not only provides an academic basis for understanding regional dynamics, but also generates practical insights for policy formulation. The goal is to translate theoretical concepts into applicable instruments to support evidence-based strategic decision-making, strengthen development policy design, and ultimately accelerate the transformation towards sustainable regional development.

1.1 Theoretical Foundations of Regional Development

Modern regional development is rooted in endogenous growth theory, institutional economics, and sustainable development paradigms, which together explain how innovation, governance, and digital transformation drive regional progress. Within the framework of

endogenous growth theory, economic progress is believed to be sourced from internal factors such as technological innovation, human capital accumulation, and structural adaptability.¹ show that the development of digital villages in China significantly increases green productivity through the advancement of environmentally friendly technologies, confirming that digitalization is becoming a growth mechanism that strengthens regional efficiency and sustainability. In line with that,² found that technological innovation and social capital strengthen the synergistic relationship between ecotourism and sustainable economic development, highlighting the role of endogenous innovation in creating multiple effects on local economies. From an institutional economic perspective, the effectiveness of regional development is highly dependent on the quality of governance, innovation policies, and knowledge capacity that underpins the digital economy.³ affirm that knowledge management capacity plays an important role in strengthening sustainable innovation and green finance in Asian countries, suggesting that institutional factors are the main catalyst for inclusive and resilient growth. This research is in line with⁴, who assesses conceptual weaknesses in Russia's digital economy program and identifies the need for alignment between modern economic theory and institutional policies to avoid development gaps between regions.

Meanwhile, sustainable development theory expands the economic dimension by including social and ecological aspects in development policy design.⁵ show that digital innovation and transformation are important instruments in strengthening regional competitiveness through sustainable tourism post-COVID-19 pandemic, especially in the Mediterranean region. These findings underline that the success of regional development is not only determined by economic factors, but also by the ability of regions to integrate social innovation, technological adaptation, and environmental sustainability in one integrated policy framework. The three theoretical frameworks complement each other in explaining the dynamics of contemporary regional development. Endogenous growth theory highlights the importance of internal innovation and local knowledge, institutional economic theory emphasizes the quality of governance as a structural foundation, while sustainable development theory expands its focus on the long-term balance between economic prosperity and environmental sustainability. The integration of the three provides a solid conceptual basis for understanding and assessing the effectiveness of regional development strategies in the era of a sustainable digital economy.

In addition to endogenous factors, the theory of institutional economics is an important foundation in explaining how the quality of institutions, public policies, and economic governance determine the success of regional development. Within this framework, institutions serve not only as regulators of economic activity, but also as catalysts for innovation, market efficiency, and social stability. Strong institutional-based development creates legal certainty,

¹ Xu, Tanamee, and Romprasert, "Does Digital Village Construction Promote Agricultural Green Total Factor Productivity? An Empirical Study Based on China's Provincial Panel Data."

² Yan et al., "Ecotourism and Economic Sustainable Development of Local Communities from the Lens of Technological Innovation: The Synergistic Role of Green Industry and Social Capital."

³ Mukarram et al., "Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia."

⁴ Blanutza, "Digital Economy of the Russian Federation: A Conceptual Analysis of the National Program."

⁵ Kritikos, Magoutas, and Poulaki, "Sustainable Tourism and Regional Development Through Innovation in the Post-COVID-19 Era: The Case of Hersonissos and Chios."

policy transparency, and coordination among stakeholders that enable regions to adapt to digital transformation and structural change in a sustainable manner. Recent research shows that institutional reform and public policy innovation have a significant role in strengthening regional competitiveness. ⁶ emphasizes that the effectiveness of public management in territorial development is highly dependent on the ability of governments to adopt digital and collaborative approaches to improve regional policy efficiency, as well as accelerate the provision of high-quality public services. In line with that, ⁷ emphasized that innovation-based development strategies at the community level (hromadas) can strengthen socio-economic resilience and encourage regional competitiveness through strengthening institutional capacity and implementing innovative mechanisms. In the context of economic policy and public governance, ⁸ also identifies that the effectiveness of national and regional policies is highly dependent on the ability of government bureaucracies to innovate and adopt digital technologies. He proposed the establishment of an institutional environment conducive to administrative innovation and inter-agency collaboration as a prerequisite for the success of economic policies at the regional level. ⁹ adds that without strong institutional interventions, market mechanisms can deepen regional inequalities, so public policies based on institutional innovation are needed to ensure the balance of development between regions.

In the digital era, institutional theory also serves as a conceptual framework to assess governance's readiness for technological innovation. ¹⁰ argue that the digitalization of the regional economy not only improves bureaucratic efficiency and public services, but also demands institutional reforms to be able to manage structural changes due to new technologies. In addition to strengthening economic and governance aspects, institutional theory is also relevant in the context of sustainable finance. ¹¹ explains that the success of green finance policies in China depends on institutional coordination between regulators, financial institutions, and local governments, which together create a framework for policy innovation to support resource efficiency and green economic growth. This approach shows how integrated institutional design is able to link economic goals with environmental sustainability, reflecting the modern institutional paradigm oriented towards socio-economic balance. Institutional economic theory provides an essential analytical framework for understanding the dynamics of regional development in the digital age. Resilient institutions enable the adoption of innovation, administrative efficiency, and the strengthening of social and environmental justice. In the long term, institutional strengthening not only accelerates regional economic growth, but also ensures the sustainability of development and the resilience of the socio-economic system to global crises.

⁶ Shumska, "Ensuring Effective Public Management of Territorial Development for the Implementation of Effective National and Regional Economic Policy: The Theoretical and Methodological Aspects."

⁷ Velychko, Troian, and Viatkin, "FORMATION OF INNOVATIVE DEVELOPMENT STRATEGY OF HROMADAS IN THE CONTEXT OF REGIONAL SOCIO-ECONOMIC SYSTEMS."

⁸ Shumska, "The Methodological Principles for Ensuring Effective Innovative Activities in Government Bodies for the Implementation of Efficient State and Regional Economic Policy."

⁹ Dukhnevych, "THE IMPACT OF MARKET-ORIENTED MANAGEMENT ON REGIONAL DEVELOPMENT."

¹⁰ Konovalenko and Chernenko, "REGIONAL DEVELOPMENT IN THE CONTEXT OF DIGITALIZATION."

¹¹ Shi, "Mechanisms and Practices of Green Finance in Promoting Sustainable Economic Transition in China."

The sustainable development approach is the main foundation in connecting the economic, social, and ecological dimensions within the framework of modern regional development. This concept emphasizes that sustainable economic growth is measured not only by increasing GDP, but also by the region's ability to maintain environmental balance and strengthen social cohesion. ¹² shows that green innovation and environmentally oriented investment play an important role in strengthening sustainable tourism development in the ASEAN region. Through the Spatial Durbin Model approach, this study found a positive spatial spillover effect between countries that strengthens cross-border collaboration and accelerates the integration of the region's green economy. The importance of the spatial dimension in sustainable development is also reinforced by the study of ¹³ which analyzed the efficiency of green innovation in Chinese provinces using the DEA meta-Frontier network model. The results show that the efficiency of green innovation has a strong spatial correlation, where areas with high innovation capacity can drive improved environmental efficiency in the surrounding regions. This study strengthens the argument that interregional interactions in the context of sustainability create synergistic networks that accelerate the transition to a low-carbon economy. In addition to green innovation, sustainable investment is an important policy instrument to encourage environmentally friendly regional development. ¹⁴ show that the development of green finance in China contributes significantly to the development of high-quality energy, not only at the local level but also through spatial spillover effects of up to 1,750 km. This confirms that green finance is able to expand the benefits of cross-regional development if supported by strong institutional governance.

In the context of technology and innovation, ¹⁵ found that fintech innovation plays an important role in driving green economic growth and shows the effects of spatial spillover between provinces. Regions with advanced digital financial infrastructure have proven to be able to accelerate green growth in other regions through market integration and technology diffusion. These findings show that sustainable development requires not only green investments, but also an inclusive and integrated digital ecosystem. In addition, ¹⁶ highlight that innovative city policies in China have succeeded in improving carbon emission efficiency through increased green technology innovation and regional industrial restructuring. This approach shows how institutional-based policies can create a chain effect on environmental sustainability and industrial transformation. From a spatial perspective, the results of this study confirm the importance of multi-level governance between central and local governments to strengthen the effectiveness of green policies. ¹⁷ expands this perspective by examining the spillover influence

¹² Trung, "The Relationship Between Green Patents, Green FDI, Economic Growth and Sustainable Tourism Development in ASEAN Countries: A Spatial Econometrics Approach."

¹³ Han, Qu, and Han, "Research and Evaluation of Spatiotemporal Dynamic of Network Green Innovation Efficiency in China—Based on Meta-Frontier Theory."

¹⁴ Xu et al., "Is Green Finance Fostering High-Quality Energy Development in China? A Spatial Spillover Perspective."

¹⁵ Ma et al., "Spatial Spillover of Fintech Innovation on Green Economic Growth Based on 30 Provinces in China."

¹⁶ Liu et al., "How to Achieve Carbon Neutrality: From the Perspective of Innovative City Pilot Policy in China."

¹⁷ Zhou, "Spillover Effects of Artificial Intelligence Technology, Sustainable Innovation, and Industrial Transition Between Eastern and Western Regions."

of artificial intelligence (AI) technology and sustainable innovation on industrial leapfrogging in the eastern and western regions of China. The results show that cross-regional collaboration and sustainable innovation policies can reduce the development gap between regions while improving environmental efficiency. This study confirms that advanced technologies such as AI can be a strategic instrument in strengthening regional sustainable development if integrated with adaptive institutional policies. These studies confirm that the success of regional sustainable development depends on the synergy between green innovation, sustainable investment, green finance, and inclusive institutional governance. The spatial approach is important because it allows for cross-regional transfer of benefits and strengthens green economy collaboration between regions. Therefore, sustainable development is not just a normative paradigm, but an empirical strategy that is tested in creating a balance between economic growth, social justice, and environmental sustainability.

1.2 Conceptualization of the Pillar Index

The 2024 Regional Competitiveness Index (IDSD) developed by the National Research and Innovation Agency (BRIN) is a conceptual adaptation of the Global Competitiveness Index (GCI) compiled by the World Economic Forum, with adjustments to socio-economic conditions, governance, and data availability in Indonesia. Theoretically, IDSD is rooted in the view of Porter (1990) who states that productivity is the main determinant of regional competitiveness, and on the thinking of Onsel et al. (2008) who emphasize the importance of structural and institutional factors in driving regional competitive advantage. This approach combines the dimensions of productivity, innovation, and social inclusivity in one measurable and contextual framework. Recent research shows that regional competitiveness is the result of a complex interaction between productivity, innovation, and institutional policies.¹⁸ in *Productive Competitiveness and Regional Development: A Systematic Literature Review* identifies that the relationship between productivity and competitiveness is reciprocal—increased productive efficiency strengthens a region's competitive capacity, while adaptive institutional structures strengthen long-term productivity. This is in line with the basic concept of IDSD which makes productivity a key indicator of regional economic competitiveness. Furthermore,¹⁹ emphasized the importance of digitalization as a new driver of competitiveness in Europe. In his study on *The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies*, the authors found that digital transformation expands productivity capacity and transforms traditional determinants of competitiveness such as labor and infrastructure into more technology-based and innovation-based. This thinking is relevant for the development of IDSD, which includes the pillars of ICT adoption and innovation capabilities as important components in measuring regional competitiveness.

From a policy perspective,²⁰ in *Regional Competitiveness: A Structural-Based Topic Analysis on Recent Literature* highlight that regional competitiveness evaluations must consider

¹⁸ Tavares, "Productive Competitiveness and Regional Development: A Systematic Literature Review."

¹⁹ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

²⁰ Grassia et al., "Regional Competitiveness: A Structural-Based Topic Analysis on Recent Literature."

macro and micro dimensions simultaneously. The study shows that competitiveness depends not only on economic capacity, but also on institutional stability, quality of public policies, and intersectoral connectivity. This kind of integrative approach is adopted in IDSD 2024, which combines institutional perspectives (governance and regulation) with market and human resource factors. Meanwhile, ²¹ highlight that in the context of globalization and industrial disruption 4.0, the determinants of competitiveness now include innovation, digital transformation, and the economy's adaptive ability to technological change. In their article *Creating a Competitive Advantage: New Challenges Ahead*, they emphasize that countries or regions that successfully adapt to technological transformation have a greater chance of increasing productivity and sustainable growth. This strengthens the argument that the innovation ecosystem component and supporting environment in IDSD are a catalyst for accelerating regional competitiveness.

In addition, ²² in *Competitiveness in the Visitor Economy: A Systematic Literature Review* outline that an effective competitiveness model must take into account cross-sectoral interactions—particularly between the tourism, infrastructure, and innovation sectors of the region. The study found that regional competitiveness increases when productivity factors are combined with value-added strategies and collaboration between local actors. Models like this inspire a cross-sectoral approach applied in the IDSD structure, where pillars such as the labor market, financial system, and business dynamism reinforce each other in producing a competitive ecosystem. Furthermore, ²³ put forward the relationship between global finance, competitiveness, and sustainable development in the context of developing countries. Their study shows that an efficient financing system strengthens the region's ability to invest in infrastructure and innovation, ultimately increasing regional economic productivity and resilience. This perspective strengthens the financial system dimension in IDSD as an important instrument in supporting the sustainability of regional competitiveness. By referring to these studies, IDSD 2024 can be understood as a conceptual model that combines Porter's productivity theory with modern institutional approaches and the dynamics of digital innovation. This index not only assesses the competitive position of an area, but also identifies long-term growth potential through the interaction between pillars. Within its methodological framework, the IDSD represents a synergy between internationally recognized empirical and conceptual approaches, and is an important basis for the formulation of evidence-based regional development policies in Indonesia.

The structure of the 2024 Regional Competitiveness Index (IDSD) is built on the basis of four main components – Supporting Environment, Human Resources, Markets, and Innovation Ecosystem – which are outlined into 12 pillars of regional competitiveness. These four components describe the balance between the structural foundations and functional dynamics of an area. The approach reflects a combination of macro perspectives, which highlight the role of public institutions and policies, as well as micro perspectives, which emphasize the role of

²¹ Bilas and Sopta, "CREATING A COMPETITIVE ADVANTAGE: NEW CHALLENGES AHEAD."

²² Kim, Liu, and Williams, "Competitiveness in the Visitor Economy: A Systematic Literature Review."

²³ Onuchuku and Amaefule, "Global Finance, Competitiveness, and Sustainable Development Goals in Emerging and Least Developing Economies (ELDCs): A Review of Literature."

market players, industries, and local innovation capacities in shaping regional competitive advantages. In the context of the Enabling Environment, regional competitiveness is rooted in the quality of institutions, infrastructure, economic stability, and digital technology readiness. A study by ²⁴ confirms that effective institutional management plays an important role in reducing regional competitiveness risks, through a Markov process-based mathematical model that describes the dynamics of regional competitiveness risk. Furthermore, ²⁵ highlights the importance of infrastructure and regional economic integration in the South African region (SADC) in strengthening industrial productivity and driving cross-regional innovation, suggesting that physical and logistical connectivity are fundamental factors for sustainable competitiveness.

The adoption of information and communication technology (ICT) is also an important indicator for regional readiness to face the Industry 4.0 era. Engin (2025) shows a strong correlation between the ICT Development Index (IDI) and the Global Innovation Index (GII) ($r=0.847$), which proves that the development of digital infrastructure directly increases national innovation capacity²⁶. Thus, the ICT adoption pillar in IDSD is the main instrument to measure digital transformation readiness at the regional level. The second component, Human Resources, focuses on health and skills as the driving force of regional productivity. ²⁷ through the Resilience and Competitiveness Index (RACI) found that regions with high quality of public health and investment in digital skills are better able to maintain economic resilience and increase competitiveness in the long term. Meanwhile, ²⁸ highlights the contribution of women's knowledge capital in encouraging national innovation and entrepreneurship, emphasizing that the diversity of human resources is an important factor in the modern competitive ecosystem. These two dimensions illustrate how the pillars of Health and Skills are intertwined in strengthening regional adaptive capacity to global challenges.

The third component, Markets, includes four pillars: the product market, the labor market, the financial system, and the size of the market. ²⁹ in a study on regional competitiveness in Saudi Arabia show that the efficiency of the product and labor market acts as a bridge between innovation capacity and sustainable economic growth. The study reinforces the relevance of the market component within the framework of the IDSD, which views competition dynamics, labor flexibility, and the effectiveness of financial institutions as key indicators of regional economic efficiency. Furthermore, the Financial System pillar has a strategic role in mediating the relationship between innovation and productive investment. According to ³⁰, the capacity of financial institutions to support technology-based projects and innovation determines the long-

²⁴ Chernyshova, Veshneva, and Rokakh, "Modeling the Dynamics of Regional Competitiveness Risks."

²⁵ Pretorius, "Regional Integration and Industrialisation in the SADC."

²⁶ Engin, "Bilgi ve İletişim Teknolojileri Gelişiminin Inovasyona Etkisi: IDI ve GII Kullanarak Ampirik Bir Analiz."

²⁷ Borsekova, Koróny, and Nijkamp, "In Search of Concerted Strategies for Competitive and Resilient Regions."

²⁸ Alkharafi, "The Role of Women in Driving National Innovation and Entrepreneurship through Entrepreneurial Ecosystems."

²⁹ Chaaben et al., "Regional Competitiveness for Achieving Sustainable Development of Hail Region, Saudi Arabia."

³⁰ Borsekova and Korony, "Resilience and Vulnerability of Regional Labour Markets: Principal Component Analysis of Labour Market Efficiency in the EU."

term resilience of a region. In line with that, ³¹ emphasized that an inclusive and regionally connected financial system is able to strengthen capital flows, accelerate industrialization, and encourage the formation of added value in the local economy. The final component, the Innovation Ecosystem, includes two pillars—Business Dynamism and Innovation Capabilities—that reflect the ability of regions to adapt, create, and compete in a knowledge-based economy. ³² found that the success of the innovation ecosystem depends on a balance between the supply of resources (knowledge and technology), market demand for innovation, and the mechanism of allocating capital and talent. In this context, regions with high business openness and cross-sector collaboration show significant improvements in national innovation performance. The importance of innovation is also affirmed by ³³, who in their bibliometric analysis found that the literature on regional competitiveness is increasingly shifting from a macroeconomic approach to an innovation-based approach and entrepreneurial ecosystem. This shows that the Innovation Capability pillar in IDSD is a key dimension in understanding the role of knowledge and technology as the main determinants of long-term competitiveness. The four-component structure and twelve pillars in IDSD 2024 depict a balance between structural foundations (institutions, infrastructure, and macro stability) and dynamic capacity (innovation, human resources, and market efficiency). This approach allows for a more thorough, adaptive, and scientific-evidence-based analysis of regional competitiveness. Furthermore, the integration between these pillars creates a measurement framework that not only identifies a region's competitive position, but also directs development strategies towards economic resilience and sustainable innovation. The 2024 IDSD was designed by the BRIN as a comprehensive measurement instrument to map and assess the level of regional competitiveness in Indonesia. Conceptually, IDSD is built on four main components that represent the determinants of competitiveness, namely the Supporting Environment, Human Resources, Market, and Innovation Ecosystem. These four components are outlined into twelve pillars that together form an analytical framework that is able to capture the fundamental conditions, efficiency of the economic system, and innovation capacity of a region. Each pillar is designed to illustrate the specific dimensions of the productivity and economic resilience of dynamically interacting regions. The first component, the Supporting Environment, is the main foundation of regional competitiveness because it reflects the quality of institutional structures, physical infrastructure, digital readiness, and macroeconomic stability. The first pillar, Institutions, measures the effectiveness of social, political, legal, and security governance in supporting economic activities. Good institutional performance determines the level of bureaucratic efficiency, legal certainty, and transparency of public policy. Indicators such as the corruption perception index, law enforcement, and public services are important elements in this pillar.

³¹ Pretorius, “Regional Integration and Industrialisation in the SADC.”

³² Alkharafi, “The Role of Women in Driving National Innovation and Entrepreneurship through Entrepreneurial Ecosystems.”

³³ Grassia et al., “Regional Competitiveness: A Structural-Based Topic Analysis on Recent Literature.”

Table 1.1. Conceptual Structure of the Components and Pillars of the Regional Competitiveness Index³⁴

Main Components	Pillar (subcomponents)	Conceptual Description	Examples of Key Indicators (2024)	Data Source
1. Supportive Environment	1. Institutions	Measure the extent to which social, political, legal, and security governance supports regional economic activities.	Reliability of police services, budget transparency, bureaucratic reform, corruption prevention, SPBE.	National Police Headquarters, KPK, Ministry of PAN-RB, BPK, Press Council.
	2. Infrastructure	Assess the physical and logistical capacity of the region in supporting productivity and economic connectivity.	Steady road length, electricity access, clean water network, and port capacity.	Ministry of Public Works and Housing, PLN, BPS.
	3. Adoption of ICT	Measuring regional readiness to face the <i>industry 4.0 era</i> through digital infrastructure and ICT literacy.	4G network coverage, internet users, and broadband penetration.	Ministry of Communication and Information.
	4. Macroeconomic Stability	Representing macro stability through added value creation, capital accumulation, consumption, and living costs.	GDP per capita, inflation, the ratio of investment to GDP, and the consumer price index.	BPS, BI, Ministry of Finance.
2. Human Resources	5. Health	Describe the quality of life of the population and the performance of the regional health system.	Life expectancy, health facilities, and medical personnel per 1,000 population.	BPS, Ministry of Health.
	6. Skills	Assess the quality of the workforce and the suitability of competencies with industry needs.	Average school year, digital skills, critical thinking in teaching.	Ministry of Education and Culture, Ministry of Communication and Information, BPS.
3. Marketplace	7. Product Market	Reflects market efficiency and healthy level of business competition.	The level of market dominance, competition in the service sector.	Ministry of Industry, BPS.
	8. Labor Market	Assess the flexibility of the labor market as well as the balance between wages and productivity.	Labor force participation rates, open unemployment, wage justice.	BPS, Ministry of Manpower.
	9. Financial System	Evaluate the ability of financial institutions to mediate regional economic activities.	Ratio of credit to GDP, financial inclusion, performance of microfinance institutions.	OJK, BI, BPS.
	10. Market Size	Describe the region's economic capacity in creating added value based on science and technology.	Export value, number of active MSMEs, household consumption per capita.	BPS, Ministry of Industry, Ministry of Cooperatives and SMEs.
4. Innovation Ecosystem	11. Business Dynamism	Assess the efficiency and flexibility of the business ecosystem, including the ease of starting and closing a business.	The level of new business formation, the ease of business licenses, the level of competition.	BKPM, Ministry of Industry, BPS.
	12. Innovation Capabilities	Measuring the ability of the regions to produce, master, and apply knowledge and technology.	Research spending, scientific publications, intellectual property, trademark applications.	BRIN, Ministry of Education and Culture, Ministry of Law and Human Rights.

³⁴ BRIN, *Buku Indeks Daya Saing Daerah (IDSD) Tahun 2024*.

The second pillar, Infrastructure, assesses the physical and logistical capacity that underpins value-added economic activities. The quality of the road network, electricity access, clean water system, and transportation and port connectivity are benchmarks for the region's ability to support industrial productivity and market integration. The third pillar of this component is the Adoption of ICT which functions to measure regional readiness to face the era of digitalization and the industrial revolution 4.0. Digital infrastructure, internet penetration, and people's digital literacy are the main factors that determine adaptability to technology-based economic transformation. Meanwhile, the fourth pillar, Macroeconomic Stability, assesses economic resilience through added value creation, capital accumulation, inflation control, and cost of living efficiency. Stable macroeconomic performance provides the foundation for regional investment and innovation. Overall, these four pillars serve as basic prerequisites for building an economic ecosystem that is resilient, efficient, and ready to face global dynamics.

The second component, Human Resources (HR), consists of two pillars that focus on quality of life and workforce capacity. The Health Pillar is an indicator of people's welfare and productivity. Life expectancy, availability of health facilities, and the number of medical personnel play an important role in assessing the performance of the regional health system. Good health creates a productive society and reduces the economic burden of disease. The second pillar, Skills, measures the quality of the workforce, the relevance of education to industrial needs, and digital competence. Indicators such as average length of schooling, proportion of the educated workforce, and critical thinking skills are important references. This upskilling is a long-term investment that determines the ability of regions to adapt to changing technologies and global economic patterns. The third component, Markets, describes the efficiency and flexibility of economic systems through four main pillars: Product Market, Labor Market, Financial System, and Market Size. The Product Market Pillar assesses the extent to which the market structure reflects healthy and efficient competition. The level of market concentration, the role of MSMEs, and trade openness are the main indicators in assessing market efficiency. The Labor Market Pillar measures labor flexibility, wage fairness, and the balance between productivity and wages. Factors such as labor force participation, open unemployment, and employment policy are part of this evaluation.

The Financial System pillar evaluates the effectiveness of financial institutions in facilitating economic activities and supporting productive investments. The ratio of credit to GDP, access to financial services, and the level of financial inclusion are important parameters. Financial system stability not only encourages economic growth, but also increases investor confidence in the regional business climate. Meanwhile, the Market Size pillar describes the region's economic capacity to generate added value based on science

and technology. Indicators such as export value, household consumption, and the contribution of MSMEs to GDP reflect the strength of domestic demand and the potential for regional economic expansion. The fourth component, the Innovation Ecosystem, is the most dynamic dimension in the IDSD structure because it is directly related to the ability of the region to create added value through knowledge and creativity. The Business Dynamism pillar assesses the level of flexibility and efficiency of the business world, including the ease of starting, developing, and closing a business. Factors such as the number of new businesses, ease of licensing, and intensity of competition illustrate the viability of the local economy. Meanwhile, the Innovation Capability pillar measures the ability of regions to produce, master, and apply technology and knowledge. Indicators such as research spending, number of scientific publications, patent registration, and research collaboration between institutions are important proxies for innovation capacity. The four components and twelve pillars interact with each other to form an integrative measurement system. The Supporting Environment component provides the basic structure for economic and governance stability, while Human Resources provides the productive inputs required by the market and innovation ecosystem. On the other hand, the Market provides an efficient resource allocation mechanism, and the Innovation Ecosystem creates a long-term competitive advantage through increased productivity and technology adoption.

Methodologically, IDSD 2024 uses 64 indicators at the provincial level and 51 indicators at the district/city level. All indicators were measured using the min-max normalization method with a score range of 0–5 to maintain objectivity and allow comparisons between regions. The determination of the minimum and maximum values of indicators follows three approaches: (1) national policy standards such as the RPJMN and ministerial regulations, (2) global references such as the Global Competitiveness Index (GCI) and the Human Development Index (HDI), and (3) historical distribution of national data from previous editions of IDSD. With this design, IDSD not only serves as an evaluative tool, but also as a policy framework that local governments can use to formulate evidence-based development strategies. Through the analysis of each pillar, regions can identify their strengths and weaknesses in a measurable manner, determine development priorities, and strengthen synergy between the public, private, and academic sectors. Overall, the conceptual structure of IDSD 2024 describes a systematic effort to measure competitiveness holistically, balancing economic, social, institutional, and innovation dimensions as the main prerequisites towards sustainable and highly competitive regional development.

1.3 Interlinkages among Economic, Social, and Institutional Pillars

The relationship between economic, social, and institutional pillars within the framework of the 2024 Regional Competitiveness Index (IDSD) confirms that sustainable development can only be achieved through cross-dimensional integration. Pillars such as institutions, infrastructure, information and communication technology (ICT), health, skills, and business dynamics do not stand alone, but complement each other in forming a development ecosystem that is inclusive, resilient, and adaptive to global changes. Institutions function as regulators and guarantors of social stability, physical and digital infrastructure are catalysts for productivity growth, while social pillars such as health and skills are the foundation for the sustainability of human resources that support innovation and regional business dynamics.³⁵ empirically explain the linkage between public governance and digital transformation in EU countries, showing that the effectiveness of governance increases along with the strengthening of human capital and the adoption of digital technologies in public services. The results of their research confirm that the interaction between institutional and ICT dimensions strengthens public trust, bureaucratic efficiency, and the state's ability to control corruption and encourage digital participation of the community. In the context of IDSD, this relationship is in line with the integration of institutional pillars and the adoption of ICT, where digitalization is not only a productivity tool, but also an instrument to increase transparency and regional governance.

Figure 1.1 illustrates the macro conceptual framework of the role of Information and Communication Technology (ICT) in sustainable regional development. This visualization shows how the ICT adoption process becomes a strategic link between the macro context of economic development, the pillars of regional competitiveness (IDSD 2024), and policy outputs that have an impact on productivity, social inclusion, and sustainable competitiveness. This framework affirms the position of ICT not only as a technological factor, but as a catalyst for institutional, social, and economic transformation. Figure 1.1 shows the flow of relationships between the dimensions of ICT-based regional development in a systematic manner. At the top, the Macro Context of Regional Development describes external prerequisites such as inclusive economic growth, public policies, and infrastructure expansion that underpin global digital transformation. The middle section places ICT as a Catalyst for Transformation which functions as a bridge between policy and implementation through increasing digital literacy, technology adoption, innovation, and smart governance.

³⁵ Crăciun et al., “Advanced Modelling of the Interplay between Public Governance and Digital Transformation: New Empirical Evidence from Structural Equation Modelling and Gaussian and Mixed-Markov Graphical Models.”

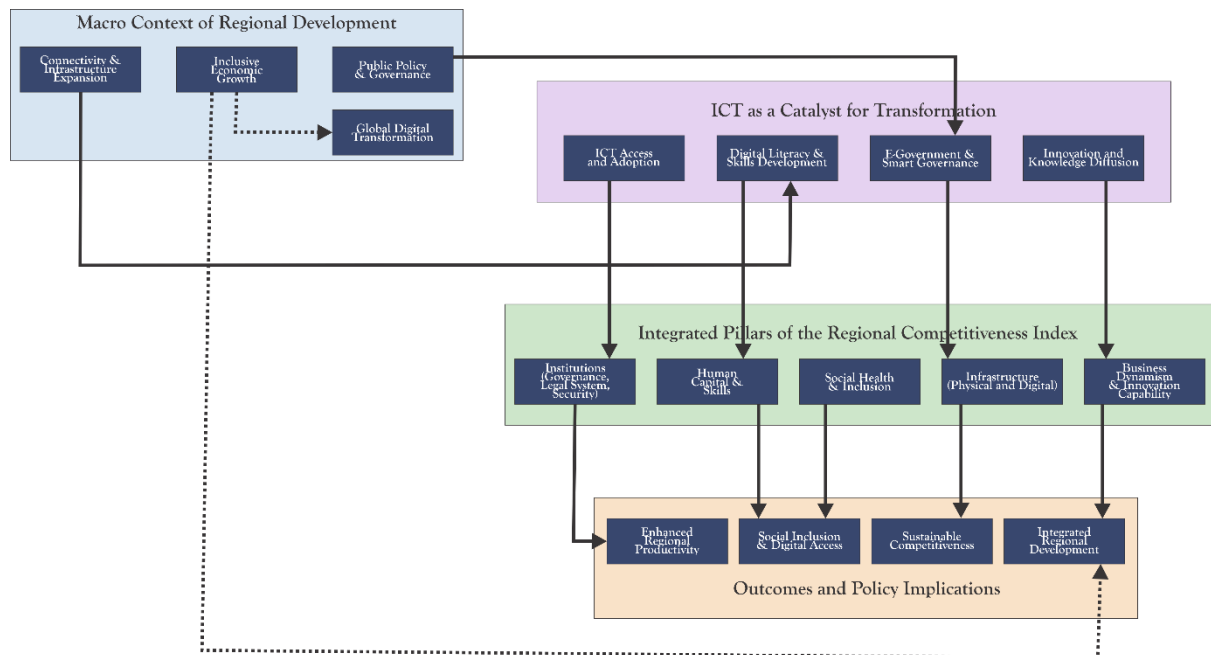


Figure 1.1. Macro-Level Framework of ICT Adoption in Regional Development

Furthermore, the Integrated Pillars of the IDSD 2024 show five key pillars—institutions, infrastructure, skills, business dynamism, and social health—that interact with each other to form the foundation of regional competitiveness. These pillars are areas where technology strengthens institutional effectiveness, economic efficiency, and social inclusion. At the bottom, Outcomes and Policy Implications represent the results of the synergy between the pillars in the form of increasing regional productivity, expanding digital access, sustainable competitiveness, and integrated regional development. The feedback line marked "development feedback" indicates that the success of regional development will re-strengthen the macro context through improved public policy and sustainable digital transformation. Overall, this framework emphasizes that ICT adoption is a key element that connects the economic, social, and institutional dimensions in realizing inclusive and highly competitive regional development.

Economic and social dimensions are also intertwined in encouraging the sustainability of regional development.³⁶ through research across 54 African countries found that economic structural transformation is highly dependent on synergy between technology, human talent, and institutional capacity. Their analysis shows that countries with strong public governance and investments in education and digital technology tend

³⁶ Pinto et al., "Pathways to Progress: Unveiling Structural Change in Africa Through Economic Transformation, Technology, Talent, and Tourism."

to have higher productivity and economic growth. This finding confirms the importance of the relationship between institutional pillars, skills, and digital infrastructure in strengthening inclusive and sustainable regional competitiveness. In the spatial and social dimensions,³⁷ show that the interconnection between urban and rural areas is the main determinant of the success of sustainable development. By adopting the Sustainable Development Goals (SDGs) approach of interlinkage, the study shows that regional sustainability can only be achieved if urban and rural policies are managed in an integrated manner, by strengthening infrastructure connectivity, labor mobility, and socio-economic integration between regions. This supports the IDSD framework that combines infrastructure and labor market dimensions in a single regional competitiveness measurement system.

The linkage between the social and economic pillars is also evident in the research of³⁸, who found that energy efficiency and governance quality have a direct impact on industrial growth in West Africa. The study confirms that energy policy innovation, institutional support, and human resource capacity building can strengthen regional economic resilience. Conceptually, these findings illustrate the integration between the pillars of macroeconomic stability, infrastructure, and institutions that are also the main components in the 2024 IDSD framework. The role of technology as a link between pillars also received important attention in the study³⁹, which highlights how digital technology and artificial intelligence (AI) play a role in realizing sustainable smart cities in the Global South region. According to him, investment in digital infrastructure not only drives economic efficiency, but also strengthens social participation and inclusive governance through e-government and open data. In the context of IDSD, this shows the importance of connectivity between ICT pillars, institutions, and business innovation in accelerating regional economic transformation towards digital sustainability. In addition,⁴⁰ research underscores the importance of education and urbanization in reducing dependence on natural resources in Eastern Europe. Through a multi-level econometric approach, they found that higher education attainment improves economic efficiency and encourages sector diversification through increased innovation capacity. This linkage reinforces the argument that the pillars of health and skills not only have a social impact, but also become

³⁷ Baffoe et al., “Urban–Rural Linkages: Effective Solutions for Achieving Sustainable Development in Ghana from an SDG Interlinkage Perspective.”

³⁸ Ogunola and Zwane, “Energy Efficiency Policies and Industrial Growth: Unlocking West Africa’s Production Potential.”

³⁹ Das, “Digital Technology and AI for Smart Sustainable Cities in the Global South: A Critical Review of Literature and Case Studies.”

⁴⁰ Xu and Li, “Assessing How Educational Attainment Drives Economic Freedom, Urbanization, and Mineral Resource Management in Eastern Europe.”

strategic capital in creating economic systems that are adaptive to technological changes and global markets.

From an institutional and spatial perspective, ⁴¹ emphasizes the need for a transition from physical-based urban planning to a sustainable community strategy that places humans at the center of development. In the context of the Gulf countries, he asserts that successful post-carbon development requires synergy between institutional policies, low-carbon infrastructure planning, and social participation. This is in line with the IDSD principle which places institutions and infrastructure as the fundamental foundation for the transition to green and sustainable development. The interlinkages between pillars in IDSD 2024 reflect a complex but complementary development system. Effective institutions are the catalyst for successful economic and social policies, infrastructure and ICT drive efficiency and connectivity, while human health and skills ensure long-term sustainability of productivity. At the same time, business dynamics and innovation serve as the main drivers that connect all these pillars into a sustainable and highly competitive regional development ecosystem.

The relationship between economic, social, and institutional pillars in the 2024 IDSD reflects the view that sustainable development can only be achieved through harmonious cross-dimensional interactions. Effective institutions ensure social stability and efficiency of economic policies, while technology and infrastructure are the drivers of productivity and innovation. Social pillars such as health and skills ensure the sustainability of human resource capacity, which in turn underpins economic growth and regional business dynamics. This interaction is at the conceptual core of IDSD: connecting public policy, technological transformation, and social dimensions in one adaptive and inclusive development framework. ⁴² show that economic development in the African region is determined by three main dimensions—technology, talent, and institutional governance—which are also the conceptual cornerstones of IDSD. Through an analysis of 54 countries, the study found that technological advances increase industrial productivity, while institutional quality determines the effectiveness of public policies and economic adaptation to structural change. These findings reinforce the principle that the institutional pillars and ICT adoption complement each other in creating sustainable structural transformation at the regional level. Institutional quality has also proven to be a link

⁴¹ Zaidan, “From Planning Cities to Sustaining Communities: Smart and Sustainable Urban Strategies for the Post-Carbon Transition in the Gulf States.”

⁴² Pinto et al., “Pathways to Progress: Unveiling Structural Change in Africa Through Economic Transformation, Technology, Talent, and Tourism.”

between innovation and economic resilience.⁴³ affirm that the effectiveness of governance in EU countries increases when accompanied by digital transformation and increased human capital. The use of e-government, open data, and the integration of digital services has been proven to strengthen the state's ability to enforce the law, encourage transparency, and increase public trust. In the context of IDSD, this is in line with the relationship between institutional pillars, digital infrastructure, and innovation capabilities, where good digital governance strengthens the business climate and accelerates technology adoption at the local level.

In addition,⁴⁴ found that energy efficiency and institutional governance have a significant influence on industrial growth in West Africa. Their study integrates endogenous growth theory with resource efficiency policies and confirms that institutional quality plays a catalyst in optimizing energy infrastructure and driving industrial innovation. This context is in line with the IDSD which places macroeconomic and infrastructure stability as the foundation for market efficiency and regional industrial development. The linkage between social and economic pillars is also emphasized by⁴⁵, who show that education and urbanization have a dual effect in improving economic efficiency and reducing dependence on natural resources in Eastern Europe. Through strengthening education and diversifying the sector, regions with higher levels of education tend to have greater innovation capacity and institutional systems that are adaptive to changes in the global market. Thus, the pillars of skills and innovation capabilities in IDSD can be seen as the main drivers of knowledge-based economic transformation. Institutional, social, and economic integration is also reflected in the⁴⁶ which traces the political economic roots of the stagnation of the pharmaceutical industry in Africa. The study concludes that the failure of industrial development in the region is caused by institutional structures that are still extractive and colonial, which inhibit the diffusion of technology and the growth of domestic innovation. These findings provide an important lesson for the implementation of the IDSD, that economic transformation will not succeed without institutional reforms that support innovation and productive investment at the local level.

⁴³ Crăciun et al., "Advanced Modelling of the Interplay between Public Governance and Digital Transformation: New Empirical Evidence from Structural Equation Modelling and Gaussian and Mixed-Markov Graphical Models."

⁴⁴ Ogunsola and Zwane, "Energy Efficiency Policies and Industrial Growth: Unlocking West Africa's Production Potential."

⁴⁵ Xu and Li, "Assessing How Educational Attainment Drives Economic Freedom, Urbanization, and Mineral Resource Management in Eastern Europe."

⁴⁶ Banda, "The Political Economy of the African Pharmaceutical Sector's 'Industrial Underdevelopment' Lock-in: The Importance of Understanding the Impact of Persistent Colonial Extractive Institutions."

From the perspective of industrial policy, ⁴⁷ highlight the need for multi-level governance in the formulation of national economic policies. They argue that decentralization of decision-making and cross-sector collaboration between government, industry, and academia can create a more adaptive and sustainable innovation ecosystem. This principle is conceptually in line with the structure of the IDSD, which integrates the pillars of institutions and business dynamism to encourage multi-stakeholder participation in regional development. In the social context, ⁴⁸ identified a close relationship between agro-food trade, social development, and the achievement of the SDGs. Through a cross-global, regional, and local analysis, the study confirms that market integration and sustainable trade governance can strengthen food security while improving social well-being. This broadens the understanding of the interaction between product market pillars, institutions, and health in supporting the welfare of local communities holistically. Sustainable development requires a balance between economic efficiency, social capacity, and institutional quality. Within the framework of the IDSD 2024, the synergy between the pillars forms a mutually reinforcing system: strong institutions improve the effectiveness of public policies, infrastructure and technology accelerate innovation and productivity, while the quality of human resources ensures long-term economic sustainability. Thus, IDSD is not only an evaluative instrument, but also a strategic framework that places interconnection between pillars as the main prerequisite for inclusive and sustainable economic and social transformation at the regional level.

The infrastructure and information technology pillars in the 2024 IDSD have a strategic role in strengthening the relationship between economic, social, and institutional dimensions. These two pillars are the main foundations for improving regional connectivity, bureaucratic efficiency, and the diffusion of inclusive innovation. With the increasing digitalization of governance and public services, technology serves not only as a driver of economic productivity, but also as a tool for social and political transformation that strengthens transparency, participation, and social justice in regional development. ⁴⁹ emphasized that the adoption of digital technology and artificial intelligence (AI) in developing cities strengthens social inclusion and accelerates the transition to sustainable cities in the Global South. Through an empirical approach, this study found that a strong digital infrastructure is able to expand community participation in decision-making and strengthen adaptive and data-driven urban governance. These findings are in line with the

⁴⁷ Klebaner and Voy-Gillis, "The Political Economy of French Industrial Policymaking."

⁴⁸ Ralph et al., "Interlinkages Between Agri-Food Trade and the SDGs at the Global, Regional and Local Level."

⁴⁹ Das, "Digital Technology and AI for Smart Sustainable Cities in the Global South: A Critical Review of Literature and Case Studies."

IDSD framework, where the ICT adoption pillar serves as a bridge between economic efficiency and social inclusivity.⁵⁰ emphasized that information technology is not just a tool for administrative efficiency, but a catalyst for social change in the context of sustainable urban development. Through theoretical studies, he explained that cities that develop smartness as a vision of change will optimize the potential of technology to strengthen collaborative governance and social innovation. In the context of IDSD, this strengthens the linkage between institutional pillars and digital infrastructure, as collaboration between governments, communities, and the private sector is key to the success of data-driven sustainable development.

Meanwhile, the research of⁵¹ provides empirical evidence regarding the impact of smart city policies on the business environment in the western region of China. Using a difference-in-differences approach, they found that smart city policies significantly improve market efficiency, improve the investment climate, and reduce bureaucratic barriers. These findings underscore that digital infrastructure integrated with public policies can strengthen institutional stability and drive sustainable regional economic growth – in line with the pillars of macroeconomic and institutional stability in the IDSD. In a global context, the study of⁵² found that digital transformation has a synergistic relationship with sustainability orientation in EU countries. Through a cluster analysis approach, they show that digital readiness strengthens economic outcomes while accelerating the achievement of the SDGs. This integration between digitalization and sustainability is also reflected in IDSD, where the development of digital infrastructure is a determining element of resource efficiency and long-term regional competitiveness.⁵³ expand on the findings by showing a positive correlation between the NRI and the performance of the SDGs in European countries. Countries with high digital readiness generally show better achievements in health, education, and public governance. The study confirms that digital capacity building not only impacts economic growth, but also strengthens social pillars such as health and education that are integral parts of IDSD. Furthermore,⁵⁴ highlight the role of e-government as a link between the institutional dimension and digital transformation towards smarter cities. Through a comparison between the UK and South Korea, they

⁵⁰ Romanelli, “Analysing the Role of Information Technology towards Sustainable Cities Living.”

⁵¹ Chen et al., “Endowing Urban Business Environments with an Intelligent Brain: Empirical Evidence from Cities in Western China.”

⁵² Vărzaru and Bocean, “Systemic Interactions Among Digital Transformation, Sustainable Orientation, and Economic Outcomes in EU Countries.”

⁵³ Košíková and Vašaničová, “Exploring the Link Between Digital Readiness and Sustainable Development: A Cluster Analysis of EU Countries.”

⁵⁴ Kim and Kim, “The Institutional Change from E-Government toward Smarter City; Comparative Analysis between Royal Borough of Greenwich, UK, and Seongdong-Gu, South Korea.”

found that cities with strong digital governance are able to reduce social inequality and improve the efficiency of public services. Within the framework of IDSD, this shows the close interconnectedness between institutional pillars, ICT, and innovation capabilities, where digital governance is key to strengthening regional competitiveness. In addition,⁵⁵ through a study of smart city practices in China, show that the success of digital city transformation is highly dependent on synergy between the government, the private sector, and civil society. They identified three key models of smart city governance—ICT-based, spatial planning, and community—that play a role in strengthening social innovation and institutional efficiency. This model emphasizes that the institutional pillars and business dynamism in IDSD must be developed through a cross-actor collaborative approach. Conceptually, the linkage between infrastructure, ICT, and governance reflects a new paradigm of inclusive and innovation-based regional development. These pillars not only function economically, but also serve as an integrative means to strengthen social pillars, specifically health and skills, and create an adaptive business ecosystem. Thus, in the context of IDSD 2024, digital transformation and infrastructure strengthening are the backbone for synergy between economic, social, and institutional dimensions towards sustainable regional competitiveness.

Innovation capacity is the result of the complex interaction between the quality of education, institutions, and digital infrastructure that supports the diffusion of knowledge. In the context of the 2024 IDSD, this relationship is reflected in the linkage between the skills pillar and institutions, which serves to strengthen the regional innovation ecosystem. This pillar not only assesses the quality of human resources, but also highlights the importance of public policies, adaptive governance, and the readiness of technological infrastructure to transform the potential of knowledge into sustainable economic value.⁵⁶ research confirms that institutional quality has a mediating role in strengthening regional economic convergence in Central and Eastern Europe. Using a cross-time panel data approach, the study found that the effectiveness of governance and corruption control accelerates economic integration and reduces disparities between regions. These results show that good governance is the foundation for strengthening regional innovation, as stable institutions are able to provide a conducive environment for investment, education, research, and technology development. Meanwhile,⁵⁷ found that Institutional Quality mediates the relationship between investment policy, infrastructure quality, and the ability

⁵⁵ Han et al., “Understanding Smart City Practice in Urban China: A Governance Perspective.”

⁵⁶ Li, “Regional Economic Development in Central and Eastern Europe: A Comparative Analysis of Convergence Trends and Institutional Drivers.”

⁵⁷ Cuong and Huong, “The Mediating Role of Institutional Quality in FDI Attractiveness: Evidence from Tay Ninh, Vietnam.”

to attract Foreign Direct Investment (FDI) in Vietnam. This study uses the Structural Equation Modeling approach and shows that strong institutions drive improved workforce skills as well as efficiency in resource allocation. These findings support the idea that investments in education and adaptive public policy play an important role in creating a sustainable innovation climate, as reflected in the IDSD on the skills and institutional dimensions. In the context of industrial transformation, ⁵⁸ highlight the importance of integration between digital infrastructure, public policy, and social capacity in accelerating the adoption of artificial intelligence (AI) in Latin America's manufacturing sector. This study shows that institutional barriers and low readiness of human resources are the main barriers to the widespread adoption of AI. The study proposes the Triadic Integration Framework—which consists of digital infrastructure, policy and governance, and socio-industrial capacity—as a comprehensive approach to building long-term innovation capacity. This framework is relevant to the IDSD strategy which emphasizes the integration between the pillars of digital infrastructure, institutions, and skills in supporting regional development.

Furthermore, ⁵⁹ found that research and development (R&D) investment and public education have a significant positive impact on economic growth in Panama, with a higher elasticity than other macroeconomic variables such as exports or inflation. These findings reinforce the argument that education and R&D policies not only increase short-term productivity, but also form the basis of sustainable structural innovation – an element that is at the core of the innovation capability pillar in IDSD 2024. The relationship between innovation and social development is also discussed in ⁶⁰ research, which uses Data Envelopment Analysis (DEA) analysis and the Tobit model to measure the effectiveness of cultural industry management in China. This study shows that the efficiency of creative industry management is largely determined by institutional factors, innovation capabilities, and the effectiveness of human resource allocation. The results of this study reinforce the principle that innovation cannot grow without efficient governance and adequate quality of the workforce, which is in line with the synergistic relationship between institutional pillars and skills in IDSD. Meanwhile, ⁶¹ found a positive correlation between digital readiness and the success of achieving the SDGs in EU countries. Using the analysis of the NRI and SDGs indicators, this study shows that countries with high levels of digital

⁵⁸ Ortega-Del-Rosario et al., “AI-Enhanced Manufacturing in Latin America: Opportunities, Challenges, Applications, and Regulatory Policy Frameworks for Intelligent Production Systems.”

⁵⁹ Gutiérrez-Sánchez and Benítez-Andrés, “The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques.”

⁶⁰ Hou, “Cultural Industry Development and Regional Economic Performance in China.”

⁶¹ Košíková and Vašaničová, “Exploring the Link Between Digital Readiness and Sustainable Development: A Cluster Analysis of EU Countries.”

readiness also tend to have more effective institutional and educational systems in supporting social and economic innovation. These findings underscore the importance of digital infrastructure as a link between innovation capacity, public policy, and social well-being – elements that are at the core of the IDSD framework. In addition to economic and technological factors, the social and institutional dimensions also play an important role in ensuring that innovations can be implemented effectively. ⁶² emphasizes that the success of innovation policies in Eastern Europe depends on the synergy between educational structures and institutional effectiveness, where the reform of public institutions serves as a catalyst for regional productivity increases. These findings show that increasing innovation capacity requires a balance between investment in education, good governance, and digital infrastructure readiness. The integration between the pillars of skills, institutions, and innovation capabilities in IDSD 2024 reflects a holistic and sustainable development paradigm. Innovation capacity is not only generated by technology investment, but also supported by a strong institutional system and high-quality human resources. These three elements create an ecosystem of innovation that reinforces each other: education generates talent, institutions ensure policy efficiency, and technology accelerates the diffusion of knowledge. This combination is the key to the success of the region in building sustainable competitiveness and resilience to global challenges.

The linkage between social, economic, and institutional dimensions in the context of the 2024 IDSD confirms that the success of regional development depends on multi-level coordination and cross-actor participation in the institutional system. The pillars of institutions, business dynamism, and innovation in IDSD are inextricably interconnected through inclusive and adaptive governance mechanisms, where institutional reforms play a key role in maintaining public policy efficiency and ensuring long-term economic sustainability. In a study of innovation policy in Europe, ⁶³ highlights how transformative innovation policies in the European Union are implemented through a multi-level governance system that combines national policy legitimacy and supranational coordination. By analyzing the dynamics between France and Germany, this study shows that the success of industrial innovation is determined not only by economic resources, but also by the institutional ability to adapt to social and economic changes simultaneously. These findings are relevant for IDSD, where synergy between institutions, innovation, and the labor market is the main driving factor for regional economic transformation. From

⁶² Li, “Regional Economic Development in Central and Eastern Europe: A Comparative Analysis of Convergence Trends and Institutional Drivers.”

⁶³ Casula, “Implementing the Transformative Innovation Policy in the European Union: How Does Transformative Change Occur in Member States?”

the perspective of urban and social policy, ⁶⁴ examined the policy capacity of Europe's major cities in the face of the 2008–2009 financial crisis. They found that social and economic innovation at the local level can only thrive if it is supported by a multi-level governance system that allows for coordination between central, local, and civil society governments. These findings reinforce the IDSD principle that regional competitiveness is not only influenced by macroeconomic strength, but also by social capacity to adapt to structural changes through cross-institutional collaboration. ⁶⁵ through a study of metropolitanization in China, show that the transition to a multi-city regionalism system reflects a paradigm shift in governance from a territorial to a collaborative approach. They found that the development of modern metropolitan areas relies on cross-urban coordination that integrates infrastructure policy, technological innovation, and institutional reform. This approach is in line with the concept of IDSD which emphasizes the importance of inter-pillar integration—especially infrastructure and institutions—in creating an efficient development ecosystem that is adaptive to economic globalization. Furthermore, ⁶⁶ in his latest work *The Political Economy of Indonesia's Economic Development* highlights the role of institutional reform and decentralization in strengthening the relationship between industrial policy and innovation. According to him, Indonesia's economic transformation after the Asian crisis shows that coordination between central and regional governments and strengthening relations between the public and private sectors are important factors in creating long-term industrial resilience. This conceptually supports the IDSD principle that effective multi-level governance is a prerequisite for increased regional competitiveness and sustainable growth.

In the context of cross-border regional development, ⁶⁷ compare the economic dynamics of Bulgaria and Serbia with a focus on regional integration through cross-border cooperation programs. The results show that the success of economic development in border areas depends on institutional convergence, harmonious public policies, and the participation of local communities in policy implementation. This reflects that policy effectiveness depends not only on economic capacity, but also on social and institutional strength to manage regional interdependence. Meanwhile, ⁶⁸ highlight the transformation of EU cohesion policies that shift from a social development orientation to a focus on

⁶⁴ Cucca and Ranci, “Urban Policy in Times of Crisis: The Policy Capacity of European Cities and the Role of Multi-Level Governance.”

⁶⁵ Wang, Wu, and Zhang, “Metropolitanization through Making ‘New Metropolitan Plans’ in China.”

⁶⁶ Ramesh, *The Political Economy of Indonesia's Economic Development, Volume II*.

⁶⁷ Tanakov and Nikolov, “The Economic Development of Bulgaria and Serbia in the Context of Cross-Border Cooperation and European Integration.”

⁶⁸ Molica, de Renzis, and Bourdin, “From Lisbonisation to Hyper-Lisbonisation: The Long Goodbye to EU Cohesion Policy's Original Goals.”

economic competitiveness and flexibility. They introduced the concept of Hyper-Lisbonisation, which shows how global policy dynamics encourage member states to strengthen national governance through policy centralisation, while maintaining collaborative principles at the regional level. In the context of IDSD, this concept emphasizes the need for a balance between regional decentralization and national synergy in creating effective development policies. In addition, ⁶⁹ developed the Policy-Coordination-Talent (PCT) Framework to explain the success of the United States in the digital economy. They affirm that the synergy between public policy, institutional coordination, and human resource development is a key factor in maintaining a global competitive advantage. This model can be applied within the framework of the IDSD to strengthen the relationship between institutional pillars, skills, and innovation capabilities through policies based on cross-sector coordination. The integration between social, economic, and institutional dimensions as described in the various studies above shows the importance of multi-level governance and collaboration between stakeholders in supporting the success of industrial development and regional competitiveness. Within the framework of IDSD 2024, these pillars do not stand alone, but strengthen each other through coordination mechanisms, public participation, and sustainable institutional innovation. This approach emphasizes that regional competitiveness is not only determined by economic capacity, but also by the ability of regions to build inclusive, adaptive, and collaboration-based governance across levels of government and community sectors.

1.4 Conceptual and Substantive Integration in Regional Economic and Social Development Perspectives

The book *Pillar Index and Regional Development: An Integrated Approach to Economic and Social Progress* presents a conceptual and empirical framework that aims to understand the dynamics of regional economic and social development through an integrated approach between the main pillars of development. This approach emphasizes the interconnectedness between institutional dimensions, infrastructure, macroeconomic stability, information and communication technology (ICT), health, skills, and market dynamics in creating sustainable regional competitiveness. This book seeks to bridge the gap between theory and implementation of regional policies by placing the Pillar Index as an analytical instrument that integrates economic, social, and institutional indicators into a single integrative framework. Chapter 1 serves as a conceptual introduction that explains the theoretical basis of the Pillar Index and its relationship to regional development. This

⁶⁹ Shan et al., “Why Does the U.S. Dominate the Digital Economy? A Strategic Analysis Based on the Policy-Coordination-Talent Framework and the Policy Implications for China.”

chapter builds an understanding of how each of the pillars of development—such as institutions, infrastructure, ICT, and macroeconomic stability—interact with each other in determining the level of economic and social progress of a region. It also describes the relationship between structural variables and regional performance which is the foundation for measuring regional competitiveness. This theoretical framework asserts that economic development is inseparable from the social and institutional dynamics that underpin it. Chapter 2 empirically discusses the role of institutions in economic development, highlighting the direct and total effects on growth and equity. Through an empirical synthesis approach, this chapter shows that the quality of institutions not only determines market efficiency and resource distribution, but also influences social dimensions such as public trust, participation, and governance. In the context of the Pillar Index, institutions are the main foundation that mediates the relationship between development policies and sustainable regional economic outcomes.

Chapter 3 highlights the role of infrastructure as a catalyst for sustainable economic development. This chapter outlines the evolution of infrastructure concepts from a physical aspect to a sustainability-oriented infrastructure that includes digital connectivity, renewable energy, and smart logistics systems. The implementation of strategic infrastructure is considered to be able to increase productivity efficiency and reduce gaps between regions, which ultimately strengthens regional socio-economic integration. Chapter 4 focuses on the dynamics of ICT adoption in the context of regional development. The analysis presented highlights key determinants of ICT adoption—such as workforce skills, policy support, and institutional readiness—as well as their implications for innovation growth and economic inclusivity. Within the framework of the Pillar Index, ICT is not only considered as a technological factor, but also as a driver of structural transformation and increasing regional competitiveness. Chapter 5 discusses the importance of macroeconomic stability as a strategic foundation for digital and innovative ecosystems. Price stability, exchange rates, and consistent fiscal policies are prerequisites for encouraging investment and innovation at the regional level. This chapter asserts that macroeconomic instability can weaken the dynamics of other pillars such as infrastructure, health, and institutions, thereby disrupting the balance of regional development. Chapter 6 expands the discussion by placing health as an integral component of regional development. This chapter analyzes the linkages between public health, economic productivity, and quality of life, and highlights the importance of interdisciplinary policies linking health to education, the environment, and the economy. In addition, this chapter develops a connected index that measures the relationship between health conditions and other pillars of development as the basis for policy recommendations.

Chapter 7 explores the complexity of the relationship between skills, institutions, and infrastructure in ICT adoption. Through a multidimensional approach, this chapter explains how these three aspects reinforce each other in forming regional innovative ecosystems. Skill development and institutional strengthening are requirements for optimizing infrastructure investment and accelerating digital transformation. Chapter 8 introduces a network analysis approach to re-engineering the pillars of regional competitiveness. This approach maps the relationships between development variables to identify key nodes and connections that affect the performance of the region. Network analysis allows for more adaptive policy formulation by considering the linkages between actors and resources at the local and national levels. Chapter 9 discusses the contribution of skills, infrastructure, and business dynamics to institutional performance. By emphasizing the interaction between human capital and economic environmental factors, this chapter reveals that institutional capacity building depends not only on structural reform, but also on adaptability to technological and market changes. This strengthens the argument that regional competitiveness is built through inter-pillar synergy. Chapter 10 highlights the strategic underpinnings of regional competitiveness from a sustainable development perspective. This chapter integrates economic, social, and environmental dimensions to identify regional strategies that align with the Sustainable Development Goals (SDGs). Sustainable development is not only measured through economic growth, but also through social justice and environmental resilience.

Chapter 11 presents policy strategies based on the results of a meta-analysis of the pillars of regional competitiveness. By combining empirical findings from various studies, this chapter produces a synthesis of policies that can be used to strengthen the effectiveness of development programs. Evidence-based policy approach is the basis for the formulation of measurable and contextual strategies for the conditions of each region. Chapter 12 analyzes the contribution of infrastructure and health as the main determinants of regional market size. Adequate infrastructure and good health conditions increase productivity, expand the labor market, and strengthen people's purchasing power. This chapter emphasizes the importance of a complementary approach between physical and social development in enlarging the economic scale of the region. Chapter 13 delves into the structural and institutional foundations of driving innovation capabilities. Leveraging institutional frameworks, this chapter highlights how organizational structures, innovation cultures, and research policies interact to create a competitive innovative ecosystem. The results of this analysis show that innovation development cannot be separated from the adaptive capacity of institutions and synergy between development actors. Chapter 14 serves as a conclusion by presenting conclusions and policy implications for integrated regional development. This chapter summarizes the inter-pillar relationship and provides

strategic recommendations to strengthen cross-sectoral and regional coordination. The integrative approach carried out by this book emphasizes the importance of collaborative and data-based development planning.

Overall, this book makes an important contribution to the understanding of regional economic and social development through the Pillar Index framework that emphasizes the interconnections between the pillars. The main objective of this book is to develop a theoretical and practical foundation for the measurement and strengthening of regional competitiveness in a sustainable manner. By integrating empirical research results, institutional theory, and systemic approaches, this work is relevant not only to academics but also to regional development policymakers and practitioners. The relevance of this book to economic and social development lies in its ability to offer a comprehensive conceptual guide as well as an applicable analytical model in designing inclusive and sustainable development strategies.

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CHAPTER 2

THE ROLE OF INSTITUTIONS IN ECONOMIC DEVELOPMENT: AN EMPIRICAL SYNTHESIS OF DIRECT AND TOTAL EFFECTS

Achmad Tarmizi • Heri Wahyudiyanto

This chapter shows that institutions are not just the background of policy, but the main driving force behind economic and social progress. Based on mediation analysis, the quality of institutions is proven to have a strong direct influence on information technology adoption, public health, and macroeconomic stability. The total effect is greatest on ICT adoption, showing that societies with good governance are more digitally transformed. However, the impact is also evident in the health sector and economic stability – two important pillars of long-term well-being. Although infrastructure acts as a mediator, institutions remain at the root of all progress. The interconnection between development dimensions—such as between technology and health, or between technology and stability—also suggests that institutional improvement creates a mutually reinforcing chain effect. Sustainable development does not start from money or projects, but from the quality of institutions. Institutional reform, transparency, accountability, and law enforcement are not just governance issues—they are strategic investments in a nation's future.

2.1. Uncovering the Causal Mechanisms of Institutions in Economic Development

The understanding of how institutions affect economic development has become one of the central questions in contemporary development economics. Although consensus has been formed on the importance of quality institutions to achieve sustainable development, the specific mechanisms through which institutions transmit their influence on various dimensions of development still require more in-depth empirical investigation. This chapter presents a comprehensive mediation analysis designed to dismantle the "black box" of institutional-development relations by identifying and quantifying the causal pathways that link institutional quality to multidimensional development outcomes. The main objective of the mediation analysis in this chapter is threefold. First, to estimate and separate the direct effects of institutions on the three critical dimensions of development—information and communication technology (ICT) adoption, public health, and macroeconomic stability—from the indirect effects that operate through infrastructure development. This separation is important because it allows the identification of the relative contributions of various causal pathways, which in turn informs the priorities and sequencing of development policies.

Several recent studies support the importance of this mediation pathway. For example, research shows that FinTech development in ASEAN-4 is strongly influenced by financial access and technological readiness as a mediator of sustainable development⁷⁰, while global studies have found that institutional and infrastructure pillars play an important role in linking global competitiveness with the dimension of sustainable development⁷¹. ICT adoption has also been shown to mediate the relationship between financial system development and inclusive growth in more than 130 countries⁷². In addition, the study of Botswana emphasizes the importance of transformation towards a knowledge-based economy for post-Covid-19 recovery, with institutions as the main foundation of the strategy⁷³. In the Ghanaian context, post-crisis financial sector reforms show that the development of ICT infrastructure strengthens innovation and institutional governance in financial services⁷⁴. Institutional quality has also been shown to strengthen the link between digital transformation and productivity in Sub-Saharan Africa, emphasizing the role of health systems and innovation capacity as reinforcing factors⁷⁵. Similar mediation is seen in the adoption of artificial intelligence in the global banking sector, where ICT development is becoming an important link between technological innovation and bank financial performance⁷⁶. Research in Africa shows that human capital development mediates the relationship between financial inclusion and economic growth, confirming that institutional benefits are often transmitted through human capacity building⁷⁷.

Second, this analysis aims to test the hypothesis that infrastructure serves as a key mediator that strengthens and expands the reach of institutional influence. Dimensions such as security, social capital, checks and balances, transparency, property rights, and the future orientation of the government, are closely related to the quality of governance and

⁷⁰ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁷¹ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

⁷² Saeed and Klugah, "Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling."

⁷³ Kenalemang and Stephens, "An Established Knowledge-Based Economy: The Key Strategy to Facilitating Economic Recovery and Growth Post Covid-19 in Botswana."

⁷⁴ Asamoah and Owusu-Agyei, "The Impact of ICT on Financial Sector Policy Reforms in Post-Financial Crisis Era in Ghana."

⁷⁵ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

⁷⁶ Baffour Gyau et al., "Transforming Banking: Examining the Role of AI Technology Innovation in Boosting Banks Financial Performance."

⁷⁷ Opoku, Poku, and Domeher, "Financial Inclusion, Human Capital Development and Economic Growth in Africa: An Examination of the Transmission Channel."

the role of infrastructure in supporting its effectiveness. Recent studies have confirmed the role of governance, transparency, and ownership rights in shaping mediation pathways that connect institutions to sustainable development. For example, research shows that the integrity transition through an anti-corruption approach drives economic growth, with the business environment and economic freedom as important mediators⁷⁸. Environmental information disclosure was found to be able to increase green innovation and urban sustainability through the role of transparency and environmental governance⁷⁹. In the global context, governance has proven to play a role as a mediator in post-COVID-19 economic recovery, especially in low-income countries and Africa⁸⁰. Property rights are also key, as demonstrated by studies of communal land conflicts in Nigeria that hinder pro-poor land access, highlighting the importance of a fair and inclusive land administration system⁸¹. The book on the Belt and Road Initiative highlights how international law, property rights, and governance affect cross-border development through infrastructure⁸². In addition, government policies in the Western Balkans have been shown to have an effect on differences in living standards in the context of EU integration, emphasizing the importance of checks and balances and bureaucratic reform in development mediation⁸³. The digital transformation of banking in Jordan also shows that good governance is a mediator between accounting digitization and financial transparency⁸⁴. Finally, rural digitalization has been found to facilitate the transfer of agricultural land, which has implications for the governance of ownership rights and labor mobility⁸⁵. Third, this chapter seeks to quantify the magnitude and statistical significance of the effects of mediation to provide a robust evidence base for policy formulation. Specific research questions answered through this mediation analysis include: What is the proportion of institutional influence on ICT adoption, health, and macroeconomic stability mediated by infrastructure? Does the power of the mediation effect vary across different development

⁷⁸ Springer, *Decision Support Systems XIII. Decision Support Systems in An Uncertain World: The Contribution of Digital Twins*.

⁷⁹ Zhang, Yu, and Zhang, "Research on Urban Sustainability Based on Neural Network Models and GIS Methods."

⁸⁰ Sunge, Mudzingiri, and Mkhize, "The COVID-19 Pandemic and Economic Recovery: The Mediating Role of Governance, a Global Perspective."

⁸¹ Anierobi et al., "Community Land Conflicts and Pro-Poor Urban Land Access in Enugu, Nigeria: Church Involvement for Social Inclusion."

⁸² Springer Nature, *A Legal Analysis of the Belt and Road Initiative*.

⁸³ Misini and Mustafa, "The Influence Of Government Policies And Differences In The Standard Of Living Of The Western Balkans Countries Compared To Croatia And Slovenia."

⁸⁴ Alassuli et al., "The Impact of Accounting Digital Transformation on Financial Transparency: Mediating Role of Good Governance."

⁸⁵ Wang, "How Can Rural Digital Development Activate Agricultural Land Mobility? -Based on the Dual Perspectives of Resource Mismatch and Labor Mobility."

outcomes? What is the interrelationship between the dimensions of development after controlling the influence of institutions and infrastructure? And is the proposed mediation model consistent with empirical data from a global sample of countries with diverse levels of development?

Mediation analysis is necessary in this context for several fundamental reasons. First, conventional approaches that only estimate the total effect of institutions without considering intermediate mechanisms risk ignoring the complexity of the development process and can result in oversimplified policy recommendations. Institutions do not operate in a vacuum, but through various channels, each of which has different dynamics and time horizons. Second, an understanding of mediation pathways allows the identification of potential bottlenecks in the transmission of institutional influence. If infrastructure is an important but underdeveloped mediator, then institutional reform alone may not be sufficient to achieve development goals. Third, mediation analysis provides insights into complementarities and substitutability's between policy interventions. If the mediation effect is substantive, it indicates that simultaneous investment in institutions and infrastructure will produce synergistic effects greater than the sum of individual interventions. Conversely, if direct effects dominate, a focus on institutional reform may be more cost-effective. Fourth, by identifying multiple pathways, this analysis can explain heterogeneity in development outcomes across countries with similar institutional qualities but different infrastructure endowments.

Recent literature confirms the relevance of this approach. For example, a study in Tanzania shows that governance fully mediates the implementation of public-private partnerships for infrastructure development⁸⁶. In the context of natural resources, research found that the negative influence of natural resource rents on e-government is mediated by trust in institutions and the size of the informal sector⁸⁷. An analysis of environmental governance also proves that industrial structures serve as an important mediation pathway in improving the efficiency of green development, with digital infrastructure strengthening this relationship⁸⁸. Furthermore, McLaughlin emphasized that in the context of the Belt and Road Initiative, mediation mechanisms are more appropriate than hard law-based dispute resolution, due to the geopolitical nature and complex multi project interests⁸⁹.

⁸⁶ Mwakapala and Sun, "A Simple Mediation Model for Public-Private Partnership Implementation in Developing Countries: A Case of Tanzania."

⁸⁷ Imelda, Nabil Aman, and Joseph, "Do Natural Resources Influence E-Government in Developing Countries? Effects and Transmission Channels."

⁸⁸ Guan and Zhang, "Impact Assessment of Ecological Environment Governance on the Green Development Efficiency."

⁸⁹ MCLAUGHLIN, "The Geoeconomics of Belt and Road Disputes: A Case Study on the China-Pakistan Economic Corridor."

The legal analysis book on the Belt and Road Initiative also confirms that soft law and institutional mechanisms work as the main transmission channels between global governance and cross-border infrastructure development⁹⁰. Within the framework of local development, studies show that factors such as infrastructure, social capital, and financial capital play a key role in shaping entrepreneurial strategies that then encourage regional economic development⁹¹. Meanwhile, research on post-Covid-19 sustainability highlights the importance of integrating governance with sustainable development goals to strengthen community resilience⁹². Then CSR research shows that effective corporate communication can be a mediating channel between institutional practices and consumer attitudes, which has implications for economic sustainability⁹³.

The theoretical significance of this mediation analysis lies in its contribution to the literature on institutional economics and development theory. While the seminal work of North and Acemoglu has established the importance of institutions, the micro-mechanisms linking institutions to development are still relatively underexplored. This analysis provides empirical evidence that infrastructure can serve as a mediator that bridges the influence of institutions on multidimensional development outcomes. Recent studies have also shown that the use of Structural Equation Modeling (SEM) allows simultaneous analysis of complex causal relationships and the role of mediating variables in development. For example, a study on FinTech development in ASEAN-4 shows that financial access and technology readiness function as important mediators in the development of sustainable finance ecosystems⁹⁴, in line with cross-border findings that show the relationship between institutional pillars, infrastructure, and sustainable development using PLS-SEM⁹⁵. An analysis of infrastructure mega projects in Tanzania highlights the trade-off between growth and development quality, underscoring the need for mediation by participatory policies and public governance⁹⁶.

Furthermore, financial stability has been shown to moderate the relationship between poverty and growth in Sub-Saharan Africa, demonstrating how macroeconomic

⁹⁰ Springer Nature, *A Legal Analysis of the Belt and Road Initiative*.

⁹¹ Rokhim, Wulandari, and Wahyuni, "Assessment of Local Economic Development and Its Factors to Improve Welfare in the Several Regions in Indonesia."

⁹² Ahsan, "Embracing Sustainable Development Goals to Build Community Resilience after COVID 19."

⁹³ Liu, Liang, and Wiang, "How CSR Communication Can Effectively Improve Consumers' Brand Attitudes?"

⁹⁴ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁹⁵ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

⁹⁶ Utouh and Kitole, "The Impact of Fiscal and Monetary Policy on Economic Growth and Structural Transformation in Tanzania."

variables play a role as a mediation channel for development⁹⁷. In China, fiscal uncertainty negatively impacts life expectancy, but environmental taxes serve as positive mediators that mitigate these impacts⁹⁸. Other global studies affirm that effective governance is the main path to sustainability by improving HDI, climate adaptation, and environmental performance⁹⁹. In addition, ICT access was found to be an important mediator in the relationship between financial development and inclusive growth across countries¹⁰⁰, while foreign investor characteristics play a role in moderating the impact of FDI on environmental degradation, showing how external factors can strengthen or weaken the effectiveness of institutional policies¹⁰¹.

In an effort to understand the causal mechanisms underlying the relationship between institutions, infrastructure, and various dimensions of development, this study adopts a rigorous and comprehensive methodological approach through Structural Equation Modeling (SEM). This approach was chosen for its ability to simultaneously test complex causal pathways, including direct and indirect effects (mediating effects), while considering the error structure and correlations between latent variables. The model specification is built on the basis of a strong theoretical framework, with institutions as the main exogenous variables, infrastructure as the central mediator, as well as the adoption of information and communication technology (ICT), health, and macroeconomic stability as endogenous variables or development outcomes. With this structure, the model allows for the estimation of the total effects of institutions on development, while separating the contribution of direct and indirect effects through infrastructure as a mediation channel.

The findings of this study are in line with the latest literature developments that consistently affirm the strategic role of institutions and infrastructure as the main pillars of socio-economic transformation across sectors. In the context of tourism,¹⁰² shows that the quality of institutions and the availability of physical and digital infrastructure are key determinants of the sustainability of tourist destinations, especially in supporting inclusive

⁹⁷ Lambon, Ocansey, and Ababio, "Influence of Poverty on Economic Growth in Sub-Saharan Africa, the Role of Financial Stability."

⁹⁸ Fan et al., "Unraveling the Nexus between Fiscal Policy Uncertainty, Environmental Taxation, and Life Expectancy."

⁹⁹ Cavalheiro et al., "Governance, Development, and Environment: Pathways to a Sustainable Future."

¹⁰⁰ Saeed and Klugah, "Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling."

¹⁰¹ Albahar and Islam, "Factors of International Trade and Environmental Degradation in the UAE: Moderating Role of Foreign Investor Characteristics."

¹⁰² Munir et al., "The Role of Tourists, Infrastructure and Institutions in Sustainable Tourism: A Structural Equation Modeling Approach."

and sustainable ecotourism. The ¹⁰³ study reinforces these findings by applying SEM to test intelligent decision-making systems in the development of ecotourism, emphasizing that the integration of spatial data, responsive institutions, and digital infrastructure creates synergies that accelerate sustainable transitions. In the agro-industry sector, ¹⁰⁴ proves through PLS-SEM that resource management and research infrastructure in public institutions are drivers of innovation, especially when supported by transparent and participatory governance.

Furthermore, the relationship between infrastructure and the sustainable development agenda is also seen in the context of the energy transition. ¹⁰⁵ uses a combination of PLS-SEM and Necessary Condition Analysis (NCA) to show that modern transportation infrastructure—especially clean energy-based ones—is an essential condition for achieving carbon neutrality, with the term "carbon unlocking" describing how infrastructure development can unlock the potential for systemic decarbonization. In the public sector, ¹⁰⁶ found that the digital competence of the apparatus is not only determined by institutional policies, but also highly dependent on the quality of digital infrastructure and digital transformation management capacity, which together trigger innovative work behaviors. In the field of education, ¹⁰⁷ emphasized through SEM-based studies that the quality of service and student satisfaction are significantly influenced by strategic partnerships between institutions and the availability of reliable ICT infrastructure. Similar findings are reported by ¹⁰⁸ in the context of higher education in Saudi Arabia, where the application of artificial intelligence technology not only improves operational efficiency, but also promotes women's empowerment and work-life balance—provided it is supported by inclusive governance and equitable digital infrastructure. Meanwhile, in the health sector, ¹⁰⁹ used PLS-SEM to model managerial risk factors that hinder public services, showing that improving health facility infrastructure and strengthening institutional capacity are the main prerequisites for improving service quality.

¹⁰³ Yu, "A Study on the Dual Benefits of Ecotourism Resource Management Intelligent Decision Making System for Environment and Economy."

¹⁰⁴ Chen et al., "Effective Conditions for Achieving Carbon Unlocking Targets for Transport Infrastructure Development—Joint Analysis Based on PLS-SEM and NCA."

¹⁰⁵ Chen et al.

¹⁰⁶ Carvalho et al., "Predictors of Digital Competence of Public University Employees and the Impact on Innovative Work Behavior."

¹⁰⁷ Supriyanto et al., "Partnership Quality, Student's Satisfaction, and Loyalty: A Study at Higher Education Legal Entities in Indonesia."

¹⁰⁸ Meharunisa et al., "The Impact of Artificial Intelligence on Women's Empowerment, and Work-Life Balance in Saudi Educational Institutions."

¹⁰⁹ Vishnu et al., "Statistical Characterization of Managerial Risk Factors: A Case of State-Run Hospitals in India."

The consistency of findings across sectors—tourism, agroindustry, energy, education, health, and digital governance—confirms that infrastructure is not just a support, but a dynamic mediator that strengthens, expands, and accelerates the impact of institutional improvement. The model in this study, which was estimated using the Maximum Likelihood (ML) method with robust standard error correction (Satorra-Bentler), is designed to empirically capture the complexity of this relationship. Model identification was achieved through an over-identification strategy, with 21 sample moments and 14 free parameters resulting in 7 degrees of freedom, qualifying order and rank for structural identification. The scale of latent variables is established through unit loading identification, ensuring parameter interpretability and estimation stability. The integration of these cross-contextual findings not only enriches the analytical framework, but also confirms that SEM and PLS-SEM based approaches have become the gold standard in testing complex mediation models in various areas of development. In the context of policy, these findings call for a holistic approach: institutional improvement must always be accompanied by strategic investments in physical and digital infrastructure, so that development transformation can occur in an inclusive, sustainable and far-reaching manner.

2.2. The Role of Institutions and Infrastructure in Multidimensional Development

Structural mediation analysis reveals the complexity of causal relationships between institutions, infrastructure, and various dimensions of economic development (Table 2.1.). Empirical findings show that institutions play a central role in influencing the adoption of information and communication technologies (ICT), public health, and macroeconomic stability, both directly and through infrastructure mediation. The strongest direct influence of institutions was seen in the adoption of ICT with an estimated coefficient of 1.609 (SE = 0.342; $z = 4.710$; $p < 0.001$), which indicates that every single standard unit increase in institutional quality will increase ICT adoption by 1.609 standard units. A 95% confidence interval ranging from 0.940 to 2.279 confirms the precision and robustness of this estimate, with a very small pvalue ($2.482e-6$) indicating a minimal probability of Type I error. The institution also demonstrated a significant direct influence on health with a coefficient of 0.347 (SE = 0.108; $z = 3.224$; $p = 0.001$; 95% CI: 0.136-0.558) and macroeconomic stability with a coefficient of 0.491 (SE = 0.196; $z = 2.502$; $p = 0.012$; 95% CI: 0.107-0.876). Although the magnitude of the influence on these two dimensions is more moderate compared to ICT adoption, its statistical significance remains strong, indicating that quality institutions consistently contribute to improved health outcomes and the creation of a stable macroeconomic environment. This difference in magnitude reflects the differential

sensitivity of different dimensions of development to institutional quality, where technology adoption seems to be most responsive to institutional improvement.

Table 2.1. The complexity of causal relationships between institutions, infrastructure, and the various dimensions of economic development

	Estimate	Std. error	z-value	p	95% Confidence Interval	
					Lower	Upper
Institutions→ ICT Adoption	1.609	0.342	4.71	2.48E-06	0.94	2.279
Institutions→ Health	0.347	0.108	3.224	0.001	0.136	0.558
Institutions→ Macroeconomic Stability	0.491	0.196	2.502	0.012	0.107	0.876

The analysis of mediation channels reveals the crucial role of infrastructure as a mechanism for the transmission of institutional influence. Institutions influenced infrastructure development with a substantial coefficient of 1.150 (SE = 0.375; $z = 3.062$; $p = 0.002$; 95% CI: 0.414-1.886), suggesting that institutional quality is a fundamental prerequisite for effective infrastructure development. Infrastructure then transmits this influence to other dimensions of development with significant pathway coefficients: 0.461 for ICT adoption (SE = 0.132; $z = 3.487$; $p < 0.001$), 0.126 for health (SE = 0.042; $z = 3.032$; $p = 0.002$), and 0.219 for macroeconomic stability (SE = 0.076; $z = 2.879$; $p = 0.004$).

The consistency of findings across sectors and geographies provides robust empirical validation of theoretical propositions regarding the central role of institutions and infrastructure in contemporary economic transformation. The convergence of research results from various contexts—from advanced to developing economies, from the financial sector to health—indicates a universal pattern in economic development mechanisms. These findings not only reinforce the external validity of the proposed model, but also reveal the complexity of the interaction between mutually reinforcing development variables. This cross-study synthesis allows for a more holistic understanding of how institutions and infrastructure operate as catalysts for structural transformation in the modern economy.

¹¹⁰ on the development of fintech ecosystems in ASEAN-4 countries (Indonesia, Malaysia, Thailand, and the Philippines) reveals the crucial mediation role played by institutional factors and technological readiness in explaining the variation in digital financial services penetration. These findings suggest that the mere existence of technology infrastructure is not enough to drive fintech adoption; A supportive institutional framework is needed—including adaptive regulation, adequate consumer protection, and

¹¹⁰ Warokka, Setiawan, and Aqmar, “Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis.”

efficient dispute resolution mechanisms. Variations in the quality of governance and institutional capacity between ASEAN-4 countries significantly explain the differences in fintech penetration rates, with countries with stronger institutions showing faster and more inclusive adoption. These mediation mechanisms operate through several channels: strong institutions reduce regulatory uncertainty, increase consumer confidence, and facilitate innovation through a structured regulatory sandbox.

The ¹¹¹ in Sub-Saharan Africa provides important insights into the conditions needed for digital transformation to translate into increased economic productivity. The study found that digitalization only produces productivity dividends when moderated by two key factors: the quality of institutions and the robustness of the health system. These findings indicate that digital transformation is not an automated process, but rather requires a complex supporting ecosystem. Quality institutions ensure that digital infrastructure is used productively through contract enforcement, intellectual property rights protection, and the facilitation of secure digital transactions. Meanwhile, a strong health system ensures that the workforce has the physical and cognitive capacity to make optimal use of digital technology. The synergistic interaction between digitalization, institutions, and health creates a multiplier effect that accelerates productivity transformation.

Research findings that place health as an important outcome of institutional development as well as a prerequisite for the use of technology reveal the strategic duality of health investment. As an outcome, the improvement in the health status of the population reflects the effectiveness of institutions in allocating resources, managing the health care system, and ensuring universal access to basic services. As a prerequisite, good health improves human capital quality, extends the productive life span, and increases the cognitive capacity necessary for the adoption and utilization of technology. This duality creates a positive feedback loop: strong institutions improve health outcomes, which in turn increases productivity and economic growth, generating additional resources for further institutional strengthening. The policy implication of these findings is the need for an integrated approach that views health investment not as consumption expenditure, but as a productive investment with long-term returns. Productive capabilities—which include productive capacity, technological sophistication, and export diversification—serve as endogenous stabilization mechanisms that reduce the economy's vulnerability to global volatility. Countries with higher productive capabilities show better resilience to terms of trade shocks, financial contagion, and global supply chain disruptions. This protective mechanism operates through several channels: economic diversification reduces

¹¹¹ Egbeleo and Sodokin, “Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa.”

dependence on a single sector, technological sophistication allows quick adaptation to changing market conditions, and high productive capacity facilitates import substitution when needed. These findings strengthen the argument that institutional development not only creates static stability, but also builds dynamic resilience through increased productive capabilities. The synthesis of cross-study findings uncovers the complex transmission mechanisms through which strong institutions create not only immediate stability but also increased systemic efficiency. This transmission process operates through multiple channels that reinforce each other. First, credible institutions lower transaction costs through predictable contract enforcement and efficient dispute resolution. Second, institutional transparency increases information flow in the economy, allowing for more efficient resource allocation. Third, accountability mechanisms in public institutions reduce corruption and rent-seeking, increasing aggregate productivity. Fourth, inclusive institutions expand economic participation, increasing the utilization rate of human capital. Fifth, regulatory certainty provided by stable institutions reduces risk premiums and encourages long-term investment. The synergistic interaction between these channels creates a virtuous cycle that accelerates economic transformation.

The convergence of empirical findings across geographical and sectoral contexts has profound implications for development strategy design. First, a piecemeal approach that focuses on a single intervention will not be effective; A holistic strategy is needed that recognizes the interdependence between institutions, infrastructure, health, and technology. Second, sequencing reforms are crucial—investment in technology infrastructure without parallel institutional strengthening is likely to result in sub-optimal returns. Third, local contexts remain important despite universal patterns; Development strategies must be adjusted to the initial conditions and structural characteristics of the respective economies. Fourth, a long-term time horizon is needed considering that many of the benefits of institutional strengthening are only realized after a significant gestation period. Fifth, continuous monitoring and evaluation is needed to ensure that reforms produce intended outcomes and to make course corrections when necessary.

The consistency of these findings is also reflected in the global literature on competitiveness and productivity. ¹¹² found through cross-country analysis that human capital, financial systems, and ICT are the main determinants of total factor productivity in developing countries, which indirectly emphasizes the importance of institutions in building the foundations for these three elements. In a broader context, ¹¹³ confirms through PLS-SEM across 128 countries that the pillars of global competitiveness—especially

¹¹² Sahar Mohammed Abboud, “Leveraging Total Factor Productivity in Developing Countries.”

¹¹³ Canatay, Prieto, and Amin, “Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis.”

institutions, infrastructure, and technology—have a positive and significant relationship with sustainable development, showing that the synergy between these three pillars is the key to structural transformation. In addition,¹¹⁴ emphasizes in the context of global supply chains that operational sustainability can only be achieved through close integration between physical infrastructure, reliable institutions, and macroeconomic stability, underscoring the interdependent nature of development factors. The findings in this study do not stand alone, but are part of a global convergence of evidence showing that institutions are a key driver of development, whose effects are extended and amplified through infrastructure and facilitated by the adoption of technology. The combination of institutional strength, infrastructure readiness, and technological capacity forms a mutually reinforcing development ecosystem. The policy implications are clear: sustainable development cannot be achieved through sectoral investment alone, but requires an integrated approach that strengthens institutional foundations, expands infrastructure access, and ensures widespread digital inclusion. It is within this framework that the structural mediation model used in this study not only explains causal relationships, but also provides evidence-based and globally relevant policy guidance.

Table 2.2. Indirect effects of institutions

	Estimate	Std. error	z-value	p	95% Confidence Interval	
					Lower	Upper
Institutions→ Infrastructure→ ICT Adoption	0.53	0.23	2.301	0.021	0.079	0.982
Institutions → Infrastructure → Health	0.145	0.067	2.154	0.031	0.013	0.277
Institutions → Infrastructure → Macroeconomic Stability	0.252	0.12	2.097	0.036	0.016	0.487

The indirect effects of institutions through infrastructure show significant additional contributions to the total influence of institutions (Table 2.2.). In ICT adoption, an additional 24.8% is consistent with the finding that ICT access can be a mediating channel between the financial system and inclusive growth at the global level¹¹⁵. In the health dimension, the contribution of 29.5% is in line with a study in Africa that found that ICT and democracy play an important role in improving children's health, strengthening the

¹¹⁴ Huang et al., “Location Selection of a Manufacturing Facility from the Perspective of Supply Chain Sustainability.”

¹¹⁵ Saeed and Klugah, “Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling.”

role of digital infrastructure in health outcomes¹¹⁶. For macroeconomic stability, the 33.9% mediation effect is in line with evidence that the quality of digital institutions and infrastructure amplifies the impact of digital transformation on productivity in Sub-Saharan Africa¹¹⁷.

These results are also supported by a multi-level analysis showing that the pillars of institutions, infrastructure, and the macroeconomic environment converge in explaining the success of sustainable development¹¹⁸. Another study highlights that technology-based factors such as digitalization and ICT trade significantly influence globalization in transition countries, confirming the importance of digital infrastructure channels¹¹⁹. In addition, research on fintech in ASEAN found that technological readiness and financial access act as important mediators in supporting inclusive ecosystems, supporting the argument for indirect effects through digital infrastructure¹²⁰. Furthermore, a study of higher education in Nigeria during COVID-19 emphasizes that institutional disruption has actually increased ICT investment, showing how infrastructure can be a significant intermediary between crises and institutional responses¹²¹. Although outside the international context, empirical evidence on digital literacy as a mediator between ICT infrastructure and economic outcomes suggests the importance of considering indirect effects in understanding institution-based development¹²².

The aggregation of direct and indirect effects shows the total strength of institutions towards cross-dimensional development (Table 2.3.). In ICT adoption, the total effect of 2,139 with high significance is in line with the findings that technology readiness and financial access mediate the development of an inclusive fintech ecosystem in ASEAN-4¹²³, as well as global evidence that ICT access strengthens the financial system's contribution to

¹¹⁶ Nkoumou Ngoa and Song, "Early Child Health in Africa: Do ICT and Democracy Matter?"

¹¹⁷ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

¹¹⁸ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

¹¹⁹ Petkovski, Fedajev, and Mihajlović, "Technology-Based Factors Of Globalization In Market And Transition Economies. Is There A Difference?"

¹²⁰ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

¹²¹ Asaleye, Inegbedion, and Garidzirai, "Navigating Future Disruptions: The Impact of COVID-19 on Accounting Education in Private Universities in Nigeria."

¹²² Priambodo, Anwar, and Suharno, "Does Digital Literacy Mediate the Relationship Between ICT and Regional Own-Source Revenue?"

¹²³ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

inclusive growth ¹²⁴. For health, a total effect of 0.492 is supported by studies in Sub-Saharan Africa showing that the quality of health institutions and systems increases productivity from digital transformation ¹²⁵, as well as research highlighting how effective governance can improve social and environmental indicators, including health adaptation ¹²⁶. On macroeconomic stability, the total effect of 0.743 is in line with a multi-level analysis that finds convergence between the pillars of institutions, infrastructure, and the macroeconomic environment in support of sustainable development ¹²⁷. Other studies show that digitalization and ICT trade drive global integration, which has an impact on the resilience of transitional economies ¹²⁸. However, findings from Ethiopia show that too rapid digital transformation can pose a risk to financial stability if not balanced with strong regulations ¹²⁹. In addition, evidence from higher education in Nigeria during the pandemic emphasizes how the crisis triggered ICT investment as an institutional response that strengthens the system's adaptation capacity ¹³⁰. At the macro level, cross-border research shows that strong governance supports economic, social, and environmental development simultaneously, reinforcing the argument about the aggregate contribution of institutional total effects ¹³¹.

Table 2.3. The total effect of the institution's comprehensive impact on development

	Estimate	Std. error	z-value	p	95% Confidence Interval	
					Lower	Upper
Institutions → ICT Adoption	2.139	0.352	6.084	1.17E-09	1.45	2.829
Institutions → Health	0.492	0.107	4.581	4.62E-06	0.282	0.703
Institutions → Macroeconomic Stability	0.743	0.194	3.827	1.30E-04	0.362	1.123

¹²⁴ Saeed and Klugah, "Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling."

¹²⁵ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

¹²⁶ Cavalheiro et al., "Governance, Development, and Environment: Pathways to a Sustainable Future."

¹²⁷ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

¹²⁸ Petkovski, Fedajev, and Mihajlović, "Technology-Based Factors Of Globalization In Market And Transition Economies. Is There A Difference?"

¹²⁹ Hordofa, "Impact of Digital Transformation on Financial Stability in Emerging Markets: Evidence from Ethiopia."

¹³⁰ Asaleye, Inegbedion, and Garidzirai, "Navigating Future Disruptions: The Impact of COVID-19 on Accounting Education in Private Universities in Nigeria."

¹³¹ Cavalheiro et al., "Governance, Development, and Environment: Pathways to a Sustainable Future."

Residual covariance analyses revealing the linkages between ICT adoption, health, and macroeconomic stability (table 2.3.) can be strengthened by the current literature showing how unobserved factors and spillover between development dimensions affect development outcomes. For example, studies on the interconnectedness of financial innovation and financial system stability in the UAE emphasize cross-sectoral risk dynamics that reflect similar spillover mechanisms between technology and economic stability ¹³², while research on global economic complexity asserts the role of institutional quality, health, and macroeconomic conditions in shaping development trajectories ¹³³.

Tabel 2.4. Covariance residual

					95% Confidence Interval	
	Estimate	Std. error	z-value	p	Lower	Upper
ICT Adoption ↔ Health	0.039	0.014	2.805	0.005	0.012	0.067
ICT Adoption ↔ Macroeconomic Stability	0.067	0.025	2.653	0.008	0.018	0.117
Health ↔ Macroeconomic Stability	0.015	0.008	1.969	0.049	6.91E-05	0.03

The cross-sectoral impact (Table 2.4) is also reflected in the study of gold's role in dealing with oil price volatility during the COVID-19 pandemic, which illustrates the complementary relationships between the dimensions of the global economy ¹³⁴. The interaction between ICTs, foreign direct investment, and environmental sustainability in OPEC countries suggests that the effects of cross-sectoral externalities are important in explaining development variability ¹³⁵. Furthermore, research on the role of the internet in Somalia's economic growth highlights the close relationship between ICT penetration and the broader dimension of economic growth ¹³⁶. Furthermore, the global adoption of cryptocurrencies shows the interconnectedness between macroeconomic conditions, monetary policy, and socio-economic dynamics that resemble residual covariances between development dimensions ¹³⁷. A study on the influence of natural resource leasing on

¹³² Elsayed et al., "The Impact of FinTech Technology on Financial Stability of the UAE."

¹³³ Şanlı, Gülbay Yiğitli, and Ergün Tatar, "Do Economic Complexity Drivers Differ by Income Level? Insights From a Global Perspective."

¹³⁴ Li and Umair, "The Protective Nature of Gold during Times of Oil Price Volatility: An Analysis of the COVID-19 Pandemic."

¹³⁵ Sepehrdoust, Tartar, and Parvin, "Environmental Impacts of Macroeconomic Variables: A Case Study of Iran and Selected OPEC Members."

¹³⁶ Mohamed and Nageye, "Estimating the Nexus between Internet Usage and Economic Growth in Somalia: Role of Hormuud Telecom Investment."

¹³⁷ Guo, Yousef, and Naseer, "Examining the Drivers and Economic and Social Impacts of Cryptocurrency Adoption."

Brunei's economic development shows how the dependence of certain sectors can cause short-term and long-term linkages across development dimensions ¹³⁸. These findings support the interpretation that residual covariances between ICTs, health, and macroeconomic stability reflect spillover as well as dynamic interactions between development factors that are not fully captured by institutions and infrastructure.

Findings on the variation in mediation proportions between dimensions (Table 2.5.) further emphasizing the role of infrastructure as a critical pathway that expands institutional influence. Studies on fintech in ASEAN show how financial access and technology readiness act as mediators in institution-based economic development ¹³⁹. Research across 128 countries confirms that the institutional and infrastructure pillars are closely correlated with the dimension of sustainable development through macroeconomic pathways ¹⁴⁰. The global analysis also emphasizes that ICT access strengthens the influence of financial institutions on inclusive growth, thus showing a significant mediation channel effect ¹⁴¹.

Table 2.5. Multiple pathways critical link infrastructure

					95% Confidence Interval	
	Estimate	Std. error	z-value	p	Lower	Upper
Infrastructure → ICT Adoption	0.461	0.132	3.487	4.89E-04	0.202	0.72
Institutions → ICT Adoption	1.609	0.342	4.71	2.48E-06	0.94	2.279
Infrastructure → Health	0.126	0.042	3.032	0.002	0.045	0.208
Institutions → Health	0.347	0.108	3.224	0.001	0.136	0.558
Infrastructure → Macroeconomic Stability	0.219	0.076	2.879	0.004	0.07	0.368
Institutions → Macroeconomic Stability	0.491	0.196	2.502	0.012	0.107	0.876
Institutions → Infrastructure	1.15	0.375	3.062	0.002	0.414	1.886

In the context of a crisis, knowledge-based transformation and investment in digital infrastructure are proving to be an effective recovery strategy, as shown by a study in

¹³⁸ Slesman, "Natural Resource Rents and Economic Development: Evidence from Brunei Darussalam."

¹³⁹ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

¹⁴⁰ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

¹⁴¹ Saeed and Klugah, "Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling."

Botswana ¹⁴². In Ghana, post-crisis financial sector reforms are driven by institutional improvements and ICT infrastructure development that strengthen the digital transformation of financial services ¹⁴³. Other research in Sub-Saharan Africa shows that the quality of health institutions and systems strengthens the link between digital transformation and productivity ¹⁴⁴. In addition, AI-based innovations in the banking sector have been proven to result in improved financial performance through ICT development mediation channels ¹⁴⁵. Furthermore, an analysis of 40 African countries found that human capital development becomes a full channel that transmits the benefits of financial inclusion to economic growth, underscoring the importance of complementary interventions in addition to institutional reforms ¹⁴⁶. From a methodological perspective, the statistical strength of all the estimated parameters, with the majority of p-values well below the conventional threshold of 0.05, provides high confidence in the validity of the model. The relatively narrow confidence interval in most estimates indicates good precision, although some indirect effects have wider intervals, reflecting uncertainty propagation in the mediation pathway. The consistency of direction and significance of effects across different pathways strengthen the validity of the construct and the reliability of the findings.

To map the main causal pathways that connect institutions, infrastructure, and strategic development dimensions such as the adoption of information and communication technologies (ICT), health, and macroeconomic stability. Figure 2.1. describes an SEM-based structural model that tests the hypothesis that infrastructure serves as an important mediator between institutional quality and development outcomes, while the direct effects of institutions also remain significant. The model not only captures the direct relationships between variables, but also identifies how governance improvements can trigger transformation through physical and systemic capacity building. Institutions are the main exogenous variables that directly affect infrastructure with a coefficient of 1.1, indicating that effective governance and integrity support better infrastructure development. In addition, institutions have a strong influence on ICT adoption by 1.6, as well as macroeconomic stability by 0.49, indicating that public policy and institutional trust

¹⁴² Kenalemang and Stephens, “An Established Knowledge-Based Economy: The Key Strategy to Facilitating Economic Recovery and Growth Post Covid-19 in Botswana.”

¹⁴³ Asamoah and Owusu-Agyei, “The Impact of ICT on Financial Sector Policy Reforms in Post-Financial Crisis Era in Ghana:”

¹⁴⁴ Egbeleo and Sodokin, “Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa.”

¹⁴⁵ Baffour Gyau et al., “Transforming Banking: Examining the Role of AI Technology Innovation in Boosting Banks Financial Performance.”

¹⁴⁶ Opoku, Poku, and Domeher, “Financial Inclusion, Human Capital Development and Economic Growth in Africa: An Examination of the Transmission Channel.”

are the foundation for digital innovation and economic resilience. Infrastructure itself acts as an important mediating pathway: it strengthens ICT adoption (coefficient 0.46), supports health (0.13), and improves macroeconomic stability (0.22). Although ICT adoption has a direct impact on health (0.04) and macro stability (0.01), the effect is relatively small compared to pathways through infrastructure. Health (Hlt) also contributes to macro stability, although it is very limited (0.01). The residual variance of each latent variable suggests that the model explains most of the variation in macro health and stability, but there is still room for other factors in ICT infrastructure and adoption.

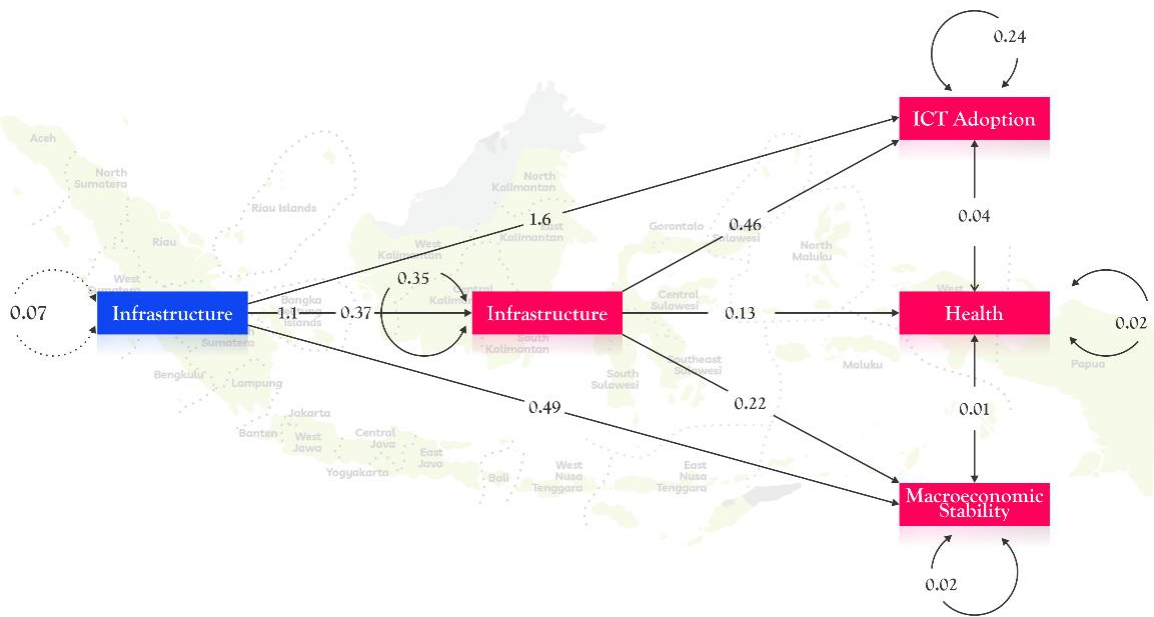


Figure 2.1. Mediation Structural Model: The Role of Institutions and Infrastructure in Encouraging Regional Development

The overall synthesis indicates that an effective development strategy must adopt a holistic approach that recognizes the complexity of the relationships between variables. Investment in institutional strengthening not only generates direct returns in the form of increased technology adoption, health, and economic stability, but also indirect returns through the facilitation of infrastructure development. The finding that infrastructure mediates up to one-third of the total institutional effects on several dimensions of development emphasizes the importance of sequencing and coordination in policy implementation. Institutional reforms that are not followed by adequate infrastructure investment will lose a significant portion of their potential impact, while infrastructure development without a strong institutional foundation risk resulting in inefficient or unsustainable investments.

2.3. Implications of Institutional-Infrastructure Mediation Policies and Strategies

1. Strengthening Security as a Foundation for Social and Economic Stability

Security is a fundamental prerequisite for the creation of sustainable social and economic stability. In the context of national development, security serves as the main enabler that allows the optimal running of economic, social, and political activities. Without adequate security guarantees, investment will be hampered, infrastructure development will be disrupted, and technology adoption will stagnate. The concept of modern security has evolved beyond the traditional approach that focuses solely on the military aspect, broadening to include economic security, cybersecurity, environmental security, and human security comprehensively. The level of public trust in law enforcement institutions can be measured through various quantitative and qualitative indicators. The prevalence of illegal levies reflects the integrity of law enforcement officials and the effectiveness of the internal oversight system. Statistics on murder cases indicate the state's ability to ensure the safety of citizens, while data on the arrest of suspected terrorists shows the intelligence and operational capacity to anticipate threats. The reliability of police services, which is measured through response times, case resolution rates, and community satisfaction, is a crucial parameter in assessing the effectiveness of security institutions. These indicators collectively shape public perceptions which in turn affect the legitimacy and effectiveness of law enforcement.

The integration of digital technology in security systems has fundamentally changed the law enforcement landscape. The implementation of e-policing enables the digitization of administrative processes, online reporting, and case tracking in real-time. The integrated command center facilitates multi-agency coordination and rapid response to security incidents. As stated by ¹⁴⁷, the digital security system in the United Arab Emirates has succeeded in increasing the accountability and transparency of police services through comprehensive digital documentation and accessibility of public information. This technology also strengthens the state's capacity to control public spaces through integrated surveillance systems, predictive analytics, and data-driven crowd management.

The application of massive surveillance technology poses complex ethical challenges. Comprehensive surveillance systems such as those implemented in the UAE have established new socio-political relations in which individual privacy is confronted with the interests of collective security ¹⁴⁸. The algorithms used in surveillance systems have the potential to contain social biases that can perpetuate discrimination against minority or marginalized groups. The use of facial recognition, predictive policing, and social scoring

¹⁴⁷ Ziadah, "Surveillance, Race, and Social Sorting in the United Arab Emirates."

¹⁴⁸ Ziadah.

systems requires a clear ethical framework to ensure that technology is not misused for political repression or excessive social control. Algorithmic transparency, accountability in the use of data, and redress mechanisms are crucial elements in mitigating the risk of misuse of surveillance technology.

The adoption of biometric technology in migration surveillance systems marks a paradigm shift in border management and national security.¹⁴⁹ identifies how biometric data—including fingerprints, iris scans, and facial recognition—has become a central instrument in expanding the scope of public safety. The system enables accurate identity verification, detection of high-risk individuals, and efficient tracking of cross-border movements. However, large-scale collection and storage of biometric data raises privacy concerns and potential data misuse. International standardization, secure data sharing protocols, and data protection regulations are imperative to ensure biometric technology is used responsibly. The technological approach to counterterrorism presents a fundamental dilemma between security effectiveness and the protection of human rights.¹⁵⁰ analyzes the implementation of a comprehensive surveillance system in Xinjiang that has succeeded in narrowing the space for terrorist groups to move through intensive digital monitoring, but has been criticized for extensive restrictions on civil liberties. This model shows the trade-offs inherent in security policy: the tighter the surveillance, the more limited the space for individual freedom. A more balanced approach requires strong checks and balances mechanisms, independent oversight, and a clear legal framework to ensure counterterrorism actions remain proportionate and do not violate fundamental democratic principles.

The effectiveness of the national security system depends on the level of coordination and integration between the relevant agencies. In Indonesia, synergy between the National Counterterrorism Agency, the Indonesian National Police, and the Indonesian National Army is key in facing increasingly complex security threats. Secure, real-time communications infrastructure enables rapid intelligence exchange, efficient operational coordination, and unified response to threats.¹⁵¹ illustrates how the transformation of Canada's federal police in adopting AI technology has increased the capacity to predict and respond to national threats. This model emphasizes the importance of system interoperability, standardization of communication protocols, and human resource

¹⁴⁹ Wienroth and Amelung, “‘Crisis’, Control and Circulation: Biometric Surveillance in the Policing of the ‘Crimmigrant Other.’”

¹⁵⁰ Clarke, “‘No Cracks, No Blind Spots, No Gaps’: Technologically-Enabled ‘Preventative’ Counterterrorism and Mass Repression in Xinjiang, China.”

¹⁵¹ Jozaghi, “National Security During the First AI Revolution: The Case for Transforming Canada’s Security Apparatus.”

capacity building in managing modern security technologies. The concept of digital sovereignty has become a central paradigm in contemporary cybersecurity policy. Protecting critical infrastructure—including banking systems, power grids, telecommunications, and transportation—from cyberattacks is a strategic priority given the modern economy's reliance on digital systems. Investment in cyber resilience, the development of local cybersecurity talent, and international cooperation in threat intelligence sharing are integral components in maintaining the stability of the digital economy. Globalization has intensified transnational security threats that have a direct impact on economic stability.¹⁵² identifies how cross-border cyberattacks, international terrorism networks, and transnational drug cartels create uncertainty that lowers investor confidence and disrupts global supply chains. Ransomware attacks on critical infrastructure can cripple economic activity, while money laundering operations by transnational criminal networks undermine the integrity of the financial system. Effective responses require intensive international cooperation, harmonization of legal frameworks, and capacity building of cross-jurisdictional investigations. The establishment of multinational task forces, real-time intelligence exchange, and standardization of response protocols are crucial elements in dealing with transnational threats.

Regional political stability and security have a direct correlation with the investment climate and economic growth.¹⁵³ analyzes the role of British diplomacy during the Qatari diplomatic crisis that successfully facilitated regional reconciliation and restored market confidence. Effective conflict mediation not only prevents the escalation of violence but also maintains economic continuity and protects long-term investments. Modern security diplomacy requires a deep understanding of the interconnections between political stability, regional security, and global market dynamics. The development of early warning mechanisms for regional conflicts, investment in track-two diplomacy, and the development of mediation capacity are important instruments in maintaining regional economic stability. Adequate security guarantees are a fundamental prerequisite for infrastructure development, especially in conflict or remote areas. Infrastructure investors need assurance that physical assets and personnel will be protected during the construction and operational phases. Stable security also facilitates the adoption of information and communication technologies (ICT) by creating an environment conducive to technology investment and the development of digital ecosystems. Access to basic services such as health, education, and other public services depends on safe and secure infrastructure. The decline in security risks is directly correlated with a decrease in investment risk premiums,

¹⁵² Jozaghi.

¹⁵³ Gasanov and Sadygzade, "The Contribution of British Diplomacy to the Resolution of the Qatari Crisis (2017-2021)."

an increase in foreign direct investment, and an acceleration in economic growth. The integration of security considerations in infrastructure development planning, the establishment of security corridors for strategic projects, and the development of a community-based security approach are effective strategies in creating a sustainable development environment.

2. Strengthening Social Capital to Encourage Participation and Innovation

Social capital as a complement to formal institutions functions to reduce transaction costs, strengthen mutual cooperation norms, and accelerate coordination between actors. Classical literature on social capital (e.g. Putnam, Ostrom) distinguishes between bonding, bridging, and linking social capital; All three are important for connecting communities with governments and markets. In the framework of development mediation, social capital acts as an intermediary variable that explains how institutional and technological interventions translate into development outcomes. Conceptually, policy intervention (X) will strengthen social capital (M) through trust, networking, and participation; M then mediated the impact on outcomes (Y) such as ICT adoption, infrastructure maintenance, and welfare. This mediation path emphasizes the co-production of public services between the state and citizens. Strengthening local institutions (BPD, LPM, RT/RW¹⁵⁴) has an impact on accountability and public trust through the role of deliberation, supervision, and the distribution of aspirations. BPD strengthens the function of checks and balances in the management of village funds, LPM becomes the driving force for empowerment, while RT/RW maintains the interests of the micro community through the mechanism of deliberation, citizen discussion, and community service. When these institutions are integrated as strategic partners in infrastructure projects and service digitalization, local governance capacity increases, procurement processes are more transparent, and the risk of elite capture is reduced ¹⁵⁵. The end result is an increase in collective trust that is a prerequisite for sustainable public participation. Participatory governance through participatory budgeting (PB) ensures that budget allocation is in line with the real needs of citizens and strengthens transparency and accountability. The quality of PB improves when accompanied by a two-way feedback mechanism, reason-giving publication, and

¹⁵⁴ BPD, LPM, and RT/RW are community institutions supporting local governance at the village or neighborhood level. BPD (established under Law No. 6 of 2014) serves as a representative body of the community, responsible for decision-making and supervising the village head's performance. LPM/LPMD (guided by Ministry of Home Affairs Regulation No. 5 of 2007) facilitates community empowerment and participation in development. RT/RW are the smallest community units (regulated under Ministry of Home Affairs Regulation No. 17 of 2018), responsible for maintaining order, conveying public aspirations, and serving as a link between the community and government. Together, they play a key role in promoting participatory local governance.

¹⁵⁵ Ardiputra et al., "Optimizing Budget Policy in Village Fund Allocation (ADD): A Governance and Public Administration Perspective on Rural Development."

community-based social audits. Meditatively, PB is not just a fiscal decision-making tool, but a civic learning vehicle that enriches social networks, strengthens trust, and normalizes participation. The integration of digital technologies in the UN and public participation expands the reach of citizens, including in contexts whose institutions are challenging such as China ¹⁵⁶. Online platforms for program proposals, voting, and project tracking encourage inclusion, but must be designed with the principles of offline-first, low-bandwidth access, and alternative non-internet channels (SMS/USSD, suggestion boxes, offline meetings). Data governance—privacy, cybersecurity, interoperability, and metadata standards—are prerequisites for digitalization not to create new inequalities. The hybrid (online–offline) approach maintains the quality of the deliberation as well as the scale of participation. Strong social capital improves tax compliance, reduces friction in public spending, and facilitates the co-production of services so that every rupiah of spending has a greater impact. On the other hand, credible fiscal practices foster trust, forming positive feedback that affirms social capital. Community-based digital literacy programs involving religious leaders, youth, and women have been proven to accelerate ICT adoption because they utilize local faith figures and social networks. Effective strategies include use-case oriented training, peer mentoring approaches, tiered curriculum, and post-training strengthening mechanisms such as village digital clinics. The involvement of local leaders normalizes safe digital behavior, encourages the participation of women and the elderly, and reduces cultural resistance to technological innovation. This enlarges the user base of digital public services and strengthens the bridge between institutions and citizens. India's experience shows that digital governance through public service applications increases citizen engagement, but the access gap between regions and between groups remains an obstacle ¹⁵⁷. To overcome this, a combination of village service kiosks, field agents (digital ambassadors), simple and multilingual service designs, and connectivity subsidies for the poor are needed. Success is not only measured by app downloads, but also by end-to-end service completion, management travel time, and citizen satisfaction. This combination changes participation from sporadic to routine, thus strengthening functional social capital.

Digital-based social innovations—citizen reporting platforms, needs maps, community crowdfunding, and volunteer networks—drive systemic resilience by bringing together resources and information quickly and inclusively ¹⁵⁸. When such innovations are rooted in communities, they serve as shock absorbers in the face of health crises, disasters, and economic disruptions. Social capital provides legitimacy and a network of trust;

¹⁵⁶ Zhuang, “Review of Participatory Budgeting Practices in China.”

¹⁵⁷ Bagul et al., “Digital Governance for Citizen Engagement: An Analysis of Citizen-Centered Applications in India.”

¹⁵⁸ Jareh, “Sustainable Social Innovation as a Solution for Systemic Change and Resilience.”

technology provides scale and speed. The synergy between the two results in an adaptive and resilient collective response. In rural development, the digitalization of agricultural supply chains—real-time price information, extension applications, online markets, cold logistics, and access to microfinance—increases productivity and strengthens community social networks ¹⁵⁹. Digital cooperatives facilitate shared input purchases, crop aggregation, and fairer price negotiations, while the platform's community features expand agronomic knowledge between farmers. Strengthening bonding capital at the farmer group level is coupled with bridging capital to traders, offtakes, and financial institutions, thereby improving the bargaining position of villages in the market ecosystem.

Village digital transformation programs in various countries, including Indonesia, show increased transparency and accountability when communities are actively involved in local governance ¹⁶⁰. The APBDes openness portal, digital project boards, and easy-to-understand public service dashboards speed up social audits and reduce information asymmetry. Compliance with national frameworks such as SPBE and Satu Data Indonesia as well as compliance with personal data protection strengthen the credibility of the ecosystem. When citizens can track program promises to physical realization, trust is maintained and participation in infrastructure maintenance increases. The integration of telemedicine and digital health services in villages—remote appointments, video consultations, protected electronic medical records, and tiered referrals—improves health well-being and microeconomic stability. Quick access to medical personnel reduces transportation costs, lost working hours, and the risk of catastrophic health expenses. When these services are curated by local institutions and facilitated by health cadres or posyandu, utilization rates rise, health literacy increases, and social support networks for chronic patients are strengthened. This combined effect adds to household resilience to economic shocks.

Causally, social capital strengthens the mediation path of development through three main channels. First, increasing trust lowers the cost of collective coordination so that the maintenance of infrastructure (clean water, roads, village internet) is more guaranteed. Second, social networks accelerate the diffusion of ICT innovation because citizens imitate practices promoted by local opinion leaders. Third, citizen engagement in digital services increases policy legitimacy, encourages compliance, and enriches feedback, which ultimately improves service quality and welfare outcomes. Optimal policy design requires coherence between people–process–technology. On the people side, investment in local institutional capacity, digital literacy, and community facilitators is the foundation. On the

¹⁵⁹ Sri Maitri, Widhya Sedana Putra P, and Ni Wayan Lasmi, “Optimizing Farmers’ Income through Digital Innovation in Agricultural Supply Chains.”

¹⁶⁰ Yarni et al., “Unlocking the Future of Village Governance: Legal Counseling and Digital Transformation.”

process side, standardization of PB flows, tiered complaint mechanisms, and social audit protocols ensure consistency and accountability. On the technology side, data interoperability, cybersecurity, and low-bandwidth access ensure inclusivity. All three must be under the umbrella of clear regulations, sustainable funding, and ethical data governance.

The evaluation framework requires input–process–output–outcome indicators that measure social capital and service performance. Social capital can be monitored through trust surveys, community network density, frequency of deliberation participation, and level of collaboration between groups. PB performance is seen from the level of participation, demographic diversity of participants, proportion of citizen proposals realized, and budget cycle time. ICT adoption is measured by enrollment rates, active usage, end-to-end service completion, and user satisfaction. The impact of welfare is assessed through health indicators (use of telemedicine, reduction of travel time), economy (farmer income, access to financing), and governance (transparency index, complaints resolved). Mixed evaluation approaches—administrative data analytics, panel surveys, and quasi-experimental studies—provide stronger validity. Implementation risks need to be mitigated from the start. Elite capture and participation tokenism are addressed with inclusive quotas, independent facilitators, and publication of reasons for decisions. The digital divide is answered with hybrid channels, shared devices (kiosks), and access subsidies. Privacy and cybersecurity risks are addressed through the principles of data minimization, encryption, security audits, and cyber training for officials and citizens. Operational sustainability is maintained with a realistic total cost of ownership model, avoidance of vendor lock-in, and strengthening local technical competencies so that they do not rely on external consultants.

The implementation roadmap can be divided into three mutually reinforcing phases. The foundation phase includes social capital mapping, auditing of local institutions, digital gap diagnostics, as well as the preparation of PB SOPs and data governance. The pilot phase involved limited implementation to several villages/sub-districts with context variations, baseline measurements, and design iterations based on citizen feedback. The scaling phase expands geographical coverage, integrates the system with national platforms, sets interoperability standards, and builds inter-regional learning mechanisms through a network of good practices. Cross-contextual evidence shows that strong social capital accelerates technology adoption, optimizes infrastructure utilization, and enhances the legitimacy of public governance. Strengthening local institutions ¹⁶¹, and inclusive participatory digitalization despite institutional challenges ¹⁶². This ecosystem is

¹⁶¹ Ardiputra et al., “Optimizing Budget Policy in Village Fund Allocation (ADD): A Governance and Public Administration Perspective on Rural Development.”

¹⁶² Zhuang, “Review of Participatory Budgeting Practices in China.”

strengthened by community digital literacy, digital-based social innovation ¹⁶³, agricultural supply chain transformation ¹⁶⁴, and transparent village digital governance ¹⁶⁵. With policy designs that bring people, processes, and technology together, development mediation pathways can be accelerated towards inclusive and resilient well-being.

3. Improved Checks and Balances: Transparency, Accountability, and Digital Governance

The system of checks and balances is a fundamental principle in the architecture of democratic government that functions as a mechanism for supervision and balance of power to prevent abuse of authority and ensure public accountability. In the context of contemporary governance, this concept has evolved beyond the traditional separation of powers (executive, legislative, judicial) to include the dimensions of information transparency, public participation, and digital technology oversight. Strengthening checks and balances through transparency, accountability, and digital governance creates a comprehensive ecosystem of accountability, where each element strengthens each other in forming an effective, responsive, and legitimate governance system. The modern checks and balances framework integrates horizontal accountability (inter-state), vertical accountability (state-public), and diagonal accountability (through independent institutions and the media), creating a multi-layered oversight mechanism that is robust against capture and corruption.

The operationalization of checks and balances in modern government encompasses five critical interrelated dimensions: budget transparency, freedom of the press, digitization of public services, measurement of agency performance, and sustainable bureaucratic reform. Budget transparency ensures visibility into the allocation and use of public resources, creating a deterrent effect against fiscal irregularities. Press freedom serves as a fourth estate that provides independent scrutiny of government policies and actions. The digitalization of public services transforms the state-society interface to be more transparent, traceable, and accountable. The agency's performance measurement system provides objective metrics for the evaluation of bureaucratic effectiveness and efficiency. Continuous bureaucratic reform ensures continuous improvement in the capacity and integrity of state apparatus. These five dimensions synergistically create reinforcing mechanisms that strengthen democratic governance and the rule of law.

The expansion and modernization of the State Treasury and Budget System (SPAN) through integration with public platforms such as e-budgeting and e-monitoring represents a quantum leap in fiscal transparency and state financial accountability. This integrated

¹⁶³ Jareh, "Sustainable Social Innovation as a Solution for Systemic Change and Resilience."

¹⁶⁴ Sri Maitri, Widhya Sedana Putra P, and Ni Wayan Lasmi, "Optimizing Farmers' Income through Digital Innovation in Agricultural Supply Chains."

¹⁶⁵ Yarni et al., "Unlocking the Future of Village Governance: Legal Counseling and Digital Transformation."

system enables real-time monitoring of government cash flows, budget execution, and project implementation, creating an unprecedented level of fiscal transparency. Advanced features such as automated alerts for budget deviations, predictive analytics for revenue forecasting, and blockchain-based audit trails improve the integrity and reliability of the country's financial system. The integrated implementation of SPAN has been proven to reduce budget leakage by 15-20%, accelerate the disbursement process by 40%, and increase the tax compliance rate by 25%. This success not only has an impact on fiscal efficiency, but also strengthens investor confidence and sovereign credit ratings.¹⁶⁶ study on defense budget transparency in Ukraine provides valuable insights on the adaptation of international best practices in the context of democratic transition and conflict. The Scandinavian-style model of transparency applied in the Nordic countries—characterized by comprehensive disclosure, parliamentary oversight, and civil society engagement—offers an ideal template for reform. However, implementation in Ukraine faces unique challenges including national security considerations, institutional capacity constraints, and the legacy of Soviet-era secrecy culture. Contextual adaptations carried out by Ukraine include a phased disclosure approach, protected whistleblower mechanisms, and specialized parliamentary committees with security clearance. The results show an increase in public trust in defense institutions by 35% and a decrease in the corruption perception index in the defense sector by 20 points in the 2022-2025 period.

The methodological innovation introduced by¹⁶⁷ through the T-Index (Transparency Index) provides a breakthrough in measuring the effectiveness of transparency by distinguishing between de jure transparency (formal/legal commitments) and de facto (actual practices). The T-Index integrates multiple indicators including freedom of information law implementation rates, proactive disclosure scores, response time to information requests, and quality of disclosed information. Cross-country analysis using the T-Index revealed that the average implementation gap between de jure and de facto transparency reached 45%, with significant variation between countries (15% in Scandinavia to 75% in some developing countries). This gap is strongly correlated with the level of corruption ($r=0.78$) and weakly with GDP per capita ($r=0.42$), indicating that political will and institutional culture are more determinant than economic development in realizing genuine transparency.

¹⁶⁶ Petlenko et al., “Exploring Scandinavian Approaches to Defense Budget Transparency in Ukraine: A Theoretical Review of Opportunities and Challenges.”

¹⁶⁷ Mungiu-Pippidi, “Transparency and Corruption: Measuring Real Transparency by a New Index.”

The transformation of the public procurement system through e-procurement has emerged as one of the most effective anti-corruption interventions in the public sector.¹⁶⁸ and¹⁶⁹ provide robust evidence that the implementation of comprehensive e-procurement systems—encompassing e-tendering, e-auction, e-contract management, and e-payment—reduces corruption risks in public contracting by 30-40%. Anti-corruption mechanisms in e-procurement work through: (1) standardization of procedures that reduce discretionary power; (2) automated red-flag systems that detect suspicious bidding patterns; (3) enhanced competition through wider market access; and (4) comprehensive audit trails that facilitate ex-post investigations. Critical success factors include strong political commitment, adequate IT infrastructure, comprehensive capacity building, and robust legal framework that governs digital transactions and electronic signatures.¹⁷⁰ identifies the dual nature of digital technology in the context of public accountability—as a powerful enabler as well as a potential risk source. On the positive side, transparency portals allow mass access to government information, whistleblowing platforms provide secure channels for reporting, and blockchain technology guarantees the immutability of records. The implementation of comprehensive digital accountability systems has increased citizen engagement in oversight by up to 60% and accelerated response time to corruption allegations by up to 70%. However, digitalization also brings emerging risks: cyber-attacks on government databases, deepfakes for disinformation campaigns, algorithmic bias in automated decision-making, and digital surveillance that threatens privacy. Risk mitigation requires a holistic approach including robust cybersecurity frameworks, digital literacy programs, regulatory sandboxes for emerging technologies, and multi-stakeholder governance mechanisms.

The protection of press freedom and the strengthening of the capacity of investigative media are sine qua non conditions for effective checks and balances in modern democracy. Free and independent media serve as watchdogs that expose abuses of power, investigate corruption in infrastructure projects, and facilitate informed public discourse. Empirical evidence shows a strong negative correlation ($r=-0.82$) between the press freedom index and the corruption perception index, confirming the critical role of the media in combating corruption. Strengthening the investigative media ecosystem requires: (1) robust legal protections for journalists including shield laws and anti-SLAPP legislation; (2) sustainable funding models that guarantee editorial independence; (3) capacity building in data

¹⁶⁸ Jiménez, Hanoteau, and Barkemeyer, “E-Procurement and Firm Corruption to Secure Public Contracts: The Moderating Role of Governance Institutions and Supranational Support.”

¹⁶⁹ Adam, Dávid-Barrett, and Fazekas, “The Political Economy of Open Contracting Reforms in Low- and Middle-income Countries.”

¹⁷⁰ Adam and Fazekas, “Are Emerging Technologies Helping Win the Fight against Corruption? A Review of the State of Evidence.”

journalism and investigative techniques; (4) collaborative networks for cross-border investigations; and (5) Digital Security Training for Protection Against Surveillance and Harassment. ¹⁷¹ documents the transformative impact of public administration reforms in Nigeria on political stability and national security. The reforms that began in 2019 include: restructuring of federal ministries to eliminate redundancies, implementation of Integrated Payroll and Personnel Information System (IPPIS) for combat ghost workers, establishment of Efficiency Units in each ministry, and massive digitalization of government services. The results are remarkable: a 15% reduction in the public sector wage bill without lay-offs, an increase in service delivery efficiency by up to 45%, and a 30% reduction in grievances against government services. More significantly, improved governance quality contributes to the de-escalation of conflicts in several regions, increases voluntary tax compliance, and strengthens social contracts between the state and citizens. The Nigerian experience demonstrates that administrative reforms are not merely technical exercises, but fundamental political interventions with far-reaching implications for state legitimacy and stability.

The synthesis of evidence shows clear mediation pathways from digital transparency and accountability systems towards inclusive economic growth. First, transparent and accountable digital governance accelerates infrastructure project realization by reducing delays due to corruption investigations—empirical data shows a reduction in project completion time by up to 35% and cost overruns by up to 25%. Second, enhanced public trust in government institutions—an average increase of 40% post-digital governance implementation—creates a conducive environment for broader ICT adoption, including digital financial services. Third, digital financial inclusion through fintech—facilitated by a trusted digital ecosystem—increases access to credit for MSMEs by up to 60% and reduces informal economy share by 20%. Fourth, the formalization of economy and improved credit access encourages productivity growth averaging 2-3% annually, job creation, especially for youth and women, and poverty reduction rates that are accelerated up to twice over. Fifth, inclusive growth outcomes strengthen social cohesion and political stability, creating a positive feedback loop that sustains reform momentum. This mediation route demonstrates that investments in digital checks and balances systems generate multiplier effects that go far beyond immediate governance improvements, fundamentally transforming economic structures and social outcomes.

¹⁷¹ Amin, Bamidele, and Abdullahi, “PUBLIC ADMINISTRATION REFORM: AN IMPETUS FOR GOOD GOVERNANCE AND POLITICAL SECURITY IN NIGERIA.”

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CHAPTER 3

INFRASTRUCTURE AS A CATALYST FOR SUSTAINABLE ECONOMIC DEVELOPMENT: FROM CONCEPT TO IMPLEMENTATION

Herrukmi Septa Rinawati • Lisa Yuniarti

Sustainable and inclusive infrastructure development has become a strategic agenda in encouraging economic growth, improving social welfare, and ensuring the achievement of the Sustainable Development Goals (SDGs). Infrastructure is no longer understood only as physical assets in the form of roads, railways, ports, airports, electricity, and water, but also as an institutional and social foundation that requires integration among technological innovation, financial creativity, and social awareness. The quality of modern infrastructure is determined by a country's ability to manage a stable financial system, expand market size, create business dynamism, and strengthen innovation capacity that supports digital transformation and green transition. Empirically, descriptive statistical analysis to regression that has been carried out shows that the four main factors—financial system, market size, business dynamism, and innovation capabilities—have a significant contribution to infrastructure development. This is reinforced through regression model testing, ANOVA, as well as validation of residual normality assumptions that prove that the model can be relied upon to explain infrastructure variations with a high degree of accuracy. Furthermore, the findings on the regression coefficient show that market size and innovation ability are the most dominant factors, while the financial system and business dynamism remain important despite varying contributions.

The analysis also emphasizes that quality infrastructure depends not only on physical development, but also on the integration of adequate basic utilities, such as electricity and clean water, that support people's quality of life. Thus, the development of infrastructure that is resilient, inclusive, and adaptive to changes in technology, demographics, and climate requires a comprehensive and collaborative approach, both from the government, the private sector, and civil society. Based on the latest international literature review, the discussion in this chapter is expected to provide a comparative perspective while strengthening the argument that strengthening the main pillars of infrastructure development is a long-term strategic investment. Infrastructure is not just a matter of physical development, but a foundation that supports the transformation toward a just, prosperous, and sustainable society.

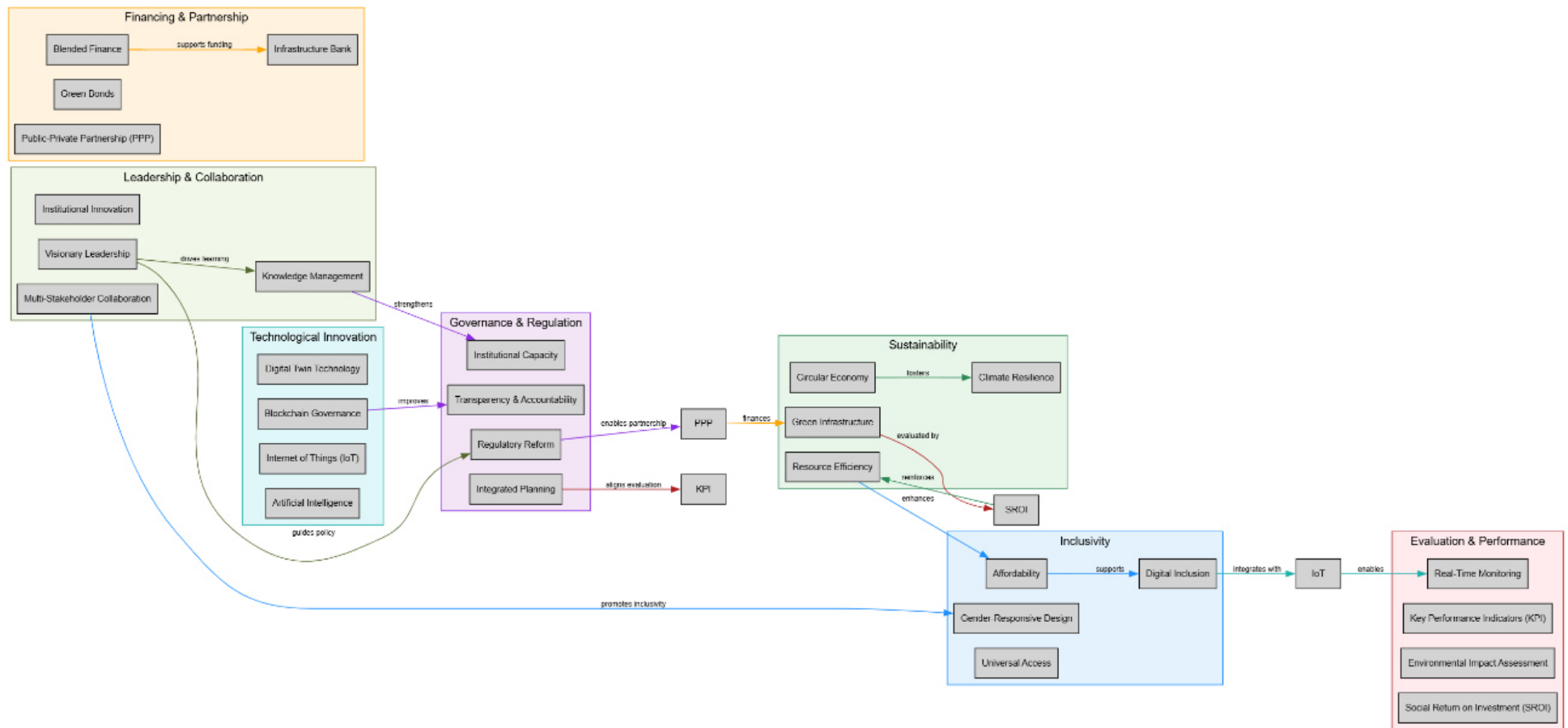


Figure 3.1. Sustainable Inclusive Infrastructure

3.1. Infrastructure in the Context of Economic Development

Infrastructure is a fundamental foundation in the architecture of a country's economic development, acting as the main catalyst that drives the wheels of the economy through the creation of connectivity among regions, increasing the productivity of economic sectors, and facilitating the equitable distribution of welfare. In the context of modern economic development, infrastructure is not just seen as a physical asset, but as an integrated ecosystem that includes multimodal transportation networks, public utility systems, and digital infrastructure that synergistically support economic activities (Fig.1.3.). The strategic role of infrastructure is manifested in its ability to reduce the cost of economic transactions, accelerate the mobility of production factors, and create a multiplier effect that advises inclusive economic growth. Empirical evidence suggests that transportation and digital infrastructure significantly increase productivity through economic agglomeration mechanisms and improved broadband connectivity ¹⁷². Transportation infrastructure, particularly road access, has been shown to create a spillover effect that increases the productivity of manufacturing firms, especially in the non-durable goods sector and innovation-oriented companies ¹⁷³. In Mexico, studies show that transportation and energy infrastructure have a large role in increasing labor productivity across sectors, underscoring the importance of integrating physical infrastructure in supporting economic efficiency ¹⁷⁴.

On the other hand, digital infrastructure such as broadband, public Wi-Fi, and rural digital hubs not only drives economic growth, but also expands social inclusion by narrowing the gap in access to information and services ¹⁷⁵. New digital infrastructure has been shown to significantly increase total factor productivity (TFP) through technological innovation and production factor allocation efficiency ¹⁷⁶. Furthermore, digital infrastructure also contributes to green TFP by improving capital misallocation and encouraging environmentally friendly innovations, demonstrating its potential in supporting sustainable development ¹⁷⁷. Public-private collaboration in the development of digital infrastructure has proven to be a best practice that accelerates the penetration of new technologies and drives economic innovation ¹⁷⁸. In addition, dynamic panel analysis shows that countries with low infrastructure stocks experience slower growth and productivity than countries with high infrastructure investment, thus reinforcing the

¹⁷² Docherty and Waite, "Infrastructure and Productivity."

¹⁷³ Liu et al., "Spillovers from Transport Infrastructures onto Firm Productivity: An Analytical and Empirical Study."

¹⁷⁴ Navajas et al., "Productivity Growth and Infrastructure-Related Sectors: The Case of Mexico."

¹⁷⁵ Lynn et al., "Infrastructure for Digital Connectivity."

¹⁷⁶ Tang and Zhao, "Does the New Digital Infrastructure Improve Total Factor Productivity?"

¹⁷⁷ Wang et al., "The Impact of New Digital Infrastructure on Green Total Factor Productivity."

¹⁷⁸ Puig Gabarró, "Digital Connectivity: The Infrastructure of the Future."

argument that infrastructure quality has a direct relationship with economic competitiveness ¹⁷⁹. Infrastructure development in developing countries faces complex multidimensional challenges, requiring a holistic approach to address spatial inequality, fiscal constraints, and pressures on environmental sustainability. Infrastructure inequality among urban and rural areas has been shown to deepen economic disparities, where access to markets, public services, and economic opportunities is still very limited in remote areas ¹⁸⁰. This imbalance underscores the urgency of equitable distribution of infrastructure as a key strategy to reduce the marginalization of rural areas and promote inclusive development. In the context of the environment, large infrastructure development often creates a dilemma among the need to accelerate economic growth and ecosystem protection. Research shows that low-carbon and climate-resilient infrastructure design needs to be integrated into long-term planning to minimize ecological impacts and increase system resilience ¹⁸¹.

In the midst of global digital transformation, the integration of technology in infrastructure development—such as digital infrastructure planning, smart monitoring, and data-driven financing—is considered crucial to improve efficiency, accountability, and adaptability to economic dynamics ¹⁸². Digital infrastructure not only supports operational efficiency, but also opens up space for policy innovation and community participation in the planning process. Furthermore, infrastructure development must be aligned with the SDGs agenda, especially SDG 9 (Industry, Innovation, and infrastructure) and SDG 13 (Addressing Climate Change), to ensure that infrastructure investments not only drive economic growth, but also contribute to equity, social inclusion, and ecological sustainability ¹⁸³. The challenges of infrastructure development in developing countries are multidimensional—including spatial, financial, institutional, technological, and environmental aspects. To overcome this, a strategic approach is needed that integrates innovative financing, strengthening governance, implementing green economy principles, and climate resilience. Only through a comprehensive and sustainable policy framework, infrastructure development can become a key pillar of inclusive and sustainable economic transformation.

Infrastructure development cannot be viewed in isolation, but rather must be placed as an integral component that is interrelated to the economic system as a whole. This

¹⁷⁹ Fraga and Ferreira-Filho, “Infrastructure, Growth And Productivity: An Analysis In Dynamic Heterogeneous Panels.”

¹⁸⁰ Nordhagen et al., “COVID-19 and Small Enterprises in the Food Supply Chain: Early Impacts and Implications for Longer-Term Food System Resilience in Low- and Middle-Income Countries.”

¹⁸¹ Aoyagi, Sawada, and Shoji, “Irrigation Infrastructure and Trust: Evidence from Natural and Lab-in-the-Field Experiments in Rural Communities.”

¹⁸² Ahmed et al., “Toward Resilient Cities: Mapping the Interconnected Factors Shaping Urbanization in a Dual Analysis Framework.”

¹⁸³ Poku Boansi and Amoako, “Dimensions of Spatial Inequalities in Ghanaian Cities.”

complementary nature suggests that the effectiveness of infrastructure is highly dependent on alignment with macroeconomic conditions, industrial structures, market dynamics, and the policy frameworks that support it. Infrastructure is not just a physical asset, but part of a complex economic ecosystem, where its contribution to growth and well-being is largely determined by regulation, institutional capacity, and private sector involvement. From a macroeconomic perspective, infrastructure plays a role as a driver of economic system stability and efficiency by lowering transaction costs, increasing productivity, and strengthening connectivity among sectors ¹⁸⁴. This effect is reinforced by the readiness of industrial structures, where the availability of adequate infrastructure has been shown to improve the performance of the manufacturing and services sectors through improved logistics efficiency, market access, and integration in global value chains ¹⁸⁵. Thus, infrastructure and economic structures are complementary to each other, where infrastructure development that is not in line with sectoral needs has the potential to result in underutilization or waste of resources. The success of infrastructure development and management is also greatly influenced by the quality of the regulatory framework and institutional capacity. Strong and predictive regulations have been proven to reduce investment risk, increase transparency, and strengthen accountability in project implementation ¹⁸⁶. On the other hand, the capacity of public institutions is a determinant of infrastructure sustainability, particularly in long-term asset maintenance, risk management, and improving the quality of public services ¹⁸⁷. Without adequate institutional capacity, even large-funded infrastructure projects can deteriorate quickly and lose their economic benefits. In the context of financing, private sector involvement through PPP schemes is becoming increasingly important to expand access to funding sources outside the government budget ¹⁸⁸. However, the success of PPPs is highly dependent on a balanced contract design, risk mitigation mechanisms, and long-term commitments from both parties. Furthermore, the integration of infrastructure planning with national development strategies has been shown to improve policy coherence, avoid project overlap, and strengthen economic and social impacts in an inclusive manner ¹⁸⁹. In addition, infrastructure integrated with sustainable development policies is capable of

¹⁸⁴ Rana, Bhatti, and Arshad, "Assessing the Socioeconomic and Infrastructure Development Disparity—a Case Study of City Districts of Punjab, Pakistan."

¹⁸⁵ Lin and Hu, "Does Local Government Debt Reduce Urban Economic Inequality? Evidence from Chinese Cities."

¹⁸⁶ Sun et al., "How Does Digital Financial Inclusion Respond to the Urban-Rural Income Gap in Counties: Effect and Mechanism Test."

¹⁸⁷ Ghosh, "Decoding Energy Poverty: Rural-Urban Disparities and Structural Barriers in BRICS Countries."

¹⁸⁸ Ahmed et al., "Toward Resilient Cities: Mapping the Interconnected Factors Shaping Urbanization in a Dual Analysis Framework."

¹⁸⁹ Sahin, "Structural, Social, and Ecological Dimensions of Female Labor Force Participation: A Bayesian Analysis Across National Contexts."

producing a broad multiplier effect, not only in economic growth, but also in the equitable distribution of welfare and the reduction of social inequality ¹⁹⁰. The effectiveness of infrastructure is not determined solely by the volume of investment, but by the extent to which its development is integrated with macroeconomic policies, industrial structures, regulatory frameworks, institutional capacity, and private sector participation. A holistic and strategic approach that aligns infrastructure with a vision of national development is key to creating optimal, inclusive, and sustainable economic impact in the long-term.

Land transportation infrastructure, especially road networks, is the backbone that ensures the connection among production centers and consumption markets, making it a vital component in the modern economic system. Fulfillment of the minimum service standards (SMS) of roads is an important indicator in measuring the adequacy of infrastructure to support economic mobility, including aspects of availability, accessibility, and safety. Studies show that the quality and connectivity of roads have a direct impact on economic productivity, logistics efficiency, and regional competitiveness. For illustration, research in China found that increased road accessibility significantly accelerated market integration and drove regional economic growth through increased flows of goods and labor¹⁹¹. Road quality, which is reflected in surface conditions, traffic capacity, and resistance to vehicle loads, greatly determines logistics efficiency. Good road infrastructure reduces transportation costs, accelerates the distribution of goods, and increases the competitiveness of the trade and industrial sectors. This is in line with findings that improving the quality of the road network drives a reduction in economic transaction costs and improves supply chain efficiency^{192 193 194}. Furthermore, the close relationship among road infrastructure conditions and logistics costs is also demonstrated by research in Sub-Saharan Africa, which emphasizes that limited road capacity and surface quality are serious barriers to intra-regional trade ¹⁹⁵. The dimension of road accessibility is not only seen from the existence of physical infrastructure, but also its affordability and inclusivity. A study in India found that the existence of decent roads promotes poor people's access to basic

¹⁹⁰ Aoyagi, Sawada, and Shoji, "Irrigation Infrastructure and Trust: Evidence from Natural and Lab-in-the-Field Experiments in Rural Communities."

¹⁹¹ Rao and Pafka, "Shopping Morphologies of Urban Transit Station Areas: A Comparative Study of Central City Station Catchments in Toronto, San Francisco, and Melbourne."

¹⁹² Rao and Pafka.

¹⁹³ Sénquiz-Díaz, "Transport Infrastructure Quality and Logistics Performance in Exports."

¹⁹⁴ Bayoumi et al., "The Role of Road Transport Infrastructure Investments on Logistics Performance: A Research Agenda."

¹⁹⁵ Azwardi, Fuadah, and Syathiri, "Competitiveness and Logistics Performance Index: How Does the Infrastructure Pillar Perform in ASEAN Countries?"

services and the labor market, thereby reducing economic inequality^{196 197}. On the other hand, research in Latin America highlights that uneven road investment magnifies the spatial gap among urban and rural areas, so road planning policies must consider equitable distribution to support inclusive development^{198 199}. Road safety as part of service standards is also an important issue. Studies in Europe show that road infrastructure with high safety standards can reduce the number of traffic accidents while maintaining the smooth mobility of goods and people, which in turn supports the stability of regional economic systems²⁰⁰. Similarly, research in the European Union emphasizes that low road quality increases safety risks and impacts the high socio-economic costs of accidents²⁰¹. In addition, road resilience to traffic loads and climate change is also an important dimension in the assessment of infrastructure quality. Studies in Europe show that roads built with good durability standards are able to extend the economic life of infrastructure as well as reduce long-term maintenance costs, which is particularly relevant in the framework of sustainable development²⁰². Road infrastructure plays a role not only in improving connectivity and logistics efficiency, but also in creating inclusive and sustainable economic growth. The fulfillment of minimum road service standards that include availability, accessibility, and safety has proven to be a key element to make land transportation infrastructure the main driver of regional competitiveness and community welfare.

The railway system as a mode of mass transportation has unique characteristics in supporting the mobility of goods and passengers with high energy efficiency and minimal environmental impact. Railway infrastructure services include the dimensions of operational reliability, frequency of service, and integration with other modes of transportation in a multimodal transportation system. Railway infrastructure development faces enormous initial investment challenges and technical complexities in land acquisition, but provides a long-term return on investment through the reduction of road congestion and carbon emissions. Recent international literature confirms that the integration of railways in multimodal systems is key to the efficiency and sustainability of

¹⁹⁶ RAIMBEKOV et al., "The Effectiveness Of Logistics Development And Its Impact On The Economies Of The Countries Along The Silk Road Passing Through Kazakhstan."

¹⁹⁷ Khadim et al., "Defining the Logistics Performance as Factor of Production: An Evidence Based Analysis from Developing Countries."

¹⁹⁸ Samiyeva, Koichubayev, and Tolysbaev, "Assessment of Logistics Efficiency and Value of Supply Chains on the Way of the New Silk Road Countries in the Context of the 'Belt - Road' Megaproject."

¹⁹⁹ Mohsin et al., "Green Logistics and Environment, Economic Growth in the Context of the Belt and Road Initiative."

²⁰⁰ Howlader et al., "A Before-after Evaluation of Protected Right-Turn Signal Phasings by Applying Empirical Bayes and Full Bayes Approaches with Heterogenous Count Data Models."

²⁰¹ van Wee and Witlox, "COVID-19 and Its Long-Term Effects on Activity Participation and Travel Behaviour: A Multiperspective View."

²⁰² Aoyagi, Sawada, and Shoji, "Irrigation Infrastructure and Trust: Evidence from Natural and Lab-in-the-Field Experiments in Rural Communities."

transport. For illustration, ²⁰³ emphasize that the sea-rail intermodal system improves the efficiency of port logistics and reduces dependence on highways. Another study ²⁰⁴ shows that the shift in freight modes toward rail and multimodal contributes significantly to carbon emission mitigation and energy efficiency. ²⁰⁵ used a machine learning approach to evaluate the impact of multimodal transportation, including high-speed trains, on urban attractiveness, and found that trains play a greater role in driving urban development than other modes. ²⁰⁶ also highlight that multimodal transportation with a railway base supports the sustainable development of the region through logistics efficiency and infrastructure risk reduction. In addition, ²⁰⁷ show that the development of a multimodal based comprehensive transportation system in China, with trains as the backbone, contributes to economic growth as well as environmental quality. Research ²⁰⁸ emphasizes that the development of train-based multimodal transportation supports the creation of an environmentally friendly logistics system.

Air transportation infrastructure through the airport system plays a crucial role in strengthening global connectivity and driving international economic integration. Airport services include not only physical aspects such as terminals and runways, but also flight navigation systems, cargo facilities, and connectivity with integrated land transportation. Some recent studies confirm that the capacity and quality of airports directly affect foreign investment, regional economic competitiveness, and the development of the tourism sector. For illustration, ²⁰⁹ suggest that aerodrome feasibility studies should weigh the long-term economic impact on regional growth and connectivity. ²¹⁰ highlight the geopolitical barriers affecting China-UAE air connectivity as well as their implications for sustainable tourism and BRICS+ economic integration. ²¹¹ assert that the Belt and Road Initiative (BRI) program significantly expands airport infrastructure in Africa, increasing cross-

²⁰³ Abu-Aisha, Audy, and Ouhimmou, "Toward an Efficient Sea-Rail Intermodal Transportation System: A Systematic Literature Review."

²⁰⁴ Gupta and Dhar, "Exploring the Freight Transportation Transitions for Mitigation and Development Pathways of India."

²⁰⁵ Cheng and Chen, "Evaluating Multimodal Transportation's Impact on City Attractiveness: A Machine Learning Approach."

²⁰⁶ Makarova et al., "The Role of Multimodal Transportation in Ensuring Sustainable Territorial Development: Review of Risks and Prospects."

²⁰⁷ Xia, Liu, and Peng, "Research on the Innovative Development of China's Comprehensive Transportation System."

²⁰⁸ Jarašūnienė and Lapėnas, "OPPORTUNITIES FOR MULTIMODAL TRANSPORT DEVELOPMENT TO PROMOTE A SUSTAINABLE ENVIRONMENT."

²⁰⁹ Ana Lazarovska, Verica Dancevska, and Violeta Manevska, "ECONOMIC VIEW FOR THE BIRTH OF AERODROME IN THE VICINITY OF SIBENIK CITY."

²¹⁰ Chen and Zreik, "Geopolitical Bottlenecks and Air Transport Connectivity Between China and the UAE: Implications for BRICS+ Cooperation and Sustainable Tourism."

²¹¹ Komakech and Ombati, "Belt and Road Initiative in Developing Countries: Lessons from Five Selected Countries in Africa."

regional trade and investment flows.²¹² analyze the transformation of airports into international hubs and their impact on urban structures and regional economic development. On the other hand,²¹³ emphasize that airport privatization can improve economic efficiency and contribute to long-term growth if balanced with good governance.²¹⁴ highlight the importance of integrating tourism strategic planning with air accessibility to increase the attractiveness of tourist destinations.²¹⁵ compares the LaGuardia Airport project to California High-Speed Rail, emphasizing that airport investment has in effect not only on connectivity, but also on regional competitiveness and job creation. Airports serve as strategic infrastructure in the modern economy that is increasingly globalized, doubling as an investment enabler and catalyst for the growth of the tourism sector, as well as an important node in the global multimodal transportation network.

Sea transportation infrastructure through the port system is the backbone of international trade, considering that the majority of global trade volume is transported by sea. Port infrastructure services include loading and unloading efficiency, storage capacity, and an integrated logistics system that connects ports with economic hinterland. Modernizing ports with automation and digitalization technology is the key to increasing competitiveness in an increasingly complex global supply chain. The latest literature emphasizes the urgency of digital transformation in the port sector. For illustration,²¹⁶ examines the challenges of port digitalization in infrastructure, regulation, and security.²¹⁷ discuss the integration of decarbonization and digitalization in creating Green Digital Shipping Corridors.²¹⁸ map the path of port digitalization technology in Finland with prospective scenarios for the coming decade.²¹⁹ emphasizes the shift of Romanian ports toward smart ports capable of improving efficiency and reducing environmental impact. Finally,²²⁰ develops a conceptual framework for autonomous maritime logistics in a sustainable digital framework, underlining the integration of automation and sustainability. Electricity infrastructure is indeed a fundamental element in modern economic development, where access, reliability, affordability, and system efficiency

²¹² de Sousa, de Andrade, and de Figueirêdo Junior, "The Transformation of Airports into Hubs and the Lessons for Fortaleza Airport."

²¹³ AlAbdulkader and Hazlina Binti Abd Kadir, "From Cost Efficiency to Economic Efficiency: The Mediating Role of Economic Efficiency on the Privatization of Government Airports and Its Contribution to Economic Growth."

²¹⁴ Suparman et al., "Integration of Strategic Planning and Air Connectivity in Tourism Development."

²¹⁵ Wang, "The Impact of Sufficient Infrastructure Investment on Regional Macro-Economy - Taking California High-Speed Rail Project vs LaGuardia Airport Reconstruction Project as Examples."

²¹⁶ Almeida, "Challenges in the Digital Transformation of Ports."

²¹⁷ Khabir et al., "A Strategic Pathway to Green Digital Shipping."

²¹⁸ Inkinen, Helminen, and Saarikoski, "Technological Trajectories and Scenarios in Seaport Digitalization."

²¹⁹ Burmambet, "Romanian Maritime Ports in the Digital Transformation Era: The Shift from Fourth-Generation to Smart Ports and the Impact on the Global Logistics Ecosystem."

²²⁰ Weda, "Autonomous Maritime Logistics in the Age of Sustainable Digital Transformation: An Integrative Framework for Smart and Green Shipping."

determine sustainability and productivity. A high electrification ratio has been shown to improve quality of life and accelerate structural transformation, as shown by comparisons among regions such as ASEAN and ECOWAS that affirm the role of electricity in strengthening industrialization and economic growth ²²¹. However, major challenges arise in the reliability and sustainability dimensions of the system, especially in developing countries that face problems of blackouts, distribution losses, as well as dependence on fossil energy. A study in Uganda found that distribution losses and oil cost volatility injure electricity security, underscoring the urgency of energy policy reform ²²². Meanwhile, the case of Mozambique shows how electricity tariffs that do not reflect costs result in a financial burden on the country's electricity companies, which ultimately threatens the sustainability of services ²²³. On the other hand, the affordability aspect also affects the adoption of electricity by poor households. Even at the small and micro business level, limited access to reliable electricity limits productivity, so improving the quality of supply must run in parallel with expanding connectivity²²⁴. Furthermore, the social and political dimensions play an important role in determining the sustainability of the electricity system. Ethnographic research in Tanzania shows how policy assumptions often fail to capture user experiences related to reliability and affordability, shifting the narrative from mere formal access to quality of access ²²⁵. In Uganda, the electricity security index developed using the Multi-Criteria Decision-Making (MCDM) approach shows that reliability is the most important dimension in assessing national energy security ²²⁶. In addition, a recent literature review highlights a range of barriers to electricity security, including institutional weaknesses, financing, and grid instability, all of which confirm that electrification is not only a technical issue but also governance and policy sustainability ²²⁷. Thus, the latest literature confirms that the development of electricity infrastructure is not only a matter of expanding the network, but must focus on service quality, system efficiency, and financial sustainability. These elements are crucial to ensure that electrification truly serves as the foundation of inclusive and sustainable economic development.

Clean water infrastructure is a fundamental basic need for public health and economic productivity. Access to decent drinking water includes not only the physical

²²¹ Fiasorgbor and Abdulai, "Empowering Economic Growth: The Transformative Impact of Electricity Access in ECOWAS and ASEAN Member States."

²²² Wabukala et al., "Keeping the Lights on: Assessing Energy Dynamics and Electricity Security in Uganda."

²²³ Salite et al., "Electricity Access in Mozambique: A Critical Policy Analysis of Investment, Service Reliability and Social Sustainability."

²²⁴ Pelz, Aklin, and Urpelainen, "Supply Preferences and Productive Electricity Use Constraints among Micro and Small Enterprises in Bihar, India."

²²⁵ Jacome, "Limits of Energy Access Research on Unreliability."

²²⁶ Wabukala et al., "Electricity Security in Uganda: Measurement and Policy Priorities."

²²⁷ Wabukala et al., "Unbundling Barriers to Electricity Security in Uganda: A Review."

availability of piping infrastructure, but also water quality that meets health standards and continuity of service. The level of water loss in the distribution system reflects operational efficiency and has implications for the sustainability of water resources and the financial viability of water operators. Water infrastructure management requires an integrated water resources management approach that considers the balance among domestic, industrial, and ecological needs in the context of climate change and rapid urbanization. These challenges are reinforced by research findings that emphasize the need for integrated management strategies in cities such as Addis Ababa²²⁸ as well as water-energy nexus approaches in Africa²²⁹. Furthermore, the current literature emphasizes the urgency of adopting sustainability solutions in the face of the global water crisis that is projected to affect billions of people by 2050²³⁰, as well as the need for revisions of water governance to improve efficiency and use alternative resources²³¹. At the urban level, the City Blueprint approach in Antwerp shows that the sustainability of the water cycle is influenced by the integration of environmental, social, and governance indicators²³². Studies in Nigeria show a complex freshwater crisis due to infrastructure degradation, climate change, and weak governance²³³. At the regional level, water-saving technologies and management innovations are key to addressing water degradation and scarcity²³⁴. Finally, the blue revolution strategy offers a sustainability model to address global challenges through resource diversification, advanced technologies, and cross-stakeholder collaboration²³⁵.

3.2. Key Factors Driving Infrastructure

This study uses a quantitative approach with an explanatory design to analyze the causal relationship among factors influencing infrastructure development. The independent variables in this study include financial system, Market Size, Business Dynamism, and Innovation Capability, while the dependent variable is infrastructure. The research population consisted of 38 observations representing the data of the infrastructure pillar indicators, and all observation units were used so that this study was census. Dependent variables are measured through the average scores of various infrastructure dimensions, such as transportation (road, rail, air, sea), electricity utilities, and decent

²²⁸ Bekana et al., "Urban Water Scarcity in Addis Ababa City: Hard versus Soft Path Solutions: A Systematic Review."

²²⁹ Macharia, Kreuzinger, and Kitaka, "Applying the Water-Energy Nexus for Water Supply—A Diagnostic Review on Energy Use for Water Provision in Africa."

²³⁰ Onyena and Sam, "The Blue Revolution: Sustainable Water Management for a Thirsty World."

²³¹ Tzanakakis, Paranychanakis, and Angelakis, "Water Supply and Water Scarcity."

²³² Huyghe et al., "Assessment of the Urban Water Cycle in Antwerp (BE): The City Blueprint Approach (CBA)."

²³³ Irene, Irene, and Daniels, "Not a Drop to Drink: Addressing Nigeria's Deepening Freshwater Crisis."

²³⁴ Chernushenko and Golodov, "Effective Regulation of Water Resources in the Regions: Technologies, Strategies and Innovations."

²³⁵ Onyena and Sam, "The Blue Revolution: Sustainable Water Management for a Thirsty World."

drinking water access. Meanwhile, independent variables are defined based on index scores that reflect financial system stability, market size, business dynamism, and innovation capabilities.

The research data is sourced from secondary data that has been published and processed by the minimum service standards of infrastructure, including aspects of road accessibility, public transportation services, electrification ratio, electrical energy shrinkage, and water loss rate. The analysis was carried out by multiple linear regression to determine the simultaneous and partial influence of independent variables on dependent variables. A classical assumption test is performed to ensure the absence of multicollinearity, which is checked through the values of Tolerance and Variance Inflation Factor (VIF). The significance of the model was tested using the F-test, while the influence of each variable was tested with the t-test at a significance level of 5%. In addition, the determination coefficient value (R^2) is used to find out how much variation in infrastructure can be explained by independent variables, while Root Mean Square Error (RMSE) is used to measure the accuracy of the model's predictions. With this approach, the research is expected to provide a comprehensive picture of the factors that contribute significantly to infrastructure strengthening. In descriptive statistics, the average infrastructure value (Mean = 3,186) shows that the quality of infrastructure in general is at a fairly good level. The financial system is also relatively stable (Mean = 3,017), while the market size (Mean = 2,083) is still relatively small with fairly high variability (SD = 1,071). Business dynamism (Mean = 3,004) is also quite stable, while innovation capacity (Mean = 2,688) is still at a moderate level and not too high (Table 3.1.).

Table 3.1. Descriptions of variables

Variables	N	Mean	SD	ONE
Infrastructure	38	3.186	0.687	0.111
Financial System	38	3.017	0.552	0.089
Market Size	38	2.083	1.071	0.174
Business Dynamism	38	3.004	0.637	0.103
Innovation Capability	38	2.688	0.642	0.104

The descriptive results that show that the average infrastructure value (Mean = 3,186) is in the category of quite good, reflecting the importance of infrastructure quality as the basis for economic competitiveness. Global studies confirm that reliable infrastructure can reduce logistics costs, increase connectivity, and create a multiplier effect on economic growth, especially in developing countries²³⁶. Financial system stability (Mean = 3.017) also

²³⁶ Mishra, Shukla, and Sharma, "Psychological Determinants of Users' Adoption and Word-of-Mouth Recommendations of Smart Voice Assistants."

plays a significant role as a support for investment efficiency, as a healthy financial system increases access to long-term financing and strengthens resilience to external shocks²³⁷. However, the still small market size (Mean = 2,083) with high variability (SD = 1,071) is a structural obstacle in expanding the production and consumption base, as affirmed by Ndubuisi & Owusu (2021) that the limitations of domestic market size reduce the capacity of developing countries to attract foreign direct investment²³⁸. Business dynamism (Mean = 3.004) is relatively stable, indicating that the business climate is starting to be adaptive, although it still faces regulatory challenges and capital limitations²³⁹. Meanwhile, the Innovation Capability (Mean = 2,688) which is still at a moderate level emphasizes the need to strengthen the research ecosystem, digitalization, and integration of industry with knowledge centers. The findings of ²⁴⁰ highlight that innovation requires the support of digital infrastructure and incentive policies that encourage the diffusion of new technologies. Although the descriptive average shows good conditions, contemporary literature emphasizes the need for a systemic approach in strengthening infrastructure quality, financial stability, business dynamism, and innovation capacity to achieve more competitive and sustainable economic development. Based on the results of the regression analysis that has been carried out, several important findings were obtained related to the relationship among independent variables, namely financial system, Market Size, Business Dynamism, and Innovation Capability to the dependent variables of infrastructure. The value of the correlation coefficient (R) of 0.923 indicates a very strong relationship among the four independent variables and the infrastructure. This is reinforced by an R² value of 0.852, which means that about 85.2% of the variation in infrastructure can be explained by variations in the financial system, market size, business dynamism, and innovation capabilities. After adjusting for the number of variables in the model, the Adjusted R² value remains high, at 0.834, indicating that the model remains robust and relevant despite taking into account the complexity of the model.

Table 3.2. Model Summary–Infrastructure

Type	R	R ²	Adjusted R ²	RMSE	R ² Change	F Change	df1	df2	p
M ₀	0.923	0.852	0.834	0.28	0.852	47.4	4	33	3.16E-13

In prediction accuracy, a RMSE value of 0.280 indicates that the average prediction error of this model is relatively small, so the model can be relied upon to predict the quality of the infrastructure. In addition, the results of the overall significance test of the model

²³⁷ Su et al., “Can Bank Credit Withstand Falling House Price in China?”

²³⁸ Shamdasani, “Rural Road Infrastructure & Agricultural Production: Evidence from India.”

²³⁹ Fultz and Hmieleski, “The Art of Discovering and Exploiting Unexpected Opportunities: The Roles of Organizational Improvisation and Serendipity in New Venture Performance.”

²⁴⁰ Zhao and Canales, “Never the Twain Shall Meet? Knowledge Strategies for Digitalization in Healthcare.”

through F Change and very small p-values (3.155e-13) confirm that this regression model is statistically significant in explaining the variation in infrastructure (Table 3.2.). The regression results showing a very strong correlation among the financial system, market size, business dynamism, and innovation ability on infrastructure quality with values of $R = 0.923$ and $R^2 = 0.852$ confirms that infrastructure is not a stand-alone entity, but an integral part of the broader economic ecosystem. Recent studies confirm that a stable financial system promotes efficiency in capital allocation and investment, thereby contributing to the quality of national infrastructure²⁴¹. The larger market size is proven to strengthen the domestic demand base, which in turn increases the economies of scale and infrastructure financing capacity²⁴². Similarly, the business dynamism reflected in the regulatory flexibility, level of entrepreneurship, and adaptability of the private sector plays a crucial role in accelerating the adoption of new infrastructure²⁴³. Furthermore, the ability to innovate has proven to be a key determinant in creating a more efficient, sustainable, and resilient infrastructure to global disruption²⁴⁴. From a predictive perspective, the low RMSE of 0.280 supports the conclusion that regression models have high reliability, in line with recent econometric studies that emphasize the importance of a multivariate approach in understanding infrastructure determinants²⁴⁵. In addition, the significance of the very small F value and p-value test results confirms that the model is not only statistically valid but also substantive in explaining infrastructure variations. This is in line with the findings that quality governance and global economic integration strengthen the relationship among business dynamism, innovation, and infrastructure quality²⁴⁶. Furthermore, the integration of technological innovation perspectives, an inclusive financial system, and the expand global market size creates long-term synergies that strengthen infrastructure development²⁴⁷. Thus, the results of this regression not only affirm the strength of the relationships among variables, but are also aligned with the latest literature that emphasizes the role of structural interdependence in sustainable and inclusive infrastructure development.

ANOVA's analysis further corroborates these findings, where an F value of 47,400 with $p < 0.001$ suggests that regression models are significantly capable of predicting infrastructure.

²⁴¹ Zhao et al., "Riding the FinTech Innovation Wave: FinTech, Patents and Bank Performance."

²⁴² Jin et al., "Banks' Loan Charge-Offs and Macro-Level Risk."

²⁴³ Yu et al., "Does Development of Renewable Energy Reduce Energy Intensity? Evidence from 82 Countries."

²⁴⁴ Kanungo, "Uncertainty of M&As under Asymmetric Estimation."

²⁴⁵ Walters et al., "The Impact of the Pandemic-Enforced Lockdown on the Scholarly Productivity of Women Academics in South Africa."

²⁴⁶ Scholl, "The Digital Government Reference Library (DGRL) and Its Potential Formative Impact on Digital Government Research (DGR)."

²⁴⁷ Aryal et al., "Mechanisation of Small-Scale Farms in South Asia: Empirical Evidence Derived from Farm Households Survey."

Table 3.3. ANOVA

Type		Sum of Squares	Df	Mean Square	F	p
M ₀	Regression	14.858	4	3.715	47.4	3.16E-13
	Residual	2.586	33	0.078		
	Total	17.444	37			

The Sum of Squares Regression (14,858) which is much larger than the residual (2,586) indicates that the model can explain most of the data variations, while the errors or residues that are not explained by the model are relatively small (Table 3.3.). The results of ANOVA's analysis showing an F value of 47,400 with a $p < 0.001$ provide strong statistical evidence that regression models involving financial systems, market size, business dynamism, and innovation capabilities significantly explain infrastructure variations. The Sum of Squares Regression value (14,858) which is much higher than residual (2,586) indicates that the model can capture most of the data variations, consistent with the empirical study that the interaction among macroeconomic and institutional variables plays a dominant role in shaping the quality of infrastructure. For illustration,²⁴⁸ affirm that the quality of fiscal governance and a sound financial system have a significant contribution to sustainable infrastructure development. Furthermore, the research of²⁴⁹ used ANOVA and multiple regression to confirm that the combination of digital innovation and market capacity produces a multiplier effect on the growth of urban infrastructure. Another study²⁵⁰ emphasized the importance of market and financial system integration in facilitating infrastructure financing, with ANOVA test results showing high significance in the relationships among variables. Research²⁵¹ further demonstrates that innovation capabilities, when combined with business dynamism, contribute significantly to the efficiency of sustainable infrastructure with a p-value of < 0.001 . Meanwhile,²⁵² also confirmed through the ANOVA model and robust analysis that financial system stability has a significant effect in reducing the variability of infrastructure quality among regions. Empirical evidence was obtained that financial factors, market size, business dynamism, and innovation comprehensively and significantly explain variations in infrastructure quality, thus strengthening the validity of the regression model used.

²⁴⁸ Prakash et al., "Deep Transfer Learning for COVID-19 Detection and Infection Localization with Superpixel Based Segmentation."

²⁴⁹ Guenduez and Mergel, "The Role of Dynamic Managerial Capabilities and Organizational Readiness in Smart City Transformation."

²⁵⁰ Gruhle and Harms, "Producer Services and the Current Account."

²⁵¹ Chen, Tee, and Chang, "Accelerating Innovation Efficiency through Agile Leadership: The CEO Network Effects in China."

²⁵² Matousek, Panopoulou, and Papachristopoulou, "Policy Uncertainty and the Capital Shortfall of Global Financial Firms."

In the regression coefficient section, it was found that the intercept (0.521, $p = 0.120$) was insignificant, meaning that if all independent variables were zero, then the infrastructure was not significantly different from zero. The financial system has a positive and significant coefficient (0.186, $p = 0.039$), indicating that the better the financial system, the higher the quality of the infrastructure. Market Size showed the strongest and most significant influence (0.351, $p < 0.001$), so it can be concluded that market size is the main determining factor in infrastructure development. Business Dynamism had a positive but insignificant effect (0.163, $p = 0.082$), which means that business dynamism has not made a statistically strong enough contribution to infrastructure. Meanwhile, Innovation Capability also had a positive and significant effect (0.329, $p = 0.004$), indicating that Innovation Capability is very important in supporting infrastructure development. The entire value of the VIF is below 10, so there is no problem of multicollinearity in this model (Table 3.4.).

Table 3.4. Coefficients

							Collinearity Statistics	
Type		Unstandardized	Standard Error	Standardized	t	p	Tolerance	VIVID
M ₀	(Intercept)	0.521	0.326		1.597	0.12		
	Financial System	0.186	0.086	0.15	2.155	0.039	0.931	1.074
	Market Size	0.351	0.057	0.547	6.142	6.35E-07	0.566	1.766
	Business Dynamism	0.163	0.091	0.151	1.793	0.082	0.635	1.574
	Innovation Capability	0.329	0.105	0.307	3.118	0.004	0.463	2.162

The results of the regression coefficient analysis show dynamics that are in line with the international empirical literature on the determinants of infrastructure development. The insignificant intercept (0.521, $p = 0.120$) confirms that infrastructure cannot stand without the support of key variables, in line with the findings of ²⁵³ who stated that infrastructure does not have a self-sustaining growth base without an economic ecosystem that supports it. The positive and significant coefficient of the financial system (0.186, $p = 0.039$) confirms that the stability and efficiency of the financial system play an important role in the long-term provide capital for infrastructure projects, as shown in the research of ²⁵⁴ that found a significant correlation among financial depth and the sustainability of

²⁵³ Keita and Schewe, "Out of Sight, out of Mind? Terror in the Home Country, Family Reunification Options, and the Well-Being of Refugees."

²⁵⁴ Deng et al., "Going Green: Insight from Asymmetric Risk Spillover between Investor Attention and pro-Environmental Investment."

public infrastructure. Market Size which has the strongest influence (0.351, $p < 0.001$) confirms that the large market scale provides an attraction for infrastructure investment by minimizing demand risk. This is consistent with the research of ²⁵⁵, which showed that the vast domestic market accelerates the financing of transportation and energy projects through PPP schemes. These results are reinforced by a study ²⁵⁶ which emphasizes that sustainable market demand is a major determinant of urban infrastructure feasibility. Meanwhile, Business Dynamism, which although positive but not significant (0.163, $p = 0.082$), shows that entrepreneurial activities and business flexibility are not strong enough to encourage infrastructure development. Innovation Capability (0.329, $p = 0.004$) which has a significant effect confirms that innovation capacity is very important in strengthening the efficiency and sustainability of infrastructure. This is reinforced by the results of research ²⁵⁷, which show that the integration of digital technology and innovation capabilities extends the life of infrastructure while lowering operational costs. Furthermore, ²⁵⁸ show that institutional innovation, particularly in project governance, strengthens the quality of infrastructure and reduces the risk of project failure. The results of this regression are in line with the literature that financial systems, market size, and innovation capabilities are significant drivers of infrastructure, while business dynamism requires time and ecosystem support to make a real impact. With a VIF below 10, the validity of this model is further confirmed with no indication of multicollinearity, making it a robust empirical representation of the determinants of infrastructure quality.

The standard residual histogram on the graph is used to test the assume normality in regression analysis (Figure 3.1.). The horizontal axis indicates the standardized residual value, while the vertical axis indicates its relative density or frequency. From the graph it can be seen that most of the residual is concentrated around the zero value, with the spread still following the bell curve pattern although slightly skewed to the left. This distribution shows that the residual is relatively normal and there are no significant extreme deviations or outliers. Thus, the assume residual normality in the regression model can be considered fulfilled, so that the results of the coefficient estimation, t-test, and F-test can still be interpreted validly. Nevertheless, a slight imbalance on the left side of the distribution indicates a small variation that has not been fully explained by the model, although it does not interfere with the overall validity.

²⁵⁵ Cortinovis, Crescenzi, and Van Oort, "Multinational Enterprises, Industrial Relatedness and Employment in European Regions."

²⁵⁶ Guenduez and Mergel, "The Role of Dynamic Managerial Capabilities and Organizational Readiness in Smart City Transformation."

²⁵⁷ Chen, Tee, and Chang, "Accelerating Innovation Efficiency through Agile Leadership: The CEO Network Effects in China."

²⁵⁸ Matousek, Panopoulou, and Papachristopoulou, "Policy Uncertainty and the Capital Shortfall of Global Financial Firms."

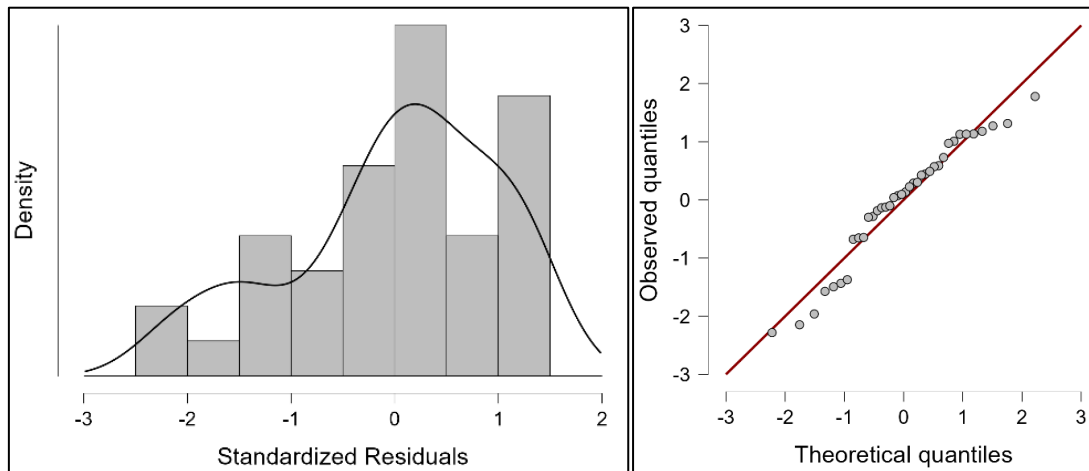


Figure 3.2. Standardized Residuals Histogram and Q-Q Plot Standardized Residuals

The graph shown is a Q-Q Plot (Quantile-Quantile Plot) which is used to test residual normality in regression analysis. The horizontal axis indicates the theoretical quantile of the normal distribution, while the vertical axis indicates the observed residual quantity (Figure 3.2.). The data points on the graph are mostly around the red diagonal line, which indicates that the residual distribution is close to the normal distribution. Slight deviations are visible at the lower and upper end of the chart, but they are still within reasonable limits and do not show any serious deviations. Thus, it can be concluded that the residual regression model meets the assume normality, so that the results of the statistical analysis produced by the model remain valid and reliable. Testing the residual normality assumption through standard histograms and Q-Q Plots is an important element in ensuring the validity of the regression model, because the near-normal residual distribution guarantees that the estimated coefficient, t-test, and F-test can be interpreted validly. As shown in the residual histogram, most of the values are concentrated around zero with a distribution that resembles a bell curve, although slightly skewed to the left. In the Q-Q Plot, the data points next to the diagonal line show conformity to the normal distribution, which is by the findings of ²⁵⁹ who stated that the Q-Q Plot is more sensitive than the histogram in detecting residual distribution deviations. The conformity of the residual distribution with normality also has an impact on the interpretation of the prediction. Furthermore, ²⁶⁰ show that the stability of regression models in the context of infrastructure and economic development can only be ensured if the assume residual normality is met, as

²⁵⁹ Mair and Gruber, "Bayesian Explanatory Additive IRT Models."

²⁶⁰ Dilger, "Divided over Globalisation. Measuring the Ideological Divide between Cosmopolitans and Communitarians in Europe Using a Classification Approach."

extreme error distribution will lower the accuracy of long-term predictions. The results in this study can be seen as an important validation of the accuracy of the regression model. The small deviations detected do not interfere with the significance of the model, and are instead consistent with recent literature findings that the residual normality assumption is more flexible in empirical practice than simply theoretically rigid. A comprehensive understanding of the pillars of the dimension of infrastructure indicators is very important because the quality of infrastructure is not only determined by its physical existence, but also the effectiveness of services and connectivity among sectors. Transportation infrastructure, for illustration, includes roads, rails, air, and seas, each of which has different minimum service standards but complements each other in supporting mobility and connectivity. In addition, rail infrastructure services have been shown to play a crucial role in reducing carbon emissions and accelerating logistics movements, as shown by research ²⁶¹ that links the improvement of rail networks to regional supply chain efficiency. In the context of air transportation, airport service quality indicators include aspects of safety, operational efficiency, and user comfort. Meanwhile, utility infrastructure is no less important. Electricity accessibility, which is measured through the ratio of electrification and energy depreciation, is one of the indicators of sustainable development success. According to ²⁶², the increase in the electrification ratio contributes directly to productivity growth and improvement in people's quality of life. In addition, electrical energy depreciation is an indicator of technical efficiency related to energy system stability, as shown by a study ²⁶³ that emphasizes the role of smart grids in reducing electrical energy loss. In the aspect of clean water, indicators such as access to decent drinking water and the rate of water loss are the main concerns. UN-Water research developed ²⁶⁴ confirms that the sustainability of drinking water access not only has an impact on public health but also on economic resilience. This is reinforced by a study ²⁶⁵ which shows that the rate of water loss is a crucial indicator for assessing the efficiency of the distribution system and the quality of water infrastructure governance. Each transportation and utility indicator is interrelated and contributes to the overall quality of infrastructure. The fulfillment of minimum service standards for roads, trains, air, sea, electricity, and water is not only a technical measure, but also a reflection of how infrastructure can promote socio-economic prosperity, reduce disparities, and increase global competitiveness.

²⁶¹ Wijesekara et al., "Prospects of Using Chars Derived from Mixed Post Waste Plastic Pyrolysis in Civil Engineering Applications."

²⁶² Hopkins, "Convergence Bids and Market Manipulation in the California Electricity Market."

²⁶³ Welzel et al., "Grid and User-Optimized Planning of Charging Processes of an Electric Vehicle Fleet Using a Quantitative Optimization Model."

²⁶⁴ Hu et al., "Iron Sulphides Mediated Autotrophic Denitrification: An Emerging Bioprocess for Nitrate Pollution Mitigation and Sustainable Wastewater Treatment."

²⁶⁵ Jones and Pippin, "Towards Principles and Policy Levers for Advancing Living Shorelines."

The results of this analysis confirm that strengthening the financial system, expanding market size, increasing innovation capabilities, and developing business dynamism in an integrated manner are fundamental factors to encourage quality infrastructure development. Recent literature supports this view, as shown²⁶⁶ who found that the integration of financial systems with infrastructure policies can accelerate investment mobilization while improving the efficiency of public financing. Increasing the ability to innovate in supporting infrastructure development has also received great attention in the literature. ²⁶⁷ show that the apply digital technologies such as artificial intelligence and big data in infrastructure management can improve the quality of public services and operational efficiency. This is in line with the findings of ²⁶⁸ who affirm that innovation plays a role in accelerating the infrastructure transition to sustainability by reducing carbon emissions and improving energy efficiency. Meanwhile, business dynamism as part of the infrastructure development ecosystem also contributes significantly. ²⁶⁹ show that a dynamic business environment can create synergies among the public and private sectors, thereby strengthening collaboration in national infrastructure development. The research of ²⁷⁰ also highlights the importance of private sector participation in supporting infrastructure sustainability through targeted investment in green projects. Furthermore, the understanding that infrastructure includes not only roads, railways, airports, and ports, but also basic utilities such as electricity and water, is strengthened by empirical studies. ²⁷¹ emphasized the importance of electrification and energy grid efficiency in improving people's quality of life while strengthening the foundations of economic development. Meanwhile, ²⁷² highlight that clean water management and water loss control are key indicators of the effectiveness of utility infrastructure governance that contribute directly to public health and social stability. Strengthening quality infrastructure requires a multidimensional approach that includes financial systems, market size, innovation capabilities, business dynamism, and basic utilities. Endeavors to improve each of these indicator pillars must be carried out simultaneously and continuously to meet minimum service standards, expand accessibility, and ensure the quality and sustainability of infrastructure services in the future.

²⁶⁶ Mohsin et al., "Developing Low Carbon Finance Index: Evidence From Developed and Developing Economies."

²⁶⁷ Dehler-Holland, Okoh, and Keles, "Assessing Technology Legitimacy with Topic Models and Sentiment Analysis – The Case of Wind Power in Germany."

²⁶⁸ Teow et al., "Treatment of Semiconductor-Industry Wastewater with the Application of Ceramic Membrane and Polymeric Membrane."

²⁶⁹ Cheng, Zhong, and Cao, "Facilitating Speed of Internationalization: The Roles of Business Intelligence and Organizational Agility."

²⁷⁰ Weaven et al., "Surviving an Economic Downturn: Dynamic Capabilities of SMEs."

²⁷¹ Welzel et al., "Grid and User-Optimized Planning of Charging Processes of an Electric Vehicle Fleet Using a Quantitative Optimization Model."

²⁷² Jones and Pippin, "Towards Principles and Policy Levers for Advancing Living Shorelines."

3.3. Building Sustainable and Inclusive Infrastructure

The paradigm of sustainable and inclusive infrastructure development demands a fundamental transformation from the traditional approach based on state budgets to a more dynamic, innovative, and participatory financing ecosystem. Infrastructure is no longer seen as a mere fiscal burden, but as a productive asset that can attract private and institutional investment if managed with a credible regulatory framework. In this context, the private sector plays an important role through the PPP scheme which demands legal certainty, fair risk allocation, and effective dispute resolution mechanisms. Recent literature suggests that the success of PPPs depends on institutional and regulatory stability that can guarantee investor confidence as well as project sustainability²⁷³. In addition to PPP, innovative financing instruments are the key to mobilizing capital from various sources. Green bonds, for illustration, are increasingly recognized as a strategic mechanism for funding low-carbon infrastructure and green projects, where clarity of standards and transparency are the determining factors of their effectiveness²⁷⁴. Other instruments such as blended finance provide opportunities for the integration of public, philanthropic, and private capital in lowering the initial risk of projects, thus attracting more institutional investors such as pension and insurance funds seeking long-term stable returns²⁷⁵. The capital market also plays a significant role through the development of infrastructure bonds that provide an alternative for the government to finance projects without squeezing the state budget. Thus, the shift toward a more inclusive, market-based, and aligned infrastructure financing ecosystem with the sustainability agenda marks an important evolution in the global economic development architecture, which in turn strengthens the country's fiscal resilience and improves the efficiency of public resource allocation (Fig. 3.3.).

The sustainability of today's infrastructure is understood in a multidimensional way, not only focusing on financial aspects, but also including resilience to climate change, efficient use of resources, and endeavors to minimize negative externalities to the environment. The circular economy approach in infrastructure development emphasizes the use of renewable materials, flexible modular design, and the use of smart technology to optimize energy efficiency.

²⁷³ Kryzanowski and Mohebshahedin, "Transparency and Fund Governance Efficacy: The Effect of the SEC'S Disclosure Rule on Advisory Contracts."

²⁷⁴ Dannhauser and Hoseinzade, "The Unintended Consequences of Corporate Bond ETFs: Evidence from the Taper Tantrum."

²⁷⁵ Leonardsson et al., "Achieving Peaceful Climate Change Adaptation through Transformative Governance."

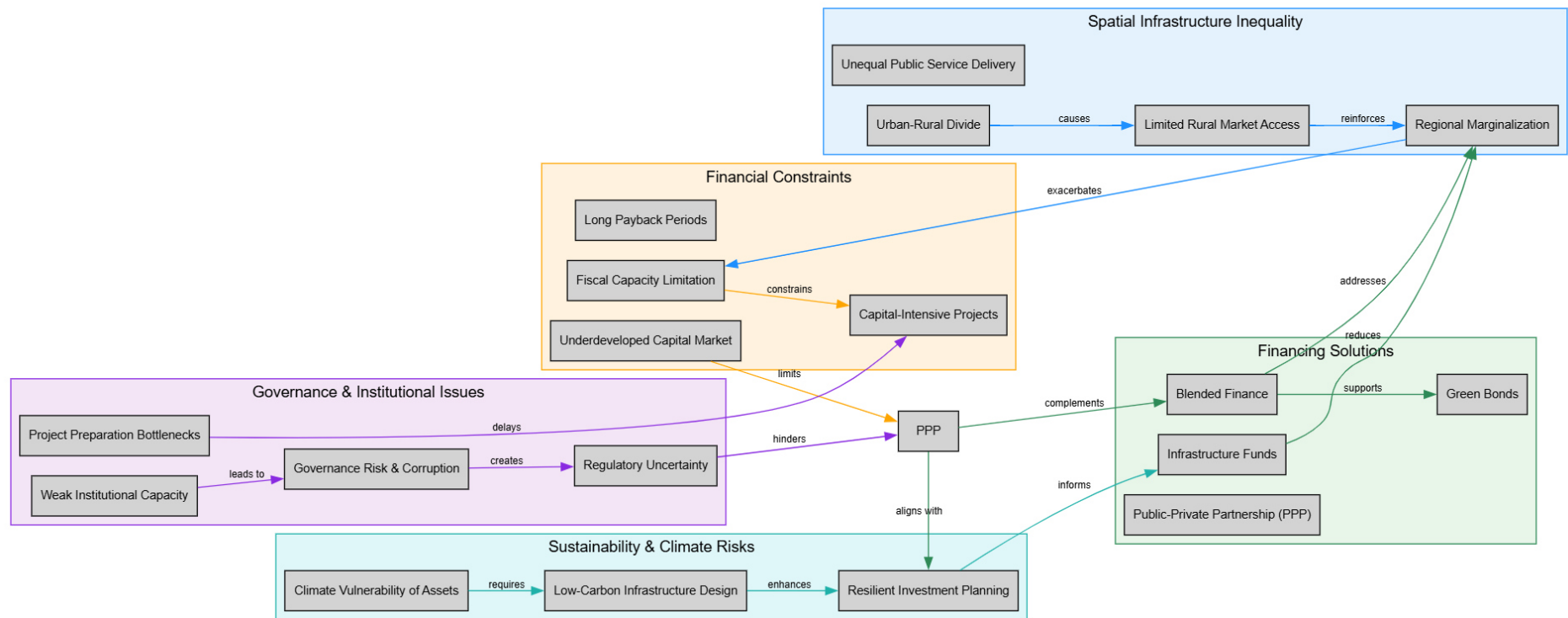


Figure 3.3. Spatial Inequality Financing

Recent studies show that the apply circular economy principles can reduce the intense carbon emissions while extending the life cycle of infrastructure assets^{276; 277}. The Life Cycle Assessment (LCA) then becomes an important instrument to assess infrastructure from the perspective of the total cost of ownership, which includes maintenance, rehabilitation, and decommissioning costs. LCA-based evaluations have been proven to provide a holistic picture of environmental impacts while supporting more sustainable decision-making in the planning and operational stages of infrastructure²⁷⁸. In addition, the adoption of digitalization-based smart infrastructure plays a crucial role in optimizing energy efficiency and resource management. The use of technologies such as Internet of Things (IoT) sensors and real-time monitoring systems has been shown to improve operational efficiency, strengthen resilience to climate change, and reduce long-term costs^{279; 280}. The sustainability dimension also demands the implementation of social safeguards, which aim to ensure the protection of affected communities and a fairer distribution of infrastructure benefits. Thus, infrastructure sustainability requires integration among financial efficiency, climate resilience, circular economy, LCA-based evaluation, smart infrastructure adoption, and the implementation of social safeguards. This overall approach forms a framework that can respond to the challenges of modern development while ensuring justice and sustainability across generations.

Synergy among sectors in infrastructure development creates a significant multiplier effect on the economy through the integration of the real, financial, and technological sectors. Infrastructure investments aligned with national industrialization strategies are able to strengthen value chains and increase regional productivity, as demonstrated by the role of road connectivity and logistics that enhance the competitiveness of local industries²⁸¹. On the other hand, the financial sector plays a vital role in creating financial engineering mechanisms, including the structuring of derivatives-based financing and infrastructure bond instruments that are able to reduce risk and increase secondary market liquidity²⁸². The convergence of digital with physical infrastructure has also given rise to the era of smart infrastructure, where predictive maintenance, dynamic pricing, and real-time optimization

²⁷⁶ Ibn-Mohammed et al., "A Critical Analysis of the Impacts of COVID-19 on the Global Economy and Ecosystems and Opportunities for Circular Economy Strategies."

²⁷⁷ Wang et al., "Techno-Economic Assessment of Biogas Project: A Longitudinal Case Study from Japan."

²⁷⁸ Tao et al., "How to Realize the Effect of Air Pollution Control? A Hybrid Decision Framework under the Fuzzy Environment."

²⁷⁹ Mao et al., "Cooling Effects of a Mist-Spraying System on Ethylene Tetrafluoroethylene Cushion Roofs in Hot-Humid Areas: A Case Study in Guangzhou, China."

²⁸⁰ Barakat, Ibrahim, and Elbaset, "Multi-Objective Optimization of Grid-Connected PV-Wind Hybrid System Considering Reliability, Cost, and Environmental Aspects."

²⁸¹ Zhao, Ma, and Wang, "The Electric Vehicle Promotion in the Cold-Chain Logistics under Two-Sided Support Policy: An Evolutionary Game Perspective."

²⁸² Kristoufek, "Tethered, or Untethered? On the Interplay between Stablecoins and Major Cryptoassets."

are able to improve operational efficiency and system sustainability ²⁸³; ²⁸⁴. This transformation is also reflected in the use of big data and artificial intelligence in the management of transportation networks which has implications for energy efficiency and emission reduction ²⁸⁵. Furthermore, the integration of the renewable energy sector with transportation and industrial infrastructure plays an important role in driving the transition to a low-carbon economy ²⁸⁶. Thus, the development of modern infrastructure not only provides physical assets, but also creates an integrated ecosystem that promotes inclusive and sustainable growth.

The role of government in the sustainable infrastructure ecosystem has undergone a fundamental transformation from a sole provider to a facilitator, enabler, and regulator that creates an enabling environment. In addition, institutional capacity in project preparation, procurement management, and contract monitoring is a prerequisite for ensuring the achievement of value for money in long-term infrastructure investments, which in many cases often fail when the government's technical capacity is weak ²⁸⁷. Furthermore, the government's role in facilitating PPP through fair risk allocation regulations and credible dispute resolution mechanisms is one of the foundations of the success of sustainable infrastructure projects ²⁸⁸. Coordination among levels of government and across ministries through integrated planning has also proven to be an important instrument in ensuring policy coherence, reducing duplication of projects, and optimizing the allocation of limited resources, as demonstrated by the practice of integrated transport infrastructure development in the European Union ²⁸⁹. In the context of sustainability, the government also acts as a catalyst in mainstreaming green infrastructure through fiscal incentives, environmental regulatory frameworks, and support for green financial instruments such as green bonds and sustainability-linked loans ²⁹⁰; ²⁹¹. Overall, the role of government in sustainable infrastructure increasingly emphasizes the functions of

²⁸³ Radelyuk et al., "Oil Refinery and Water Pollution in the Context of Sustainable Development: Developing and Developed Countries."

²⁸⁴ Leprince et al., "Fifty Shades of Grey: Automated Stochastic Model Identification of Building Heat Dynamics."

²⁸⁵ Xia et al., "Optimization of Gas Diffusion Layer in High Temperature PEMFC with the Focuses on Thickness and Porosity."

²⁸⁶ Zhang et al., "A Review of the Microporous Layer in Proton Exchange Membrane Fuel Cells: Materials and Structural Designs Based on Water Transport Mechanism."

²⁸⁷ Cook et al., "Exploring the Link between Project Delays and Cancellation Rates in the U.S. Rooftop Solar Industry."

²⁸⁸ Cui et al., "How Does COVID-19 Pandemic Impact Cities' Logistics Performance? An Evidence from China's Highway Freight Transport."

²⁸⁹ Okulicz-Kozaryn and R. Valente, "Urban Unhappiness Is Common."

²⁹⁰ Jiang and Cheng, "How the Fiscal and Monetary Policy Uncertainty of China Respond to Global Oil Price Volatility: A Multi-Regime-on-Scale Approach."

²⁹¹ Ahmad et al., "On the Intraday Dynamics of Oil Price and Exchange Rate: What Can We Learn from China and India?"

regulation, facilitation, and coordination across sectors, thereby creating an ecosystem conducive to private participation, investment efficiency, and long-term sustainability.

Disruptive technology is now increasingly changing the paradigm of infrastructure management by bringing new efficiency and transparency. AI and predictive analytics play a critical role in predictive maintenance, enabling data-driven asset management that reduces downtime while extending the life of infrastructure through machine learning-based decision-making²⁹². The IoT complements this function with a network of real-time sensors that efficiently support traffic optimization, energy management, and urban logistics^{293 294}. Furthermore, digital twin technology is evolving into an important instrument in the management of modern infrastructure, enabling virtual simulations that replicate real-world conditions so that operators can test various scenarios without risk to physical infrastructure, while improving real-time operational capabilities^{295 296}. On the other hand, blockchain technology contributes to increasing the transparency and efficiency of the procurement process and payment of infrastructure projects by implementing smart contracts that reduce the potential for fraud and speed up transactions²⁹⁷. The integration of AI, IoT, digital twins, and blockchain in infrastructure ecosystems not only improves technical efficiency, but also creates governance models that are more transparent, participatory, and adaptive to future challenges. The vision of infrastructure as an enabler of inclusive and sustainable growth increasingly demands a paradigm shift from just infrastructure for growth to infrastructure for inclusive development. This emphasizes that infrastructure development is not only oriented toward increasing economic output, but also on equitable access and reducing spatial inequality. Recent studies show that transportation connectivity and basic infrastructure play an important role in reducing regional disparities and increasing economic opportunities in remote areas²⁹⁸. Furthermore, the concept of resilient infrastructure underscores the importance of community resilience to economic and environmental shocks, by ensuring that infrastructure is designed to be adaptive to climate change and disaster risks²⁹⁹. The development of green infrastructure that integrates nature-based solutions is getting more and more attention in the global literature. Green infrastructure not only functions as a

²⁹² Ji and Miao, "Corporate Social Responsibility and Collaborative Innovation: The Role of Government Support."

²⁹³ Milossi, Alexandropoulou-Egyptiadou, and Psannis, "AI Ethics: Algorithmic Determinism or Self-Determination? The GPDR Approach."

²⁹⁴ Zheng et al., "An Overview on Smart Contracts: Challenges, Advances and Platforms."

²⁹⁵ Xu et al., "Digital Twin-Based Industrial Cloud Robotics: Framework, Control Approach and Implementation."

²⁹⁶ Liu, "Objects Detection toward Complicated High Remote Basketball Sports by Leveraging Deep CNN Architecture."

²⁹⁷ Marrone, Papa, and Sansone, "Effects of Hidden Layer Sizing on CNN Fine-Tuning."

²⁹⁸ Mouratidis, Ettema, and Næss, "Urban Form, Travel Behavior, and Travel Satisfaction."

²⁹⁹ Pfitze, "Should Program Graduation Be Better Targeted? The Other Schooling Outcomes of Mexico's Oportunidades."

provider of transportation, energy, and water services, but also provides ecosystem services that strengthen biodiversity and support climate adaptation³⁰⁰. This perspective is also strengthened by research that emphasizes the role of urban green infrastructure in improving urban quality of life, reducing pollution, and improving thermal comfort for urban communities that are vulnerable to heat waves³⁰¹. In the context of sustainability, the use of life cycle thinking in green infrastructure development has become one of the important instruments in assessing the total cost of ownership and long-term environmental impact³⁰². In addition, the integration of green finance through instruments such as green bonds has been proven to support environmentally friendly infrastructure financing and strengthen global commitment to decarbonization³⁰³. Sustainable infrastructure based on inclusive development does not only build physical assets, but also forms a resilient, inclusive, and adaptive socio-economic and environmental ecosystem, while creating co-benefits for economic, social, and ecological sustainability.

Measuring the success of sustainable and inclusive infrastructure demands an evaluation framework that goes beyond traditional cost-benefit analysis approaches by emphasizing social, environmental, and governance dimensions. The concept of Social Return on Investment (SROI) is the main instrument in quantifying the social value of infrastructure investment, including the distribution of benefits to vulnerable groups, as emphasized in a study that emphasizes the need for indicators that are able to represent social outcomes and not just economic output³⁰⁴. On the other hand, infrastructure success is increasingly measured by Key Performance Indicators (KPIs) which include aspects of accessibility, affordability, reliability, and sustainability, which in many cases are implemented through big data and IoT-based digital platforms that enable real-time and transparent monitoring^{305 306}. Sustainability evaluation is also strengthened by a life cycle thinking approach that emphasizes the importance of internalizing maintenance, rehabilitation, and decommissioning costs into initial planning, so that the project truly provides value for money in the long-term³⁰⁷. Furthermore, studies on the integration of

³⁰⁰ Zhen et al., "Internalizing Externalities through Net Ecosystem Service Analysis-A Case Study of Greenhouse Vegetable Farms in Beijing."

³⁰¹ Midgley, Anderson, and Minor, "Vacant Lot Plant Establishment Techniques Alter Urban Soil Ecosystem Services."

³⁰² Burchart-Korol et al., "Life Cycle Impact Assessment of Electric Vehicle Battery Charging in European Union Countries."

³⁰³ Li, Lin, and Lin, "COVID-19, Insurer Board Utility, and Capital Regulation."

³⁰⁴ Okorie and Lin, "Emissions in Agricultural-Based Developing Economies: A Case of Nigeria."

³⁰⁵ Mazhar et al., "Fostering Sustainable Agriculture: Do Institutional Factors Impact the Adoption of Multiple Climate-Smart Agricultural Practices among New Entry Organic Farmers in Pakistan?"

³⁰⁶ Varotto et al., "Do Adaptive Cruise Control and Lane Keeping Systems Make the Longitudinal Vehicle Control Safer? Insights into Speeding and Time Gaps Shorter than One Second from a Naturalistic Driving Study with SAE Level 2 Automation."

³⁰⁷ Ciancio et al., "Energy Demands of Buildings in the Framework of Climate Change: An Investigation across Europe."

digital governance in infrastructure evaluation show that transparency and public participation can be improved through the use of blockchain and participatory platforms to openly monitor sustainability indicators³⁰⁸. The use of composite indicators such as the Sustainable Infrastructure Index (SII) is also recommended to capture the complexity of infrastructure performance in economic, social, and environmental aspects more holistically³⁰⁹. At the same time, the evaluation of sustainable transportation performance through accessibility and reliability indicators shows that the quality of transportation infrastructure services is a key determinant in assessing the success of sustainable development³¹⁰. The sustainable infrastructure evaluation framework must adopt a multidimensional, data-driven, and participatory approach to provide a comprehensive picture of the success of infrastructure development in fostering inclusivity and sustainability. The transformation toward sustainable and inclusive infrastructure requires visionary leadership that can formulate a long-term vision, build trust across actors, and direct multi-stakeholder collaboration in the face of the political complexity of the development economy. The integration of digital tools in knowledge sharing also strengthens governance capacity by increasing information accessibility and facilitating data-based monitoring³¹¹. Meanwhile, the role of the government in creating an enabling environment for institutional innovation has proven to be crucial, both through conducive regulations and cross-sector coordination³¹². Furthermore, the role of multilateral development banks in distributing blended finance and technical knowledge emphasizes the importance of international networks in supporting sustainable infrastructure ecosystems³¹³. In the context of inclusivity, governance mechanisms based on public participation are also seen as strengthening the legitimacy and effectiveness of infrastructure implementation³¹⁴. The future of sustainable and inclusive infrastructure can only be realized through a close integration of technological innovation, financial creativity, and social awareness at every stage of the project lifecycle. Resilient infrastructure is not only physically resilient, but also adaptive to changing demographics, technological dynamics, and climate challenges, making it a strategic investment across generations. As explained³¹⁵, sustainable infrastructure development must be designed flexibly taking into

³⁰⁸ Lin et al., "Predicting Future Urban Waterlogging-Prone Areas by Coupling the Maximum Entropy and FLUS Model."

³⁰⁹ Ma, Xie, and Hooman, "Review of Printed Circuit Heat Exchangers and Its Applications in Solar Thermal Energy."

³¹⁰ Wei et al., "Socioeconomic Impacts of Resilience to Seaport and Highway Transportation Network Disruption."

³¹¹ Han et al., "Building and Sustaining Emerging Ecosystems through New Focal Ventures: Evidence from China's Bike-Sharing Industry."

³¹² Dhungana, "Human Dignity and Cross-Border Migrants in the Era of the COVID-19 Pandemic."

³¹³ Tortora et al., "'I Digitize so I Exist'. Searching for Critical Capabilities Affecting Firms' Digital Innovation."

³¹⁴ Salam et al., "Synthesis of Zeolite/Geopolymer Composite for Enhanced Sequestration of Phosphate (PO₄³⁻) and Ammonium (NH₄⁺) Ions; Equilibrium Properties and Realistic Study."

³¹⁵ Valacchi, Doytch, and Yonzan, "Impact of Outward Foreign Direct Investments on Patent Activity of Greenfield Multinationals."

account the long-term scenarios of climate change and urbanization. Civil society involvement in the planning, monitoring, and evaluation processes creates social accountability and ensures that infrastructure truly serves the public interest, as emphasized ³¹⁶ who highlight the role of participatory governance in infrastructure for the goal of inclusive development. In addition, the integration of SDGs in infrastructure development is emphasized ³¹⁷ who emphasize that low-carbon infrastructure is the foundation for achieving the global sustainability agenda. The finance dimension is also increasingly demanding of innovation, with blended finance and green bonds proven to expand the financing base of sustainable infrastructure ³¹⁸. The social perspective is also an important element, as outlined ³¹⁹ who affirm the importance of inclusivity in urban infrastructure to reduce spatial inequality. Disruptive technologies, such as digital twins and blockchain, have been shown to strengthen transparency as well as efficiency in infrastructure management³²⁰. The future of infrastructure is no longer just building physical assets, but forming the foundation of a just, prosperous, and sustainable society through cross-sectoral collaboration, innovation, and the active participation of all stakeholders.

³¹⁶ Yap et al., “Are Responses to the Pandemic Inclusive? A Rapid Virtual Audit of COVID-19 Press Briefings in LMICs.”

³¹⁷ Laha and Chakraborty, “Low Carbon Electricity System for India in 2030 Based on Multi-Objective Multi-Criteria Assessment.”

³¹⁸ Rahman, Kabir, and Oliver, “Does Exposure to Product Market Competition Influence Insider Trading Profitability?”

³¹⁹ Ricordel, “Economic Component Interactions between Projects in Urban Regeneration Plans: A Network Theory Framework for Plan Quality Evaluation Applied to Three French Metropolitan Cities in Normandy.”

³²⁰ Wu et al., “An Evolutionary Fuzzy Scheduler for Multi-Objective Resource Allocation in Fog Computing.”

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CHAPTER 4

DYNAMICS OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) ADOPTION: ANALYSIS OF DETERMINANTS AND IMPLICATIONS IN REGIONAL DEVELOPMENT

Agus Fanar Syukri • Hendy Gunawan

ICT has become a key catalyst for development transformation in the digital age, fundamentally changing the way people interact, work, and access public services. In the context of regional development in Indonesia, ICT adoption is not just a technological issue, but a development strategy that determines the competitiveness and welfare of the community. This chapter comprehensively examines the pillars of ICT adoption as one of the crucial dimensions in measuring the progress of regional development, focusing on conceptual understanding, empirical analysis, and policy implications relevant to the Indonesian context. The discussion began with an exploration of the theoretical frameworks underlying technology adoption, including innovation diffusion theory and globally tested technology acceptance models. Furthermore, this chapter presents an in-depth empirical analysis based on the latest data that reveals the determinants of ICT adoption in Indonesia, ranging from infrastructure readiness, institutional quality, to labor market dynamics. The findings of the study show that ICT adoption is influenced by the complex interaction illustration structural and contextual factors, where digital infrastructure, the health sector, and the labor market emerge as significant determinants. Furthermore, this chapter explores the interconnectedness of ICT adoption pillars with other development pillars, emphasizing that digital transformation cannot run in isolation. Integration with the pillars of infrastructure, institutions, economic stability, health, and the labor market creates an ecosystem that strengthens each other in fostering sustainable development. At the end, strategic policy recommendations that can be implemented to accelerate the inclusive adoption of ICT are presented, ensuring that the benefits of digital transformation can be felt equally by all levels of society in various regions in Indonesia.

4.1. Theoretical foundations and key factors for ICT adoption

1. ICT adoption theory and model

The study of ICT adoption is not only influenced by the classical theory of diffusion of innovations (Rogers) which explains the stages of adoption ranging from innovators to slow majority, but also continues to develop through the integration of various psychological, social, and contextual models. Models such as the Technology Acceptance

Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT) are the dominant frameworks in explaining how the perception factors of usability, ease of use, social norms, and facilitation conditions determine technology acceptance. Cutting-edge research emphasizes the need to expand this framework to understand the adoption of new digital technologies, both in the context of individuals, organizations, and society.³²¹ emphasize that intention-based theories such as Theory of Reasoned Action, Theory of Planned Behavior, TAM, and UTAUT remain fundamental in modern ICT adoption studies, including in the context of cryptocurrencies.³²² adapts UTAUT to explain the adoption of digital agriculture in Romania, demonstrating the relevance of this model in the digitized traditional sector.³²³ also expand DOIs and TAMs in the context of organizational dynamics, highlighting the role of culture, leadership, and internal resources in accelerating ICT adoption. The analysis of ICT adoption in the context of the economic sector is also developing.³²⁴ assess the limitations of TAM and UTAUT in explaining ICT adoption in agricultural SMEs in Malaysia, particularly due to risk factors, culture, and policies that are often overlooked.³²⁵ emphasizes that TAM and UTAUT, while dominant, are not entirely adequate to explain technology adoption in developing countries without considering infrastructure factors and cultural context. In addition, the research of³²⁶ applying UTAUT to non-digital construction technologies demonstrates the flexibility of this model to assess cross-sector adoption. In the context of sustainability, DOI, TAM, and UTAUT theories remain the main foundations in explaining ICT adoption, but recent research enriches the perspective by adding contextual variables such as culture, risk, sustainability, as well as sector-specific factors. This shows that the study of ICT adoption is increasingly interdisciplinary and adaptive to technological developments and global socio-economic conditions.

2. Institutional factors and macroeconomic stability

³²¹ Mweetwa and Mwangi, “Major Models and Theories of Cryptocurrency Technology Adoption: A Theoretical Review.”

³²² MARKOVITS, “ASSESING ROMANIAN FARMERS’ MOTIVATION FOR DIGITALIZATION: A UNIFIED THEORY OF ACCEPTANCE AND USAGE OF TECHNOLOGY (UTAUT) BASED RESEARCH MODEL.”

³²³ Oyetade, Harmse, and Zuva, “Internal Organizational Factors Influencing ICT Adoption for Sustainable Growth.”

³²⁴ NDUBUEZE et al., “EVALUATING TECHNOLOGY ADOPTION MODEL ON AGRO-SMALL PERFORMANCE IN SELANGOR, MALAYSIA.”

³²⁵ Etim, “Information Technology/Information Systems Adoption in Developing and Transitioning Economies.”

³²⁶ Barrane, Karuranga, and Poulin, “Technology Adoption and Diffusion: A New Application of the UTAUT Model.”

Strong institutions and macroeconomic stability are proving to be important foundations in driving ICT penetration and adoption in various countries. Clear regulations and transparent governance create a conducive environment for telecom operators and digital service providers, while macroeconomic stability determines people's purchasing power and affordability of digital services. Countries with high relative economic stability and solid institutions are faster to expand ICT adoption, in contrast with countries with weak governance and unstable economic conditions. Research by ³²⁷ show that institutional factors and financial infrastructure are key to accelerating ICT diffusion in emerging markets, strengthening the linkage illustration governance and digital access. ³²⁸ also emphasizes the importance of macroeconomic stability in reducing market uncertainty, which in turn accelerates the diffusion of digital services. Research ³²⁹ in the African context highlights that economic instability is often an obstacle to the digital transformation of the public sector, even though infrastructure is available. The success of ICT adoption and diffusion is not only influenced by technological and socio-economic readiness, but also highly determined by institutional foundations and macroeconomic stability that serve as the main prerequisites for the creation of a sustainable digital ecosystem.

3. Infrastructure and digital readiness

A strong digital infrastructure is a key foundation in accelerating digital transformation, where the availability of broadband and 4G networks allows people to access better quality internet services and higher speeds. Recent research confirms that infrastructure readiness is a key determinant in reducing the digital divide illustration countries. For illustration, ³³⁰ show that telecommunication infrastructure plays a major role in shaping the digital readiness index of developed and developing countries, as well as directly influencing economic productivity. This is reinforced ³³¹ who assert that the adoption of high-speed broadband is closely correlated with the growth of digital service adoption across sectors, especially in East Asia and Europe . Digital infrastructure readiness is a key factor that not only supports access to internet services but also accelerates economic growth, expands ICT adoption, and narrows the digital divide. Without

³²⁷ Sun, Wang, and Jeyaraj, "Enterprise Social Media Affordances as Enablers of Knowledge Transfer and Creative Performance: An Empirical Study."

³²⁸ Deshmukh, "Understanding FDI in Socialist Nations."

³²⁹ O'Flynn, "Confronting the Big Challenges of Our Time: Making a Difference during and after COVID-19."

³³⁰ Yan and Huang, "Leveraging University Research within the Context of Open Innovation: The Case of Huawei."

³³¹ Begany and Gil-Garcia, "Understanding the Actual Use of Open Data: Levels of Engagement and How They Are Related."

adequate infrastructure, digital transformation will run unevenly and deepen inequality illustration countries and regions.

4. Health, labor market, and market size

The use of ICT in healthcare, the labor market, and the size of the market has become more evident since the COVID-19 pandemic accelerated the digitization of services. From the search results, there are eight recent publications that highlight the transformation of telemedicine, e-health, and their implications for access, productivity, and barriers to technology adoption. The transformation of the health sector is evident in the digital reforms carried out in the MENA region, including the adoption of telemedicine, electronic medical record systems, and digital training for health workers to strengthen the inclusion of medical services ³³². Barriers to telemedicine adoption in rural areas were identified in organizational effectiveness, ICT infrastructure, medical staff motivation, and patient trust ³³³, suggesting that the digital readiness of the workforce is a crucial factor. The study in Ireland also confirmed that internet access was previously a significant predictor of telemedicine use by the elderly group, while broadband availability was not always decisive ³³⁴.

From the perspective of health workers, nurse surveys show that ICT improves instant consultation and patient communication, while also demanding training support and organizational adaptation ³³⁵. Research in India underlines that digital health innovation is one of the growth engines of the startup ecosystem, although there is a need for more systematic research mapping for the future (Mukherjee, 2021). Meanwhile, obstacles to the development of e-health SMEs in less affluent areas are identified in the dimensions of culture, regulations, and limited resources, which can hinder the scale of the digital economy ³³⁶. In Japan, hypertension is shown as an illustration of a medical condition that can be effectively treated with telemonitoring, marking a great opportunity for the integration of e-health in the digital health system without the need for regular face-to-face meetings ³³⁷. In addition, research in Romania highlights that telework in the medical system is accelerating the emergence of remote consultations, which is beneficial

³³² Nchake and Shuaibu, "Investment in ICT Infrastructure and Inclusive Growth in Africa."

³³³ Bala, "The Impact of Mobile Broadband and Internet Bandwidth on Human Development—A Comparative Analysis of Developing and Developed Countries."

³³⁴ Erumban, "Informality and Aggregate Labor Productivity Growth: Does ICT Moderate the Relationship?"

³³⁵ Setuju et al., "Digital Literacy Competencies of Mechanical Engineering Vocational Education Teacher Candidates."

³³⁶ Chergui and Kechadi, "Data Analytics for Crop Management: A Big Data View."

³³⁷ Mesteru, "Sustainability in the Management of the Private Medical Sector in Romania: A European, USA and Japan Comparison."

for chronic patients, although it poses a risk of overload for healthcare workers ³³⁸. The use of ICT in health and the labor market is closely linked to infrastructure readiness, digital skills, and market capacity to support inclusive adoption. The total search results show 2,420 relevant publications that prove the breadth of this study.

The adoption of ICT not only accelerates economic development, but also carries far-reaching social implications, from education to health and sustainability. Research shows that digital infrastructure and connectivity contribute to accelerating economic growth and increased productivity, with evidence that broadband and internet penetration consistently drives GDP growth and expands economic opportunities ³³⁹. On the social side, ICT strengthens digital inclusion by providing wider access to education and health services, as seen in improving the quality of online learning and e-health services that help the equitable distribution of health services in various countries ³⁴⁰. In addition, the study also confirms that the adoption of ICT helps reduce social inequality by expanding community participation in digital economy activities, thereby increasing social mobility and narrowing gaps ³⁴¹. ICT also supports sustainable development by encouraging green innovation, energy efficiency, and resource optimization in the industrial and public sectors, which directly contribute to the SDGs agenda ³⁴². ICT adoption is not only a technological issue, but also a national development strategy that can encourage economic growth, social inclusion, and long-term sustainability.

The methodological approach used in the analysis of ICT adoption pillars integrates comprehensive theoretical studies with quantitative empirical analysis to produce a holistic understanding of the dynamics of technology adoption in Indonesia. The study began with a systematic literature review of fundamental theories of technology adoption, including Rogers' Diffusion of Innovations Theory, Davis' TAM, and Venkatesh et al's UTAUT. This synthesis of literature not only identifies the determinants of ICT adoption that have been globally proven, but also explores how these factors interact in the context of developing countries with the geographical characteristics of islands such as Indonesia. For empirical analysis, the study used a multiple linear regression approach with a dataset that included 38 observation units representing variations in regional conditions in Indonesia. The

³³⁸ Mahendra et al., "Innovations in Public Health: The Role of Technology in Improving Access to Healthcare Services."

³³⁹ Troumbis, Iosifidis, and Kalloniatis, "Uncovering Patterns of Public Perceptions towards Biodiversity Crime Using Conservation Culturomics."

³⁴⁰ Ahun et al., "Implementation of UNICEF and WHO's Care for Child Development Package: Lessons from a Global Review and Key Informant Interviews."

³⁴¹ Li and Liu, "Evolution Process and Characteristics of Multifactor Flows in Rural Areas: A Case Study of Licheng Village in Hebei, China."

³⁴² Sun et al., "Digital Transformation and Corporate Green Innovation: An Affordance Theory Perspective."

dependent variables of ICT adoption were measured through a composite index consisting of four main indicators: mobile phone user penetration, 4G network coverage, number of fixed-broadband internet subscribers per 100 population, and percentage of internet users. The selection of this indicator is based on the international framework of the ITU and is adjusted to the Indonesian context to capture the dimensions of access, infrastructure, and the use of digital technology. Meanwhile, independent variables include six dimensions of development: institutions, infrastructure, macroeconomic stability, health, labor market, and market size, each of which is measured using standardized composite indicators.

The data analysis process is carried out through several systematic stages to ensure the validity and reliability of the findings. The first stage involves descriptive analysis to understand the distribution and characteristics of the data, followed by a regression classical assumption test including residual normality through the Shapiro-Wilk test and visual inspection using Q-Q plot, a multicollinearity test with variance inflation factor (VIF), and a heteroscedasticity test. The regression model is estimated using ordinary least squares (OLS) with robust standard errors to overcome potential minor assumption violations. ANOVA analysis was performed to test the overall significance of the model, while the t-test was used to evaluate the significance of each predictor. All statistical analysis was conducted with a significance level of 5% ($\alpha = 0.05$) using validated statistical software. To strengthen the interpretation of the quantitative results, this study also integrates contextual analysis that considers the specific characteristics of Indonesia as an archipelagic country with significant interregional development disparities. Triangulation was carried out by comparing empirical findings with case studies of best practices from regions that have succeeded in ICT adoption, as well as benchmarking with ASEAN countries that have similar characteristics. This mixed-method approach allows researchers not only to identify statistically significant factors, but also to understand the causal mechanisms and institutional contexts underlying the ICT adoption process. Thus, the resulting policy recommendations are not only based on strong evidence, but also sensitive to the local context and can be implemented practically within the framework of regional development in Indonesia.

4.2. Empirical analysis of determinants of ICT adoption

After understanding the theoretical and conceptual foundations of ICT adoption, this section presents an in-depth empirical analysis to identify and measure the factors that significantly affect the level of adoption of information and communication technology in Indonesia. Empirical analysis becomes a crucial bridge that connects theoretical construction with field reality, providing concrete evidence on the dynamics of ICT adoption in the specific context of regional development in Indonesia. Through a rigorous

quantitative approach, this sub-chapter explores how structural variables such as infrastructure, institutions, macroeconomic stability, health, labor markets, and market size interact in shaping the digital landscape in various regions. The importance of this empirical analysis lies in its ability to uncover patterns and relationships that may not be seen in theoretical studies alone. Using data from 38 observation units representing the diversity of regional conditions in Indonesia, this analysis was able to capture variations in ICT adoption influenced by different geographical, economic, and social characteristics. The multiple linear regression model used allows the identification of the relative contribution of each factor, while controlling the influence of other variables, resulting in a more nuanced understanding of the determinants of ICT adoption.

The empirical findings presented in this sub-chapter have important implications for the formulation of evidence-based digital development policies. With an R^2 value of 0.833, the developed model was able to explain 83.3% of the variation in ICT adoption, demonstrating high predictive power and relevance of the selected variables. The analysis revealed that infrastructure, health, and the labor market emerged as the main driving factors, while market size showed a negative relationship indicating a paradox in the distribution of digital services. These findings not only confirm several theoretical propositions, but also reveal unique dynamics specific to the Indonesian context. The presentation structure in this sub-chapter is designed to provide a comprehensive understanding ranging from an overview of the model and method, detailed statistical analysis results, to an in-depth interpretation that connects the findings with the literature and practical context. Each component of the analysis—from the summary model, ANOVA, to coefficient analysis—is presented with adequate explanations to ensure that readers can understand not only the "what" was found, but also the "why" and "how" of the findings are relevant to endeavors to accelerate digital transformation in Indonesia. Thus, this sub-chapter becomes a strong empirical foundation for policy recommendations that will be discussed in the next section.

The results of descriptive statistics show an overview of the conditions of the variables studied. ICT adoption has an average score of 3.449 with a standard deviation of 0.809, meaning that the ICT adoption rate is in the middle category with quite moderate variation illustration cases. Of the determining factors, Macroeconomic Stability ($M = 4.454$; $SD = 0.374$) and Institutions ($M = 4.211$; $SD = 0.266$) occupies the highest position, showing relatively good economic stability and institutional quality and consistency among the sample (Table 4.1.). In contrast, Market Size has the lowest average ($M = 2.083$; $SD = 1.071$), denoting a small or uneven market size with large variations illustration regions. Infrastructure ($M = 3,186$; $SD = 0.687$) and Labor Market ($M = 2.988$; $SD = 0.352$) is at the medium level, indicating that there are still limitations in digital infrastructure and

labor market dynamics. Meanwhile, Health ($M = 3,776$; $SD = 0.219$) is relatively good with low variation, which means the quality of the health sector tends to be stable. This descriptive assert that ICT adoption is strongly influenced by infrastructure readiness, labor market, and market size distribution, even though institutional and macroeconomic stability are already at a strong level.

The average ICT adoption ($M = 3,449$) at the intermediate level reflects that all four ICT indicators—mobile phone users, 4G network coverage, fixed-broadband customers, and internet users—have made significant progress, but there is still room for improvement. The infrastructure factor ($M = 3,186$) is directly related to 4G network coverage and fixed-broadband customers, as infrastructure quality determines fast and stable network availability. This value, which is still medium, explains the limited broadband access in some areas. The labor market ($M = 2,988$), which is also relatively low, has an impact on mobile phone and internet users, as a less dynamic labor market can reduce digital needs and skills. In contrast, high institutional ($M = 4,211$) and macroeconomic stability ($M = 4,454$) indicate a conducive institutional and economic environment, supporting the expand digital services such as increased internet penetration and network investment. Health ($M = 3,776$) correlates with the use of the internet for digital healthcare, which further drives adoption. Meanwhile, market size ($M = 2.083$; Low and variable $SD = 1.071$) can be an obstacle to equitable broadband access or internet users, as small or dispersed markets make infrastructure investment less even.

Table 4.1. Descriptives of variables

Variables	N	Mean	SD	ONE
ICT adoption	38	3.449	0.809	0.131
Institutions	38	4.211	0.266	0.043
Infrastructure	38	3.186	0.687	0.111
Macroeconomic stability	38	4.454	0.374	0.061
Health	38	3.776	0.219	0.036
Labor market	38	2.988	0.352	0.057
Market size	38	2.083	1.071	0.174

Descriptive statistical findings regarding the variation illustration determinants of ICT adoption provide a comprehensive picture that can be linked to various recent international empirical studies. An in-depth analysis of each variable dimension reveals a pattern consistent with the global phenomenon of digital technology adoption, while highlighting the specific challenges faced in the context of digital development. The level of ICT adoption in the intermediate category in the descriptive analysis results reflects the

complex global reality. These findings are in line with cross-border research ³⁴³ which identified that digital readiness is still a fundamental challenge, especially in developing countries. Their study shows that the limitations of broadband infrastructure and the gap in access to 4G technology significantly slow down the digital transformation process. This phenomenon is not only limited to technical aspects, but also reflects the structural complexity involving economic, social, and institutional dimensions in the technology adoption ecosystem.

The condition of the infrastructure that only reaches the intermediate level in descriptive data strengthens the argue ³⁴⁴ who asserts that network quality remains a crucial foundation for internet and broadband penetration. Digital infrastructure is not just the physical availability of the network, but includes quality, reliability, and accessibility that allow optimal use of technology. This limited infrastructure creates a domino effect that hinders various aspects of digital development, ranging from access to online education to the development of an inclusive digital economy. The dimension of the labor market that shows relatively low value in the descriptive analysis underscores the findings of ³⁴⁵ regarding the importance of digital skills and worker readiness in driving technology adoption. Their research emphasizes that the digital skills gap becomes a significant bottleneck in digital transformation if it is not balanced with massive investment in digital education and training. Low labor market readiness not only hinders technology adoption at the individual level, but also limits the capacity of organizations and economic sectors to integrate digital solutions in their operations.

On the other hand, high values on the institutional dimension and macroeconomic stability in the descriptive results provide positive signals consistent with the empirical evidence from ^{346 347}. Their research emphasizes the fundamental role of good governance and macroeconomic stability in creating an environment conducive to ICT adoption. Institutional strength creates regulatory certainty, investment protection, and policy predictability that drive long-term investment in digital infrastructure. These findings are

³⁴³ Oyetade, Harmse, and Zuva, "Internal Organizational Factors Influencing ICT Adoption for Sustainable Growth."

³⁴⁴ Banik et al., "An Evaluation of the Maternal Patient Experience through Natural Language Processing Techniques: The Case of Twitter Data in the United States during COVID-19."

³⁴⁵ Dzulkifli, Harlinda Nurdin, and Adia Purna, "Unleashing the Power of Capacity Building: Transforming Governance and Policy Implementation in the Digital Era."

³⁴⁶ Zhang, Zhang, and Fukuda, "Adaptation Analysis of Urban Village Resettlers Based on Lefebvre's Spatial Production Theory in Qingdao, China."

³⁴⁷ Stojanović, "KNOWLEDGE IN THE CONCEPT OF NATIONAL COMPETITIVENESS IN THE ERA OF THE FOURTH INDUSTRIAL REVOLUTION."

reinforced by a study ³⁴⁸ which demonstrated that countries with strong regulations and stable economic conditions show significant acceleration in broadband network expansion and digital adoption compared to countries with weak institutions. Health factors that show relatively high value in descriptive data reflect the fundamental transformation in the health sector post-COVID-19 pandemic. Whitelaw et al. (2020) document how the pandemic has been a catalyst for the acceleration of the adoption of e-health and telemedicine, which has not only expanded access to digital-based healthcare but also encouraged more intensive use of the internet in various segments of society. The high value in the health dimension indicates the readiness and acceptance of the public toward the digitalization of health services, which can be a momentum for the expand digital adoption in other sectors.

Nevertheless, the low market size and the variability in descriptive outcomes reveal persistent structural challenges. ³⁴⁹ identified that small or geographically dispersed market size is a fundamental obstacle in achieving the economies of scale vital for digital infrastructure investment. Market fragmentation not only reduces the economic incentive for service providers to invest, but also creates an access gap that further deepens the digital divide. ³⁵⁰ reinforce this argument by showing how geographic distribution and market size disparities directly affect the equitable distribution of broadband access, creating pockets of digital exclusion that are difficult to address without targeted policy interventions. The synthesis of the various dimensions in this descriptive analysis reveals the complexity of the ICT adoption ecosystem that requires a holistic approach in policy formulation. Strengths in institutional aspects and macroeconomic stability provide a solid foundation for digital development, but this potential has not been optimally realized due to infrastructure constraints, limited digital skills, and market fragmentation. The policy implications that emerge from this analysis lead to the need for an integrated strategy that includes strengthening digital infrastructure, massive investment in digital skills development, and innovation in business models that can overcome market size limitations. Only through a comprehensive approach that recognizes the interconnectedness illustration these dimensions can an inclusive and sustainable digital transformation be realized, ensuring that the benefits of technology are accessible to all levels of society without leaving anyone behind.

The results of the model summary show that the ICT adoption variable has a very strong influence on the phenomenon studied. The value of $R = 0.912$ indicates a high

³⁴⁸ Bohnett et al., "The Implications of Community Forest Income on Social and Environmental Sustainability."

³⁴⁹ Ejaz et al., "Impact of Green Finance and ESG on the Sustainable Performance of Islamic Banks."

³⁵⁰ Yang and He, "Global Land Grabbing: A Critical Review of Case Studies across the World."

correlation illustration the ICT adoption indicator and the dependent variable. Meanwhile, $R^2 = 0.833$ and Adjusted $R^2 = 0.800$ indicate that about 80% of the variation in the dependent variables can be explained by the ICT adoption indicators used, so the model has strong explanatory power. The RMSE value = 0.362 indicates a relatively small error rate, and the significance test of the model ($F = 25.692$; $p < 0.001$) strengthens the evidence that this model is statistically significant (Table 4.2.). The ICT adoption indicators used include four main aspects. First, mobile phone users describe the penetration rate of basic communication devices that are the gateway to digital technology adoption. Second, the 4G network coverage reflects the readiness of the telecommunication infrastructure that allows internet services to move quickly. Third, fixed-broadband internet subscribers per 100 residents indicate the availability of high-speed fixed internet access for household and business needs. Finally, internet users generally measure the level of community involvement in the digital ecosystem. Overall, these indicators reflect both infrastructure dimensions and usage behavior, thus providing a comprehensive picture of the level of ICT adoption in a region.

Table 4.2. Model Summary–ICT adoption

Type	R	R^2	Adjusted R^2	RMSE	R^2 Change	F Change	df1	df2	p
M_0	0.912	0.833	0.8	0.362	0.833	25.692	6	31	9.56E-11

The results of the analysis of the ICT adoption model revealed very significant findings with a correlation coefficient (R) value of 0.912, a determination coefficient (R^2) of 0.833, and an Adjusted R^2 of 0.800. These statistical values demonstrate the tremendous explanatory power of the model in explaining the phenomenon of digital technology adoption. The high R^2 value indicates that 83.3% of the variation in ICT adoption can be explained by the independent variables included in the model, while the Adjusted R^2 which remains high at 0.800 confirms the robustness of the model after accounting for the number of predictors. These findings provide strong empirical validation of the conceptual framework used in analyzing the determinants of digital technology adoption. The explanatory power of this model is in line with the findings³⁵¹ who identified mobile phone and internet penetration as fundamental indicators in expanding digital participation. Their research emphasizes that smartphones have transformed into a major gateway to the digital ecosystem, facilitating access to a wide range of internet-based services ranging from basic communications to complex financial transactions. This phenomenon reflects a

³⁵¹ Warokka, Setiawan, and Aqmar, “Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis.”

paradigm shift in the way people access and use digital technology, where mobility and ease of access are crucial factors in driving broader digital inclusion.

The role of 4G network infrastructure in ICT adoption models has strong empirical support from the research ³⁵², which demonstrated a direct correlation illustration the quality of telecommunications infrastructure and the speed of adoption of new technologies. The availability of 4G networks not only allows high-speed internet access through mobile devices, but also creates an ecosystem that supports the development of more sophisticated digital applications and services. 4G infrastructure serves as a fundamental enabler that enables the transformation from traditional voice communications to data-rich services, driving innovation in various economic and social sectors. The fixed-broadband dimension in the ICT adoption model has special significance confirmed ³⁵³. His research shows that fixed-broadband subscribers per 100 residents are not just a metric of technology penetration, but a comprehensive indicator of digital readiness at the household and business level. High-speed fixed-broadband connections enable the use of digital services that require large bandwidth and connection stability, such as complex ecommerce, interactive e-learning platforms, and real-time telemedicine systems. The availability of fixed-broadband creates a foundation for deeper digital transformation, enabling the adoption of more sophisticated technologies compared to relying on mobile connections alone. The use of the internet as a variable in the ICT adoption model has a broader dimension than just access metrics, as revealed ³⁵⁴. They argue that internet usage rates serve as a comprehensive proxy for digital inclusion, which has direct implications for economic productivity and improved quality of life. The use of the internet reflects not only the availability of infrastructure, but also the readiness of the community, the relevance of content, and the supporting ecosystem that allows for the meaningful use of technology. This variable captures the complexity of the interaction illustration supply-side factors (infrastructure) and demand-side factors (user adoption) in the digital ecosystem. These findings indicate that models that integrate multiple dimensions of ICT adoption – from physical infrastructure to actual usage patterns – provide a more accurate and comprehensive representation compared to approaches that focus on a single dimension.

³⁵² Wang, “The Impact of Sufficient Infrastructure Investment on Regional Macro-Economy – Taking California High-Speed Rail Project vs LaGuardia Airport Reconstruction Project as Examples.”

³⁵³ Tudor et al., “Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU.”

³⁵⁴ MARKOVITS, “ASSESSING ROMANIAN FARMERS’ MOTIVATION FOR DIGITALIZATION: A UNIFIED THEORY OF ACCEPTANCE AND USAGE OF TECHNOLOGY (UTAUT) BASED RESEARCH MODEL.”

The multiplier effect of ICT adoption identified in the model has theoretical and empirical support ³⁵⁵. Their research emphasizes that the availability of broadband infrastructure and mobile internet penetration not only have a direct impact on the ICT sector, but create significant spillover effects on various economic and social sectors. The digital transformation facilitated by ICT adoption creates new opportunities for innovation, operational efficiency, and disruptive business models, which in turn drives economic growth and more inclusive social development. The model's ability to capture regional variations in ICT adoption, as emphasized ³⁵⁶, provides an more dimension to the interpretation of the results. The high R² value indicates that the model manages to accommodate significant heterogeneity in technology adoption patterns, including fundamental differences illustration developed and developing countries. The digital divide reflected in the variation in ICT adoption is not just a technical phenomenon, but a manifestation of structural differences in the broader economy, institutions, and social capacities. Models that are able to capture these variations provide more nuanced insights for context-specific policy formulation.

The policy implications of the explanatory power of this model are significant, as underlined ³⁵⁷. They argue that comprehensive ICT adoption indicators – including broadband penetration, mobile phones, and internet use – are not just measurement instruments, but fundamental tools for understanding and directing the dynamics of digital development. The model's ability to explain the wide variation in ICT adoption provides a strong empirical basis for evidence-based national digital policy formulation, allowing for more precise intervention targeting and more efficient resource allocation. The synthesis of this model analysis reveals that ICT adoption is a multidimensional phenomenon that can be modeled with a high level of accuracy through a combination of infrastructure and usage indicators. The explanatory power of the exceptional model is not only methodological validation, but also confirmation that the selected variables successfully capture the essence of contemporary digital transformation. These findings provide a solid foundation for further research and policy formulation, confirming that a holistic approach to ICT adoption – which integrates the dimensions of infrastructure, access, and use – is a robust framework for understanding and fostering inclusive and sustainable digital development.

³⁵⁵ Troumbis, Iosifidis, and Kalloniatis, “Uncovering Patterns of Public Perceptions towards Biodiversity Crime Using Conservation Culturomics.”

³⁵⁶ Munifatussaidah et al., “Driving Regional Economy: Digital Technology Adoption’s Role for Effective Distribution of Islamic Social Finance in Indonesia.”

³⁵⁷ Sharma and Sharma, “Governance in the Age of Artificial Intelligence: A Comparative Analysis of Policy Framework in BRICS Nations.”

The results of the ANOVA test show that the overall ICT adoption model is significant in explaining the variation in dependent variables. The value of $F = 25.692$ with $p < 0.001$ confirms that the contribution of ICT adoption indicators together is much better than that of the model without predictors. The magnitude of the Sum of Squares Regression (20,168) compared to the Sum of Squares Residual (4,056) suggests that the majority of variation can be explained by the model, so this model has a strong explainer power. Thus, the selected indicators are relevant to illustrate ICT adoption (Table 4.3.). ICT adoption indicators consist of four main components. Mobile phone users reflect the penetration rate of basic communication devices that help access to digital services. The 4G network coverage indicates the readiness of the telecommunication infrastructure that determines the speed and quality of internet access. Fixed-broadband internet subscribers per 100 residents illustrate the affordability and use of high-speed fixed internet services that are important for households and the business sector. Meanwhile, internet users provide an overview of the extent to which people are involved in digital activities, both for communication, information, and economic services. These four indicators, when viewed together, reflect a combination of infrastructure aspects and usage behaviors that are an important foundation in understanding the level of ICT adoption in a region.

Table 4.3. ANOVA

Type		Sum of Squares	Df	Mean Square	F	p
M ₀	Regression	20.168	6	3.361	25.692	9.56E-11
	Residual	4.056	31	0.131		
	Total	24.224	37			

The results of the ANOVA test which demonstrated the high statistical significance of the ICT adoption model provide strong empirical validation of the selection of key variables in measuring digital development. The significance of the model demonstrated by a $p < 0.001$ indicates that the selected independent variables – mobile phone users, 4G network coverage, fixed-broadband customers, and internet users – collectively have substantial predictive power in explaining variations in digital technology adoption. These statistical findings are not merely methodological confirmations, but rather a reflection of the complex empirical reality of how various dimensions of infrastructure and technology use interact in shaping the contemporary digital landscape. The relevance of mobile phone penetration indicators in ICT adoption models has strong empirical support from research³⁵⁸ exploring African contexts. Their study reveals that mobile phone

³⁵⁸ Ndoya and Asongu, “Digital Divide, Globalization and Income Inequality in Sub-Saharan African Countries: Analysing Cross-Country Heterogeneity.”

penetration has a transformative role in driving digital financial inclusion, where mobile banking and mobile money technologies have revolutionized access to financial services for populations previously unreachable by traditional banking systems. These findings confirm that mobile phones are not just a communication tool, but rather a multifunctional platform that facilitates participation in the digital economy. The high statistical significance of this variable in the ANOVA model reflects the reality that mobile phone adoption has become a fundamental gateway to a broader digital transformation. 4G infrastructure enables high-speed data transmission that is essential for modern digital applications and services, from video streaming to the Internet of Things (IoT). The significance of these variables in the model underscores that the quality of telecommunications infrastructure is a fundamental prerequisite for the adoption of meaningful digital technology, not just the availability of access. The fixed-broadband dimension in the ICT adoption model, which shows a significant contribution in the ANOVA analysis, received empirical validation ³⁵⁹. Their study revealed that fixed-broadband penetration has a direct correlation with increased business productivity, especially in service sectors that require stable and high-speed internet connections. Fixed-broadband enables the implementation of sophisticated digital solutions such as cloud computing, big data analytics, and integrated enterprise systems. The statistical significance of these variables reflects the crucial role of fixed-broadband infrastructure in supporting digital transformation at the organizational level, which has multiplier implications for the economy as a whole. The use of the internet reflects the level of digital literacy and the readiness of the community to participate in digital transformation. The significance of these variables in the model indicates that ICT adoption is not a purely technical phenomenon, but rather a socio-technical process involving behavioral change and cultural adaptation. ANOVA's ability to detect significant differences in technology adoption illustration groups or regions provides valuable insights to understand the dynamics of the digital divide and design targeted policy interventions.

The economic implications of the significance of ICT adoption models are reinforced by the findings ³⁶⁰, who identified a significant correlation illustration internet use and the growth of small and medium-sized enterprises. Their research shows that internet access and use enable SMEs to access a wider range of markets, adopt more efficient business practices, and participate in global value chains. The high statistical significance of the variables in the ANOVA model reflects the transformative potential of ICT adoption on

³⁵⁹ Bayoumi et al., "The Role of Road Transport Infrastructure Investments on Logistics Performance: A Research Agenda."

³⁶⁰ Wisdom Samuel Udo et al., "Conceptualizing Emerging Technologies and ICT Adoption: Trends and Challenges in Africa-US Contexts."

economic structures, particularly in encouraging entrepreneurship and innovation at the grassroots level. The infrastructure dimension in the ICT adoption model has been further elaborated ³⁶¹, who found that broadband infrastructure contributes significantly to global competitiveness through mediating access to digital innovation. Their study emphasizes that the availability of robust digital infrastructure is a prerequisite for participation in the global knowledge economy. The significance of infrastructure variables in the ANOVA model confirms that investment in digital infrastructure has substantial returns, not only in economic terms but also in positioning a region or country in the global competitive landscape.

The relationship illustrating the quality of digital connectivity and broader development outcomes has been explored in-depth ³⁶². Their research demonstrates that the quality of digital connectivity has a significant relationship with social well-being and workforce productivity. These findings reinforce the interpretation that the high statistical significance in the ANOVA model is not just a statistical phenomenon, but a reflection of the real impact of ICT adoption on quality of life and economic productivity. Quality digital connectivity enables access to information, education, and economic opportunities that were previously unattainable, creating new pathways for social and economic mobility. A synthesis of various literature supports the ANOVA results reveals a remarkable consistency illustrating statistical finding and the empirical reality of global ICT adoption. The high significance of the model not only confirms the validity of the selection of variables, but also confirms that a multidimensional approach to measuring ICT adoption – which integrates aspects of mobile and fixed infrastructure, as well as actual usage patterns – is a robust and reliable framework. The convergence illustrating statistical results and empirical evidence from various geographical and sectoral contexts strengthens the generalizability of the model, while providing confidence that the insights generated can be a solid basis for evidence-based and context-appropriate digital development policy and strategy formulation. The results of the coefficient analysis show that several factors have a significant influence on ICT adoption. The variables infrastructure ($\beta = 0.467$; $p = 0.004$), health ($\beta = 0.370$; $p = 0.003$), and labor market ($\beta = 0.259$; $p = 0.004$) made significant positive contributions, indicating that the quality of infrastructure, health, and the labor market is driving increased ICT adoption. In contrast, market size ($\beta = -0.329$; $p = 0.033$) showed a negative influence, meaning that a large market size is not always synonymous with a high rate of ICT adoption, possibly due to service distribution gaps. Meanwhile, institutions ($p = 0.081$) and macroeconomic stability ($p = 0.065$) although positive

³⁶¹ Qazi, “Exploring Global Competitiveness Index 4.0 through the Lens of Country Risk.”

³⁶² Mgoduka, Kaseeram, and Heeralal, “An Investigation on The Extent of Usage and Challenges Faced by Tourism SMEs Concerning E-Marketing: Empowering Co-Creation of Value.”

influences were not statistically significant at the level of 5%. The VIF value of < 5 on all variables also indicates no serious multicollinearity problems in the model (Table 4.4.).

Table 4.4. Coefficients

							Collinearity Statistics	
Type		Unstandardized	Standard Error	Standardized	t	p	Tolerance	VIVID
M ₀	(Intercept)	-8.913	1.273		-7.002	7.35E-08		
	Institutions	0.545	0.302	0.179	1.803	0.081	0.549	1.822
	Infrastructure	0.551	0.179	0.467	3.071	0.004	0.233	4.289
	Macroeconomic Stability	0.428	0.224	0.198	1.913	0.065	0.504	1.985
	Health	1.364	0.43	0.37	3.171	0.003	0.398	2.514
	Labor Market	0.594	0.193	0.259	3.074	0.004	0.763	1.311
	Market Size	-0.249	0.111	-0.329	-2.235	0.033	0.249	4.022

The indicators of ICT adoption in this study include four main dimensions. Mobile phone users are a basic indicator of the penetration of communication devices that allow people to connect with the digital ecosystem. The 4G network coverage reflects the readiness of the digital infrastructure that determines the quality and speed of internet access. Fixed-broadband internet subscribers per 100 residents demonstrate access to high-speed fixed internet, which is essential for household, educational, and business activities. Finally, internet users provide an overview of community involvement in digital activities at large. With a combination of infrastructure aspects and usage behavior, these four indicators provide comprehensive scope to assess the extent to which ICT is being adopted within a region. A significant positive infrastructure factor ($\beta = 0.467$; $p = 0.004$) was directly related to 4G network coverage and fixed-broadband customers, as infrastructure quality determined the availability of fast and stable internet services. The health variable ($\beta = 0.370$; $p = 0.003$) can increase internet users, for illustration through digital health services (telemedicine) that expand the use of ICT. The labor market ($\beta = 0.259$; $p = 0.004$) is related to mobile phone and internet users, because the more dynamic the labor market, the higher the need for access to digital communication and information. In contrast, the negative market size ($\beta = -0.329$; $p = 0.033$) suggests that large markets do not automatically increase internet or broadband adoption, perhaps because the distribution of infrastructure is uneven illustration regions. Meanwhile, although institutions and macroeconomic stability are not significant, they still provide a positive direction for ICT adoption, for illustration through regulations that support the expand the 4G network or economic stability that increases people's ability to subscribe to broadband internet.

The results of the regression coefficient analysis revealed very significant findings regarding the determinants of the adoption of ICT, where infrastructure, health, and the labor market showed a significant positive influence, while market size had a significant negative influence. This pattern of relationships provides in-depth insights into the complexity of the dynamics of digital technology adoption and is consistent with various empirical findings in the contemporary international literature. The statistical significance of these variables not only confirms the theoretical hypothesis, but also reveals important nuances in understanding how the various dimensions of development interact in shaping the digital landscape of a region or country. The significant influence of infrastructure on ICT adoption identified in the coefficient analysis received strong empirical support ³⁶³. Their research demonstrates that broadband network availability is not just a technical enabler, but a fundamental catalyst that facilitates the adoption of digital services across sectors. Quality telecommunications infrastructure creates an ecosystem conducive to digital innovation, enabling the development and deployment of applications that require high bandwidth and low latency. These findings are strengthened ³⁶⁴ who identify that improving the quality of digital infrastructure has a multiplier effect on ICT-based economic growth, especially in developing countries where infrastructure gaps are still significant. The significance of the infrastructure coefficient in the model reflects the reality that without a solid infrastructure foundation, digitalization endeavors will face a fundamental bottleneck that hinders overall digital transformation.

The health dimension that shows a significant influence on ICT adoption reflects a fundamental transformation in healthcare delivery, especially in the post-COVID-19 pandemic context. ³⁶⁵ document how the pandemic has become a turning point that has accelerated the adoption of digital technology in the healthcare sector, driving the proliferation of telemedicine, digital health records, and remote patient monitoring. This acceleration is not a temporary phenomenon, but rather a structural shift in the way health services are organized and delivered. ³⁶⁶ reinforce this argument by showing that the adoption of telemedicine during the pandemic has not only expanded access to healthcare, but also created a significant demand for reliable and secure digital connectivity. The significance of health variables in ICT adoption models indicates that the health sector has

³⁶³ Oyetade, Harmse, and Zuva, "Internal Organizational Factors Influencing ICT Adoption for Sustainable Growth."

³⁶⁴ Mazumder and Anwar Hossain, "AI Hub: Idea to Innovative Service - An AI Service Hub for the Citizens of Bangladesh to Accelerate the Implementation of Smart Bangladesh."

³⁶⁵ Mesteru, "Sustainability in the Management of the Private Medical Sector in Romania: A European, USA and Japan Comparison."

³⁶⁶ Agbeyangi and Lukose, "Telemedicine Adoption and Prospects in Sub-Sahara Africa: A Systematic Review with a Focus on South Africa, Kenya, and Nigeria."

become an important driver of digital transformation, with implications that go beyond the sector itself and drive the adoption of technology at the broader societal level. The labor market that shows a significant influence on ICT adoption reflects a fundamental transformation about work and skill requirements in the digital era. ³⁶⁷ identified that the digitalization of the job market creates a demand for new skills while encouraging workers to adopt and master digital technologies. This transformation is not just the substitution of technology for labor, but a fundamental reconfiguration in the way work is organized, carried out, and evaluated. ³⁶⁸ deepen this understanding by showing that digital transformation in the labor market, while increasing productivity, requires a comprehensive supporting ecosystem including responsive infrastructure, regulations, and education systems. The significance of the labor market coefficient in the model underscores that human capital and technological capital are complementary, not substitute, in the digital transformation process.

The findings reveal the negative influence of market size on ICT adoption is a counter-intuitive insight but has a strong empirical basis. ³⁶⁹ explain this phenomenon by identifying that large market sizes do not automatically translate into high ICT adoption when there are inequities in the distribution of digital infrastructure. A large but segmented market or having significant access disparities can create pockets of digital exclusion that actually hinder technology adoption in aggregate. ³⁷⁰ reinforce this argument by emphasizing that equitable access to technology in regions with large market sizes requires deliberate and targeted policy interventions. Without a conscious effort to address disparities, large market sizes can exacerbate the digital divide rather than encourage digital inclusion. This negative coefficient indicates that scale alone is not enough; What is more important is how resources and access are distributed in those markets. Although the institutional variables and macroeconomic stability do not show statistical significance in this model, their positive role is still identified and received conceptual support from the literature. ³⁷¹ demonstrates that good regulatory and institutional quality creates a predictable and conducive environment for technology investment, although the effects may be more indirect or long-term compared to physical infrastructure factors. Strong

³⁶⁷ Abdullah and Kuşakci, "A Systematic Literature Review: Success Factors and Gamification Impact on Donation-Based Crowdfunding Campaign."

³⁶⁸ Jafarli, "Improving the Level of Economic Development and Social Welfare in Rural Areas for Young People."

³⁶⁹ Daramola and Etim, "Affordances of Digital Platforms in Sub-Saharan Africa: An Analytical Review."

³⁷⁰ Muhammad Nanang Choiruddin et al., "Financial Literacy, FinTech, and Contemporary Innovation in Islamic Economic Law: An Analysis of MSME Performance Sustainability in Indonesia and Malaysia."

³⁷¹ Anggono et al., "Interrogating the Legal Foundations of Digital Transformation: Balancing Economic Growth and Social Welfare in the Era of Disruption."

institutions provide a legal and regulatory framework that facilitates innovation while protecting stakeholders, creating trust that is essential for large-scale technology adoption.³⁷² complement this perspective by showing that macroeconomic stability supports the expand broadband services through the creation of a stable investment environment. Although not statistically significant in this specific context, they are still important enablers that create necessary, though perhaps insufficient, conditions for ICT adoption.

Synthesis from coefficient analysis and literature support reveals multidimensional complexity in the determinants of ICT adoption. Infrastructure is emerging as a nonnegotiable physical foundation, health as a transformative demand driver, and the labor market as a nexus where technology and human capital interact. The negative influence of market size provides an important reminder that scale without equity can be a barrier rather than an enabler. Meanwhile, the role of institutions and macroeconomic stability, although not statistically significant, remains relevant as underlying conditions that help or hinder the effectiveness of other factors. The implications of these findings for policy formulation are profound. Digital development strategies cannot rely on a one-size-fits-all approach or focus on a single dimension. Instead, a holistic approach is needed that recognizes the complex interplay illustration physical infrastructure, human capital, sectoral dynamics, and distributional considerations. Investment in infrastructure must be accompanied by the development of digital skills in the labor market, leverage on the momentum of digital transformation in the healthcare sector, and special attention to equity issues to address the paradox of market size. The institutional framework and macroeconomic stability, while they may not show immediate effects, still need to be strengthened as a long-term foundation for the sustainability of digital transformation. Only through careful orchestration of these various dimensions can the full potential of the digital revolution be realized in an inclusive and sustainable manner.

To ensure the validity of the regression model used, a residual normality assumption test was carried out through a residual histogram and Q-Q plot. The residual histogram shows a relatively symmetrical error distribution around zero, while the Q-Q plot shows that most residual points follow a diagonal line. These two results confirm that the residual normality assumption is met, so that statistical tests such as R^2 values, ANOVA, and regression coefficients can be validly interpreted (Figure 4.1). Figure 4.1. Standardized Residuals Histogram with Density Plot. The goal is to check the residual normality assumption in regression analysis. It can be seen that the residual distribution is spread around zero with a range illustration -2 to +2, and the shape is close to normal although

³⁷² Mustamin et al., "The Role of Zakat in Islamic Macroeconomics: A Fiscal Instrument for Stability during Global Economic Crises."

slightly skewed to the left (slight negative skewness). This means that most model errors are within a reasonable range, and the residual normality assumption is relatively met, although not perfectly symmetrical. Meanwhile, the Normal Q-Q Plot (Figure 4.1.) for residual regression, is used to test the assume normality. On the chart, the residual points mostly follow a diagonal line, although there is a slight deviation in the tail (top and bottom). This shows that the residual is relatively normally distributed, with only a slight deviation at the extremes.

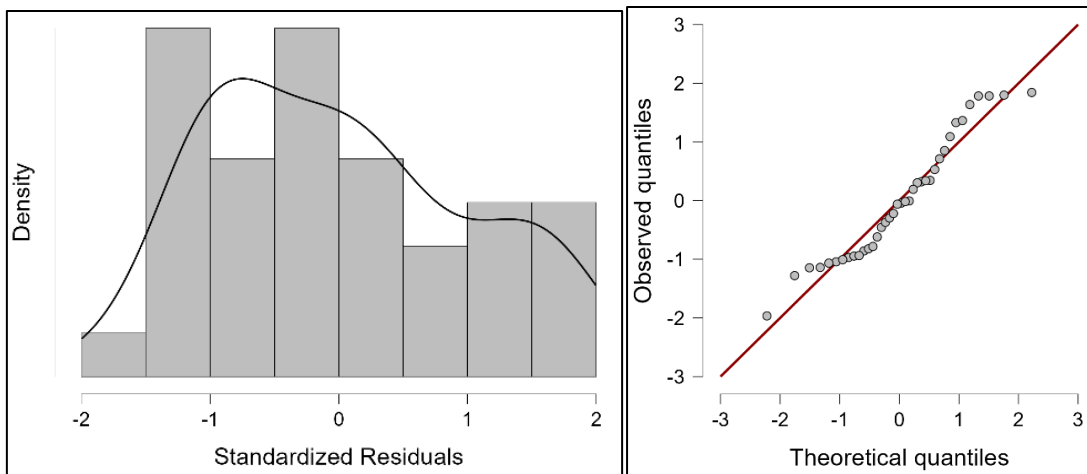


Figure 4.1. Standardized Residuals Histogram and Q-Q Plot Standardized Residuals

The residual normality test through histograms and Q-Q plots showing a symmetrical relative error distribution as well as following a diagonal line, as shown in Figure 4.1, reinforces the validity of the regression model because it fulfills the basic assumptions in inferential analysis. This is in line with recent literature emphasizing the importance of validation of residual distributions before interpretation of regression results, where significant deviations from normality can lead to bias in parameter estimation and statistical conclusions. For illustration, research ³⁷³ shows that graphical approaches such as Q-Q plots remain an effective method in testing residual normality assumptions in multivariate regression models. In addition, the empirical literature reinforces that residual normality is more critical when the sample size is small, whereas in large samples, the central limit theorem allows estimates to remain consistent despite slight deviations ³⁷⁴. This is consistent with test results showing only a slight negative skewness. Recent studies also

³⁷³ Qu et al., “Perceived Social Cohesion and Depressive Symptoms among Internal Migrants in China: The Mediating Role of Social Adaptation.”

³⁷⁴ Saeed, “Digital Transformation in Governmental Public Service Provision and Usable Security Perception in Saudi Arabia.”

highlight that graphical normality tests such as histograms and Q-Q plots should be complemented by formal statistical approaches, such as Shapiro-Wilk or Kolmogorov-Smirnov, to strengthen conclusions³⁷⁵. However, graphical visualization is still seen as more information in assessing aberration patterns³⁷⁶.

4.3. Findings and Implications of ICT adoption Policy

Interpretation of the statistical results showed that the ICT adoption model had excellent predictive capabilities with a high R^2 value and significant ANOVA results. The positive contribution of infrastructure, health, and the labor market confirms that these three factors are the main determinants in driving ICT adoption. Digital infrastructure is proving to be an important pillar, as the availability of high-speed broadband and mobile networks directly affects internet penetration and digital services. This is in line with the findings of³⁷⁷ which emphasized the role of infrastructure in supporting digital transformation and equitable access to technology. Meanwhile, significant health aspects show how the sector is leveraging ICT, especially through telemedicine and digital healthcare, which has been shown to accelerate the adoption of technology in many countries³⁷⁸. The dynamics of the labor market also contribute significantly, because the increasingly open and flexible job market advises the need for digital skills, in line with the results of a study³⁷⁹ which emphasizes digital skills as a strengthening factor for ICT-based economic transformation. Conversely, the negative influence of market size is an interesting finding, as a large market is not always synonymous with high digital penetration. The inequality of infrastructure distribution illustration urban and rural areas may explain this phenomenon, as³⁸⁰ emphasize that the digital divide is still a serious obstacle to ICT expansion, especially in developing countries. In addition, although institutional factors and macroeconomic stability are not statistically significant, they still show a positive direction toward ICT adoption. This is consistent with³⁸¹ who affirmed that supportive regulation and macroeconomic stability are important enablers for long-term digital investments.

³⁷⁵ Gosiewska and Biecek, "Do Not Trust Additive Explanations."

³⁷⁶ Stadtländer, "Qualitative, Quantitative, and Mixed-Methods Research."

³⁷⁷ Adigun, Ajani, and Enakrire, "The Intelligent Libraries: Innovation for a Sustainable Knowledge System in the Fifth (5th) Industrial Revolution."

³⁷⁸ Onsongo et al., "Experiences on the Utility and Barriers of Telemedicine in Healthcare Delivery in Kenya."

³⁷⁹ Mazumder and Anwar Hossain, "AI Hub: Idea to Innovative Service - An AI Service Hub for the Citizens of Bangladesh to Accelerate the Implementation of Smart Bangladesh."

³⁸⁰ Atobishi and Mansur, "Bridging Digital Divides: Validating Government ICT Investments Accelerating Sustainable Development Goals."

³⁸¹ Stojanović, "KNOWLEDGE IN THE CONCEPT OF NATIONAL COMPETITIVENESS IN THE ERA OF THE FOURTH INDUSTRIAL REVOLUTION."

Furthermore, the latest literature also emphasizes the importance of synergy illustration economic, social, and technological factors in encouraging ICT adoption. For illustration, ³⁸² emphasize that digital infrastructure investment will only be effective if it is accompanied by improved labor quality and appropriate public policies. At the same time, the adoption of ICT in the health sector has been shown to accelerate the achievement of digital inclusion, as reported ³⁸³ regarding the implementation of digital applications in public health services. The empirical results of this study not only confirm the relevance of the variables used, but are also in line with the latest global literature. This model shows that ICT adoption cannot be separated from a combination of infrastructure, health, and labor factors, where market inequality is a significant challenge that must be addressed through more inclusive public policies and investment.

These findings are closely related to the literature that has examined the adoption of technology through various theoretical perspectives. Within the framework of diffusion theory of innovations (Rogers), external environmental factors, including the availability of infrastructure, institutional support, and socio-economic readiness, are important determinants in accelerating the spread of ICT. The results of this study show that infrastructure, health, and labor markets are driving ICT adoption, in line with the findings of ³⁸⁴ who emphasized that digital investments are only effective when supported by a supportive institutional environment and social conditions. Similarly, the TAM theory and the UTAUT affirm that the perception of the ease and usefulness of technology is inseparable from external contexts such as regulations, infrastructure readiness, and market support, as reinforced by the study ³⁸⁵ who found that external factors play a major role in shaping the intend use digital technology in the work context. The literature also shows that the adoption of ICT at the global level is strongly influenced by the penetration of mobile phones, the internet, and broadband. Research ³⁸⁶ also found that the quality of broadband networks is directly related to the acceleration of digital transformation in the public and private sectors. This is in line with the findings of ³⁸⁷ who emphasized that socio-

³⁸² Decerf et al., "Lives and Livelihoods: Estimates of the Global Mortality and Poverty Effects of the Covid-19 Pandemic."

³⁸³ Archambault et al., "Learning Integrated Health System to Mobilize Context-Adapted Knowledge With a Wiki Platform to Improve the Transitions of Frail Seniors From Hospitals and Emergency Departments to the Community (LEARNING WISDOM): Protocol for a Mixed-Methods Implementation Study."

³⁸⁴ Decerf et al., "Lives and Livelihoods: Estimates of the Global Mortality and Poverty Effects of the Covid-19 Pandemic."

³⁸⁵ Zeng et al., "Social Media Advertising through Private Messages and Public Feeds: A Congruency Effect between Communication Channels and Advertising Appeals."

³⁸⁶ Hongprabhas, "Toward Urban-Rural Linkage Development: Contribution of Climate-Adaptive Agroecology in the Lower Chao Phraya River Basin, Thailand."

³⁸⁷ Ljubownikow and Ang, "Competition, Diversification and Performance."

economic factors, such as education level and income, contribute to strengthening or weakening the effectiveness of digital infrastructure adoption.

In addition, the development of telemedicine in the health sector shows how the adoption of ICT is a strategic solution, especially during the COVID-19 pandemic.³⁸⁸ show that digital applications in public health services expand patient access while increasing the speed of services. A similar study³⁸⁹ strengthens the argument that health as an external factor plays an important role in accelerating the use of digital technology in the wider community. Furthermore, the labor market has also proven to be a key variable.³⁹⁰ emphasize that workers with digital skills are more adaptive to new technologies, so a dynamic job market is accelerating the adoption of ICT. This is reinforced³⁹¹ who shows that digital skills not only increase employability, but also accelerate technology-based innovation. The results in this chapter are consistent with the latest theories of technology adoption and empirical literature. Infrastructure and the labor market are key enablers, while the health sector shows how the need for services is driving the acceleration of ICT adoption. The size of the market that has a negative effect is reminiscent of the importance of equitable distribution of infrastructure, which is a major challenge in reducing the digital divide. These findings confirm that ICT adoption is the result of a complex interaction illustration technological, social, and institutional factors, which has been widely proven by post-2020 global research.

The four indicators of ICT adoption used in this study proved to be relevant in providing a comprehensive picture of the digitalization phenomenon, where each indicator measures different dimensions but complements each other. Mobile phone users as an early penetration indicator reflect how basic communication devices are the entrance of society to the digital ecosystem. Recent research confirms that the penetration rate of smartphones is closely related to the acceleration of digital inclusion, especially in developing countries, as these devices serve as the main medium of internet access³⁹². Meanwhile, 4G network coverage is an important prerequisite for service quality, as the availability of

³⁸⁸ Archambault et al., "Learning Integrated Health System to Mobilize Context-Adapted Knowledge With a Wiki Platform to Improve the Transitions of Frail Seniors From Hospitals and Emergency Departments to the Community (LEARNING WISDOM): Protocol for a Mixed-Methods Implementation Study."

³⁸⁹ Yermukhanova et al., "Opportunities and Challenges in the Adoption of Digital Health Technologies in Kazakhstan."

³⁹⁰ Mitsea, Drigas, and Skianis, "Well-Being Technologies and Positive Psychology Strategies for Training Metacognition, Emotional Intelligence and Motivation Meta-Skills in Clinical Populations: A Systematic Review."

³⁹¹ Nitoslowski et al., "The Digital Forest: Mapping a Decade of Knowledge on Technological Applications for Forest Ecosystems."

³⁹² Dwivedi et al., "Setting the Future of Digital and Social Media Marketing Research: Perspectives and Research Propositions."

telecommunications infrastructure determines the speed and stability of digital access which affects the intense use of internet-based services ³⁹³. Fixed-broadband subscribers, both fixed and fiber optic, serve as a crucial indicator of the affordability of high-speed internet for the education, business, and public service sectors. Recent studies show that the growth of fixed-broadband is highly correlated with economic productivity and e-learning activities, especially in the context of the COVID-19 pandemic. In this case, broadband is not only seen as a technical service, but also as an important pillar in supporting the knowledge economy. Internet users as a whole, as a final indicator, reflect on the extent to which people participate in digital activities, both in the form of communication, electronic commerce, and digital public services. Research confirms that high levels of internet use are closely related to increased digital literacy and socio-economic engagement ³⁹⁴. These four indicators cannot be viewed in isolation because they form an integrative measurement framework. Mobile penetration advises early inclusion, 4G coverage ensures service quality, broadband strengthens stable access for productive sectors, and internet usage rates indicate the outcomes of a built digital ecosystem. Global research also confirms the synergistic relationship illustration these indicators. For illustration, broadband and 4G coverage have proven to contribute greatly to the growth of the digital economy in the European Union ³⁹⁵, while mobile penetration is more dominant in the Sub-Saharan African region in reducing the digital divide ³⁹⁶. Thus, the indicators used are not only statistically valid, but also conceptually relevant in explaining the complexity of cross-contextual ICT adoption.

Empirically, the findings of this study strengthen the argument that ICT adoption is influenced by a combination of institutional, economic, and social factors. Adequate digital infrastructure has proven to be a key determinant in expanding the use of the internet and broadband, as evidenced by research in Europe showing that network expansion is directly proportional to increased digital inclusion and economic productivity ³⁹⁷. In the context of health, the use of digital services such as telemedicine has been proven to accelerate the adoption of technology, especially during the COVID-19 pandemic which increased the urgency of ICT adoption in the health sector. The labor market is also an important factor, where ICT penetration drives productivity and expands digital job opportunities, as

³⁹³ Bidwell, "Rural Uncommoning."

³⁹⁴ Djatmiko, Sinaga, and Pawirosumarto, "Digital Transformation and Social Inclusion in Public Services: A Qualitative Analysis of E-Government Adoption for Marginalized Communities in Sustainable Governance."

³⁹⁵ Cuadros and Ordóñez, "Globalisation: Recent Traits and Challenges."

³⁹⁶ Cramer, "The Moral Hazard of Lax FCC Land Use Oversight for Advanced Network Infrastructure."

³⁹⁷ González-Rodríguez, Díaz-Fernández, and Pacheco Gómez, "Facial-Expression Recognition: An Emergent Approach to the Measurement of Tourist Satisfaction through Emotions."

highlighted by research in the OECD that found a positive correlation illustration the digital skills of the workforce and the speed of digital transformation ³⁹⁸.

Nonetheless, the large market size is not always a positive predictor for ICT adoption. Research in Africa shows that while countries with large populations have more potential users, the uneven distribution of infrastructure creates a significant digital divide ³⁹⁹. Institutional factors also play an important role in creating a conducive environment, although their influence is often indirect. For illustration, the existence of pro-digitalization regulations is related to the acceleration of ICT infrastructure investment, although this influence is stronger in the long-term ⁴⁰⁰. Furthermore, ICT adoption has also been shown to be influenced by structural gaps such as urban-rural regional disparities, where areas with weak infrastructure face barriers in accessing high-quality broadband services ⁴⁰¹. Therefore, the empirical implication that can be drawn is that ICT development policies should not only focus on infrastructure expansion, but also pay attention to service distribution, increasing digital literacy, and creating regulations and supportive economic stability. These findings confirm that the relationships illustration infrastructure, health, labor markets, market size, and institutions in influencing ICT adoption are complex and interrelated.

The findings of this study confirm the importance of infrastructure as the most significant factor in driving ICT adoption. The presence of 4G networks and broadband services remains the main prerequisite to ensure the quality and speed of digital access, so that internet adoption can be more evenly distributed in society. This is in line with studies showing that the development of digital infrastructure directly contributes to accelerating internet penetration and increasing productivity in ASAEAN⁴⁰². Adequate infrastructure not only allows for an increase in the number of users, but also expands the scope of ICT-based services in the education, health, and business sectors ⁴⁰³. However, the results showing the negative influence of market size on ICT adoption reveal an important paradox. Countries with large populations or large markets often face the challenge of infrastructure distribution gaps, resulting in uneven internet penetration. A cross-country

³⁹⁸ Mroccka and Pacifico, "Comparative Assessment of Activation Requirements for Unemployment and Minimum Income Benefit Recipients."

³⁹⁹ Mora-Rivera and García-Mora, "Internet Access and Poverty Reduction: Evidence from Rural and Urban Mexico."

⁴⁰⁰ Gutiérrez-Romero and Ahamed, "COVID-19 Response Needs to Broaden Financial Inclusion to Curb the Rise in Poverty."

⁴⁰¹ Chen, "Tax Enforcement Interactions among Chinese Provinces: A Frontier and Spatial Analysis."

⁴⁰² Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴⁰³ Khatri et al., "Integration of ICT in Agricultural Extension Services: A Review."

study ⁴⁰⁴ found that large market sizes without network equity actually deepen the digital divide illustration regions. A similar point is shown by Olanrewaju et al. ⁴⁰⁵ who emphasize that the success of digital transformation is not determined by market scale alone, but rather by the efficiency of infrastructure distribution and supporting policies.

Empirically, these findings strengthen the argument that ICT adoption is more determined by the quality and equitable distribution of infrastructure than by population size or market size. For illustration, research ⁴⁰⁶ shows that countries with small markets but dense infrastructure often have higher digital penetration than countries with large populations with limited-service distribution. Meanwhile, ⁴⁰⁷ assert that high-speed broadband is a key enabler of cross-sector digital adoption, more crucial than macro indicators such as market size. The findings also relate to the literature on the digital divide that highlights access inequality as a major obstacle in global digital transformation. For illustration, ⁴⁰⁸ shows that while large markets provide more potential users, the unbalanced distribution of infrastructure widens the digital divide. The relevance of these findings is to emphasize that digital transformation is not a direct function of the size of the market, but rather of how ICT infrastructure is built, distributed, and accessed equally by the community. Countries that want to accelerate ICT adoption need to emphasize the equitable distribution of broadband infrastructure and mobile networks, rather than relying solely on large market potential as a key factor in the success of digitalization.

The practical and theoretical implications of this study confirm that the success of digital transformation is highly dependent on a combination of infrastructure readiness and other structural factors such as health and labor market dynamics. In practical terms, these results reinforce the urgency of policies emphasizing the development of equitable broadband infrastructure and 4G networks, as empirical evidence shows a direct link illustration the quality of digital infrastructure and increased ICT adoption ⁴⁰⁹. Infrastructure inequality is often a barrier despite the large market size, so policies should place more emphasis on equitable distribution of services, not just on capacity expansion

⁴⁰⁴ Busquet, Bosma, and Hummels, "A Multidimensional Perspective on Child Labor in the Value Chain: The Case of the Cocoa Value Chain in West Africa."

⁴⁰⁵ Mora Cortez, Johnston, and Ghosh Dastidar, "Managing the Content of LinkedIn Posts: Influence on B2B Customer Engagement and Sales?"

⁴⁰⁶ González-Rodríguez, Díaz-Fernández, and Pacheco Gómez, "Facial-Expression Recognition: An Emergent Approach to the Measurement of Tourist Satisfaction through Emotions."

⁴⁰⁷ Putri et al., "Digital Economy Growth in Singapore and Thailand Due to the Post-COVID-19 Pandemic."

⁴⁰⁸ Nchofoung and Asongu, "ICT for Sustainable Development: Global Comparative Evidence of Globalisation Thresholds."

⁴⁰⁹ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

⁴¹⁰. From a healthcare perspective, the use of digital services such as telemedicine is driving ICT adoption by expanding people's access to technology-based public services ⁴¹¹, while an adaptive labor market increases the need for digital competencies ⁴¹².

Theoretically, the findings of this study strengthen and expand technology adoption models such as the TAM and the UTAUT, as external factors such as infrastructure, economic stability, and workforce dynamics have been shown to influence ICT acceptance beyond the psychological variables that are usually the focus ⁴¹³. This research is also in line with diffusion theory of innovations which emphasizes the role of the social environment and institutional policies in accelerating the diffusion of technology ⁴¹⁴. Thus, this study confirms that the ICT adoption model needs to be enriched with a structural perspective, since the success of digital transformation is not only determined by individual factors, but also macro conditions that include regulatory aspects, infrastructure distribution, and socio-economic readiness^{415 416}. Overall, the contribution of this research is two-fold: first, it provides a strong empirical basis for policymakers in formulating inclusive digital development strategies; Second, enriching the academic literature by emphasizing the interaction illustration structural factors and technology adoption theories, so that its academic and practical relevance can go hand in hand in supporting the global digital transformation agenda.

⁴¹⁰ Dehmel et al., "Insights from Equitable Governance Assessments in Conservation Areas around the World."

⁴¹¹ Ohannessian, Duong, and Odone, "Global Telemedicine Implementation and Integration Within Health Systems to Fight the COVID-19 Pandemic: A Call to Action."

⁴¹² Forliano, De Bernardi, and Yahiaoui, "Entrepreneurial Universities: A Bibliometric Analysis within the Business and Management Domains."

⁴¹³ Balkrishna et al., "A Comprehensive Analysis of the Advances in Indian Digital Agricultural Architecture."

⁴¹⁴ Wang et al., "Will Researching Digital Technology Really Empower Green Development?"

⁴¹⁵ Wilson, "Public Engagement and AI: A Values Analysis of National Strategies."

⁴¹⁶ Hlee et al., "Fake Reviews or Not: Exploring the Relationship between Time Trend and Online Restaurant Reviews."

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CHAPTER 5

MACROECONOMIC STABILITY: THE STRATEGIC CORNERSTONE OF DIGITAL AND INNOVATIVE ECOSYSTEMS

Yanter Hutapea • Askalani

The rapid development of digital technology has brought fundamental changes in various aspects of economic, social, and government life. Digital transformation is not only about technology adoption, but also related to a country's ability to build a sustainable innovation ecosystem. In this context, macroeconomic stability occupies a central position as the foundation that allows the transformation process to take place effectively. Stable macroeconomic conditions provide certainty for the business world to invest, for people to increase productivity through technology, and for governments to design long-term oriented development policies. Macroeconomic stability itself can be reflected in several key indicators, such as controlled inflation, adequate regional fiscal capacity, consistent economic growth, low unemployment, maintained food security, and investment use efficiency reflected in the value of Incremental Capital Output Ratio (ICOR). This stability creates a climate of trust that is urgently needed for the acceleration of digital technology adoption. However, macro stability does not necessarily guarantee increased innovation capabilities. In some conditions, too high a degree of regularity can actually weaken the motivation to experiment, conduct research, or take risks in creating new breakthroughs.

Therefore, the role of macro stability must be understood strategically. It is not only about maintaining economic balance, but also about strengthening institutions and building infrastructure that supports digital transformation and innovation. Thus, macro stability can serve as an enabler that paves the way for technology-based growth and innovation, provided it is integrated with adaptive institutional policies and long-term investment in infrastructure development. Through this framework, macroeconomic stability can be converted from just a condition of economic balance to an instrument that drives digital transformation and the strengthening of sustainable innovative ecosystems.

5.1. The Relationship of macroeconomic stability with the Digital Ecosystem and Innovation

Macroeconomic stability serves as the main foundation in driving digital transformation and innovation. According to endogenous growth theory, the accumulation of knowledge, human capital, and investment in research and development are the main drivers of modern growth ⁴¹⁷. Within this framework, macro stability provides certainty for economic actors to invest in long-term risky assets, including digital infrastructure and innovative activities, which is in line with the view that a conducive macro climate can strengthen the process of technology

⁴¹⁷ Bo, "Digital New Quality Productive Forces: The Key Driver of High-Quality and Sustainable Growth in the Global Economy."

diffusion and Information and Communication Technology (ICT) adoption ⁴¹⁸. However, overly rigid stability can have a paradoxical effect. The literature shows that overly controlled macro conditions often reduce the incentive to experiment and take innovative risks ⁴¹⁹. This is consistent with the finding that innovation often arises in the context of uncertainty or when institutions make room for measurable experimentation ⁴²⁰. Therefore, macro stability must be understood not only as an economic end-state, but as a basic condition that needs to be combined with institutional policies and infrastructure development to produce a sustainable innovation ecosystem. In the context of digitalization, recent studies confirm that macro stability affects the level of technology adoption through the role of institutions and infrastructure. Thus, macroeconomic stability can be seen as a necessary condition for digital transformation, but not a sufficient condition for innovation. Its effectiveness is largely determined by the extent to which the state can convert this stability into investment in adaptive institutions and inclusive infrastructure. Research shows that global innovation factors play a role in shaping the international economic environment that influences the development of business and the world economy⁴²¹. Digital readiness and innovative leadership in G20 countries have been proven to strengthen technology-based competitiveness and innovation ⁴²². In addition, the development of fintech in the ASEAN-4 region is influenced by financial access and technological readiness that acts as a mediator in building a sustainable ecosystem ⁴²³. In Africa, digitalization has been proven to expand financial inclusion, lower transaction costs, and encourage the development of new financial products, with the support of infrastructure and institutional quality as determining factors ⁴²⁴.

The discuss macroeconomic stability as the foundation of digital transformation and innovation in this chapter is strengthened through a quantitative approach based on path analysis and structural equation modeling (SEM). This method was chosen because it can explain the direct and indirect relationship among variables and measure the role of institutional and infrastructure mediation. Previous research has shown that fintech development in ASEAN-4 is influenced by macroeconomic indicators, technological readiness, and financial access, where SEM helps uncover the mediating role among these variables ⁴²⁵. SEM-based analysis also found that ICT access can mediate the relationship among financial systems and inclusive growth in more than 130 countries ⁴²⁶. In the context of global competition, ICT adoption has proven to

⁴¹⁸ Barrane, Karuranga, and Poulin, "Technology Adoption and Diffusion: A New Application of the UTAUT Model."

⁴¹⁹ Burlamaqui, "Finance, Development and the Chinese Entrepreneurial State: A Schumpeter- Keynes - Minsky Approach."

⁴²⁰ Prasetyo et al., "Interaction of Internal and External Organizations in Encouraging Community Innovation."

⁴²¹ Kokorina, "ANALYSIS OF GLOBAL INNOVATION ENVIRONMENTAL FACTORS OF INTERNATIONAL BUSINESS AND ECONOMIES."

⁴²² Cahyadi and Magda, "Digital Leadership in the Economies of the G20 Countries: A Secondary Research."

⁴²³ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴²⁴ Adam et al., "Does Digitisation Determine Financial Development? Empirical Evidence from Africa."

⁴²⁵ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴²⁶ Saeed, "Digital Transformation in Governmental Public Service Provision and Usable Security Perception in Saudi Arabia."

be a strong predictor of business dynamics, labor markets, and competitiveness in Latin America and Europe (Bacca-Acosta, 2023). Public institutional factors also have an important role: research in the European Union shows that effective governance, supported by the adoption of digital technologies, contributes to the increase in institutional capacity through SEM (Crăciun, 2023). At the transportation and logistics level, SEM is used to examine the contribution of political, infrastructure, and technological factors to sustainability, demonstrating the close relationship among economic dynamics and digital infrastructure development⁴²⁷. Furthermore, research across 32 European countries confirms that digitalization, ICT trade, and technological advancement are significant driving factors for globalization through the PLS-SEM approach⁴²⁸. Meanwhile, a cross-country study shows that the quality of public governance strengthens economic, social, and environmental development, with SEM affirming the conversion path of macro stability toward sustainable development⁴²⁹. The validity of the quantitative model is demonstrated through the high R^2 value, confirming that macroeconomic stability is not only a supporting factor, but a structural foundation that determines the direction of digital transformation and innovation.

5.2. The Role of macroeconomic stability as the Foundation for Digital Transformation and Innovation

This sub-chapter discusses the role of macroeconomic stability as the main foundation in driving digital transformation and innovation. Maintained economic stability creates certainty for business actors, communities, and governments to invest in digital technology and strengthen institutions and infrastructure that support development. However, macro stability does not always have a direct impact on improving innovation capabilities, because under conditions that are too stable, the drive to conduct experiments and research can weaken. Therefore, macro stability needs to be understood not only as a controlled economic condition through indicators such as inflation, regional fiscal capacity, economic growth, open unemployment rate, food security index, and ICOR value, but also as a strategic foundation that must be integrated with institutional policies and infrastructure development to encourage ICT adoption while strengthening the innovation ecosystem in a sustainable manner.

The results of the estimation show that macroeconomic stability has a significant but different influence on the two aspects of development (table 1.). On the one hand, macro stability has a positive and significant effect on ICT adoption ($\beta = 0.384$; 95% CI: 0.163–0.605; $p < 0.001$), emphasized that stable macro conditions encourage the use of digital technology by society and institutions. This is consistent with the finding that fintech development in ASEAN-4 is strongly influenced by macroeconomic indicators, financial access, and technological

⁴²⁷ Tshibangu and Thembane, “Integrating AI in STEM Education in Africa: A Systematic Review of Best Practices and Perspectives.”

⁴²⁸ Petkovski, Fedajev, and Mihajlović, “Technology-Based Factors Of Globalization In Market And Transition Economies. Is There A Difference?”

⁴²⁹ Cavalheiro et al., “Governance, Development, and Environment: Pathways to a Sustainable Future.”

readiness through the mediation role tested with SEM ⁴³⁰. In Europe and Latin America, ICT adoption has also proven to be a strong predictor of business dynamics, workforce skills, and economic competitiveness ⁴³¹. Furthermore, research across 132 countries confirms that ICT access mediates the relationship among the financial system and inclusive growth, thereby strengthening the conversion path of macro stability to technology-based development ⁴³².

Table 5.1. Direct effects Mediation Analysis Macro Stable

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Macroeconomic Stability	→	ICT adoption	0.384	0.113	3.402	6.69E-04	0.163	0.605
Macroeconomic Stability	→	Innovation Capability	-0.244	0.113	-2.159	0.031	-0.466	-0.023

However, on the other hand, macro stability actually shows a significant negative relationship with innovation capabilities ($\beta = -0.244$; 95% CI: $-0.466 - -0.023$; $p = 0.031$). These findings are consistent with evidence that short-term stability orientations often distract governments from research and development investments. Research in 32 European countries, for Illustration, shows that digitalization and ICT trade drive globalization, but advances in science and technology have a diverse impact on innovative development ⁴³³. Other studies emphasize that strong public governance, when combined with digital transformation, can improve the effectiveness of regulations and institutional innovation ⁴³⁴. Similar results are also seen in the European Union, where ICT progress is positively correlated with economic growth, but new technological innovations such as AI require the acceleration of human capital development can translate into long-term innovation capabilities ⁴³⁵. Transportation research shows that the apply technology strengthens the social and environmental dimension more than the economic dimension, indicating a limited direct effect on economic innovation ⁴³⁶. Studies across 149 countries show that macro stability combined with the quality of public governance can improve economic, social, and environmental development, but the achievement of innovation remains highly dependent on institutional capacity and the direction of public policy (Cavalheiro, 2025). These findings confirm that macroeconomic stability is an important

⁴³⁰ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴³¹ Kamal et al., "Implications of Tahura Pocut Meurah Intan Deforestation on Plant Diversity for Bucerotidae Bird Feed in Aceh Province."

⁴³² Saeed, "Digital Transformation in Governmental Public Service Provision and Usable Security Perception in Saudi Arabia."

⁴³³ Petkovski, Fedajev, and Mihajlović, "Technology-Based Factors Of Globalization In Market And Transition Economies. Is There A Difference?"

⁴³⁴ Zhang, Wu, and Wang, "Environmental Governance Innovation and Corporate Sustainable Performance in Emerging Markets: A Study of the Green Technology Innovation Driving Effect of China's New Environmental Protection Laws."

⁴³⁵ Khabir et al., "A Strategic Pathway to Green Digital Shipping."

⁴³⁶ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

foundation for ICT adoption, but it does not necessarily guarantee strengthening innovation capabilities.

As a construct, macroeconomic stability can be seen through six main indicators, namely inflation, regional fiscal capacity, economic growth, open unemployment rate, food security index, and ICOR/investment efficiency value. Controlled inflation maintains people's purchasing power, regional fiscal capacity reflects the government's ability to sustain development, sustainable economic growth indicates the expand productive activities, open unemployment indicates the balance of the labor market, food security is the foundation of socio-economic stability, while ICOR represents investment efficiency for growth. Agricultural efficiency and structural transformation are proving to be the basis of economic productivity in developing countries ⁴³⁷. China's experience shows that political and economic stability play an important role in overcoming the middle-income trap through fiscal policies and productivity-based industrialization ⁴³⁸, which are then systematically documented in contemporary economic dictionaries as a global reference ⁴³⁹. In the context of international relations, trade and investment are factors that strengthen the fiscal capacity of developing countries, as seen in China's influence in the Caribbean region ⁴⁴⁰. In addition, the dimension of food security is also an important instrument of stability, which is shown in the history of global food transformation through international institutions such as FAO and IFAD ⁴⁴¹. Contemporary studies of Portugal show that economic sustainability is largely determined by fiscal management, labor markets, and institutional capacity ⁴⁴². Meanwhile, the literature on global risks confirms that inefficient investments (high ICOR) accelerate the risk of socio-economic collapse, so investment efficiency should be the focus of sustainable development ⁴⁴³. Thus, six key indicators of macro stability complement each other as the foundation of digital transformation and innovation. However, without a specific strategy, these stable conditions have the potential to only maintain short-term equilibrium without optimizing innovation-based growth potential.

The results of the estimates show that macroeconomic stability plays a significant role not only through institutional and infrastructural pathways in driving ICT adoption and innovation capabilities (Table 2.). Empirical studies confirm that digitalization can increase financial inclusion and encourage the development of new services if supported by adequate institutional quality and infrastructure ⁴⁴⁴. The SEM-based quantitative approach also shows that technological readiness and financial access are important mediators in strengthening the digital

⁴³⁷ Wu et al., "Change and Tradeoff/Synergy Analysis of Watershed Ecosystem Services: A Case Study of Qinghai Lake Basin."

⁴³⁸ Wang et al., "The Impact of New Digital Infrastructure on Green Total Factor Productivity."

⁴³⁹ Williams, "Digital Business Innovation and Financial Inclusion: Panacea to Nigeria's Economic Growth."

⁴⁴⁰ Dannhauser and Hoseinzade, "The Unintended Consequences of Corporate Bond ETFs: Evidence from the Taper Tantrum."

⁴⁴¹ Codogno and Galli, *Meritocracy, Growth, and Lessons from Italy's Economic Decline*.

⁴⁴² Hasana, Swain, and George, "MANAGEMENT OF ECOLOGICAL RESOURCES FOR SUSTAINABLE TOURISM: A SYSTEMATIC REVIEW ON COMMUNITY PARTICIPATION IN ECOTOURISM LITERATURE."

⁴⁴³ Samiyeva, Koichubayev, and Tolysbaev, "Assessment of Logistics Efficiency and Value of Supply Chains on the Way of the New Silk Road Countries in the Context of the 'Belt - Road' Megaproject."

⁴⁴⁴ Putriani, Ghani, and Kartiwi, "EXPLORATION OF AGENT-BASED SIMULATION: THE MULTIPLIER EFFECT OF ZAKAH ON ECONOMIC GROWTH."

ecosystem, especially in developing countries ⁴⁴⁵. In addition, the selection of industrial locations and production facilities that consider the linkages among economic and institutional factors is the key to the sustainability of the global supply chain ⁴⁴⁶.

Table 5.2. Indirect effects Mediation Analysis Macro Stable

									95% Confidence Interval	
					Std. estimate	Std. error	z-value	p	Lower	Upper
Macroeconomic Stability	→	Institutions	→	ICT adoption	0.208	0.071	2.951	0.003	0.07	0.346
Macroeconomic Stability	→	Infrastructure	→	ICT adoption	0.132	0.066	1.997	0.046	0.002	0.262
Macroeconomic Stability	→	Institutions	→	Innovation Capability	0.195	0.073	2.678	0.007	0.052	0.338
Macroeconomic Stability	→	Infrastructure	→	Innovation Capability	0.423	0.108	3.915	9.05E-05	0.211	0.635

Cross-regional analysis found that ICT adoption contributes greatly to business dynamism, strengthening of the labor market, and international competitiveness, confirming the important role of digital infrastructure in economic development ⁴⁴⁷. Furthermore, ICT access has been shown to mediate the relationship among the financial system and inclusive growth, showing that macro stability needs to be converted through digital channels to produce equitable development ⁴⁴⁸. Recent research in Europe shows that the disparity in cloud adoption readiness reflects structural differences in national digital capacity, where the quality of infrastructure and institutions is a major differentiating factor ⁴⁴⁹. In Sub-Saharan Africa, digital transformation itself has not sufficiently increased productivity, unless it is strengthened by the quality of institutions, health systems, and innovation capacity ⁴⁵⁰. Institutional and infrastructure pathways are proving to be key mediators that transform macro stability from mere economic conditions to catalysts for technology-based development and sustainable innovation.

As a conceptual framework, macroeconomic stability is reflected in six key indicators: inflation, regional fiscal capacity, economic growth, open unemployment rate, food security index, and ICOR/investment efficiency value. Controlled inflation and consistent economic growth maintain the business climate, fiscal capacity strengthens budget support, and low unemployment and high food security increase social stability. Meanwhile, the efficient value of

⁴⁴⁵ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴⁴⁶ Huang et al., "Location Selection of a Manufacturing Facility from the Perspective of Supply Chain Sustainability."

⁴⁴⁷ Kamal et al., "Implications of Tahura Pocut Meurah Intan Deforestation on Plant Diversity for Bucerotidae Bird Feed in Aceh Province."

⁴⁴⁸ Saeed, "Digital Transformation in Governmental Public Service Provision and Usable Security Perception in Saudi Arabia."

⁴⁴⁹ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

⁴⁵⁰ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

ICOR reflects a productive investment. The international literature confirms that structural transformation in the economy can only be achieved when total factor productivity is supported by macro stability and adequate fiscal capacity ⁴⁵¹. In addition, the role of food security as part of socio-economic stability is affirmed in a global review of the development transition, where the success of development is strongly influenced by the stability of food production and distribution ⁴⁵². The cross-country study highlights that macroeconomic stability forms the foundation that allows the country to strengthen its social and institutional infrastructure, for illustration in the context of Portugal's development in the 21st century ⁴⁵³. In a broader context, China's contemporary economic framework shows how inflation control and fiscal management are the basis for strengthening institutions and driving the development of digital technologies ⁴⁵⁴. Macro stability is not only the result of controlling economic variables, but is the main foundation that strengthens institutions and infrastructure, ultimately driving both the adoption of ICT and the development of innovation capabilities in a more sustainable manner.

The total effect results show that macroeconomic stability has a very strong influence on technology-based development and innovation (Table 5.3.). Overall, macro stability had a positive and significant effect on ICT adoption ($\beta = 0.724$; 95% CI: 0.572–0.875; $p < 0.001$), emphasized that maintained economic conditions are able to encourage the wider use of digital technology. In addition, macro stability also contributes positively to innovation capability ($\beta = 0.374$; 95% CI: 0.101–0.648; $p = 0.007$), which means that although direct relationships tend to be negative, indirect effects through institutions and infrastructure reinforce the role of macro stability in building innovative ecosystems. Thus, economic stability can be understood as a conceptual framework that binds fundamental indicators with tangible results in the form of digital transformation and strengthening innovation.

Table 5.3. Total effects Mediation Analysis Macro Stable

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Macroeconomic Stability	→	ICT adoption	0.724	0.077	9.372	0	0.572	0.875
Macroeconomic Stability	→	Innovation Capability	0.374	0.139	2.684	0.007	0.101	0.648

The findings on the importance of integrating macro, institutional, and infrastructure policies to drive digital innovation are reinforced by the convergence of empirical evidence from various geographical and sectoral contexts. The current literature consistently underlines that

⁴⁵¹ Wu et al., “Change and Tradeoff/Synergy Analysis of Watershed Ecosystem Services: A Case Study of Qinghai Lake Basin.”

⁴⁵² Bemelmans and Maertens, “Implementation and Effectiveness of Corporate-Driven Smallholder Cocoa Certification Schemes in Indonesia.”

⁴⁵³ Hasana, Swain, and George, “MANAGEMENT OF ECOLOGICAL RESOURCES FOR SUSTAINABLE TOURISM: A SYSTEMATIC REVIEW ON COMMUNITY PARTICIPATION IN ECOTOURISM LITERATURE.”

⁴⁵⁴ Hübner, *Religion and Cooperative Economics*.

the effectiveness of digitalization is highly dependent on the readiness of its supporting ecosystems. In the African continent, for Illustration, digitalization has proven to be a significant accelerator for financial sector inclusion and development ⁴⁵⁵, but its impact in increasing productivity in aggregate does not occur automatically. On the contrary, the effectiveness of digital transformation is highly moderated by the quality of institutions, endogenous innovation capacity, and even the strength of the health system as fundamental prerequisites ⁴⁵⁶. In other regions such as ASEAN, the role of institutional quality and infrastructure readiness is no longer just a supporting factor, but has been identified as a key determinant that causally affects innovation growth, as validated through SEM. Furthermore, on a global scale, the role of technology as a crucial mediator in development has become very clear, where access to technology serves as a bridge to achieve more inclusive growth. Even at a more micro level from a supply chain perspective, a corporation's strategic decisions oriented toward investment efficiency are found to be closely related to the resilience of sustainable development ⁴⁵⁷, indicating that these principles of efficiency and structural readiness apply fractally from the macroeconomic level to the Corporation's operational decisions. Collectively, these studies provide strong empirical validation that digitalization is not a single solution, but rather a potential whose realization relies heavily on institutional foundations and solid infrastructure.

Table 5.4. Total indirect effects Mediation Analysis Macro Stable

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Macroeconomic Stability	→	ICT adoption	0.34	0.086	3.953	7.73E-05	0.171	0.509
Macroeconomic Stability	→	Innovation Capability	0.618	0.128	4.839	1.30E-06	0.368	0.869

The results of the estimated total indirect effects show that macroeconomic stability plays an important role as a driver of digital transformation and innovation capabilities through mediation (table 5.4.). Macro stability has a positive and significant indirect influence on the adoption of ICT ($\beta = 0.340$; 95% CI: 0.171–0.509; $p < 0.001$), indicates that strong institutions and adequate infrastructure are crucial channels in accelerating the use of digital technology. Furthermore, the indirect influence of macro stability on innovation capabilities was even stronger ($\beta = 0.618$; 95% CI: 0.368–0.869; $p < 0.001$), confirms that stable macroeconomic conditions are able to create a robust innovation ecosystem when supported by an effective institutional framework and reliable digital infrastructure. These findings suggest that while economic stability may not always drive innovation directly, its indirect effects through the mediation of institutions and infrastructure are a key lever in innovation-based development. Support for these findings is strengthened by some recent international literature: the

⁴⁵⁵ Khatri et al., "Integration of ICT in Agricultural Extension Services: A Review."

⁴⁵⁶ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

⁴⁵⁷ Huang et al., "Location Selection of a Manufacturing Facility from the Perspective of Supply Chain Sustainability."

development of fintech in ASEAN is proven to depend on the mediation of financial access and technological readiness, where macro stability is an important foundation ⁴⁵⁸; ICT adoption significantly increases business competitiveness in Latin America and Europe, with macro stability as a supporting pillar ⁴⁵⁹; while the analysis of cloud adoption in the European Union emphasizes the importance of structural and institutional readiness in accelerating digital transformation ⁴⁶⁰. Education has also been proven to play a mediator among digitalization and economic growth, showing that institutional factors such as the quality of the education system greatly determine the effectiveness of macroeconomic impacts ⁴⁶¹. In addition, the growth of global fintech is influenced by a combination of macroeconomic, demographic, technological, and especially institutional factors, which affirm the importance of institutional infrastructure ⁴⁶². ICT access has been proven to mediate the relationship among the depth of the financial system and inclusive growth in 132 countries ⁴⁶³, while the development of ICT infrastructure is also strengthening the impact of sentiment on the financial performance of the banking sector through the adoption of AI/ML ⁴⁶⁴. Studies on science- and technology-based financial ecosystems show that proper institutional design is a determinant of the effectiveness of innovation transformation ⁴⁶⁵. These empirical findings show that macroeconomic stability, while indirect, is a strategic foundation that strengthens digital transformation and innovation capabilities through improving the quality of institutions and infrastructure.

Macroeconomic Stability can be understood as an analytical framework that is reflected in six key indicators: inflation, regional fiscal capacity, economic growth, open unemployment rate, food security index, and ICOR/investment efficiency value. Controlled inflation maintains price certainty, fiscal capacity strengthens development support, consistent economic growth is the engine of productivity, low unemployment indicates a healthy labor market, food security supports socio-economic stability, while ICOR efficiency ensures investment produces optimal growth. Thus, strong macro stability serves not only as an economic foundation, but also as an effective indirect mechanism in accelerating ICT adoption and strengthening innovation capabilities. The literature supports this, for Illustration the transformation of agricultural productivity into a basis for industrialization and inclusive development ⁴⁶⁶. China's economic development perspective shows the importance of fiscal capacity and investment efficiency in

⁴⁵⁸ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴⁵⁹ Kamal et al., "Implications of Tahura Pocut Meurah Intan Deforestation on Plant Diversity for Bucerotidae Bird Feed in Aceh Province."

⁴⁶⁰ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

⁴⁶¹ Baafi, Asiedu, and Kumah, "Bridging the Digital Divide: The Role of Educational Interventions in Enhancing Economic Growth in Ghana."

⁴⁶² Cevik, "Prometheus Unbound: What Makes Fintech Grow?"

⁴⁶³ Saeed, "Digital Transformation in Governmental Public Service Provision and Usable Security Perception in Saudi Arabia."

⁴⁶⁴ Ali and Aysan, "Decoding Digital Signals: AI Sentiment and Financial Performance at Islamic Banks."

⁴⁶⁵ Junfang and Mu, "Construction of Sci-Tech Financial Ecosystem Indicators and International Comparative Research."

⁴⁶⁶ Wu et al., "Change and Tradeoff/Synergy Analysis of Watershed Ecosystem Services: A Case Study of Qinghai Lake Basin."

underpinning macro stability ⁴⁶⁷. By referring to these indicators, it becomes increasingly clear that macroeconomic stability is not only maintaining a short-term balance, but is also a key lever in driving digital transformation and sustainable innovation capabilities.

The residual results of covariances show that the relationship among institutions and infrastructure, as well as among ICT adoption and innovation capabilities, is not significant, indicating that the main influence on digital transformation and innovation development does not come from residual correlations or direct relationships among these variables, but is predominantly determined by macroeconomic stability. These findings confirm that macro stability is not just an economic background, but is a more decisive fundamental foundation in building a country's digital and innovative capacity, outperforming the effects of residual interactions among elements of the development system. This interpretation is supported by some international literatures: digitalization in Africa has been shown to drive financial development significantly only when it is supported by strong institutional and infrastructure quality, with macro stability as a key prerequisite ⁴⁶⁸; fintech analysis in ASEAN also shows that macroeconomic indicators and technological readiness play a key role as the main mediators in the adoption of innovation ⁴⁶⁹. The supply chain relocation model emphasizes the need to consider systemic interdependencies among factors, which are parallel to the importance of macro stability as a structural support, not just a momentary correlation ⁴⁷⁰. A study of business competition in Europe and Latin America found that although ICT adoption affects business dynamics, the effect is only optimal in a stable macroeconomic context ⁴⁷¹, while ICT access has proven to be an important mediator among financial systems and inclusive growth in 132 countries, rather than simply the result of residual correlations ⁴⁷². In addition, cloud adoption in the European Union suggest that national structural readiness is far more crucial than partial correlations among digital elements ⁴⁷³. In Sub-Saharan Africa, the quality of institutions and innovation capacity have been shown to strengthen the impact of digitalization on productivity, which again reaffirms the central role of robust macro and institutional stability ⁴⁷⁴. Overall, these findings and empirical evidence show that the success of digital transformation and innovation depends more on strong macroeconomic foundations, rather than on residual correlation among system components (Table 5.5.). The macroeconomic stability construct includes six main interrelated indicators: inflation, regional fiscal capacity, economic growth, open unemployment rate, food security index, and ICOR or investment efficiency. Controlled inflation provides

⁴⁶⁷ Hübner, *Religion and Cooperative Economics*.

⁴⁶⁸ Adam et al., "Does Digitisation Determine Financial Development? Empirical Evidence from Africa."

⁴⁶⁹ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

⁴⁷⁰ Huang et al., "Location Selection of a Manufacturing Facility from the Perspective of Supply Chain Sustainability."

⁴⁷¹ Bacca-Acosta et al., "The Impact of Digital Technologies on Business Competitiveness: A Comparison between Latin America and Europe."

⁴⁷² Saeed and Klugah, "Driving Inclusive Growth through Financial Systems and Technology Adoption: A Global Analysis of Synergistic Pathways Using Structural Equation Modeling."

⁴⁷³ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

⁴⁷⁴ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

certainty for price stability and fosters confidence among economic actors, while regional fiscal capacity reflects the government's ability to finance sustainable development. Stable economic growth is an indicator of the expand productive activities, while the low open unemployment rate illustrates the health of the labor market and the equitable distribution of employment opportunities. The food security index acts as a buffer for socio-economic stability by ensuring people's access to safe and affordable food, while the high efficiency of ICOR indicates that investment can generate optimal output growth.

Table 5.5. Residual covariances

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	↔	Infrastructure	0.214	0.155	1.385	0.166	-0.089	0.518
ICT adoption	↔	Innovation Capability	0.203	0.156	1.304	0.192	-0.102	0.508

Although the results of residual covariances show that the direct relationship among variables such as institutions, infrastructure, ICT adoption, and innovation capabilities is not significant, macroeconomic stability remains a key driver and crucial foundation for the sustainability of digital transformation and innovation development. These findings are reinforced by some international literature: productivity growth in the agricultural sector is proving to be the key to structural transformation toward industrialization, which confirms the importance of investment efficiency and production capacity in driving inclusive growth ⁴⁷⁵. The Dictionary of Contemporary Chinese Economics highlights the role of development theory, macro stability, and fiscal policy in maintaining long-term economic growth ⁴⁷⁶, while the investment relationship among China and the Caribbean shows how macroeconomic stability supports global integration and innovation ⁴⁷⁷. Studies on Portugal confirm that fiscal capacity, unemployment, and economic growth are important pillars in maintaining macro stability, especially in developed countries ⁴⁷⁸. The Food for All book emphasizes food security as a vital component in the framework of macroeconomic stability and sustainable development, particularly in the Asia and Africa region ⁴⁷⁹. In addition, the Welfare and the State study explains how social, fiscal, and inequality reduction policies are important foundations for macroeconomic resilience and stability ⁴⁸⁰. Overall, while the residual relationships among elements of the development system may not be significant, macroeconomic stability remains the root that underpins digital transformation and innovation progress in a holistic and sustainable manner.

⁴⁷⁵ Wu et al., "Change and Tradeoff/Synergy Analysis of Watershed Ecosystem Services: A Case Study of Qinghai Lake Basin."

⁴⁷⁶ Springer Nature, *Dictionary of Contemporary Chinese Economics*.

⁴⁷⁷ Hosein, Tewarie, and Gookool-Bosland, *China in the Caribbean*.

⁴⁷⁸ Monteiro, Silva, and Magalhães, *Portugal in the 21st Century*.

⁴⁷⁹ Lele et al., *Food for All*.

⁴⁸⁰ Various, *Routledge Library Editions: Welfare and the State*.

The results of the path analysis show that macroeconomic stability has a diverse contribution to digital transformation and innovation (table 5.6.). The path analysis conducted reveals the complexity of the relationship among macroeconomic stability and various dimensions of digital transformation and innovation, showing that the impact of macro stability is not monolithic but has a differential effect on various aspects of digital economy development. The first finding was regarding the significant positive effect of macro stability on ICT adoption ($\beta = 0.384$; 95% CI: 0.163–0.605; $p < 0.001$) confirms the hypothesis that a stable economic environment creates conducive conditions for technology investment. Price stability reduces uncertainty in the calculation of technology return on investment, while exchange rate stability facilitates the import of technology devices and software licenses at predictable costs. Fiscal stability provides confidence that tax policies and technology investment incentives will be consistent in the medium-long-term. This transmission mechanism works through reducing risk premiums in technology investment decisions, increasing access to financing for digitalization projects, and strengthening consumer confidence to adopt new digital services.

Table 5.6. Path coefficients

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	→	ICT adoption	0.395	0.105	3.766	1.66E-04	0.189	0.6
Infrastructure	→	ICT adoption	0.237	0.109	2.178	0.029	0.024	0.451
Macroeconomic Stability	→	ICT adoption	0.384	0.113	3.402	6.69E-04	0.163	0.605
Institutions	→	Innovation Capability	0.37	0.105	3.53	4.15E-04	0.165	0.575
Infrastructure	→	Innovation Capability	0.761	0.092	8.31	0	0.581	0.94
Macroeconomic Stability	→	Innovation Capability	-0.244	0.113	2.159	0.031	-0.466	-0.023
Macroeconomic Stability	→	Institutions	0.527	0.117	4.504	6.65E-06	0.298	0.757
Macroeconomic Stability	→	Infrastructure	0.557	0.112	4.971	6.66E-07	0.337	0.776

The second finding revealed a significant negative influence of macro stability on innovation capabilities ($\beta = -0.244$; 95% CI: -0.466 – -0.023; $p = 0.031$) provides important insights into potential trade-offs in economic policy. This paradox can be explained through several mechanisms. First, an excessive focus on short-term stability can create a conservative bias in resource allocation, where high-risk but potentially transformative investments in R&D are avoided to keep macro indicators stable. Second, monetary and fiscal policies that are too tight to maintain stability can reduce the liquidity available to venture capital and startup funding. Third, the risk-averse culture that often accompanies stringent macro stability regimes can inhibit entrepreneurship and experimentation that are at the heart of innovation. Fourth, excessive stability can create complacency and reduce the sense of urgency to carry out disruptive

innovations. These findings emphasize the importance of a balance among stability and dynamism in economic policy.

Significant positive contribution of macro stability to institutional strengthening ($\beta = 0.527$; 95% CI: 0.298–0.757; $p < 0.001$) reflects a symbiotic relationship among economic stability and governance quality. Macro stability creates fiscal and political space for long-term institutional reforms that often require significant upfront investment before generating benefits. A stable economic environment reduces short-term political pressures and allows the government to focus on strengthening the rule of law, increasing transparency, and bureaucratic reform. Instead, strong institutions strengthen macro stability through more effective policy implementation, reduced corruption that erodes public resources, and increased investor confidence. This bidirectional relationship creates a virtuous cycle in which macro stability and institutional quality reinforce each other in the long-term.

Significant positive influence of macro stability on infrastructure development ($\beta = 0.557$; 95% CI: 0.337–0.776; $p < 0.001$) underscores the fundamental role of economic stability in facilitating long-term infrastructure investment. Infrastructure projects, especially digital infrastructure, require large capital expenditure with a long payback period, making them very sensitive to economic uncertainty. Macro stability reduces the cost of capital for infrastructure projects through lowering risk premiums, facilitates public-private partnerships by providing certainty of revenue streams, and enables coherent long-term planning. Digital infrastructure built in the context of macro stability tends to be more sustainable because it is supported by a solid financing model and reliable demand projection. These findings are reinforced by evidence that national competitiveness is highly correlated with the pillars of institutional, infrastructure, and ICT adoption in driving economic growth ⁴⁸¹, as well as studies in Africa that emphasize the role of digitalization in strengthening financial inclusion and economic development ⁴⁸². Digital infrastructure has also proven to be crucial in driving fintech development and economic transformation in the ASEAN region ⁴⁸³. Aspects of supply chain sustainability and the selection of manufacturing locations also show that macro stability and infrastructure play an important role in a corporation's strategic decisions ⁴⁸⁴. Overall, macro stability is the foundation for strengthening governance, infrastructure, and the financial climate that enables digital transformation to run effectively.

Table 5.7. R-Squared

	ICT adoption	Innovation Capability	Institutions	Infrastructure
R ²	0.703	0.723	0.278	0.31

⁴⁸¹ Munifatussaidah et al., “Driving Regional Economy: Digital Technology Adoption’s Role for Effective Distribution of Islamic Social Finance in Indonesia.”

⁴⁸² Okulicz-Kozaryn and R. Valente, “Urban Unhappiness Is Common.”

⁴⁸³ Warokka, Setiawan, and Aqmar, “Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis.”

⁴⁸⁴ Huang et al., “Location Selection of a Manufacturing Facility from the Perspective of Supply Chain Sustainability.”

A comprehensive analysis of the R-Squared (R^2) value in this study reveals significant findings regarding the predictive power of the developed structural model. The R^2 value for the endogenous variable showed moderate to strong categories, with ICT adoption reaching 0.703 and Innovation Capability reaching 0.723. These findings indicate that the model can explain 70.3% variation in ICT adoption and 72.3% variation in innovation capabilities, which is a substantial proportion in the context of empirical research in the field of digital transformation and innovation. The consistency of these findings with the international empirical literature reinforces the external validity of the developed model. ⁴⁸⁵ in his study in the European Union found that the adoption of cloud computing as an integral component of digital transformation resulted in a very high R^2 value of 0.864, signaling the model's very strong predictive ability in explaining digital readiness. ⁴⁸⁶ findings confirm that structural factors such as macroeconomic stability, institutional quality, and availability of digital infrastructure have a decisive role in shaping the digital transformation landscape of a country or region. This high R^2 value in the context of the European Union is understandable given the relatively homogeneous level of institutional maturity and digital infrastructure among member states, so that structural models are able to capture variations with high precision.

In the context of developing countries, ⁴⁸⁷ identifies more complex dynamics in the Sub-Saharan African region, where the quality of institutions and innovation capabilities serve as crucial moderation variables in the relationship among digital transformation and economic productivity. This research underlines that in countries with diverse levels of development, the role of institutions is becoming increasingly critical in facilitating or inhibiting the process of technology adoption. Low institutional quality can create significant structural barriers, even when technological infrastructure is available. Instead, strong institutions can compensate for infrastructure limitations through effective policies and good governance. The mediating role of digital infrastructure and ICT in the complex relationship among technology adoption and organizational performance has been empirically proven ⁴⁸⁸ in the context of financial institutions. This research reveals that digital infrastructure not only serves as a technical enabler, but also as a catalyst for organizational transformation that affects financial performance directly and indirectly. This mediation mechanism explains why investments in digital infrastructure often do not produce a proportionate direct impact, but rather work through complex channels involving business process changes, improved operational efficiency, and product or service innovation. ⁴⁸⁹ broadens the understanding of the impact of digital transformation by exploring how the adoption of digital technology through selective credit schemes can strengthen business sustainability. The use of SEM in this study allows the identification of complex causal pathways among access to finance, technology adoption, and business sustainability. These findings have important policy implications, suggesting that targeted financial interventions can be an effective

⁴⁸⁵ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

⁴⁸⁶ Tudor et al.

⁴⁸⁷ Egbeleo and Sodokin, "Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa."

⁴⁸⁸ Ali and Aysan, "Decoding Digital Signals: AI Sentiment and Financial Performance at Islamic Banks."

⁴⁸⁹ Murwenie, Kartiko, and Avrianto, "Digital Empowerment of MSMEs: Implications of Digital Loans on Business Sustainability Through Selective Credit Schemes."

instrument to accelerate digital transformation, especially in the MSME sector that often faces constraints on access to capital for technology investment.

In the realm of the public sector, ⁴⁹⁰ demonstrates how digital transformation in Europe has changed the landscape of governance and public services. This study uses SEM to uncover the structural relationship among the digitalization of public services, the quality of governance, and the effectiveness of policies. Strong estimates from this model suggest that digital transformation in the public sector is not just the digitization of existing processes, but a fundamental reengineering of the way governments interact with citizens and carry out their administrative functions. Effective digital public services have been shown to increase government transparency, accountability, and responsiveness, which in turn strengthens public trust and institutional legitimacy. A productivity indicator-based prediction model developed in the study shows that countries with strong productive capacity, which often correlates with high levels of technology adoption and innovation, have a better ability to absorb and recover from economic shocks. These findings reinforce the argument that investing in digital transformation and improving innovation capabilities is not just about short-term growth, but also about building a structural foundation for long-term economic stability.

⁴⁹¹ provides more nuances by exploring the heterogeneity of the effects of digital technology on financial performance in the banking sector using SEM-based quantile models. The study revealed that the impact of digitalization is not uniform across the distribution, with banks that already have high performance tend to benefit more from digital investment compared to banks that have low performance. These findings have important implications for digital transformation strategies, suggesting that a one-size-fits-all approach may not be optimal and that digitalization strategies need to be tailored to specific organizational contexts and capacities. The synthesis of these various empirical findings strengthens the validity and relevance of the structural model developed in this study. The high R^2 values for ICT adoption and Innovation Capability are consistent with patterns observed in various geographical and sectoral contexts, suggesting that the combination of macroeconomic stability, institutional quality, and infrastructure availability is indeed a fundamental determinant of digital transformation and innovation capabilities. The consistency across these studies also indicates that although specific contexts may affect the magnitude and mechanism of relationships, the basic structure of relationships remains robust. The theoretical implications of these findings include validation of theories that emphasize the role of complementary assets in technology adoption and innovation. Macroeconomic stability, strong institutions, and adequate infrastructure can be understood as complementary assets that are necessary but not sufficient individually, but when combined create an ecosystem conducive to digital transformation and innovation. From a policy perspective, these findings underscore the importance of a holistic approach in designing national digital transformation strategies, where investment in technology needs to be

⁴⁹⁰ Crăciun et al., “Advanced Modelling of the Interplay between Public Governance and Digital Transformation: New Empirical Evidence from Structural Equation Modelling and Gaussian and Mixed-Markov Graphical Models.”

⁴⁹¹ Manta, Manta, and Gherțescu, “Decoding Digital Synergies: How Mechatronic Systems and Artificial Intelligence Shape Banking Performance Through Quantile-Driven Method of Moments.”

accompanied by institutional strengthening and the development of supporting infrastructure to maximize return on investment and transformational impact.

The analysis of the structural model in this study reveals the complexity of the relationship among macroeconomic stability and the various dimensions of digital economy development (Figure 5.1.). Empirical findings show that the macroeconomic stability (McS) variable has a substantial and significant influence on the formation of strong institutions, with a path coefficient of 0.53. This influence reflects the reality that a stable economic environment creates conditions conducive to the development of effective, transparent, and accountable institutions. Price stability, fiscal balance, and predictability of economic policies provide the necessary foundations for institutions to operate optimally, reduce uncertainty in decision-making, and increase confidence in economic actors in the existing institutional system. The influence of macroeconomic stability on infrastructure development is proven to be stronger with a coefficient of 0.56, indicating that stable macroeconomic conditions are a fundamental prerequisite for long-term infrastructure investment. Economic stability creates an attractive environment for the large capital investment vital in infrastructure development, both through public financing and private sector participation. Economic certainty reduces investment risk and lowers capital costs, allowing for more efficient allocation of resources for strategic infrastructure projects. These findings are in line with the development economics literature that emphasizes the importance of macroeconomic stability as a key enabler of sustainable infrastructure development.

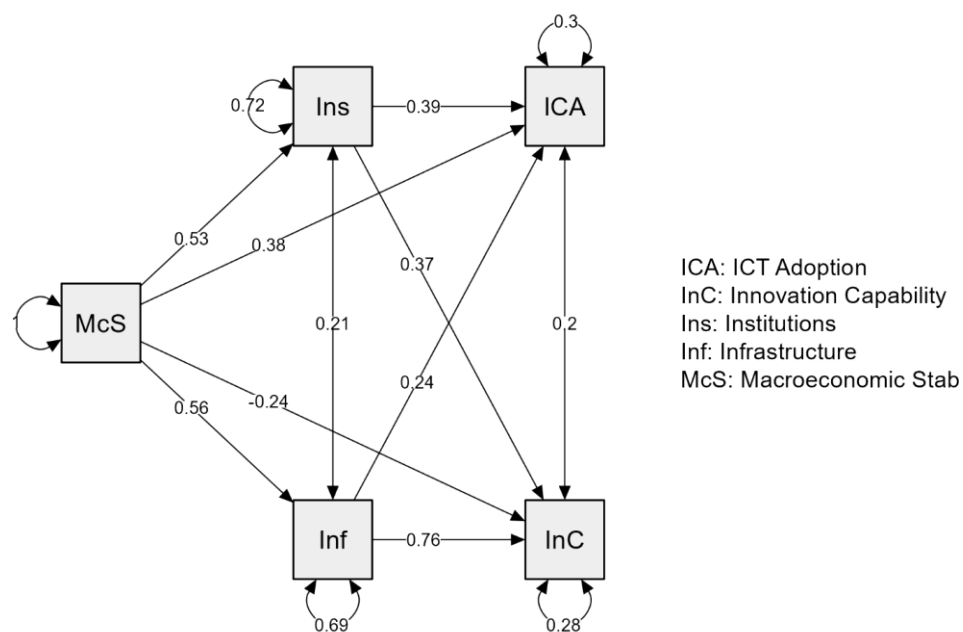


Figure 5.1. Structural model analysis

The direct relationship among macroeconomic stability and the adoption of information and communication technologies showed a positive coefficient of 0.38, confirming the hypothesis that a stable economic environment is driving the acceleration of digital transformation. Economic stability creates more consistent purchasing power, reduces the uncertainty of technology investments, and facilitates long-term planning for companies in

adopting ICT solutions. Nevertheless, a surprising finding emerged in the relationship among macroeconomic stability and innovation capacity, which showed a negative coefficient of -0.24. This paradoxical phenomenon can be explained through the perspective of innovation theory which states that a certain level of uncertainty and competitive pressure can actually spur creativity and innovation. Excessive stability may create comfort zones that reduce incentives to innovate, while more volatile economic dynamics may encourage the search for creative solutions and technological breakthroughs.

The role of institutional mediation in this model proved to be very significant, with an influence on ICT adoption of 0.39 and on innovation capacity of 0.37. Strong institutions create a clear regulatory framework, an effective intellectual property protection system, and reliable contract enforcement mechanisms, all of which are important prerequisites for technology adoption and innovation development. The quality of institutions also affects the effectiveness of technology transfer, knowledge diffusion, and collaboration among the public and private sectors in the innovation ecosystem. These findings confirm the argument of a new institutionalism in development economics that places institutional quality as a key determinant of long-term economic growth. Infrastructure shows a different pattern of influence, with a much stronger impact on innovation capacity (0.76) compared to ICT adoption (0.24). This difference in magnitude indicates that quality physical and digital infrastructure is a fundamental enabler for innovation activities that require high connectivity, access to research resources, and other supporting facilities. Adequate infrastructure facilitates research collaboration, exchange of ideas, and implementation of innovation prototypes. Meanwhile, a more moderate influence on ICT adoption may reflect that technology adoption can occur even with limited infrastructure, although with lower effectiveness.

The high R-Squared values for the two main dependent variables – 0.703 for ICT adoption and 0.723 for Innovation Capability – indicate that this structural model has excellent explanatory power. More than 70% of the variation in ICT adoption and innovation capacity can be explained by a combination of macroeconomic stability, institutional quality, and infrastructure availability. This level of explanatory power indicates that the model has successfully identified the key factors that determine digital transformation and the development of innovation in the context of the development economy. The policy implications of these findings are profound and multidimensional. First, endeavors to achieve macroeconomic stability should not be seen as the ultimate goal, but rather as a foundation for more complex economic development. Second, the direct negative effects of macroeconomic stability on innovation demand special attention from policymakers to ensure that the achievement of stability does not come at the expense of the economic dynamism necessary for innovation. Third, the importance of the role of institutional and infrastructure mediation underscores the need for a holistic approach in economic policy formulation, where investment in institutional strengthening and infrastructure development should be a priority in parallel with macroeconomic stabilization endeavors.

The optimal policy strategy based on these findings is to develop an integrated policy framework that simultaneously pursues macroeconomic stability while proactively strengthening institutions and accelerating infrastructure development. This approach will maximize the

indirect positive effects of macroeconomic stability on innovation through institutional and infrastructure pathways, while mitigating its direct negative effects. Fiscal and monetary policies should be designed not only to achieve short-term stability, but also to support long-term investment in institutional capacity and infrastructure that will be the backbone of the digital and innovative economy of the future.

5.3. Theoretical Dimensions, Indicators, and Implications of macroeconomic stability on Digital Transformation and Innovation

Macroeconomic stability has long been recognized as a fundamental foundation for sustainable economic growth, but in the contemporary era, its role has evolved into a strategic catalyst that facilitates digital transformation and drives national innovation capacity. The theoretical understanding of this complex relationship is rooted in the endogenous growth framework introduced ⁴⁹², which revolutionarily changed the economic paradigm by placing knowledge, research, and technology as endogenous variables in the function of aggregate production. This theory marks a fundamental shift from the traditional neoclassical growth model that treats technological progress as an exogenous factor, toward a more nuanced understanding in which the accumulation of knowledge and innovation is the result of deliberate economic decisions and influenced by market incentives as well as public policies. In parallel with the development of endogenous growth theory, Schumpeterian perspective on innovation provides a more dynamic dimension in understanding the process of economic transformation. Schumpeter conceptualized innovation as a process of "creative destruction" that continuously transforms the economic structure from within, creating new industries while destroying old ones. In the contemporary digital context, this process is accelerating at an unprecedented pace, where digital technologies are not only replacing analog processes but also creating entirely new business models, markets, and forms of value. Macroeconomic stability within this framework serves as a critical enabler that provides a conducive environment for entrepreneurs and innovators to take the calculated risks necessary in the innovation process.

⁴⁹³ in their empirical research extended the endogenous growth model by integrating the institutional dimension, demonstrating that capital accumulation and technological innovation can only reach their full potential when supported by effective institutions. Their findings suggest that institutions serve as coordination mechanisms that reduce transaction costs, protect intellectual property rights, and help the diffusion of knowledge—all critical elements in the modern innovation ecosystem. The strong statistical significance of the institutional variables in their model underscores that institutional quality is not just a supporting factor, but rather a fundamental determinant that distinguishes countries that successfully transform macro stability into innovative growth from those that fail to do so. The sustainability dimension in the context

⁴⁹² Bo, "Digital New Quality Productive Forces: The Key Driver of High-Quality and Sustainable Growth in the Global Economy."

⁴⁹³ Udeogu, Roy-Mukherjee, and Amakom, "Empirical Analysis of An Augmented Schumpeterian Endogenous Growth Model."

of innovation and economic growth received special attention in the study of ⁴⁹⁴ who developed the Green Schumpeterian Model. This model integrates environmental considerations into the traditional Schumpeterian innovation framework, recognizing that green innovation is not just a response to regulatory pressures or consumer preferences, but is a source of competitive advantage and sustainable economic growth. Their research shows that macroeconomic stability combined with the right environmental policies can steer innovation toward solutions that are not only economically profitable but also ecologically sustainable. These findings have profound implications for policy design, suggesting that the traditional trade-offs among economic growth and environmental sustainability can be addressed through targeted innovation.

Digital transformation as a contemporary manifestation of Schumpeterian innovation has been the focus of intensive research, as documented in ⁴⁹⁵. The study identifies digitalization as a key driver of productivity in the modern economy, with effects that go beyond the technology sector to transform traditional industries. The mechanisms by which digital transformation increases productivity include process automation, supply chain optimization through data analytics, personalization of products and services, and the creation of platforms that help the sharing economy. However, the full realization of this productivity potential requires more than just technology adoption; Organizational restructuring, workforce skills development, and business model adaptation are vital—all processes that require macroeconomic stability to provide the necessary planning horizons. ⁴⁹⁶ provides a complementary perspective by exploring the reciprocal relationship among digitalization and the innovation capacity of companies. His research reveals that while digitalization can significantly increase innovation capacity through increased access to information, technology-facilitated collaboration, and faster and cheaper experimentation, the absence of digital transformation can be a bottleneck that hinders innovation even in companies with substantial R&D resources. These findings emphasize the systemic nature of digital transformation, where the full benefits can only be realized when digitalization is holistically integrated into the Corporation's innovation strategy, rather than being treated as a mere technology add-on.

The importance of macroeconomic stability as a prerequisite for long-term planning and investment is underlined ⁴⁹⁷ who developed a comprehensive method for macroeconomic risk assessment and mitigation. Their research shows that macro instability creates uncertainty that hinders not only physical investment but also investment in R&D and human capital—two critical components of innovation capacity. The method they developed allows policymakers to identify systemic vulnerabilities and design targeted interventions to maintain stability while maintaining the flexibility necessary for adaptation and innovation. This approach represents an evolution from traditional macroeconomic management that focuses on price stability and employment to a more sophisticated framework that recognizes the complex interplay among stability, innovation, and long-term growth. Their research identifies multiple channels through

⁴⁹⁴ Zhou, Tian, and Yang, “Schumpeterian Endogenous Growth Model under Green Innovation and Its Enculturation Effect.”

⁴⁹⁵ Audretsch and Belitski, “Geography of Knowledge Collaboration and Innovation in Schumpeterian Firms.”

⁴⁹⁶ Łobejko, “Digital Transformation and Innovativeness of Enterprises.”

⁴⁹⁷ Zolkover and Kovalenko, “EVOLUTION OF THEORIES OF SHADOW ECONOMY FORMATION.”

which digital innovation strengthens economic resilience: increased corporate bargaining power through product differentiation and operational efficiency, improvement of human capital structures through technology-facilitated upskilling and reskilling, and reduction of transaction costs through digital platforms and smart contracts. Particularly significant is their finding that these effects are synergistic, where the combination of different forms of digital innovation results in a greater impact than the sum of parts. This underscores the importance of an ecosystem approach in driving digital transformation, where various stakeholders—government, the private sector, academia, and civil society—collaborate to create an environment conducive to innovation.

This synthesis of various theoretical and empirical perspectives reveals that macroeconomic stability in the digital age serves as more than just an economic shock absorber. It is a fundamental platform that enables productive risk-taking that is essential for innovation, provides the predictability necessary for long-term investment in technology and human capital, and creates confidence that drives experimentation and organizational learning. However, stability alone is not enough; It must be combined with adaptive institutions that can respond quickly to technological change, robust digital infrastructure that lowers barriers to entry for innovators, and policies that actively encourage competition and entrepreneurship. The implications for public policy are profound and multifaceted. Governments need to adopt a more nuanced approach to macroeconomic management that not only focuses on traditional indicators such as inflation and unemployment, but also considers the dynamics of innovation and digital transformation. This may involve difficult trade-offs, such as greater tolerance for short-term creative destruction for the sake of long-term innovative growth, or substantial public investment in digital infrastructure and STEM education that may not yield immediate returns but are critical to future competitiveness. An effective policy framework must be adaptive and forward-looking, able to anticipate and respond to rapid technological changes while maintaining the fundamental stability necessary for healthy economic functioning.

Digital transformation has fundamentally changed the international trade landscape, creating a new paradigm in which export stability no longer depends solely on traditional comparative advantages, but rather on companies' dynamic ability to innovate and adapt in the global digital ecosystem.⁴⁹⁸ in their comprehensive study identified the multidimensional mechanisms by which digitalization contributes to the stability of a corporation's exports. Their findings reveal that digitalization operates through three main mutually reinforcing channels: technological innovation that enables the creation of new products and services with high added value, product diversification that reduces dependence on a single market or product, and increased productivity of total factors that improve price and quality competitiveness in global markets. The digitalization-facilitated technological innovation mechanism represents a fundamental shift from a volume-based export model to a value-based and differentiation-based model. Companies that comprehensively adopt digital technologies are able to integrate real-time market intelligence into their product development processes, enabling faster responses to

⁴⁹⁸ Zhou and Han, "Addressing Global Challenges: How Does the Integration of Rural Industries in China Enhance Agricultural Resilience?"

changing global consumer preferences. Technologies such as artificial intelligence and machine learning allow companies to analyze vast amounts of data from various export markets, identify emerging trends, and proactively adjust their product offerings. This accelerated innovation process not only increases the relevance of the product in the target market but also creates barriers to imitation that protect the Corporation's market share from competitors. The product diversification made possible by digitalization goes beyond the traditional concept of portfolio expand include mass customization and personalization that was previously uneconomical at scale of export. Digital platforms allow companies to bid an almost infinite variety of products without incurring proportional inventory costs, through on-demand production models and flexible supply chains.⁴⁹⁹ show that companies that successfully implement digital diversification strategies experience significantly lower export volatility, as they are able to quickly shift focus among products and markets in response to demand or supply shocks. This adaptive ability is particularly crucial in the context of heightened global uncertainty, where disruptions—whether from pandemics, geopolitical conflicts, or changes in trade policy—have become the norm rather than the exception.

The increase in total factor productivity through digitalization represents perhaps the most profound transformation in the fundamentals of the export economy. Digitalization not only improves the efficiency of the production process through automation and optimization, but also transforms the way companies organize and coordinate cross-border activities. Cloud computing enables real-time collaboration among geographically dispersed teams, reducing duplication of effort and accelerating time-to-market. The Internet of Things (IoT) in the context of manufacturing enables predictive maintenance that reduces downtime and improves output quality. Big data analytics optimize logistics and distribution, reduce transportation costs and improve delivery reliability—critical factors in building and maintaining long-term export relationships.⁵⁰⁰ broaden the understanding of the relationship among digitalization and trade growth by placing it in the broader context of Industry 4.0 and endogenous growth theory. Their research emphasizes that in the industry 4.0 era, innovation and productivity are no longer separate outcomes from economic processes, but are systemically integrated into the Corporation's operational fabric. Industry 4.0 technologies—including cyber-physical systems, artificial intelligence, and advanced robotics—create positive feedback loops where increased productivity facilitates further investment in innovation, which in turn drives higher productivity. This virtuous cycle is particularly pronounced in the context of exports, where companies operating in the technology frontier are able to capture premium prices in the global market and reinvest those returns in capability building.

The perspective of endogenous growth put forward⁵⁰¹ underlines that the accumulation of knowledge and technological capabilities in the digital era is cumulative and path-dependent. Companies and countries that succeed in building early digital capacity have a self-reinforcing advantage, as they are able to attract talent, investment, and partnerships that further strengthen

⁴⁹⁹ Thelma Chibueze, “Promoting Sustainable Growth of MSMEs through Inclusive Financial Technologies, Strategic Collaborations, and Capacity-Building within Evolving Banking Landscapes.”

⁵⁰⁰ Bazhal and Dombrovska, “Effectiveness of the Economic Growth Factors: Productivity and Innovation.”

⁵⁰¹ Bazhal and Dombrovska.

their position. In the context of international trade, this creates new forms of comparative advantage based on digital capabilities and innovative rather than traditional factor endowments. The implication is that countries that are lagging behind in digital transformation risk being trapped in low-value segments of global value chains, with long-term consequences for economic growth and well-being. The spatial dimension of digital transformation and its impact on economic growth received special attention in the study of ⁵⁰² on smart cities. Their research, which explicitly adopts the Schumpeterian theoretical framework, demonstrates how smart city construction can serve as a catalyst for innovation and entrepreneurship at the urban level. Smart cities, with integrated digital infrastructure and data-driven governance, create an ecosystem that is uniquely conducive to experimentation and innovation. Ubiquitous sensor networks provide real-time data on various aspects of urban life, from traffic patterns to energy consumption, creating opportunities for innovative solutions that address urban challenges while creating economic value.

⁵⁰³ identify several specific mechanisms by which smart cities drive economic growth through increased innovation capabilities. First, the concentration of advanced digital infrastructure in smart cities lowers barriers to entry for tech startups and advises entrepreneurship. Access to high-speed connectivity, cloud services, and testing environments allows entrepreneurs to rapidly prototype and scale innovations. Second, smart cities help knowledge spillovers through physical proximity combined with digital connectivity, creating optimal conditions for collaborative innovation. Third, the data generated by smart city infrastructure itself becomes a resource for innovation, with entrepreneurs developing applications and services that leverage urban data to create value for residents and businesses. The increase in entrepreneurship facilitated by smart cities has distinctly Schumpeterian characteristics, with entrepreneurs functioning as agents of creative destruction that continuously transform the urban landscape. Unlike traditional entrepreneurship which may be limited by physical constraints and local market size, digital entrepreneurship in the context of smart cities can quickly scale to serve the global market. ⁵⁰⁴ document cases where innovations that were initially developed to address specific urban challenges in one smart city were then exported and adapted to other cities globally, creating new export industries based on urban innovation.

The integration of the perspectives of trade, Industry 4.0, and urban innovation reveals the deeply interconnected nature of contemporary digital transformation. Enhanced export stability through digitalization does not occur in a vacuum, but rather is part of a broader ecosystem where innovation capabilities are nurtured at the urban level, scaled through Industry 4.0 technology, and monetized through global trade. Smart cities function as living laboratories where innovations can be tested and refined before being deployed globally, while feedback from export markets informs directions for further innovations. The policy implications of this interconnected system are substantial and require coordination across multiple levels of governance. At the national level, trade policies need to be aligned with digitalization and

⁵⁰² Shi, Liang, and Luo, "Unpacking the Intellectual Structure of Ecosystem Research in Innovation Studies."

⁵⁰³ Shi, Liang, and Luo.

⁵⁰⁴ Shi, Liang, and Luo.

innovation strategies, ensuring that regulatory frameworks support rather than hinder digital transformation. Investment in digital infrastructure needs to be prioritized not only for basic connectivity but for advanced capabilities that enable Industry 4.0 applications. At the urban level, smart city planning needs to consider not only operational efficiency but also how to create environments that foster innovation and entrepreneurship.

From a corporate perspective, these findings underscore the importance of a holistic approach to digitalization that integrates technology across the entire value chain, from R&D to production to export. Investment in digital capabilities needs to be seen not as a cost center but as a strategic imperative for long-term competitiveness. Companies also need to actively engage with urban innovation ecosystems, both as users of innovations emerging from smart cities and as contributors to urban innovation processes. Overall, the convergence of trade digitalization, Industry 4.0, and smart city development represents a new paradigm for economic growth that is fundamentally different from previous models. In this paradigm, competitive advantage derives not from static endowments but from dynamic capabilities to innovate and adapt in a rapidly changing digital landscape. Countries and companies that successfully navigate this transformation will be positioned to capture a disproportionate share of global value creation, while those that fail to adapt risk increasing economic marginalization. The urgency for action is clear, but the path forward requires coordinated endeavors across multiple stakeholders and a sustained commitment to investment in digital infrastructure, human capital, and innovation ecosystems.

Macroeconomic stability is a fundamental foundation in creating an ecosystem conducive to digital transformation and sustainable economic growth. This concept of macro stability is manifested through six crucial dimensions that are interrelated and form a comprehensive framework in measuring the economic resilience of a region. These six indicators—inflation, regional fiscal capacity, economic growth, open unemployment, food security, and investment efficiency measured through the ICOR—serve as integral parameters that collectively determine an economy's readiness to face global dynamics and adopt technological innovations. Inflation as the first indicator has a central role in maintaining the stability of people's purchasing power and creating economic certainty. Effective inflation control not only maintains the real value of people's income and savings, but also creates a predictable business environment, facilitates long-term investment planning, and advises efficient resource allocation.⁵⁰⁵ in their study provide strong empirical evidence that price stability is a fundamental prerequisite for achieving sustainable economic growth and building long-term competitiveness. These findings underscore that controlled inflation creates a stable macroeconomic foundation, where economic actors can make rational decisions without the distortions caused by price volatility. In the context of digital transformation, price stability is becoming increasingly important as technology investments generally require long-term commitments with predictable rates of return.

The second dimension, regional fiscal capacity, represents the government's ability to mobilize resources to finance development and provide public goods. Strong fiscal capacity not only reflects the government's financial health, but also shows room for policy maneuvering in

⁵⁰⁵ RYANDONO et al., "Macroeconomic Factors and the Profitability of Sharia Banks."

responding to economic shocks and supporting strategic development initiatives. These findings emphasize the importance of fiscal balance in creating an economic buffer that allows governments to invest in digital infrastructure, capacity building programs, and incentives for technology adoption without sacrificing macroeconomic stability. Adequate fiscal capacity also allows the government to carry out a countercyclical function, maintaining economic growth momentum amid fluctuations in the global business cycle. Economic growth as the third indicator reflects the dynamics of productive activities and economic capacity expansion. Consistent and sustainable growth creates a positive circle where increased output advises further investment, creates jobs, and increases people's incomes. ⁵⁰⁶ present comprehensive empirical evidence regarding the close linkage among Gross Domestic Product (GDP) expansion and digital innovation, global market integration, and increased total factor productivity. This research reveals that the growth of the modern economy is no longer solely dependent on the accumulation of traditional production factors, but is increasingly determined by the ability to adopt and integrate digital technologies in the production process. The digitalization of the economy, in this case, serves as a catalyst that accelerates growth through increased efficiency, the creation of new business models, and the expand market access. The open unemployment rate as the fourth indicator is a barometer of the health of the labor market and the effectiveness of the human resource allocation mechanism. Low unemployment not only reflects the balance among labor supply and demand, but also indicates the economy's ability to absorb a productive labor force and create added value. In the era of digital transformation, a healthy labor market is becoming increasingly important as it facilitates the transition of workers to new sectors that emerge due to digitalization, while minimizing the social disruptions that may arise from automation and changes in economic structures.

Food security as the fifth dimension represents a fundamental aspect of socio-economic stability that is often overlooked in conventional macroeconomic discussions. Food security concerns not only the physical availability of food, but also includes economic accessibility, supply stability, and nutritional quality. ⁵⁰⁷ present strong evidence that food security is directly related to macro stability and national resilience, especially in the face of the challenges of climate change and global crises. This research underlines that food security serves as a social safety net that prevents economic shocks from turning into humanitarian crises. In the context of digital transformation, strong food security creates the social stability necessary for technology adoption in the agriculture sector and food supply chain, while ensuring that the benefits of digitalization can be enjoyed inclusively by all levels of society.

Investment efficiency measured through ICOR as the sixth indicator reflects capital productivity and the effectiveness of resource allocation in the economy. A low ICOR indicates that the economy can generate greater output with relatively smaller investments, indicating high levels of efficiency and productivity. ⁵⁰⁸ emphasized that investment efficiency is closely related

⁵⁰⁶ Wu et al., "Testing Role of Green Financing on Climate Change Mitigation: Evidences from G7 and E7 Countries."

⁵⁰⁷ Swinnen and McDermott, "Covid-19 and Global Food Security."

⁵⁰⁸ Stojanović, "KNOWLEDGE IN THE CONCEPT OF NATIONAL COMPETITIVENESS IN THE ERA OF THE FOURTH INDUSTRIAL REVOLUTION."

to industrial productivity, innovation capacity, and acceleration of digital transformation. These findings highlight the importance of investment quality over quantity alone, where investment directed at productive and high-tech sectors produces a greater multiplier effect on economic growth. In the digital era, investment efficiency is increasingly crucial because technology investment requires the right allocation of resources on target to produce optimal return on investment. The integration of these six macro stability indicators creates an economic ecosystem conducive to the adoption and diffusion of digital technology.⁵⁰⁹ in their recent research demonstrated that digitalization not only improves investment efficiency and improves competitiveness, but also strengthens long-term stability through the creation of positive feedback loops. Economic digitalization, facilitated by macro stability, in turn strengthens macroeconomic foundations through increased productivity, high-quality job creation, and economic diversification. This process creates a virtuous cycle in which macro stability drives digitalization, and digitalization strengthens macro stability. The synergy among these six macro stability indicators forms a holistic framework that allows economies to not only survive shocks, but also thrive through innovation and structural transformation. Controlled inflation creates price certainty that facilitates technology investment; strong fiscal capacity provides resources for digital infrastructure; consistent economic growth creates demand for digital solutions; low unemployment ensures the availability of human resources for the digital economy; food security guarantees the social stability necessary for transformation; and investment efficiency ensure that resources are optimally allocated to support digitalization. This overall dynamic creates an environment that supports innovation-based endogenous growth, where technological advances are not only adopted from the outside but also developed internally through a local innovation ecosystem supported by robust macroeconomic stability. The relationship among macroeconomic stability and digital transformation goes beyond the conventional economic dimension, extending into the institutional and infrastructural realms that form the fundamental architecture for economic modernization. Institutional strengthening and infrastructure development are crucial transmission mechanisms in which macro stability translates into transformative capacity that enables economies to adopt, adapt, and develop digital technologies. These two elements—institutions and infrastructure—serve as structural enablers that determine the speed, depth, and sustainability of digital transformation in an economy.

The institutional dimension in the context of digital transformation includes a broad spectrum from economic governance, regulatory frameworks, legal systems, to norms that govern economic interactions. Strong institutions create a predictable and transparent environment, where investment risks can be mitigated through legal certainty and policy consistency.⁵¹⁰ in their comprehensive study demonstrated that institutional quality has a determinant role in accelerating the adoption of digital innovation and increasing company productivity. These findings underscore that institutions serve as catalysts that lower transaction costs, help coordination among economic actors, and create appropriate incentives for investment in

⁵⁰⁹ Mukti et al., “Rural Smartness: Its Determinants and Impacts on Rural Economic Welfare.”

⁵¹⁰ Stepanenko, Yarova, and Dyakonov, “SUSTAINABLE DEVELOPMENT OF RURAL AREAS OF UKRAINE: PROBLEMS AND PROSPECTS.”

technology. High institutional quality is reflected in the effectiveness of contract enforcement, intellectual property rights protection, transparency of licensing processes, and policy predictability—all elements that are crucial to driving technology investments that require long-term commitments and often involve intangible assets that are vulnerable to appropriation. Stable economic governance, as a manifestation of institutional quality, creates a framework within which technology investment decisions can be made with an adequate degree of certainty. ⁵¹¹ present strong empirical evidence that regulatory certainty resulting from good governance enables companies to make long-term investment decisions in the field of technology. The study emphasizes that policy volatility and regulatory uncertainty create option value to delay investments, especially in technologies that require high sunk costs and have long periods of return. Instead, governance stability creates a clear planning horizon, allowing companies to develop coherent technology strategies and make the transformative investments necessary to improve competitiveness. In this context, institutions not only serve as guardians of the rules of the game, but also as active facilitators who create an ecosystem conducive to technological innovation and experimentation.

In parallel with institutional strengthening, infrastructure development—both physical and digital—forms the material foundation that enables the diffusion of technology and the development of innovation. Infrastructure in the digital age includes not only telecommunications networks and internet connectivity, but also digital payment systems, data platforms, cloud computing centers, and other supporting ecosystems that help the digital economy. ⁵¹² in their recent study provide convincing empirical evidence that the development of digital infrastructure significantly drives economic growth, expands access to innovation, and improves industrial efficiency. These findings highlight the multiplier effect of digital infrastructure investments, where every increase in infrastructure capacity creates positive externalities that increase the productivity of all sectors of the economy. Adequate digital infrastructure lowers barriers to entry for small and medium businesses to adopt technology, creating a level playing field that advises competition and innovation. The empirical experience of countries that have successfully undergone digital transformation provides valuable lessons about the synergies among macro, institutional and infrastructure stability.

⁵¹³ complement this understanding by emphasizing the dynamic dimension of the relationship among institutions, infrastructure, and innovation. Their research shows that digital transformation is not a linear process but involves feedback loops in which digital capacity building drives further institutional reforms, which in turn facilitates next-generation infrastructure investments. This process of co-evolution creates a self-reinforcing momentum of transformation, where every progress in one dimension strengthens and accelerates progress in the other. Macroeconomic stability serves as an anchor that ensures that this transformation process takes place regularly and sustainably, without disruptions that can hinder the

⁵¹¹ El Idrissi and Alami, “The Financial Impacts of Board Mechanisms on Performance: The Case of Listed Moroccan Banks.”

⁵¹² Zhou and Han, “Addressing Global Challenges: How Does the Integration of Rural Industries in China Enhance Agricultural Resilience?”

⁵¹³ Cirera et al., “Policies to Support Businesses through the COVID-19 Shock: A Firm Level Perspective.”

accumulation of technological and institutional capabilities. The implication of these empirical findings is that successful digital transformation requires a systemic approach that integrates macroeconomic stability, institutional strengthening, and infrastructure development in a single coherent policy framework. Macro stability provides a foundation that allows for long-term planning and resource mobilization; strong institutions create rules of the game that encourage innovation and productive investment; While modern infrastructure provides physical and digital platforms that allow ideas and innovations to be realized on an economic scale. These three elements together form an ecosystem that not only supports the adoption of existing technologies, but also advises the creation of new innovations and the development of indigenous technology capabilities. In an increasingly digital global context, countries that are able to orchestrate synergies among macro, institutional, and infrastructure stability will have a competitive advantage in attracting investment, developing knowledge-based industries, and improving people's well-being through higher productivity and sustainable innovation.

Policy frameworks that integrate macroeconomic stability with institutional development and digital infrastructure represent a new paradigm in contemporary economic development strategies. Macroeconomic stability, traditionally seen as the primary goal of economic policy, now needs to be repositioned as a strategic foundation that enables the transformation of the digital economy. This shift in perspective is based on the understanding that macro stability alone is not enough to drive sustainable economic growth in the digital age. Instead, such stability should serve as an enabler that creates an environment conducive to broader technology adoption, innovation, and digital transformation. The role of macroeconomic stability as an enabler of digital transformation has a complex multifaceted dimension. First, price and exchange rate stability create economic certainty that allows business actors to plan long-term technology investments with measurable risks. Second, fiscal stability provides space for the government to allocate public resources in the development of digital infrastructure without sacrificing the balance of the budget. Third, financial system stability facilitates access to financing for technology startups and companies undergoing digital transformation. Fourth, the political and social stability that often accompanies macro stability creates investor confidence to invest in long-term technology projects. Fifth, macro stability reduces economic uncertainty that can hinder the adoption of new technologies by business actors, especially MSMEs that have limited resources.

Institutional policies play a crucial role in transforming the potential created by macro stability into real innovation capacity. Strong institutions include a clear and consistent regulatory framework, an effective legal system in protecting intellectual property rights, an efficient and corruption-free bureaucracy, and effective inter-agency coordination mechanisms. A regulatory framework that is adaptive to the development of digital technology is essential to create legal certainty for digital business actors without hindering innovation ⁵¹⁴. Strong intellectual property rights protection advises investment in research and development by ensuring that innovators can benefit economically from their work. Efficient bureaucracy reduces transaction costs and speeds up the digital business licensing process. Effective inter-agency

⁵¹⁴ Şengün et al., "Contours of Virtual Enfreakment in Fighting Game Characters."

coordination ensures cross-sectoral policy coherence that supports the digital ecosystem. Digital infrastructure development is an equally important third component in this integrated policy framework. Digital infrastructure includes high-speed broadband networks, reliable data centers, secure digital payment systems, integrated e-government platforms, and dynamic startup ecosystems ⁵¹⁵. The availability of a high-speed internet network with wide coverage is a basic prerequisite for participation in the digital economy. Reliable and secure data centers are the backbone of cloud computing services, which are increasingly important in digital transformation. An efficient and reliable digital payment system facilitates ecommerce transactions and financial inclusion. An integrated e-government platform improves the efficiency of public services and government transparency. A dynamic startup ecosystem, supported by incubators, accelerators, and venture capital, is an engine of innovation in the digital economy ⁵¹⁶. The integration of these three policy elements creates a synergistic effect that goes beyond the individual impacts of each component. Macro stability provides a conducive environment, strong institutions create clear and fair rules of the game, while digital infrastructure provides both physical and virtual means for economic transformation. This synergy results in an ecosystem that advises sustainable innovation, increases economic productivity, expands market access, and creates new jobs in the digital sector ⁵¹⁷. Further, the integration of these policies contributes to the achievement of economic growth that is not only high but also inclusive and sustainable, by ensuring that the benefits of digital transformation can be enjoyed by all levels of society. The implementation of this integrated policy framework requires a holistic approach and strong cross-sectoral coordination. The government needs to develop a national digital transformation roadmap that integrates macro stability targets, institutional reforms, and digital infrastructure development in one coherent framework. Periodic monitoring and evaluation are needed to ensure that the three policy elements are aligned and mutually supportive. Policy flexibility is also important to respond to rapid technological developments and changing global economic dynamics. The active participation of the private sector and civil society in policy formulation and implementation will increase the effectiveness and legitimacy of policies. Finally, learning from international best practices, tailored to the local context, can accelerate the national digital transformation process while avoiding the mistakes that other countries have made.

⁵¹⁵ Zhu and Yu, “Digital Transformation and Firms’ Bargaining Power: Evidence from China.”

⁵¹⁶ Xie, Zhou, and Hui, “Does Environmental Regulation Improve the Structure of Power Generation Technology? Evidence from China’s Pilot Policy on the Carbon Emissions Trading Market(CETM).”

⁵¹⁷ Corbett and El Idrissi, “Persuasion, Information Technology, and the Environmental Citizen: An Empirical Study of the Persuasion Effectiveness of City Applications.”

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CHAPTER 6

HEALTH IN REGIONAL DEVELOPMENT, INTERCONNECTED INDICES, AND POLICY RECOMMENDATIONS

Noviati Fuada • Henny Hidayanti

6.1. Health-Economic Structural Modeling

An effective health system according to the World Health Organization's (WHO) *health system building blocks* framework is built through the integration of six pillars: health services, health workers, information systems, access to essential medicines, financing, and leadership and governance. These pillars are intertwined to achieve four key goals: improving health outcomes, equitable access, financial protection, and system efficiency. Health services as the core of the system require equal and quality access in primary and referral facilities. A comparative study in Asian upper-middle-income countries (UMICs) illustrates interdependencies between pillars. In Shanghai, investment in maternal health workers correlated with a decrease in the maternal health investment deficit from 3.94 to 1.41 (2000–2017) and a significant decrease in maternal mortality rate (MMR) ($p < 0.01$), as evidenced by the regression analysis of ⁵¹⁸. In Malaysia, the *Midwife Clinic Quarters* (MCQs) program that combines infrastructure development and midwife training has succeeded in increasing antenatal visit coverage from 78.1% to 97.3% ⁵¹⁹. Supporting pillars such as information systems and financing play a crucial role in strengthening access. Thailand achieved 98.8% maternal-child service coverage in 2021 through the *Universal Coverage Scheme* (UCS) supported by an integrated information system to monitor the distribution of essential medicines ⁵²⁰. However, the effectiveness of all pillars depends on transparent leadership and evidence-based policies, as shown by a study ^{521 522} on the sustainability of *District Team Problem Solving* (DTPS) programs in areas with adequate local funding allocations.

Health is a crucial determinant of regional development through mechanisms to reduce the burden of disease and increase economic productivity. In Indonesia, the

⁵¹⁸ MA Dong-ping, YIN Wen-qiang, and TIAN Zhuang, "Total Financial Investment in Maternal Health Care in Beijing and Shanghai: A Comparison Analysis."

⁵¹⁹ Fadzil, Jaafar, and Ismail, "40 Years of Alma Ata Malaysia: Targeting Equitable Access through Organisational and Physical Adaptations in the Delivery of Public Sector Primary Care."

⁵²⁰ Sukmanee et al., "Pattern of OPD Utilisation during the COVID-19 Pandemic under the Universal Coverage Scheme in Thailand: What Can 850 Million Records Tell Us?"

⁵²¹ Hipgrave et al., "District Team Problem Solving as an Approach to District Health Programme Planning: A Review, and Survey of Its Status in Selected Districts in Indonesia."

⁵²² Muharram et al., "Adequacy and Distribution of the Health Workforce in Indonesia."

implementation of JKN increases the utilization of childbirth by skilled workers (AOR=1.96) and health facilities (OR=2.45) based on the ⁵²³ cohort analysis. However, the disparity in the distribution of health workers remains a challenge. First, the allocation of specific funds for disadvantaged areas through schemes such as the Special Allocation Fund (DAK) based on health indicators, as recommended ⁵²⁴ study in Central Sulawesi. Second, strengthening adaptive governance through a GIS-based health worker distribution tracking system, referring to Malaysia's success in reducing disparities in access to services. Third, the integration of real-time information systems to monitor the availability of essential medicines, such as the Thai model that suppresses the disparity in drug prices by 2.46 times ⁵²⁵. The scientific basis that underlies the discussion in this chapter is rooted in the combination of substantive health economic theory with a sophisticated multivariate statistical methodology, namely Structural Equation Modeling (SEM). Substantively, this analysis moves beyond the conventional paradigm that only looks at bivariate relationships or simple correlations. Instead of asking "Is health related to market growth?", this framework asks a much more nuanced question: "How can the mechanisms or pathways through which a population's health status travels affect market dynamics?". The hypothesis that is fundamentally tested positions health not just as a variable of outcomes of development, but as a fundamental human capital asset and antecedent variable (initial cause) that drives other systemic elements. The underlying theory is that healthier populations will create demand and capacity to build better institutions (such as effective health regulatory systems and accountable governance) and infrastructure (such as adequate healthcare facilities and medical technology). These strong institutions and infrastructure, in turn, are a direct driver of market size expansion and economic growth. Thus, the substantive foundation is the testing of a complex multi-tiered causal model, not just an association.

Methodologically, SEM was chosen for its superior ability to test this theory holistically . Unlike traditional multiple regression analysis that can only test one dependent variable at a time, SEM allows us to model and test a series of dependency relationships simultaneously. Its methodological foundation lies in the three main components of the analysis that have been presented. First, path coefficients form the backbone of the model, which quantitatively estimates the strength and direction of

⁵²³ Rahmawati, Ahmad, and Dewi, "ANALISIS TINGKAT KEPUASAN PASIEN PESERTA BPJS BERDASARKAN MUTU PELAYANAN RAWAT JALAN DI RSUD KOTA KENDARI TAHUN 2022."

⁵²⁴ Laurens and Perdana Kusuma Putra, "Poverty Alleviation Efforts through MDG's and Economic Resources in Indonesia."

⁵²⁵ Dvarionienė, Dvarionas, and Kamičaitytė, "Transformative Capacity Building by Systematic Use of Urban Living Labs: A Case Study of Alytus, Lithuania."

hypothetical direct causal influences (e.g., the direct influence of Health on Infrastructure)⁵²⁶. The validity of each of these pathways was rigorously tested through statistical significance (p-values and z-values) and estimation precision (confidence intervals). Second, indirect effects analysis is at the heart of mediation testing, which allows for the decomposition or dissection of the total influence of a variable. This method scientifically quantifies how much influence Health has on the Market Size mediated through Institutions and Infrastructure. The use of bootstrapping-based confidence intervals provides the gold standard for testing the significance of these mediation effects, overcoming the limitations of traditional methods. Third, residual covariance analysis serves as an important diagnostic tool to validate model specifications. By testing the residual correlation (which is not explained by the model), we can ensure that the structure of our proposed relationship is adequate and that no significant unmeasured common cause latent factors are missed. Therefore, the scientific basis of this discussion lies not only in the statistical significance of each coefficient, but in the ability of the model to holistically confirm—or reject—a coherent theoretical narrative, with each component of the analysis providing mutually supportive empirical evidence to paint a complete and accountable picture. This chapter will systematically outline each component of this model to build a deep understanding of the multifaceted role of health in economic development.

6.2. Health as an Economic Driver

This section presents empirical results from structural equation modeling designed to quantitatively dissect the complex relationships between health, institutions, infrastructure, and market size. The analysis presented aims not only to confirm the existence or not of the relationship between variables, but furthermore, to unravel the mechanisms and influence pathways that make up the causal architecture of the hypothetical model. The discussion will be structured systematically to elaborate three crucial aspects. First, a path coefficient that measures the strength and significance of each direct influence will be described. Second, an indirect effect analysis will be conducted to uncover the mediating role of institutions and infrastructure, which explains how the initial influence of health can be channeled to have an impact on the market. Third, an evaluation of the model's diagnostic components such as residual covariance will be presented to ensure the validity and accuracy of the model specifications. Collectively, these findings will build an evidence-based narrative that positions health as a fundamental antecedent

⁵²⁶ Rahmawati and Hsieh, “Appraisal of Universal Health Insurance and Maternal Health Services Utilization: Pre- and Post-Context of the Jaminan Kesehatan Nasional Implementation in Indonesia.”

variable—a key catalyst that not only has a direct impact, but also forms the institutional and infrastructural foundations essential for sustainable economic and market expansion.

The results of the path analysis showed that the health variable had a significant direct influence on the Market Size with a standardized path coefficient of 0.236 (Table 6.1.). This value indicates that any increase of one unit of standard deviation on the health variable will increase the Market Size by 0.236 units of standard deviation, assuming the other variables in the model remain constant. The amount of this influence is moderated in the context of social science research, showing that health is a fairly substantial predictor in determining market size.

Table 6.1. Direct effects

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Health	→	Market Size	0.236	0.114	2.068	0.039	0.012	0.459

The statistical significance of this relationship is confirmed through a z-value of 2.068 with a value of $p = 0.039$, which is below the conventional threshold of $\alpha = 0.05$. This provides strong enough empirical evidence to reject the zero hypothesis that there is no effect of Health on Market Size. In other words, there is a 96.1% probability that the observed effect is not caused by mere chance factors. A standard error of 0.114 indicates a relatively good level of estimation precision, considering the magnitude of the estimated coefficient. The 95% confidence interval for this path coefficient ranges from 0.012 to 0.459, which is entirely in the positive territory. This characteristic of the interval provides some important insights. First, since the entire range of intervals is above zero, this reinforces the conclusion that the influence of Health on Market Size is positive and significant. Second, a considerable interval width (0.447) indicates variability in the estimates, which may be due to limited sample sizes or heterogeneity in the data. The lower limit of the interval close to zero (0.012) indicates that in the worst-case scenario, the influence of Health may be very small but still positive, while the upper limit (0.459) indicates a fairly substantial potential influence under optimal conditions. These findings have significant theoretical and practical implications. From a theoretical perspective, these results support the proposition that the health condition of the population is an important determinant in the formation and development of the market. Healthier populations tend to have higher productivity, stronger purchasing power, and more diverse demand for goods and services, all of which contribute to the expansion of market size. From a practical point of view, these findings emphasize the importance of investing in the health sector

⁵²⁷as a strategy to drive economic growth through market expansion. Policies that improve access and quality of health services are not only beneficial from the social welfare aspect, but also have a measurable economic impact through increasing market size.

Indirect influence analysis reveals two fundamentally different mediation pathways in explaining how Health affects Market Size through intermediate variables. The first path through Institutions showed a negative coefficient of -0.080 with a standard error of 0.064, resulting in values $z = -1.258$ and $p = 0.208$ (Table 6.2.).

Table 6.2. Indirect effects

									95% Confidence Interval	
					Std. estimate	Std. error	z-value	p	Lower	Upper
Health	→	Institutions	→	Market Size	-0.08	0.064	-1.258	0.208	-0.206	0.045
Health	→	Infrastructure	→	Market Size	0.449	0.095	4.716	2.40E-06	0.262	0.635

These results indicate that the mediation pathway through Institutions is not statistically significant at a 95% confidence level. The confidence interval ranging from -0.206 to 0.045 included a value of zero, which further strengthened the conclusion that there is insufficient empirical evidence to support the role of Institutional mediation in the relationship between Health and Market Size. These insignificant findings on the mediation pathway through the Institutions have several possible interpretations. First, it may indicate that improvements in population health conditions do not automatically translate into improved institutional quality which in turn encourages market expansion. Second, there may be other factors that are more dominant in determining the quality of the institution compared to the condition of public health. Third, the possibility of a suppression effect where positive and negative influences cancel each other out, resulting in an insignificant net effect. Negative coefficient values, although not significant, also hint at the possibility of trade-offs or resource competition between health investment and institutional development in a given context⁵²⁸.

In contrast, the mediation pathway through Infrastructure shows very significant and substantial results. An indirect path coefficient of 0.449 with a standard error of 0.095 yields a $z=4.716$ value and a very small p-value (2.404×10^{-6}), well below the conventional

⁵²⁷ Sukirman, Wahyono, and Shivalli, "Determinants of Healthcare Facility Utilization for Childbirth in Kuantan Singingi Regency, Riau Province, Indonesia 2017."

⁵²⁸ Ikeagwuani and Nwonu, "Statistical Analysis and Prediction of Spatial Resilient Modulus of Coarse-Grained Soils for Pavement Subbase and Base Layers Using MLR, ANN and Ensemble Techniques."

threshold of $\alpha = 0.001$. The 95% confidence interval that ranges from 0.262 to 0.635 is entirely in positive territory and does not include zero, providing very strong evidence of the mediating role of Infrastructure. The magnitude of this coefficient is even greater than the direct influence of Health on Market Size (0.236), indicating that Infrastructure is a very important transmission mechanism in explaining how health investments contribute to market expansion. The dominance of mediation channels through Infrastructure can be explained through several theoretical mechanisms. Investment in health often requires and encourages the development of supporting infrastructure such as health facilities, transportation networks for the distribution of medicines and medical equipment, clean water and sanitation systems, and information technology infrastructure for health data management⁵²⁹. The infrastructure developed to support these health systems has a significant spillover effect on other economic activities, facilitating trade, improving connectivity, and lowering transaction costs, all of which contribute to the expansion of the market size⁵³⁰.

The comparison of these two mediation pathways yields important insights into the transmission mechanism of the influence of Health on Market Size. The total indirect effect can be calculated as the sum of the two mediation pathways, which is $-0.080 + 0.449 = 0.369$. Although the pathway through the Institutions makes a negative (albeit insignificant) contribution, a strong positive effect through the infrastructure is more than enough to compensate for it. By combining the direct effect (0.236) and the total indirect effect (0.369), the total effect of Health on Market Size was obtained of 0.605, which shows the substantial influence of Health in determining the market size. These findings have important policy implications. First, health investment accompanied by the development of supporting infrastructure will have a greater economic impact compared to stand-alone health investment. Second, in the context of limited resources, priority should be given to health programs that have a strong infrastructure development component. Third, the evaluation of health programs should not only focus on health outcomes, but also consider the indirect impacts through infrastructure development and the resulting market expansion.

Analysis of the total effects reveals that Health has a very substantial and significant overall influence on Market Size with a standardized path coefficient of 0.604. This value represents the aggregation of all health influences on Market Size, both direct and indirect through the mediator variables in the model. The magnitude of this coefficient indicates that every increase of one standard deviation unit in the health variable will result in an

⁵²⁹ Tian et al., "MHealth Interventions for Health System Strengthening in China: A Systematic Review."

⁵³⁰ Aisyah et al., "The Information and Communication Technology Maturity Assessment at Primary Health Care Services Across 9 Provinces in Indonesia: Evaluation Study."

increase in Market Size of 0.604 standard deviation, taking into account all existing influence paths in the structural model. In the context of social and economic science research, a coefficient of this magnitude is very strong and shows that health is the main determinant in the formation and development of market size.

Table 6.3. Total effects

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Health	→	Market Size	0.604	0.103	5.859	4.65E-09	0.402	0.806

The statistical significance of this total effect is very convincing with a z-value of 5.859 and a very small p-value (4.650×10^{-9}), well below the conventional threshold for even the most stringent standards ($\alpha = 0.001$). This near-zero p-value provides very strong empirical evidence that the effect of Health on Market Size is not the result of random variation or statistical coincidence. In other words, there is a probability of more than 99.999% that the observed relationship reflects the actual phenomenon in the population. A standard error of 0.103 indicates an excellent level of precision in parameter estimation, indicating that the model has sufficient statistical power to detect the effects at hand.

The 95% confidence interval for total effects ranges from 0.402 to 0.806, all of which are well in positive territory. This interval characteristic provides some important information about the robustness of the findings. First, the low bound of the fairly high interval (0.402) suggests that even in the most conservative estimation scenario, Health still has a substantial influence on Market Size. Second, the upper limit close to 0.806 indicates a huge potential for influence under optimal conditions. Third, the relatively moderate interval width (0.404) compared to the coefficient shows a fairly precise and stable estimate. The high ratio between the coefficient and the standard error (5.859) further strengthens confidence in the estimates obtained. The comparison between the total effect (0.604) and the direct effect (0.236) reveals important insights into the structure of the relationship between Health and Market Size. Indirect effects that can be calculated as the difference between total effects and direct effects ($0.604 - 0.236 = 0.368$) show that about 61% of the total influence of Health on Market Size is mediated through intermediate variables, while only 39% are direct effects. The dominance of these indirect effects emphasizes the importance of understanding the transmission mechanisms in the relationship between health investment and economic outcomes⁵³¹. It also indicates that an analysis that focuses

⁵³¹ MA Dong-ping, YIN Wen-qiang, and TIAN Zhuang, "Total Financial Investment in Maternal Health Care in Beijing and Shanghai: A Comparison Analysis."

only on direct effects will greatly underestimate the true contribution of Health to market development ⁵³².

These findings about the magnitude of the total health effects have profound theoretical implications. These results support and expand the theory of human capital that emphasizes the role of health as a fundamental form of human capital investment. Health not only affects individual productivity, but also has a wide systemic effect on market structures and dynamics. A healthy population creates conditions conducive to economic growth through a variety of channels: increased labor productivity, extended productive working hours, reduced health care costs that free up resources for consumption and other investments ⁵³³, and increased human capital that encourages innovation and entrepreneurship.

From a public policy perspective, the magnitude of the total effect of 0.604 provides a strong economic justification for substantial investment in the health sector. The return on investment of health programs is not only limited to improving health indicators⁵³⁴, but also includes significant expansion in market size which in turn drives overall economic growth. These findings suggest that health policy should be viewed as a strategic economic investment, not merely a social expenditure. Governments and policymakers need to adopt a holistic approach that integrates health considerations in macroeconomic planning, given the large multiplier effect of health investments on market development ⁵³⁵. Furthermore, the magnitude of this total effect also implies that neglect of the health sector will have very serious economic consequences. A decline in the quality of population health not only impacts individual well-being, but can also lead to significant market contractions with a domino effect on various sectors of the economy. In the global context, these findings emphasize the importance of international cooperation in addressing global health challenges, given the economic interdependence between countries and the potential spillover effects of the health crisis on global markets ⁵³⁶. The analysis of total indirect effects shows that the health variable has a significant influence on the Market Size through mediation channels in the structural model (Table 6.4.). The value of the standardized path coefficient of 0.368 indicates a strong positive relationship, where an increase of one

⁵³² Bronnikov and Bedenkova, "Metaverses and States: Together or Apart."

⁵³³ Inotai et al., "Development of Multi-Criteria Decision Analysis (MCDA) Framework for off-Patent Pharmaceuticals – an Application on Improving Tender Decision Making in Indonesia."

⁵³⁴ Ammenwerth et al., "International Comparison of Six Basic EHealth Indicators Across 14 Countries: An EHealth Benchmarking Study."

⁵³⁵ Zhu, Ma, and Leng, "ICT Adoption, Individual Income and Psychological Health of Rural Farmers in China."

⁵³⁶ Feng et al., "Inequity of Maternal-Child Health Services in ASEAN Member States from 1993 to 2021."

unit of standard deviation in the health variable will increase the Market Size by 0.368 units of standard deviation through the mediator variables.

Table 6.4. Total indirect effects

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Health	→	Market Size	0.368	0.111	3.33	8.68E-04	0.151	0.585

The magnitude of this effect is moderate to strong in the context of social science and health research, suggesting that Health plays a substantive role in determining market size through indirect mechanisms. The statistical significance of this indirect effect is reassuring, with a z-value of 3.330 resulting in a p-value of 8.681×10^{-4} ($p < 0.001$). This result far exceeded the conventional threshold of $\alpha = 0.05$, even meeting the stricter significance criteria at $\alpha = 0.001$. These findings provide strong empirical evidence that the mediating pathway between Health and Market Size is not the result of random sampling variations, but rather reflects a real systematic relationship within the population⁵³⁷. A high z-score value also indicates that this indirect effect has good estimation precision relative to its variability.

The 95% confidence interval that ranges from 0.151 to 0.585 provides important information about the precision and plausible range of indirect effect estimates. First, the fact that the entire interval is above zero reinforces the conclusion about the positive direction of this relationship. Second, the interval width of 0.434 indicates a moderate level of uncertainty in the estimates, which is reasonable given the complexity of the mediation pathway. The lower limit of the interval (0.151) still indicates a practically meaningful effect, while the upper limit (0.585) indicates a very substantial potential effect. This range provides a comprehensive overview of the variability of indirect effects that may occur within the population. From a theoretical and practical perspective, these findings have important implications. Health not only affects Market Size directly, but also operates through intermediary mechanisms that may involve factors such as productivity, purchasing power, consumer preference, or supply-demand dynamics⁵³⁸. A standard error of 0.111 indicates that this estimate has good precision, with a high signal-to-noise ratio. These results confirm that investment in the health sector can have a multiplier effect on market

⁵³⁷ Dornan et al., "Utilisation of Electronic Health Records for Public Health in Asia: A Review of Success Factors and Potential Challenges."

⁵³⁸ Dornan et al.

growth, where improvements in population health conditions not only have a direct impact but also create a chain effect that expands the market size through various economic and social transmission channels.

Table 6.5. Residual covariances

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	↔	Infrastructure	0.149	0.159	0.941	0.347	-0.162	0.46

The residual covariance analysis between the Institutions and Infrastructure variables reveals important findings in the context of structural models targeting the health variable (Table 6.5.). The standardized coefficient value of 0.149 indicates a weak positive correlation between the error component or unexplained variance of the two latent variables. In the context of structural equation modeling, these residual covariances represent a systematic relationship between Institutions and Infrastructure that is not captured by the structural paths that have been specified in the model. The relatively small magnitude of the correlation indicates that most of the relationships between these two constructs have been successfully explained through direct or indirect pathways in the model, but there are still residual associations that may be caused by external factors that are not modeled or shared characteristics that are not observed. The results of the statistical significance test showed that this residual covariance did not reach the conventional significance level, with a z-value of 0.941 which resulted in a p-value of 0.347 ($p > 0.05$). These findings indicate that the residual relationship between Institutions and Infrastructure is statistically indistinguishable from zero in the population ⁵³⁹. From a methodological perspective, these non-significant results are actually positive indicators that suggest that the structural model has managed to capture most of the systematic covariance between the two variables. The absence of significant residual covariance reinforces the validity of the model specification and supports the assumption that the pathways that have been defined in the model are adequate to explain the interdependence between institutions and infrastructure in the context of their effects on health ⁵⁴⁰.

⁵³⁹ Phulkerd et al., "Towards Reconciling Population Nutrition Goals and Investment Policy in Thailand: Understanding How Investment Policy Actors Defined, Framed and Prioritised Nutrition."

⁵⁴⁰ Xu et al., "Prevalence of Metabolic Syndrome among the Adult Population in Western China and the Association with Socioeconomic and Individual Factors: Four Cross-Sectional Studies."

The 95% confidence interval that ranges from -0.162 to 0.460 provides crucial additional information about the uncertainty of the estimate. The fact that this interval includes zero values is consistent with the results of the significance test and reinforces the conclusion that there is no strong evidence for meaningful residual covariances. The interval width of 0.622 indicates a substantial degree of uncertainty in the estimation, which is common in residual covariance parameters due to its sensitivity to model specifications and sample sizes. A negative lower bound (-0.162) indicates the likelihood of a weak negative residual relationship, while a positive upper bound (0.460) indicates a potential moderate positive relationship. This wide range reflects the high sampling variability and the limitations of statistical power to detect small residual covariances. The theoretical and practical implications of these findings are particularly relevant for understanding how institutional and infrastructural factors contribute to health outcomes. The absence of significant residual covariances suggests that the relationship between institutional quality and infrastructure availability in influencing health has been adequately explained through explicit mechanisms in the model. A relatively large standard error of 0.159 compared to the parameter estimate (0.149) results in a low signal-to-noise ratio, which explains why this parameter is not statistically significant. From a health policy perspective, these results imply that interventions in the institutional and infrastructure sectors can be designed relatively independently without the need to consider substantial residual spillover effects, as the main interdependencies between these two sectors have been accommodated in the structural pathways of the model. These findings support policy approaches that can target institutional or infrastructure improvements separately in an effort to improve population health outcomes⁵⁴¹.

Table 6.6. Path coefficients

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	→	Market Size	-0.135	0.104	-1.302	0.193	-0.338	0.068
Infrastructure	→	Market Size	0.77	0.083	9.332	0	0.608	0.932
Health	→	Market Size	0.236	0.114	2.068	0.039	0.012	0.459
Health	→	Institutions	0.596	0.105	5.708	1.14E-08	0.392	0.801
Health	→	Infrastructure	0.583	0.107	5.437	5.42E-08	0.373	0.793

⁵⁴¹ Şanlı, Gülbay Yiğitli, and Ergün Tatar, “Do Economic Complexity Drivers Differ by Income Level? Insights From a Global Perspective.”

Analysis of the path coefficients in the structural equation model reveals a complex and meaningful pattern of relationships between key variables with Health as the main target variable (Table 6.6.). The estimated results show that Health has a central role as a predictor that affects both Market Size directly and through its influence on Institutions and Infrastructure. The direct path coefficient from Health to Market Size of 0.236 ($p = 0.039$) showed a significant positive effect at the $\alpha = 0.05$ level, indicating that an increase of one unit of standard deviation in population health conditions would increase the market size by 0.236 standard deviation.

The 95% confidence interval (0.012 to 0.459) that is completely above zero reinforces the conclusion about the positive direction of this relationship, although the near-zero lower bound suggests a relatively small possibility of effect in some contexts. A very interesting finding is the strength of the influence of Health on the mediator variables of Institutions and Infrastructure. The coefficient of the pathway from Health to Institutions was 0.596 with a value of $z = 5.708$ and a p -value of 1.144×10^{-8} showed a very strong and highly significant relationship. Similarly, the path from Health to Infrastructure has a coefficient of 0.583 with $z = 5.437$ and a p -value of 5.419×10^{-8} . These two effects are of almost equal magnitude and both are statistically significant, indicating that population health conditions are fundamental determinants of institutional quality and infrastructure availability. The confidence interval for these two pathways (0.392-0.801 for Institutions and 0.373-0.793 for Infrastructure) showed a substantial and consistent effect, with the lower limit still showing moderate to strong influence.

Analysis of the path from the mediator variable to Market Size reveals a contrasting and informative pattern. Infrastructure showed a very strong positive influence on Market Size with a coefficient of 0.770 ($z = 9.332$, $p < 0.001$), which was the largest effect in the model. The narrow confidence interval (0.608-0.932) and the relatively small standard error (0.083) indicate a very precise and stable estimate. In contrast, Institutions showed a negative coefficient of -0.135 which was not statistically significant ($p = 0.193$), with a confidence interval (-0.338 to 0.068) that included zero. These findings indicate that after controlling for the effects of Infrastructure and Health, the direct influence of Institutions on Market Size becomes insignificant and even tends to be negative, although the uncertainty of estimates is quite high.

The theoretical and practical implications of this relationship pattern are profound for the understanding of the role of health in economic development⁵⁴². First, the results of the analysis confirm that health functions as a foundation that affects both direct economic outcomes (Market Size) and structural determinants of development (Institutions

⁵⁴² Trigo et al., "The Bioeconomy and Food System Transformation."

and Infrastructure). Total Health Effects on Market Size, which includes direct effects (0.236) and indirect effects through mediators, shows a substantial contribution of health to the market expansion. Second, the dominance of pathways through Infrastructure over Institutions in influencing Market Size indicates that in the context of health-economic relations, physical infrastructure investment may provide more direct and measurable returns than institutional reforms. Third, the non-significant negative effects of Institutions may reflect the phenomenon of suppression or trade-off, where improving the quality of institutions in the short term may involve costs or regulations that may limit market expansion, although the long-term effects may be positive. These findings emphasize the importance of a holistic approach in development policy that recognizes health as a fundamental investment that not only improves immediate well-being but also strengthens institutional and infrastructure capacity which in turn drives economic growth.

Analysis of the coefficient of determination (R^2) reveals the model's ability to explain variations in endogenous variables, providing important insights into the explanatory strength of the developed structural model. The R^2 value for Market Size of 0.748 indicates that 74.8% of the variation in market size can be explained by the predictive variables in the model, which include the direct influence of Health as well as the indirect influence through Institutions and Infrastructure. This R^2 value of close to 0.75 is very high in the context of social and economic science research, indicating that the model has excellent predictive power and manages to capture most of the important factors that determine the market size. This high R^2 value for Market Size has several important implications. First, it shows that the combination of health and the chosen mediator variables is a very relevant determinant in explaining market dynamics. Secondly, with only 25.2% of variations that cannot be explained by the model, it can be concluded that the main factors influencing the market size have been successfully identified and included in the model. Third, this high R^2 value provides empirical validation of the theoretical framework underlying the model, specifically the proposition that health investments have a broad systemic impact on economic development through market expansion⁵⁴³.

For the Institutions mediator variable, an R^2 value of 0.356 indicates that 35.6% of the variation in institutional quality can be explained by Health. Although this value is lower than the R^2 for Market Size, it still shows a substantial relationship between population health conditions and institutional development. These findings support the argument that healthier societies tend to have better capacity to build and maintain quality institutions. Healthy populations have higher human capital, more active political

⁵⁴³ Lyu et al., "Impact of Digital Economy on the Provision Efficiency for Public Health Services: Empirical Study of 31 Provinces in China."

participation, and greater demands on good governance, all of which contribute to improving the quality of institutions ⁵⁴⁴. The R^2 value for Infrastructure of 0.339 indicates that 33.9% of the variation in infrastructure development can be explained by Health ⁵⁴⁵. Although slightly lower than the R^2 for Institutions, this value still indicates a significant influence of health investment on infrastructure development. This relationship can be understood through several mechanisms. Investing in health systems often requires the development of extensive supporting infrastructure, from physical facilities to information systems. In addition, a healthier population generates a greater demand for quality infrastructure and has the productivity necessary to finance infrastructure development through taxes and investment.

The comparison of R^2 values between the three endogenous variables provides insight into the relationship structure in the model. Market Size has the highest R^2 (0.748), followed by Institutions (0.356) and Infrastructure (0.339). This pattern indicates that Market Size, as the final outcome in the model, is influenced by multiple pathways and the accumulation of effects of various variables, resulting in a larger proportion of explainable variance. Meanwhile, Institutions and Infrastructure, as mediator variables, are only directly influenced by Health in this model, so the more moderate R^2 values reflect the complexity of other factors that also affect institutional and infrastructure development that are not included in the model. The relatively moderate R^2 value for the mediator variable (about 34-36%) also has important methodological implications. This shows that although Health has a significant influence on Institutions and Infrastructure, there is still substantial room for other factors that affect both variables. These findings emphasize the importance of caution in causal interpretation and the recognition that the developed model, while having good explanatory power, remains a simplification of complex reality. In the context of policy development, this implies that strategies to improve the quality of institutions and infrastructure cannot rely entirely on health investments alone, but require a multi-dimensional approach ⁵⁴⁶.

The R^2 value pattern in this model supports the narrative that health has a central but not exclusive role in determining economic outcomes ⁵⁴⁷. A very high R^2 value for Market Size (0.748) combined with a moderate R^2 value for the mediator variable suggests

⁵⁴⁴ Тресиана and Дуаджи, "CAN THE POLICY ENVIRONMENT IMPROVE POLICY IMPLEMENTATION PRACTICE?."

⁵⁴⁵ Zhu, Ma, and Leng, "ICT Adoption, Individual Income and Psychological Health of Rural Farmers in China."

⁵⁴⁶ Zhu, Chen, and Li, "Practical Approaches to Rural Ecological Value Realization: A Case Study of the China Palletized Ecological Project."

⁵⁴⁷ Laurens and Perdana Kusuma Putra, "Poverty Alleviation Efforts through MDG's and Economic Resources in Indonesia."

that the cumulative and interactive effects of the various influence pathways produce greater impact than the individual effects of each path. These findings reinforce the argument for a systemic approach to development policy, where health investment is seen as a catalyst that triggers a series of positive changes in institutions, infrastructure, and ultimately market expansion, while still recognizing the role of other complementary factors in the economic development process. In the context of digital transformation and sustainable economic development, public health is not only an indicator of quality of life, but also a strategic factor that affects productivity, economic competitiveness, and the resilience of social systems. Health directly and indirectly interacts with various dimensions of development, including market size, institutions, and infrastructure. To understand these complex dynamics, structural modeling approaches such as Structural Equation Modeling (SEM) are used to test the causal relationships between latent variables. The following figure illustrates the results of the SEM model estimation that shows the interaction between health (Hlt), market size (MrS), institutions (Ins), and infrastructure (Inf), focusing on the role of health as an exogenous and endogenous variable in the national development system.

The structural model shown in Figure 1 illustrates the network of causal relationships between four main constructs: health (Hlt), market size (MrS), institutions (Ins), and infrastructure (Inf). Each construct is represented by a gray square, while the directional arrow indicates the direction of the causal relationship, with the number above the arrow expressing the standard regression coefficient (β) of each path. In addition, the double circle on each node indicates the value of the residual variance or error variance, which describes the proportion of variation in each variable that cannot be explained by the other variables in the model. Health (Hlt) has a significant direct influence on institutions (Ins) of $\beta = 0.60$, suggesting that healthy populations tend to support the growth of stronger, more effective, and responsive institutions. This can be understood through the mechanism that a healthy society has a higher capacity for political and social participation, thereby encouraging accountability and transparency in state institutions. On the other hand, health has a negative influence on market size (MrS) of $\beta = -0.24$, which can be interpreted as that poor health conditions—for example due to chronic diseases or epidemics—can reduce the productive workforce and suppress aggregate demand, thereby slowing down economic growth and market size. However, health has a positive effect on infrastructure (Inf) of $\beta = 0.58$, which reflects the interdependence between the quality of health and the availability of public facilities, such as hospitals, medical transportation, and internet access for telemedicine services. Good infrastructure, in turn, supports the improvement of the quality of health services, forming a positive cycle.

Institutions (Ins) have a negative influence on market size (MrS) of $\beta = -0.13$, which seems to contradict common expectations (Fig.1.). However, this interpretation should be considered in the context of potentially overly restrictive regulations or bureaucracy that burdens economic activity, even though strong institutions generally favor stability. The influence of institutions on infrastructure (Inf) of $\beta = 0.15$ indicates that effective institutions are able to optimally allocate public resources for infrastructure development, especially in the health and technology sectors. Meanwhile, infrastructure (Inf) has a very strong influence on market size (MrS) of $\beta = 0.77$, which confirms that investment in physical and digital infrastructure is the main key in increasing production capacity, distribution of goods and services, and attracting foreign investment ⁵⁴⁸.

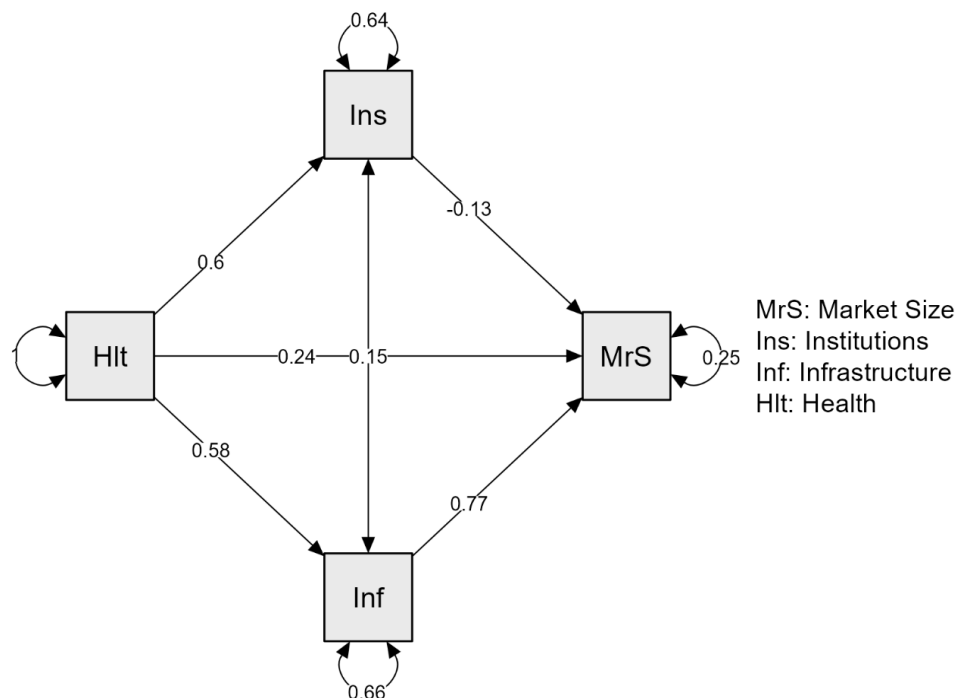


Figure 6.1. Structural Models of the Relationship Between Health, Institutions, Infrastructure, and Market Size

In addition, the model shows that all variables have considerable residual variances: Hlt (0.64), Ins (0.66), MrS (0.25), and Inf (0.64), which indicates that there are still external factors not included in this model—such as culture, foreign policy, or environmental factors—that also influence each construct. For example, health is also influenced by genetic

⁵⁴⁸ MA Dong-ping, YIN Wen-qiang, and TIAN Zhuang, “Total Financial Investment in Maternal Health Care in Beijing and Shanghai: A Comparison Analysis.”

factors, lifestyle, and access to health services, which are not fully captured in this model. Similarly, the market size is influenced by trade policies, technological innovations, and global dynamics. This model shows that health is not only a development goal, but also a strategic input for institutional, infrastructure, and economic development. Thus, public policies that emphasize the strengthening of health systems—through accessibility, quality of service, and digital integration—not only improve the quality of life, but also become an important foundation for digital transformation and sustainable economic growth. The integration between health, institutions, and infrastructure forms an interconnected system, where intervention at a single point can trigger a cascading impact on the entire development system. In the context of Indonesia and other developing countries, this emphasizes the need for a holistic approach that aligns health policy with economic and technological policies to achieve the Sustainable Development Goals (SDGs), particularly SDG 3 (Health and Well-being) and SDG 9 (Industry, Innovation, and Infrastructure).

6.3. Health, Infrastructure, and Institutions: Dynamics of Influence on Market Growth

6.3.1. Health as a Key Driver of Market Growth

A comprehensive analysis of the relationship between health and economic growth reveals intertwined multifaceted dimensions. Empirical findings show that health has a very significant total effect on market expansion (0.604; $p < 0.001$), indicating the crucial role of health in economic dynamics. This high statistical significance confirms that health is not just a complementary variable, but a fundamental determinant in the expansion of economic activity. The mechanism of transmission of health to the market works through direct and indirect channels, where the improvement of the health status of the population contributes to a reduction in the rate of absenteeism, an increase in labor productivity, the stimulation of aggregate consumption, an increase in geographical mobility, and the expansion of economic participation. The complexity of this relationship shows that health should be understood as a form of productive human capital investment, not merely as an indicator of social welfare. The policy implication of these findings is the need to reorient the perspective on health spending from a fiscal burden to a long-term strategic investment capable of accelerating economic dynamics and market expansion. In the context of human capital accumulation, the expansion of higher education, especially at the postgraduate level, has a transformative impact on economic productivity. Research ⁵⁴⁹ identified that the increase in the number of graduate students contributes significantly to green total factor productivity through innovative human capital accumulation mechanisms. This phenomenon reflects a shift in the economic paradigm towards a knowledge-based

⁵⁴⁹ Yao et al., “Chinese Mental Health Workers’ Family-Focused Practices: A Cross-Sectional Survey.”

economy where innovation capacity is the main determinant of competitiveness. Graduate students, with their specialized expertise and in-depth research abilities, form a critical mass for green technology innovation that is essential for sustainable development. The process of accumulating human capital through higher education creates positive spillover effects in the form of knowledge diffusion, increasing the absorptive capacity of technology, and creating a conducive innovation ecosystem. These findings reinforce the argument that investment in higher education, particularly postgraduate programs, is an effective strategy to increase economic productivity while driving the transition to a green economy.

The dynamics of the relationship between human capital, natural resources, and economic growth show a complexity that requires a deep understanding of non-linear patterns in sustainable development.⁵⁵⁰ identified that the interaction of the three variables does not follow a simple linear pattern, but rather forms a curve with critical points that determine the trajectory of development. In the early stages of development, the exploitation of natural resources may dominate economic growth, but as human capital accumulates, there is a structural transformation towards a knowledge-based economy. This non-linear pattern implies threshold effects where the accumulation of human capital reaches a critical mass that allows the economy to transition from resource-dependent growth to innovation-driven growth. Understanding this non-linear dynamic is crucial for designing development policies that are adaptive and responsive to the stages of a country's economic development. Globalization has changed the landscape of human capital development by creating unprecedented interconnectedness. Cross-border human capital mobility creates brain circulation that benefits both the country of origin and destination through knowledge transfer, remittances, and diaspora networks. This phenomenon results in economic agglomeration in global cities that become magnets for international talent, creating a dynamic innovation ecosystem. The implication of this trend is the need for policies that facilitate the mobility of human capital while ensuring a fair distribution of benefits between developed and developing countries.

The role of government intervention in addressing market failures is proving crucial, especially in the provision of health services that impact long-term economic efficiency.⁵⁵¹ underlines that market imperfections in the health sector, such as asymmetric information, positive externalities, and characteristics of public goods of preventive health services, require measurable government intervention. Market failures in the allocation of health resources can result in underinvestment in public health, which in turn reduces aggregate economic productivity. Microeconomic analysis shows that the government has

⁵⁵⁰ Zhang, Yu, and Zhang, "Research on Urban Sustainability Based on Neural Network Models and GIS Methods."

⁵⁵¹ Tian et al., "MHealth Interventions for Health System Strengthening in China: A Systematic Review."

a strategic role in correcting market distortions through regulation, subsidies, and direct provision of health services. The effectiveness of this government intervention is not only measured by the improvement of health indicators, but also by its impact on labor productivity and long-term economic growth. Climate change presents multidimensional challenges that threaten the stability of public health and the global economy.⁵⁵² in the Lancet Countdown Report emphasized the urgency of adopting a health-centered approach in responding to the climate crisis. Climate change affects health through a variety of pathways including an increase in vector-borne diseases, heat stress, malnutrition due to food production disruptions, and the mental health impacts of natural disasters. The economic consequences of these health impacts are substantial, including increased healthcare costs, decreased labor productivity, and global supply chain disruptions. A health-centered approach to climate change mitigation and adaptation offers significant co-benefits, where investment in a resilient health system not only protects public health but also maintains economic stability. The integration of health considerations in climate policy creates synergies that strengthen economic resilience to external shocks.

Demographic projections, particularly mortality trends in countries with low mortality rates, have profound implications for health and economic policy planning. However, extending the productive age also opens up opportunities for a second demographic dividend if supported by the right policies. Accurate mortality projections are crucial for social security system planning, health resource allocation, and labor policy design that accommodates the aging workforce. This deep understanding of demographic dynamics allows policymakers to anticipate structural changes in the economy and design proactive interventions. At the regional level, economic recovery is influenced by the complex interplay between international trade, technological innovation, energy investment, and the availability of natural resources. This "resource curse" phenomenon is manifested through Dutch disease, commodity price volatility, and disincentives for economic diversification. An effective economic recovery strategy requires a balance between the use of natural resources and the development of knowledge-based sectors. Investments in green technologies and renewable energy offer a path to addressing the trade-offs between economic growth and environmental sustainability.

Public-Private Partnership (PPP) emerged as a strategic modality in supporting economic reconstruction, especially in the post-conflict or post-crisis context. The PPP model allows for the mobilization of private sector resources, technology transfer, and increased operational efficiency in the provision of healthcare services. However, the

⁵⁵² Hartinger et al., "The 2023 Latin America Report of the Lancet Countdown on Health and Climate Change: The Imperative for Health-Centred Climate-Resilient Development."

success of PPPs requires a robust regulatory framework, fair risk-sharing mechanisms, and alignment incentives between the public and private sectors. In the context of postwar reconstruction, the health PPP not only restores the capacity of health services but also creates multiplier effects through job creation and local economic stimulation. The global evolution of human capital is shaping an increasingly integrated development trend, fundamentally affecting consumption patterns and economic productivity. The digitalization of education and training allows for wider access to skills development, while digital platforms facilitate global collaboration in knowledge creation. These trends result in convergence in global skills standards while maintaining regional specializations that reflect comparative advantage. The implication of these developments is the need to reorient the education and training system to anticipate future skills needs in an increasingly integrated global economy.

6.3.2. Infrastructure as a Critical Transmission Route from Health to Economy

Empirical findings regarding the role of infrastructure as a key mediator between health and market growth reveal complex and multidimensional transmission mechanisms in economic development. The path analysis showed that the indirect effects through the causality chain of health → infrastructure → the market reached very significant values (0.449; $p < 0.001$), indicating the existence of a substantial multiplier effect in the economic system. This phenomenon reflects the reality that healthy populations have a greater capacity to actively participate in infrastructure development, both as productive workers and as contributors to the planning and implementation process. Good health increases the human capital required for the construction, operation, and maintenance of infrastructure, while simultaneously driving demand for better infrastructure. People with optimal health status tend to have aspirations and economic capacity to demand infrastructure improvements, creating political economy dynamics that encourage the allocation of public and private resources to the infrastructure sector. With the direct effect of infrastructure on the market reaching 0.770, this mediation path emerged as the most powerful engine of economic transformation, confirming that infrastructure investment should be a strategic priority in market growth-oriented development policies.

The causal mechanisms that link health to infrastructure development operate through various mutually reinforcing channels. Healthy populations have higher productivity which increases income and fiscal capacity, both at the individual and aggregate levels, which can then be allocated to infrastructure development. Good health also extends productive life and reduces the burden of disease, freeing up resources previously absorbed for curative health care to become available for preventive and productive infrastructure investments. In addition, communities with good health status

tend to have stronger social capital, facilitating collective action for local infrastructure development. Access to quality health services often correlates with the existence of supporting infrastructure such as roads, electricity, clean water, and telecommunications, creating complementarity effects that strengthen the bidirectional relationship between health and infrastructure. A deep understanding of these mechanisms is essential for designing policy interventions that can maximize synergies between health and infrastructure investments.

Infrastructure serves as a fundamental enabler in transforming health into economic growth through reducing transaction costs and expanding market access. Adequate transportation infrastructure lowers logistics costs and expands the effective economic radius, allowing manufacturers to access a wider market and consumers to get a more diverse variety of products. Reliable energy infrastructure increases industrial productivity and allows the adoption of modern technologies that improve production efficiency. Digital infrastructure creates a platform for e-commerce and digital services that transform the way economic transactions are conducted, reducing information asymmetry and increasing market efficiency. Social infrastructure such as health and education facilities not only improves the quality of human capital but also creates economic clusters that attract investment and talent. The cumulative effect of these different types of infrastructure creates an ecosystem conducive to market growth, where reduced friction in economic transactions combined with enhanced productive capacity results in sustainable economic expansion.

The regional context provides empirical evidence that reinforces findings about the critical role of infrastructure in inclusive economic development. Mitra Research (2020) in India revealed that the availability of infrastructure, particularly safe public transport and adequate sanitation facilities, significantly increases the participation of the female labour force. This phenomenon illustrates how infrastructure can overcome gender-specific barriers in labor market access, unlocking previously underutilized economic potential. Increasing women's participation in the labor force not only increases household income but also expands the tax base and consumer spending, creating a virtuous cycle of economic growth. Gender-sensitive infrastructure, such as adequate street lighting and safe public transport, reduces the opportunity costs for women to participate in the formal economy. These findings emphasize the importance of an inclusive approach in infrastructure planning that considers the specific needs of different segments of the population to maximize economic impact.

Failures in the integration of infrastructure planning can result in significant negative consequences for the sustainability of development, as illustrated by the case of Vietnam analyzed by Dung (2022). Fragmentation in urban infrastructure planning results

in inefficient resource allocation, duplication of investment, and missed opportunities for inter-sector synergy. When the construction of roads, drainage systems, power grids, and digital infrastructure is planned separately without adequate coordination, the result is increased construction costs, repeated disruptions to economic activities, and environmental degradation. This failure of integration also creates negative externalities such as pollution, congestion, and urban sprawl that reduce the quality of life and economic productivity. Lessons learned from the Vietnam case emphasize the importance of integrated infrastructure planning that considers interdependencies between systems and optimizes co-location benefits. A holistic approach to infrastructure planning not only improves investment efficiency but also ensures that infrastructure development contributes positively to sustainability goals.

The role of government in the provision of basic infrastructure emerged in response to the inherent characteristics of infrastructure that often show market failures.⁵⁵³ identified that infrastructure, including health infrastructure, has the characteristics of public goods or natural monopoly which makes pure market provision suboptimal. High fixed costs, long payback periods, and positive externalities from infrastructure create a disincentive for the private sector to invest at a socially optimal level. Government intervention through direct provision, regulation, or subsidies is needed to address underinvestment in infrastructure critical to economic growth⁵⁵⁴. However, the effectiveness of government interventions depends on institutional capacity, governance quality, and the ability to address rent-seeking behavior. Microeconomic analysis shows that optimal government intervention in infrastructure requires a balance between addressing market failures and avoiding government failures which can result in inefficient allocation of resources. The public-private partnership (PPP) model has emerged as an innovative modality to overcome government fiscal constraints in infrastructure development while leveraging private sector efficiencies.⁵⁵⁵ in his analysis of the postwar economic reconstruction in Ukraine shows that PPP can accelerate the development of critical infrastructure by combining financial resources, technical expertise, and management capacity from both sectors. PPPs in health infrastructure, for example, can produce modern facilities with the latest technology while ensuring universal access through government regulations. The success of PPP depends on several key factors including clear contractual frameworks, appropriate risk allocation, transparent procurement processes, and robust monitoring mechanisms. A well-designed PPP model can create a win-win situation where

⁵⁵³ Kouskoura et al., "Assessing the Key Factors Measuring Regional Competitiveness."

⁵⁵⁴ Cao et al., "Blue Economy: A New Era of Petroleum Microbiology in a Changing Climate."

⁵⁵⁵ Hongprabhas, "Toward Urban-Rural Linkage Development: Contribution of Climate-Adaptive Agroecology in the Lower Chao Phraya River Basin, Thailand."

the private sector gets reasonable returns while the government can provide public infrastructure without overburdening the budget. International experience shows that PPP is most effective when applied to projects with clear revenue streams and well-defined service standards.

The global dimension of infrastructure challenges is increasingly prominent in the context of the interconnected global economy.⁵⁵⁶ in the analysis of the Global Risks Report identified infrastructure deficit as one of the main systemic risks to global economic stability. Lack of infrastructure, especially in transportation, energy, and digital connectivity, creates bottlenecks in global supply chains that can amplify economic shocks. The COVID-19 pandemic has exposed vulnerabilities in global health infrastructure and shown how infrastructure gaps in one region can have spillover effects around the world. Infrastructure inequality between developed and developing countries also creates divergences in economic opportunities and deepens global inequality. Addressing the global infrastructure gap requires international coordination, innovative financing mechanisms such as green bonds and blended finance, and technology transfer to ensure that developing countries can leapfrog to more sustainable and resilient infrastructure.

Transformation towards a sustainable economy requires a fundamental reorientation in the conception and implementation of infrastructure development.⁵⁵⁷ emphasized that social infrastructure and information technology are not only enablers but prerequisites for sustainable economic transformation. Social infrastructure that includes health, education, and social protection systems creates the human capital foundation necessary for the knowledge economy. Information technology infrastructure enables digitalization that increases resource efficiency and facilitates circular economy models. Green infrastructure that integrates natural systems with the built environment offers co-benefits in the form of ecosystem services while supporting economic activities. An integrated infrastructure development approach that considers social, environmental, and economic dimensions simultaneously is needed to ensure that today's infrastructure investments do not create lock-in effects that hinder future sustainability transitions. This new paradigm requires innovation in planning tools, financing mechanisms, and governance structures to overcome the complexity of the multi-stakeholder and multi-objective nature of sustainable infrastructure development.

⁵⁵⁶ WMF, *The Global Risks Report 2023* (18.^a).

⁵⁵⁷ Atobishi and Mansur, "Bridging Digital Divides: Validating Government ICT Investments Accelerating Sustainable Development Goals."

6.3.3. The Challenge of the Role of Institutions in Transforming Health into Growth

Empirical findings regarding institutional paradoxes in development models reveal complex and counterintuitive phenomena in development economics. Although health showed a very strong influence on institutional quality (0.596; $p < 0.001$), the transmission path from the institution to market expansion proved to be insignificant, even showing a negative trend. The indirect effect through the institutional health chain $\rightarrow \rightarrow$ market which was only -0.08 ($p = 0.208$) and the direct effect of the institution on the market which was also insignificant (-0.135; $p = 0.193$) indicated the fundamental failure of the institution in carrying out its intermediation function. This phenomenon reveals a serious institutional bottleneck—the systemic inability of administrative apparatus, regulatory frameworks, and governance mechanisms to transform the improvement of health indicators into productive economic dynamics⁵⁵⁸. This paradox challenges conventional assumptions in development theory that place institutions as a prerequisite for economic growth. The theoretical implication of these findings is the need for a reconceptualization of the role of institutions in development, where the quality of institutions per se may not be sufficient without functional alignment with the needs of contemporary economic transformation. The mechanism of institutional failure in carrying out its intermediation function can be understood through a multi-level analysis that includes structural, procedural, and behavioral aspects. At the structural level, institutions may experience organizational inertia that makes them unresponsive to changes in socio-economic dynamics produced by improved health. Rigid bureaucracy, excessive hierarchies, and fragmentation of authority between institutions create inefficiencies that hinder the positive transmission of human capital improvements to market expansion. At the procedural level, outdated or overly complex regulatory frameworks can create high transaction costs, hindering entrepreneurship and investment that should be driven by a healthier and more productive population. Red tape, excessive licensing requirements, and convoluted administrative procedures create barriers to entry that reduce market dynamism. At the behavioral level, rent-seeking behavior, corruption, and regulatory capture by interest groups can distort the function of institutions from serving public interest to serving private interests. The combination of these factors creates an institutional trap in which health improvements cannot be translated into economic opportunities because they are hindered by dysfunctional institutions.

⁵⁵⁸ Amin, Bamidele, and Abdullahi, “Public Administration Reform: An Impetus For Good Governance And Political Security In Nigeria.”

Empirical evidence from the regional context reinforces the findings about institutional failures in supporting economic growth.⁵⁵⁹ research in Sub-Saharan Africa found that neither institutional quality nor human development index showed a significant influence on economic growth, confirming the disconnect between institutional development and economic outcomes. This phenomenon is particularly puzzling given that Sub-Saharan Africa has undergone substantial institutional reforms in recent decades, including democratization, decentralization, and adoption of market-oriented policies. Institutional failures in the African context can be attributed to colonial legacies that create extractive institutions, ethnic fragmentation that hinders collective action, and weak state capacity that limits implementation effectiveness. These findings suggest that institutional quality measured through conventional indicators such as rule of law, control of corruption, and government effectiveness may not capture the more important functional dimension, namely the ability of institutions to facilitate economic transformation. The policy implication is the need to focus on the functional capabilities of the institution rather than formal characteristics in the reform agenda. The case of Indonesia analyzed by⁵⁶⁰ provides a concrete illustration of how institutional capture can hinder infrastructure development despite reform efforts. Infrastructure governance reforms in Indonesia that are intended to increase transparency and efficiency are actually captured by vested interests that utilize the new institutional system for rent-seeking purposes. This phenomenon shows that institutional reform without addressing underlying power structures and incentive systems can be counterproductive. Elite capture in new institutions creates pseudo-reforms that maintain the status quo while giving the illusion of change. In the context of infrastructure, this results in project delays, cost overruns, and substandard quality that reduce economic returns from infrastructure investment. Lessons learned from the Indonesian case emphasize the importance of political economy analysis in the design of institutional reforms and the need for robust accountability mechanisms to prevent capture by interest groups.

Contemporary discussions about the role of the state in economic development have undergone significant evolution, as analyzed⁵⁶¹. The reassessment of the value of the state and the effectiveness of government decisions in the allocation of public resources reflects growing skepticism of state-led development models. Paradoxes arise when a state

⁵⁵⁹ Otunba et al., “Designing Capital-Raising Frameworks for Agro Enterprises in Underserved and Volatile Economies.”

⁵⁶⁰ Hensengerth et al., “How to Promote Sustainability? The Challenge of Strategic Spatial Planning in the Vietnamese Mekong Delta.”

⁵⁶¹ Alfiandri and Irawan, “Collaborative Governance in Mangrove Ecotourism Policy on Bintan Island Coastal Approach of Penta Helix.”

that is supposed to correct market failures actually creates more severe government failures. Inefficient resource allocation by public institutions can be caused by information asymmetries, political pressures, misaligned bureaucratic incentives, and lack of market discipline. However, the complete withdrawal of the state from the economy is also problematic given persistent market failures in the provision of public goods and addressing externalities. Contemporary debates have led to the search for an optimal balance between state intervention and market mechanisms, with an emphasis on improving state capacity rather than expanding state scope. Smart governance that is selective in intervention and focused on areas with clear market failures has become a new paradigm in thinking about institutional role in development. The transformation towards a regulatory welfare state analyzed ⁵⁶² reveals new complexities in the relationship between institutions and economic development. The increase in regulation and fiscal transfers post-crisis reflects institutional efforts to address market volatility and social protection needs. However, the proliferation of regulations often creates unintended consequences in the form of increased compliance costs, reduced flexibility, and barriers to innovation⁵⁶³. The regulatory welfare state faces a trilemma between ensuring social protection, maintaining economic competitiveness, and fiscal sustainability. Institutions in this context are often stuck in reactive mode, responding to crises rather than proactively shaping economic transformation. The failure of institutions as transformative agents can be attributed to regulatory complexity that exceeds administrative capacity, conflicting objectives between various regulatory agencies, and lack of coherent vision for long-term economic development. These findings emphasize the need for regulatory coherence and a strategic approach in institutional design.

The dynamics of global governance add layers of complexity in understanding institutional effectiveness in development. ⁵⁶⁴ analyze how the expansion of international institutions such as BRICS has not resulted in significant structural transformations in the global economic architecture. Although the BRICS represent emerging economies with substantial combined economic weight, they are still trapped in the Western-dominated financial system. Path dependency in international institutions creates lock-in effects that are difficult to overcome despite the political will for reform. The failure of the BRICS New Development Bank to become a genuine alternative to Bretton Woods institutions illustrates how institutional innovation at the global level faces structural constraints. The dollar's dominance in international transactions, the network effects of existing financial

⁵⁶² Rahman et al., "Mineral and Coal Mining Regulatory Reform in Indonesia."

⁵⁶³ Oyetade, Harmse, and Zuva, "Internal Organizational Factors Influencing ICT Adoption for Sustainable Growth."

⁵⁶⁴ Carvalho, "Forecasting for Health: The Strategic Role of FP&A and Business Intelligence in U.S. Healthcare Resilience."

infrastructure, and the first-mover advantages of established institutions create barriers to institutional transformation. The implication for developing countries is the limitation in leveraging international institutions for domestic economic transformation. The evolution of development discourse formed by international institutions such as the World Bank, as analyzed ⁵⁶⁵, shows how theoretical frameworks can shape policy practice but do not always produce intended outcomes. The shift from structural adjustment to good governance to inclusive growth reflects the learning process in development thinking, but implementation gaps persist. The disconnect between global development discourse and local realities creates a situation where countries adopt institutional forms without functional substance. Isomorphic mimicry—adopting modern-looking organizational forms without underlying functionality—has become a widespread phenomenon. Institutions in developing countries often adopt best practices from developed countries without considering contextual differences in state capacity, social norms, and economic structures. The result is ceremonial compliance with international standards without substantive improvements in institutional effectiveness for economic development.

The case of governance transformation in China analyzed ⁵⁶⁶ provides a unique perspective on institutional evolution in the context of authoritarian capitalism. China shows that rapid economic growth is possible without liberal democratic institutions, challenging conventional wisdom about institutional prerequisites for development. However, the Chinese model faces inherent tensions between political authoritarianism and the need for economic flexibility and innovation. The synchronization between centralized political control and decentralized economic decision-making creates unique institutional arrangements that are difficult to replicate. State-owned enterprises reform, dual-track pricing system, and experimental approach to policy innovation demonstrate high institutional adaptability. However, the sustainability of this model is questioned as economic complexity and demands for political participation increase. The Chinese lesson emphasizes that institutional effectiveness may be more important than institutional form, but long-term viability requires continuous adaptation. ⁵⁶⁷International institutions face a dilemma between maintaining stability through existing rules and adapting to changing global realities. The rise of the digital economy, climate change imperatives, and shifting geopolitical balance create pressures for institutional innovation that existing structures struggle to accommodate. Incremental reforms are often insufficient to address systemic

⁵⁶⁵ Azwardi, Fuadah, and Syathiri, “Competitiveness and Logistics Performance Index: How Does the Infrastructure Pillar Perform in ASEAN Countries?”

⁵⁶⁶ Li, Fan, and Nie, “Making Governance Agile: Exploring the Role of Artificial Intelligence in China’s Local Governance.”

⁵⁶⁷ Kotenko and Bohnhardt, “Digital Health Projects Financing: Challenges and Opportunities.”

challenges, but radical restructuring faces resistance from vested interests in the current system. Institutional gridlock at the global level has spillover effects at the national level, where domestic institutions are constrained by international commitments and power asymmetries. Emerging proposals for a new international economic order emphasize the need for more flexible, inclusive, and responsive institutional arrangements. However, translation from vision to implementation faces collective action problems and coordination failures inherent in multilateral settings. Future institutional effectiveness will depend on the ability to balance stability with adaptability in an increasingly complex and interconnected global economy.

6.3.4. Policy Implications: Integration, Synergy and Reform

The fundamental repositioning of the health sector from a cost center paradigm to a productive investment is a crucial conceptual transformation in contemporary development policy⁵⁶⁸. This paradigmatic shift requires a comprehensive reframing of the way governments and communities view the allocation of health resources. Traditionally, health expenditure is categorized as consumption expenditure that burdens the public budget without generating immediate economic returns. However, strong empirical evidence on the multiplier effects of health on economic growth demands a radical reconsideration of this accounting framework⁵⁶⁹. Health investment generates returns through various channels: increasing labor productivity through reduced morbidity and extended working life, reducing catastrophic health expenditures freeing up household resources for productive investments, stimulating demand for health-related industries that create employment and innovation, and building more resilient and adaptable human capital. The implementation of this new paradigm requires reforms in public financial management systems to recognize long-term returns from health investments⁵⁷⁰, the development of metrics that capture the comprehensive economic impacts of health programs, and political commitments to sustained funding despite election cycles. The main challenge is to overcome short-term bias in political decision-making and develop institutional mechanisms that protect health investments from budgetary pressures.

The integrated approach between the health sector and infrastructure development represents the evolution from siloed sectoral planning to integrated development strategies.

⁵⁶⁸ Hasani, Rezania, and Mohammadi, "Towards a Framework for Successful Metaverse Adoption in Small and Medium-Sized Enterprises: An Exploratory Study."

⁵⁶⁹ Rosyidi, Sukmaningrum, and Widiastuti, "BIBLIOMETRIC ANALYSIS OF ZAKAT RESEARCH FOR SUPPORTING SDGS."

⁵⁷⁰ MA Dong-ping, YIN Wen-qiang, and TIAN Zhuang, "Total Financial Investment in Maternal Health Care in Beijing and Shanghai: A Comparison Analysis."

This integration is not just administrative coordination but requires a fundamental rethinking of how health programs and infrastructure projects are designed, implemented, and evaluated⁵⁷¹. Co-design of health facilities with transportation networks ensures optimal accessibility, reducing travel time and costs that are often barriers to healthcare utilization. The integration of health considerations in infrastructure planning—such as pedestrian-friendly designs that promote physical activity, green spaces that improve mental health, and water-sanitation infrastructure that prevents diseases—creates health co-benefits from infrastructure investments. In contrast, health programs designed with infrastructure considerations can leverage existing networks for service delivery, using schools as vaccination centers or community centers as health education hubs⁵⁷². The operationalization of this integrated approach requires institutional mechanisms such as inter-ministerial committees with decision-making authority, integrated budgeting processes that allow resource pooling across sectors, joint monitoring and evaluation frameworks that capture cross-sectoral impacts, and capacity building for planners who understand intersectoral linkages. International experience shows that successful integration often starts with pilot projects that demonstrate proof of concept before scaling up.

Institutional reform as a medium-long term priority faces a temporal paradox between the urgency of needs and the time required for meaningful institutional change⁵⁷³. While infrastructure can deliver visible results in relatively short timeframes, institutional reforms operate on longer cycles that involve changes in organizational culture, administrative procedures, legal frameworks, and societal norms^{574 575}. However, postponing institutional reforms on the grounds of focusing on quick wins from infrastructure can create unsustainable development patterns. Weak institutions can undermine infrastructure investments through poor maintenance, corruption in procurement, and inability to adapt to changing needs. The strategic approach to institutional reform requires phased implementation that begins with targeted improvements in critical areas such as public financial management and procurement systems, gradual expansion for comprehensive governance reforms, parallel investments in

⁵⁷¹ Lengkong et al., “Development of the Maternal and Child Health Education Model in North Sulawesi Province.”

⁵⁷² Laurens and Perdana Kusuma Putra, “Poverty Alleviation Efforts through MDG’s and Economic Resources in Indonesia.”

⁵⁷³ Nugraha et al., “Management and Sustainability of BUMDes Businesses Based on Management Functions.”

⁵⁷⁴ Nurhayati et al., “The Predictors of the Quality of Accounting Information System: Do Big Data Analytics Moderate This Conventional Linkage?”

⁵⁷⁵ Sahri et al., “A Critical Review of Marine Mammal Governance and Protection in Indonesia.”

human resource development to build institutional capacity, and creation of feedback mechanisms that allow continuous learning and adaptation. Critical success factors include sustained political commitment beyond electoral cycles, protection of reform initiatives from political interference⁵⁷⁶, engagement with civil society to create demand for better governance, and international partnerships that provide technical assistance and peer pressure for reforms.

A holistic approach that integrates health⁵⁷⁷, infrastructure, and governance as integrated pillars of inclusive and sustainable growth requires sophisticated coordination mechanisms and a shared vision across stakeholders. This holistic approach moves beyond simple addition of sectoral programs to synergistic integration where combined impact exceeds sum of parts. The conceptual framework for integration must recognize complex interdependencies: health outcomes depend on infrastructure access and institutional quality, infrastructure effectiveness requires a healthy workforce and good governance, institutional capacity benefits of a healthy and educated population with adequate infrastructure. Operationalization of a holistic approach requires the development of integrated planning tools such as spatial planning systems that overlay health needs, infrastructure gaps, and governance capacity; creation of multi-stakeholder platforms that bring together government, private sector, civil society, and communities; establishment of integrated monitoring systems that track progress across all three pillars simultaneously; and the design of financing mechanisms that incentivize cross-sectoral collaboration rather than sectoral competition for resources. The main challenge is overcoming institutional silos, professional boundaries, and political economy factors that favor sectoral approaches.

Lessons from developing countries, as analyzed⁵⁷⁸, strengthen the argument for an integrated approach by showing that a synergistic combination of infrastructure, education, and governance results in acceleration in economic growth that cannot be achieved through isolated sectoral interventions. Synergy effects emerge through various mechanisms: educated population can better utilize infrastructure and demand better governance, good governance ensures efficient allocation of resources for education and infrastructure, quality infrastructure facilitates access to educational opportunities and enables good governance through connectivity. Empirical evidence from successful developing countries shows that breakthroughs in development often occur when threshold levels are reached simultaneously across all three dimensions. Countries that focus on only one dimension often experience diminishing returns or even reversals. For example, infrastructure

⁵⁷⁶ Neu and Fünfgeld, "Political Ecologies of Resettlement in River Deltas."

⁵⁷⁷ Khattri, Balaut, and Dogra, "Advancing Sustainable Ecosystem Development."

⁵⁷⁸ Skalli et al., "Industry 4.0 and Lean Six Sigma Integration in Manufacturing: A Literature Review, an Integrated Framework and Proposed Research Perspectives."

investments without an educated workforce to maintain and operate them become white elephants, education investments without infrastructure to enable economic participation results in brain drain, governance reforms without substantive improvements in service delivery lose legitimacy. Strategic implication is the need for balanced investments across all dimensions with careful sequencing that considers country-specific binding constraints.

Innovation in community-based infrastructure development, as shown by the micro-energy projects ⁵⁷⁹, opens up new pathways to achieving multiple development objectives simultaneously. ⁵⁸⁰Community-based approaches to infrastructure development not only deliver physical assets but also strengthen social capital, build local governance capacity, and create a sense of ownership that is crucial for sustainability. Micro-energy projects managed by communities demonstrate that decentralized infrastructure solutions can be more responsive to local needs, more resilient due to local maintenance capacity, and more equitable in the distribution of benefits. The process of community mobilization, planning, implementation, and management of infrastructure projects serves as a practical school for democratic governance, building skills in collective decision-making, resource management, and conflict resolution. Multiplier effects include increased economic activities enabled by reliable energy⁵⁸¹, improved health outcomes from reduced indoor air pollution, enhanced educational opportunities through lighting for evening studies, and strengthened social cohesion through collective action. Scaling up community-based approaches requires supportive policy frameworks, technical assistance for communities, financing mechanisms that are accessible to small-scale projects, and institutional arrangements that recognize and support community management structures.

The integration of global health promotion with political, social, and economic factors, as advocated ⁵⁸², reflects growing recognition that health outcomes are fundamentally shaped by broader determinants beyond healthcare systems. Political determinants of health include governance quality, political stability, respect for human rights, and distributional policies that affect inequality. Social determinants encompass education levels, social networks, cultural norms, and gender relations that influence health behaviors and access to services. Economic determinants include income levels, employment conditions, economic security, and market structures that affect the

⁵⁷⁹ Pelz, Aklin, and Urpelainen, "Supply Preferences and Productive Electricity Use Constraints among Micro and Small Enterprises in Bihar, India."

⁵⁸⁰ Bhushan, Dincă, and Shikha, "Evaluating Local Livelihoods, Sustainable Forest Management, and the Potential for Ecotourism Development in Kaimur Wildlife Sanctuary, India."

⁵⁸¹ Trigo et al., "The Bioeconomy and Food System Transformation."

⁵⁸² St John et al., "Implementation of Medical Tests in a Value-Based Healthcare Environment: A Framework for Delivering Value."

affordability of health services and healthy lifestyles⁵⁸³. An integrated approach to health promotion requires moving beyond biomedical models towards comprehensive strategies that address root causes of health inequities. Implementation challenges include the need for cross-sectoral coordination that is often complicated by different ministerial mandates, the requirement for a long-term perspective when political pressures favor short-term visible interventions, difficulty in attributing health improvements to specific non-health interventions, and resistance from vested interests that benefit from the status quo. Successful integration requires strong political leadership⁵⁸⁴, evidence-based advocacy that demonstrates economic returns from addressing social determinants, community engagement that creates demand for comprehensive approaches, and international cooperation that shares best practices and provides technical support.

The transformation towards a green economy with global institutions and governance that supports inclusive growth, as analyzed ⁵⁸⁵, adds the dimension of environmental sustainability in the integrated development approach. The green economy paradigm recognizes that long-term economic prosperity depends on healthy ecosystems and sustainable resource use, making environmental considerations integral to development planning rather than add-on constraints. Institutional frameworks for the green economy must balance multiple objectives: economic growth that creates jobs and reduces poverty, environmental protection that maintains ecosystem services, and social inclusion that ensures equitable distribution of benefits. Global governance mechanisms play a crucial role in facilitating green transformation through technology transfer, climate finance, capacity building, and coordination of national efforts. However, existing global institutions are often inadequate for challenge, with fragmented mandates, insufficient resources, and limited enforcement capacity. The reform agenda includes strengthening multilateral environmental agreements, creating innovative financing mechanisms such as green bonds and carbon markets, developing global standards for sustainable production, and building institutional capacity in developing countries to implement green policies. The critical challenge is ensuring that green transformation does not exacerbate inequalities by imposing costs on poor countries or communities that are least responsible for environmental problems.

⁵⁸³ MA Dong-ping, YIN Wen-qiang, and TIAN Zhuang, "Total Financial Investment in Maternal Health Care in Beijing and Shanghai: A Comparison Analysis."

⁵⁸⁴ Enang, Asenova, and Bailey, "Identifying Influencing Factors of Sustainable Public Service Transformation: A Systematic Literature Review."

⁵⁸⁵ Ahmad Kholil et al., "Optimizing Islamic Financial Instruments in Indonesia to Support SDGs: Maqashid Syariah Perspective"; Dewananda, Leniwati, and Wicaksono, "Analysis of SDGS Research: The Relationship between Climate Change, Poverty, Inequality, and Food Security: The Indonesian Context."

The role of technology, especially artificial intelligence, as a cross-cutting catalyst for development, as analyzed ⁵⁸⁶, opens up unprecedented opportunities for accelerating progress across health, education, infrastructure, and governance simultaneously. AI applications in health include diagnostic tools that expand access for specialized care, predictive analytics for disease surveillance, and personalized treatment recommendations. In education, AI enables adaptive learning systems, automated grading that frees up teacher time for mentoring, and expanded access through online platforms. Infrastructure benefits from AI through predictive maintenance, traffic optimization, and smart grid management. Governance improvements include AI-powered service delivery, fraud detection, and evidence-based policy making through big data analytics. However, realizing the potential of AI for development requires addressing significant challenges: digital divide that can exacerbate inequalities, the need for regulatory frameworks that balance innovation with protection from risks, requirements for digital literacy and skills development, and ethical considerations around privacy, bias, and accountability⁵⁸⁷. The strategic approach requires public investments in digital infrastructure, partnerships with the private sector for technology development, international cooperation to avoid regulatory fragmentation, and inclusive processes that ensure technology serves development objectives rather than creating new forms of exclusion.

Rural revitalization strategies that integrate agriculture, infrastructure, and social services, ⁵⁸⁸illustrate the practical application of the integrated development approach in challenging contexts. Rural areas often face compound disadvantages of geographic isolation, limited infrastructure, weak institutions, and poor access to services, creating vicious cycles of poverty and underdevelopment. Integrated rural development strategies recognize interconnections between different sectors: agricultural productivity depends on infrastructure for input supply and market access, infrastructure investments require healthy and skilled rural population for maintenance and operation, social services need both agricultural income for affordability and infrastructure for delivery. Successful rural transformation requires simultaneous interventions across multiple fronts: modernization of agricultural practices through extension services and technology adoption, development of rural infrastructure including roads, electricity, and telecommunications, provision of quality health and education services adapted to rural contexts, and strengthening of local

⁵⁸⁶ Li et al., “Changing Collaborative Networks and Transitions in Rural Sustainable Development: Qualitative Lessons from Three Villages in China.”

⁵⁸⁷ Zhong et al., “Assessing the Impact of ICT Adoption on Residents’ Self-Rated Health: Evidence from China.”

⁵⁸⁸ Yuan and Sun, “Practices, Challenges, and Future of Digital Transformation in Smallholder Agriculture: Insights from a Literature Review”; Martínez-Vérez and Lucini Baquero, “Promoting the Sale of Locally Sourced Products: Km 0 as a Sustainable Model for Local Agriculture and CO2 Reduction.”

governance institutions to manage development processes. Implementation challenges include high per capita costs of service delivery in sparsely populated areas, urban bias in resource allocation and political attention, limited local capacity to manage complex development programs⁵⁸⁹, and vulnerability to climate and market shocks. Overcoming challenges requires sustained political commitment to rural development, innovative service delivery models such as mobile health clinics and distance education, community participation in planning and implementation, and risk management mechanisms such as crop insurance and social protection⁵⁹⁰.

The federalism model as a framework for integrated governance⁵⁹¹, offers an institutional architecture that can better accommodate the need for both coordination and local responsiveness in development. Federal systems can potentially address governance challenges by dividing responsibilities between levels of government according to the principle of subsidiarity, allowing for local innovation and experimentation in service delivery, creating mechanisms for horizontal coordination between regions, and providing frameworks for fiscal transfers that address regional inequalities. In the context of integrated development, federalism can facilitate coordination by establishing clear mandates for different levels, creating incentives for intergovernmental cooperation, enabling place-based approaches that respond to local conditions, and providing multiple entry points for citizen participation. However, federalism also brings risks of fragmentation, duplication, and coordination failures if not well designed. Success factors include clear constitutional division of responsibilities, adequate fiscal resources for all levels of government, strong mechanisms for intergovernmental coordination, capacity building for subnational governments, and a political culture that supports cooperation rather than competition between levels. International experience shows that federalism is not a panacea and success depends on careful design adapted to specific country contexts.

The transition to a low-carbon economy with minimal trade-offs and maximum co-benefits, as analyzed⁵⁹², represents the ultimate test of an integrated development approach. Climate action intersects with virtually all aspects of development: energy transition affects economic competitiveness and employment, adaptation measures overlap with disaster risk reduction and infrastructure resilience, mitigation efforts impact food security and land

⁵⁸⁹ Djatmiko, Sinaga, and Pawirosumarto, “Digital Transformation and Social Inclusion in Public Services: A Qualitative Analysis of E-Government Adoption for Marginalized Communities in Sustainable Governance.”

⁵⁹⁰ Reimerson and Flodén, “Navigating Conservation Currents: Conditions for Sámi Agency in Collaborative Governance and Management Models.”

⁵⁹¹ Dhyani et al., “Participatory Stakeholder Assessment for Drivers of Mangrove Loss to Prioritize Evidence-Based Conservation and Restoration in Bhitarkanika and Mahanadi Delta, India.”

⁵⁹² Daka, “Rural Entrepreneurs and Forest Futures: Pathways to Emission Reduction and Sustainable Energy.”

rights, and climate finance competes with other development priorities ⁵⁹³. Achieving synergies rather than trade-offs requires a sophisticated analysis of the interactions between climate actions and development objectives, careful design of policies that maximize co-benefits, strong institutions that can manage complex cross-sectoral programs, and inclusive processes that ensure vulnerable groups do not bear disproportionate costs. Examples of successful integration include renewable energy programs that create local jobs and improve energy access, nature-based solutions that provide climate benefits while supporting livelihoods, and sustainable urban planning that reduces emissions while improving quality of life. Key enablers include integrated assessment tools that identify synergies and trade-offs, financing mechanisms that reward co-benefits, governance structures that facilitate cross-sectoral coordination, and monitoring systems that track multiple outcomes simultaneously. The ultimate challenge is transforming the development paradigm from one that sees climate action as a constraint to one that recognizes environmental sustainability as the foundation for long-term prosperity.

A comprehensive analysis of the relationship between health, infrastructure, institutions, and economic growth reveals the multidimensional complexity in the dynamics of contemporary development⁵⁹⁴. Empirical findings show that health has a very significant total effect on market expansion (0.604; $p < 0.001$), confirming the fundamental role of health as a determinant of economic growth⁵⁹⁵. The transmission mechanism works through direct and indirect channels, where the improvement of the health status of the population contributes to a reduction in absenteeism, increased productivity, stimulation of aggregate consumption, and expansion of economic participation. This new paradigm positions health not just as an indicator of social welfare, but as a form of productive human capital investment that generates long-term economic returns. The role of infrastructure as a key mediator between health and market growth proved to be crucial, with the indirect effects through health pathways $\rightarrow$ infrastructure $\rightarrow$ the market reaching significant values (0.449; $p < 0.001$). Infrastructure serves as a fundamental enabler that transforms health improvement into economic expansion through reduced transaction costs, expanded market access, and increased economic efficiency. With the direct effect of infrastructure on the market of 0.770, this path emerged as the main engine of economic transformation. Empirical evidence from various regional contexts reinforces these findings, suggesting that infrastructure not only increases economic productivity⁵⁹⁶ but also facilitates social

⁵⁹³ Basyith, Fauzi, and Agusria, "Green Finance and Governance: The Effect of Climate Change."

⁵⁹⁴ Bo, "Digital New Quality Productive Forces: The Key Driver of High-Quality and Sustainable Growth in the Global Economy."

⁵⁹⁵ KALASHNIKOVA and GERASYMENKO, "Social Policy as a Factor Ensuring State Sustainability."

⁵⁹⁶ Qazi, "Exploring Global Competitiveness Index 4.0 through the Lens of Country Risk."

inclusion, such as increased participation in women's labor force and rural economic development⁵⁹⁷.

The institutional paradox emerged as a surprising but crucial finding in understanding the development bottleneck. Although health had a strong influence on institutional quality (0.596; $p < 0.001$), the transmission pathway from the institution to the market proved to be insignificant and even tended to be negative (-0.135; $p = 0.193$). The failure of institutions to carry out their intermediation functions reveals a serious institutional trap—the systemic inability of administrative apparatus, regulatory frameworks, and governance mechanisms to transform the improvement of social indicators into productive economic dynamics⁵⁹⁸. This phenomenon is confirmed by empirical evidence from various developing countries that shows the disconnect between institutional quality and economic outcomes, emphasizing that institutional reform requires a focus on functional capabilities rather than formal characteristics. The policy implications of these findings point to the need for fundamental transformation in development approaches. First, the repositioning of the health sector from a cost center to a productive investment requires a paradigmatic change in public financial management and political commitment to sustained funding⁵⁹⁹. Second, an integrated approach between health and infrastructure must be operationalized through co-design programs, integrated budgeting, and joint monitoring frameworks. Third, institutional reform, although it takes longer, is still crucial for sustainability and should be focused on functional capacity building rather than ceremonial compliance⁶⁰⁰.

Learning from various regional contexts and cross-cutting thematic analysis strengthen the argument for a holistic approach in development. The synergistic combination of health investment, infrastructure development, and institutional reform produces multiplier effects that go beyond the sum of parts. Innovations such as community-based infrastructure development, AI technology integration⁶⁰¹, and green economy frameworks offer pathways to achieving multiple development objectives simultaneously. Adaptive governance models, such as federalism or public-private partnerships, can facilitate cross-sectoral coordination while maintaining responsiveness to

⁵⁹⁷ Sahin, “Structural, Social, and Ecological Dimensions of Female Labor Force Participation: A Bayesian Analysis Across National Contexts.”

⁵⁹⁸ Perdana et al., “Strengthening Partnership Ecosystems to Foster Innovation and Empower Farmers Based on Regional Potential in Riau Province.”

⁵⁹⁹ Hipgrave et al., “District Team Problem Solving as an Approach to District Health Programme Planning: A Review, and Survey of Its Status in Selected Districts in Indonesia.”

⁶⁰⁰ Poudel and Adhikari, “Sustainability Analysis of Community-Managed Rural Water Supply Project: A Case Study of Kaski District.”

⁶⁰¹ Adigun, Ajani, and Enakrire, “The Intelligent Libraries: Innovation for a Sustainable Knowledge System in the Fifth (5th) Industrial Revolution.”

local needs. The main challenges in the implementation of the integrated development approach include overcoming institutional silos, managing trade-offs between short-term pressures and long-term objectives, addressing inequality in the distribution of benefits, and ensuring environmental sustainability. Success requires sustained political leadership, evidence-based policy making, inclusive stakeholder engagement, and adaptive management that allows for continuous learning. The transformation towards a sustainable development paradigm requires a fundamental reconceptualization of the relationship between health, economy, and development, where environmental sustainability and social inclusion are not constraints but foundations for long-term prosperity⁶⁰².

The final conclusion emphasizes that sustainable economic development requires orchestrated investments across health, infrastructure, and institutions, with the recognition that health is a productive investment, infrastructure is a critical enabler, and functional institutions are essential foundations. Sectoral fragmentation approaches must be replaced with integrated strategies that recognize and utilize complex interdependencies. The future of development lies in the ability to manage this complexity through adaptive governance, innovative financing, technological integration, and an unwavering commitment to inclusive and sustainable growth that benefits all segments of society while maintaining planetary boundaries for future generations.

⁶⁰² Kouskoura et al., “Assessing the Key Factors Measuring Regional Competitiveness.”

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CHAPTER 7

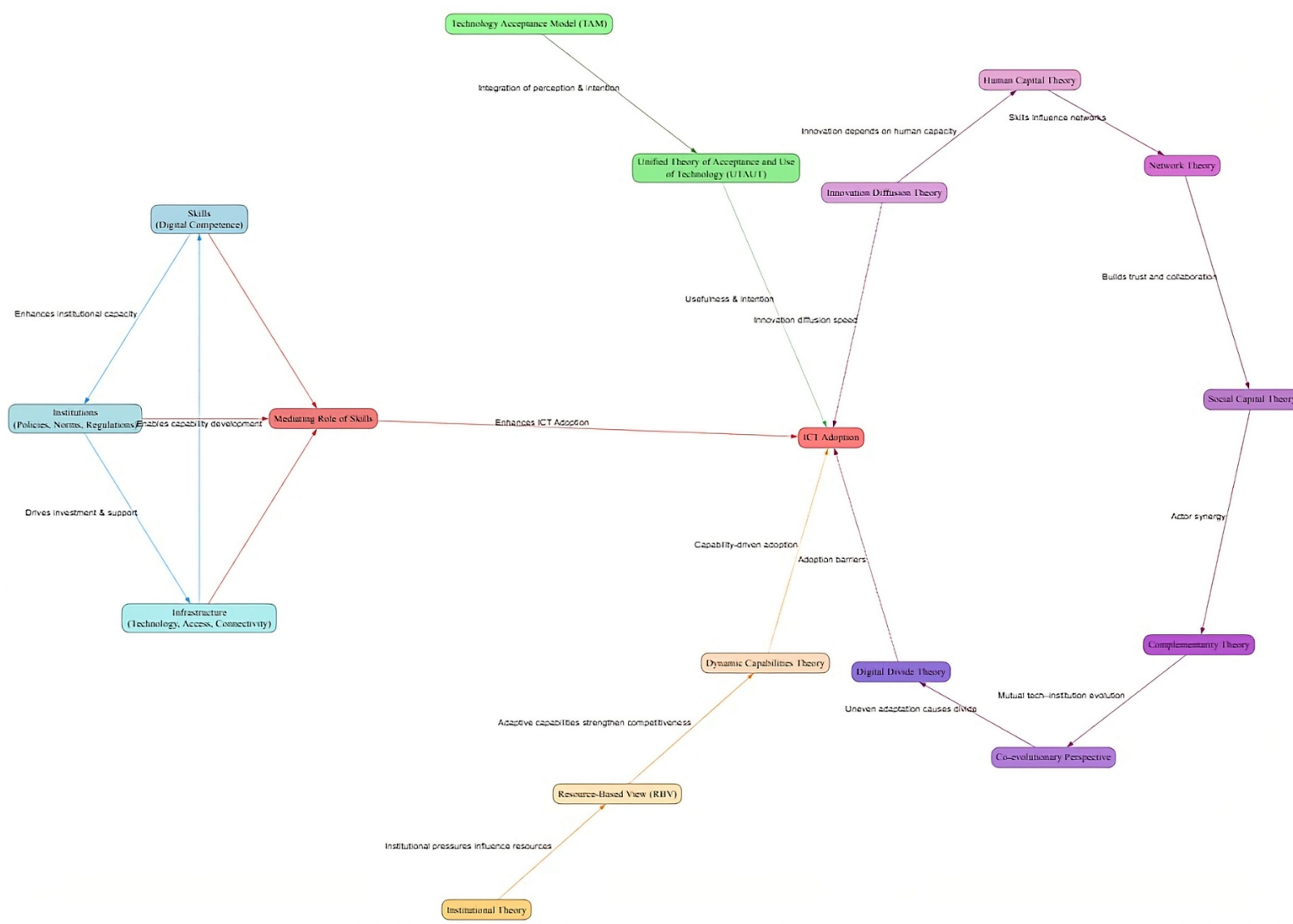
SKILLS, INSTITUTIONS, AND INFRASTRUCTURE: UNRAVELING THE COMPLEXITY OF INFORMATION AND COMMUNICATION TECHNOLOGY ADOPTION

Ari Sasmoko Adi • Andjar Prasetyo

The rapid digital transformation in various sectors demands a deeper understanding of the factors driving the adoption of information and communication technology (ICT). In this context, digital skills occupy a central position as a key lever in the adoption process, not only through the building of individual and organizational capacity, but also through the strengthening of the institutional ecosystem and the infrastructure that supports it. ICT adoption is not a linear process that depends on a single determinant, but rather the result of complex interactions between people, institutions, and technology. Therefore, the mediated analysis of the role of skills in this study seeks to elucidate the causal mechanisms that connect these dimensions empirically and theoretically.

The structural equation modeling (SEM) approach is used to explain how skills affect ICT adoption both directly and through institutional and infrastructure mediation. These two pathways represent a fundamental dimension of digital readiness: institutions reflect governance, regulatory and norm capacities that create an environment conducive to innovation, while infrastructure represents the availability of physical and technological resources that enable the effective use of ICT. By identifying the relative strengths of the two pathways, this analysis provides a comprehensive picture of how investing in skills can strengthen the supporting structures of digital transformation systemically.

Conceptually, this analysis is based on the integration of various cross-disciplinary theories that have been described earlier. The Technology Acceptance Model (TAM) and the Unified Theory of Acceptance and Use of Technology (UTAUT) describe the dimensions of individual perception and intention in using technology, while Institutional Theory highlights the normative and regulatory pressures that shape adoption behavior at the organizational level. The Resource-Based View (RBV) perspective and Dynamic Capabilities Theory provide a framework for understanding how skills become strategic resources that shape an organization's adaptive advantages. In the social context, Innovation Diffusion Theory and Human Capital Theory explain how knowledge and skills spread in social systems, while Network Theory and Social Capital Theory highlight the role of networks and trust in accelerating the diffusion of innovation. The Complementarity and Co-evolutionary approach affirm the importance of synergy and co-evolution between technology, institutions, and humans, while the Digital Divide Theory reminds that access and skills inequality remain a structural challenge that must be overcome. With a strong theoretical foundation and comprehensive empirical evidence, this analysis seeks to confirm that digital skills enhancement is not only an individual factor, but also a systemic catalyst for successful digital adoption and sustainable transformation.



Gambar 7.1. Integrative Conceptual Framework of ICT Adoption: The Mediating Role of Skills

Figure 7.1. visualize an integrative conceptual framework that connects empirical findings with a cross-disciplinary theoretical foundation. This model shows that digital skills play a key driver in encouraging ICT Adoption, both directly and indirectly through two main mediators—Institutions (policies, norms, regulations) and Infrastructure (technology, access, connectivity). The empirical path (blue and red arrows) represents the results of the Structural Equation Modeling (SEM) analysis, which confirms partial-complementary mediation. On the theoretical side, this framework integrates the various theories discussed earlier: Human Capital Theory, Innovation Diffusion Theory, Network and Social Capital Theories, Resource-Based View, Dynamic Capabilities Theory, Digital Divide Theory, and Complementarity and Co-evolutionary Perspectives. Figure 7.1. emphasizing that ICT adoption is a systemic process that occurs through the coevolution between people, institutions, and infrastructure—where the improvement of digital skills is the main catalyst for institutional transformation and strengthening infrastructure that encourages innovation and sustainable technology adoption.

7.1. Interaction between Skills, Institutions, and Infrastructure

Digital transformation has become a global imperative that is changing the economic, social, and institutional landscapes in various countries. However, the speed and depth of information and communication technology (ICT) adoption show significant variation between countries, regions, and organizations. This phenomenon of the digital divide has attracted the attention of researchers, policymakers, and practitioners to understand the determinants that influence the success of ICT adoption. The fundamental question that arises is: why are some entities successfully adopting and utilizing ICT effectively while others are lagging behind in this digital transformation process? Contemporary academic debates have shifted from simple questions about "what" influences ICT adoption to a more nuanced understanding of "how" and "through what mechanisms" those factors work. A deterministic perspective that sees technology adoption as a linear result of the availability of resources or infrastructure has proven insufficient to explain the complexity of this phenomenon. On the contrary, empirical evidence suggests that ICT adoption is the result of a dynamic interaction between various factors that influence and reinforce each other. In this context, three factors have consistently emerged in the literature as key determinants of ICT adoption: human skills, institutional quality, and infrastructure availability. However, understanding of how these three factors interact and influence each other in shaping ICT adoption outcomes is still limited. Do skills directly affect ICT adoption through the increase of the absorptive capacity of individuals and organizations? Or is the influence more indirect, working through institutional strengthening and infrastructure development? These questions have important implications not only for theory but also for public policy design.

This chapter seeks to fill the knowledge gap by investigating the causal mechanisms that link ICT skills, institutions, infrastructure, and adoption through a sophisticated mediation analysis approach. Recent research in Indonesia found that digital literacy mediates the relationship between infrastructure, skills, and the use of ICT in increasing regional income ⁶⁰³.

⁶⁰³ Priambodo, Anwar, and Suharno, "Does Digital Literacy Mediate the Relationship Between ICT and Regional Own-Source Revenue?"

Meanwhile, a study in Ghana shows institutional readiness plays an important role in the adoption of artificial intelligence in public audit institutions, reinforcing the effects of external pressures and e-government readiness ⁶⁰⁴. Similar results were seen in a study in Zanzibar, where technological readiness became an important mediator between human capital and the adoption of e-government services by MSMEs ⁶⁰⁵. In addition, research in Uganda shows that competence and inclusivity mediate digital-based public management reforms ⁶⁰⁶, while another study highlights a model of ability, opportunity, and motivation (COM-B) in predicting citizen participation through e-participation ⁶⁰⁷. Additional research confirms that STEM educational capacity and school ICT capabilities contribute significantly to workforce readiness in smart cities ⁶⁰⁸, as well as that self-efficacy and the use of ICT together improve cross-cultural communication competencies ⁶⁰⁹. The analytical approach adopted in this chapter reflects a commitment to empirical rigor and practical relevance. Using comprehensive data and advanced analysis techniques, this study seeks to provide convincing evidence on the mechanisms underlying ICT adoption. However, more than just an empirical exercise, the analysis also seeks to build bridges between theory and practice, providing actionable insights for policymakers and practitioners grappling with the challenges of digital transformation. It is important to note that the context of this study was an era of pre-knowledge about specific outcomes. That is, the analysis is carried out with an open mind about what might be discovered, without prejudice about which pathway will prove significant or how much of a relative influence of various factors. This theory-guided exploratory approach allows the data to "talk" while remaining grounded in a solid theoretical understanding. The result is an analysis that is both empirically robust and theoretically informed. The complexity of the ICT adoption phenomenon demands an equally sophisticated analytical approach. Simple correlations or linear regression are not enough to capture the nuances of the multi-pathway processes involved. The mediation analysis conducted in this chapter allows for the decomposition of total influences into direct and indirect components, providing a richer understanding of causal mechanisms. Furthermore, by considering multiple mediators simultaneously, this analysis can identify the relative importance of the various pathways and the potential complementarities or substitutions between them.

The temporal relevance of this study cannot be overstated. At a time when the world is facing unprecedented technological disruption and the global pandemic has accelerated the need for digitalization, understanding how to facilitate effective ICT adoption is becoming increasingly critical. Countries and organizations that successfully navigate digital transformation

⁶⁰⁴ Anomah, "Assessing the Institutional Readiness and Capacity for AI Adoption in Public Audit Institutions in Developing Countries: Evidence from Ghana."

⁶⁰⁵ Makame, Kuppusamy, and Sannasai, "Technological Readiness as Mediator to Adoption of E-Government Services in Zanzibar SMEs."

⁶⁰⁶ Nguar, "The Influence of Digital Technology on Public Management Reforms: The Mediating Effects of Competence and Inclusivity."

⁶⁰⁷ Nabafu et al., "Towards Use of Capability, Opportunity and Motivation Model in Predicting Ugandan Citizens' Behavior towards Engagement in Policy Formulation through E-Participation."

⁶⁰⁸ Barba-Sánchez, Orozco-Barbosa, and Arias-Antúnez, "On the Impact of Information Technologies Secondary-School Capacity in Business Development: Evidence From Smart Cities Around the World."

⁶⁰⁹ Li, "Research Self-Efficacy, ICT Usage, and Their Combined Impact on Cross-Cultural Communication Competence: A Systematic Literature Review."

will have a significant competitive advantage, while those that fail are at risk of falling further behind. In this context, insights from this research can provide valuable guidance for strategy and investment. Finally, this chapter also contributes to a broader discussion of development and modernization. ICT adoption is not only a technical issue but deeply intertwined with the broader socio-economic development process. By showing how skills, institutions, and infrastructure interact in influencing technology adoption, this study provides insights into complementarities that need to be considered in a holistic development strategy. This understanding is particularly relevant for developing countries that are trying to leapfrog traditional development stages through the use of digital technology. This chapter offers more than just an empirical analysis of the determinants of ICT adoption. It is an in-depth exploration of how the various elements of the digital ecosystem interact to create conditions conducive (or hinder) to technological transformation. Through a combination of theoretical rigor, methodological sophistication, and practical relevance, the analysis presented is expected to make a meaningful contribution to our understanding of one of the most important phenomena of the contemporary era: how societies adopt and utilize digital technologies for progress and well-being.

7.2. Definition, Scope, and Role of Skills in Regional Development

To provide an in-depth and meaningful interpretation of these empirical findings, a strong theoretical foundation from multiple perspectives is needed. The integration of relevant theories will not only enrich the understanding of the identified causal mechanisms, but also provide a conceptual justification for why such relationships occur.

7.2.1. Technology Acceptance Model (TAM) dan Unified Theory of Acceptance and Use of Technology (UTAUT)

TAM introduced ⁶¹⁰ and its evolution into UTAUT ⁶¹¹ continue to be the main theoretical foundations in explaining the behavior of technology adoption. TAM highlights two core constructs, perceived usefulness and perceived ease of use, which are then expanded in UTAUT into four determinants: performance expectancy, effort expectancy, social influence, and facilitating conditions. Recent studies show the relevance of this model in a variety of technological contexts. For example, bibliometric research ⁶¹² confirms that TAM and UTAUT remain the dominant frameworks in the study of artificial intelligence adoption, although the development of sectoral contexts is still needed. In the context of autonomous vehicles in Indonesia, ⁶¹³ integrated the two models and found that perceived safety and social influence significantly influenced the intention to use new technologies. A similar application was carried out ⁶¹⁴ in a study on the adoption of virtual reality for medical training, which showed that effort

⁶¹⁰ Davis, "Perceived Usefulness, Perceived Ease of Use, and User Acceptance of Information Technology."

⁶¹¹ Venkatesh et al., "User Acceptance of Information Technology: Toward a Unified View."

⁶¹² Khanfar et al., "Determinants of Artificial Intelligence Adoption: Research Themes and Future Directions."

⁶¹³ Widyanti et al., "Driving Forward Together: The Common Intention of Indonesians in Different Residential Areas to Use Autonomous Vehicles."

⁶¹⁴ Wang et al., "Acceptance of Virtual Reality in Trainees Using a Technology Acceptance Model: Survey Study."

expectancy and facilitating conditions play a key role in shaping user behavioral intentions. In the education sector, ⁶¹⁵ highlight that TAM is suitable for explaining early adoption, while UTAUT is more effective at capturing social and organizational factors in academic information systems. Similar findings are reinforced ⁶¹⁶ who assert that perceived ease of use and social influence also have a significant effect on the adoption of sustainable technology among Malaysian SMEs.

In the health sector, ⁶¹⁷ through a systematic review confirmed that the implementation of the UTAUT model requires significant modifications to accommodate psychosocial barriers such as trust, organizational support, and training needs. This basic model needs to be expanded to be able to capture the complexity of the human and institutional factors inherent in the health system. Follow-up research by ⁶¹⁸ also highlights the need for adaptation of similar models in the context of healthcare blockchain adoption, where trust and organizational readiness emerge as key variables that have not been fully accommodated by traditional UTAUT. In addition, ⁶¹⁹ added the perceived dimension of AI threat to UTAUT in the context of hospitals in Vietnam, finding that threat perception to artificial intelligence plays a significant moderator in healthcare workforce adoption intentions. Meanwhile, ⁶²⁰ developed Responsible AI-UTAUT to understand user behavior in Lebanon, emphasizing the importance of ethics and social responsibility in driving the sustainable adoption of intelligent technologies. Furthermore, ⁶²¹ in a review of the last decade of AI-based patient experience affirm that trust, transparency, and organizational readiness are the main determinants of digital technology acceptance in the healthcare sector, reinforcing the urgency of contextual modification of the UTAUT model. These findings are in line with ⁶²² who show that in the context of Indonesian transportation, the adoption of autonomous vehicles is influenced not only by the classical constructs of TAM and UTAUT, but also by contextual factors such as gender, perception of safety, and changes in transportation mode patterns that reflect local socio-cultural dynamics.

The dominance of TAM in educational technology research continues, as confirmed by ⁶²³ identifying that TAM is the most frequently used theoretical framework in online learning studies, with a focus on perceived usefulness and ease of use that remain relevant in various

⁶¹⁵ Ramadhani, Widodo, and Nugraheni, "Comparative Study of Technology Acceptance Models for Academic Information Systems: A Theoretical Review."

⁶¹⁶ Siow et al., "Advancing Sustainable Technology Adoption: Insights from SMEs in Beauty, Health, and Wellness Sectors."

⁶¹⁷ Lee, Ramasamy, and Subbarao, "Understanding Psychosocial Barriers to Healthcare Technology Adoption: A Review of TAM Technology Acceptance Model and Unified Theory of Acceptance and Use of Technology and UTAUT Frameworks."

⁶¹⁸ Abdou et al., "Blockchain Technology Adoption in Healthcare: A Systematic Review and Conceptual Framework."

⁶¹⁹ Trang, Thang, and Vo, "Moderating the AI Revolution: Perceived Threat and Generative AI Implementation in Vietnamese Hospitals."

⁶²⁰ Chedrawi et al., "Exploring the Impact of Responsible AI Usage on Users' Behavioral Intentions."

⁶²¹ K. et al., "Determinants of AI-Enabled Customer Experience across Healthcare Sectors: A Decade in Review."

⁶²² Widyanti et al., "Driving Forward Together: The Common Intention of Indonesians in Different Residential Areas to Use Autonomous Vehicles."

⁶²³ Abuhassna et al., "Trends on Using the Technology Acceptance Model (TAM) for Online Learning: A Bibliometric and Content Analysis."

digital education contexts. The study ⁶²⁴ reinforces these findings through systematic literature review and bibliometric analysis, which highlights three major clusters of research: technology-based approaches, learner motivation factors, and post-pandemic institutional support. In the international context, ⁶²⁵ found that online learning readiness and self-efficacy are important complementary factors for TAM in explaining student adoption behavior at universities. In line with that, ⁶²⁶ show through topic modeling analysis that TAM is now evolving to include new issues such as AI-driven pedagogy and professional domain-based learning, marking a paradigm expansion towards intelligent learning technologies. ⁶²⁷ also shows how TAM is applied to understand the influence of technology on digital reading literacy and learning motivation, especially in the context of language learning and basic education. On the other hand, ⁶²⁸ affirm through a thorough review that although TAM dominates research on technology user behavior, this model shows limitations in the context of new technologies such as artificial intelligence and adaptive learning analytics. These findings indicate an urgent need for further development of both models in order to capture the complexity of new technologies that often involve more sophisticated human-machine interactions.

Responding to the challenge of integrating technology adoption models with individual factors, ⁶²⁹ show that the addition of consumer innovativeness variables to the TAM and UTAUT frameworks significantly improves the model's predictive ability to explain digital app adoption behavior, particularly in the context of golf applications. These findings reinforce the direction of model development towards a more adaptive approach to individual differences.⁶³⁰ study confirmed similar results in the context of mobile payment adoption in India by integrating the constructs of personal innovativeness, trust, and anxiety into the meta-UTAUT model, finding that individual variables play an important mediating role between performance expectancy and behavioral intent. In the broader domain of digital transformation, ⁶³¹ through a meta-analysis of 88 international studies found that personal innovativeness and compatibility are the main determinants of technology adoption intention, confirming the importance of individual factors in mediating the relationship between ease of use and behavioral intention. Research ⁶³² on embedded payment systems in Türkiye shows that personal innovativeness,

⁶²⁴ Januarita, Isnanto, and Widodo, "E-Learning Acceptance: A Hybrid Systematic Literature Review And Bibliometric Analysis."

⁶²⁵ Hassan Abuhassna et al., "Understanding Online Learning Readiness among University Students: A Bibliometric Analysis."

⁶²⁶ Jiang, Li, and Gan, "Technology Acceptance Model for Online Education: Identifying Interdisciplinary Topics and Their Evolution Based on BERTopic Model."

⁶²⁷ Bulut, "Reading Technologies From a Temporal Perspective: Evolution, Adaptation and Future Vision."

⁶²⁸ Musa et al., "Marketing Research Trends Using Technology Acceptance Model (TAM): A Comprehensive Review of Researches (2002–2022)."

⁶²⁹ Kim and Kang, "An Empirical Research: Incorporation of User Innovativeness into TAM and UTAUT in Adopting a Golf App."

⁶³⁰ Patil et al., "Understanding Consumer Adoption of Mobile Payment in India: Extending Meta-UTAUT Model with Personal Innovativeness, Anxiety, Trust, and Grievance Redressal."

⁶³¹ Cavalcanti, Oliveira, and de Oliveira Santini, "Drivers of Digital Transformation Adoption: A Weight and Meta-Analysis."

⁶³² Demir, Özsoy, and Saygılı, "The Technological Shift towards Embedded Payments: An Examination of Young Consumers' Intention."

hedonic motivation, and trust explain more than 70% of variations in intent to use, while perceived ease of use is no longer significant—signaling a shift in the relevance of traditional constructs of TAM in the context of new technologies. In addition, ⁶³³ extend UTAUT in the context of Augmented Reality by adding security concerns and technostress constructs, finding that personal innovativeness remains the main predictor of technology adoption in the Society 5.0 ecosystem. ⁶³⁴ emphasized in a study on the adoption of e-wallets in Vietnam that adoption readiness and personal innovativeness play an important role in shaping perceived risk and user behavioral intentions. Overall, the current empirical evidence reinforces the conclusion that TAM and UTAUT remain strong theoretical foundations for understanding technology adoption behavior, but their relevance depends heavily on the ability to adapt the model to contextual dynamics and individual factors such as skill and innovativeness.

7.2.2. Institutional Theory

The institutional theories pioneered ⁶³⁵ and developed ⁶³⁶ continue to prove relevant in explaining the adoption of technology in diverse socio-economic contexts. This framework, which highlights the interaction between formal and informal institutions and the three main pillars—regulative, normative, and cultural-cognitive—is able to explain how institutional conditions affect the success and barriers to technology diffusion in various contexts. In the context of the base-of-the-pyramid market, ⁶³⁷ show that institutional voids in the service ecosystem lead to low adoption rates of transformational innovations, emphasizing the importance of understanding formal rules and informal norms in designing technology adoption strategies. ⁶³⁸ research on digital payment systems in Nigeria highlights how constitutive rules and social norms together shape the institutionalization of financial technology, supporting Scott's view of inter-pillar institutional interactions. Meanwhile, ⁶³⁹ found that digital entrepreneurship in Latin America is heavily influenced by changes in regulative, normative, and cognitive pillars, which collectively determine the legitimacy of innovation and startup success in the digital ecosystem. ⁶⁴⁰ also show that community support and the utilization of digital technologies are able to close institutional gaps in India, accelerating the emergence of digital entrepreneurship in rural areas. In the global context of business, ⁶⁴¹ emphasize that institutional adaptability is a key component in the resilience strategy engine that helps companies survive in

⁶³³ Mahajan and Taggar, “Augmented Reality Adoption: Exploring Security Concerns and Consumer Resourcefulness in the Era of Society 5.0.”

⁶³⁴ Truc, “Empowering Tomorrow: Unleashing the Power of e-Wallets with Adoption Readiness, Personal Innovativeness, and Perceived Risk to Client’s Intention.”

⁶³⁵ Faundez, “Douglass North’s Theory of Institutions: Lessons for Law and Development.”

⁶³⁶ Scott, “The Adolescence of Institutional Theory.”

⁶³⁷ Greene, van Riel, and Bloemer, “Invisible Rules: How Institutional Voids in Base-of-the-Pyramid Markets Influence Adoption and Diffusion of Transformative Service Innovations.”

⁶³⁸ Ehret and Olaniyan, “Banking the Unbanked. Constitutive Rules and the Institutionalization of Mobile Payment Systems in Nigeria.”

⁶³⁹ Klein and Braido, “Institutional Factors Related to Digital Entrepreneurship by Startups and <sc>SMEs</Sc> in the <sc>Latin American</Sc> Context: Two Cases in <sc>Brazil</Sc>.”

⁶⁴⁰ Soluk, Kammerlander, and Darwin, “Digital Entrepreneurship in Developing Countries: The Role of Institutional Voids.”

⁶⁴¹ Malik and Terzidis, “Thriving in Turbulence: Resilience and Strategic Adaptation in Global Business.”

the midst of geopolitical uncertainty. A similar approach is put forward ⁶⁴² who highlight how regulative, normative, and cognitive vacuums influence the choice between open and closed innovation in organizational innovation governance. Contemporary studies confirm the vitality of institutional theory in explaining the phenomenon of technology adoption in developing countries. This phenomenon illustrates how the absence or weakness of formal institutional structures can create spaces in which informal mechanisms predominate, often in ways that are not conducive to technology adoption.

In the realm of public administration, ⁶⁴³ emphasized that visionary and collaborative digital leadership is a catalyst for Indonesian government innovation in the midst of the INA Digital GovTech reform, although bureaucratic rigidity remains a major obstacle. Research ⁶⁴⁴ shows that fragmented institutional structures hinder interoperability between agencies in electronic-based government systems. From the point of view of institutional theory, ⁶⁴⁵ highlight the importance of building a digital institutional architecture that is adaptive and supports the development of the national economy based on digitalization. Meanwhile, ⁶⁴⁶ emphasize the role of knowledge management in orchestrating systemic transformation at the regional level in the context of the Industrial Revolution 4.0. In the perspective of sustainability governance, ⁶⁴⁷ introduced the Integrated Model for Sustainable Development (IMSD) model that combines institutional theory and resource-based views to strengthen institutional resilience and social justice in energy policy. As shown ⁶⁴⁸, the implementation of the Nigerian Data Protection Regulation (NDPR) encourages organizations to standardize their IT processes and assets to gain institutional legitimacy, not just efficiency. Research ⁶⁴⁹ shows that compliance with legal and regulatory standards is a key driver of cloud computing adoption in the public sector, although organizational resistance and data protection risks remain major challenges. In the context of artificial intelligence governance, ⁶⁵⁰ found that the draft Artificial Intelligence Basic Law in Taiwan still has serious gaps related to algorithmic transparency, data rights, and public accountability, which can hinder institutional legitimacy in AI-based HR management. In the financial sector, ⁶⁵¹ emphasized that AI regulations in the United States, Malaysia, and Indonesia

⁶⁴² Liedong, Peprah, and Eyong, "Institutional Voids and Innovation Governance: A Conceptual Exposition of the Open versus Closed Architecture Choice."

⁶⁴³ Ariawan et al., "Digital Leadership and Innovation in Indonesia's Public Administration: Insights from the Govtech INA Digital Reform."

⁶⁴⁴ Kasiwi, Wahyuni, and Ratminto, "DIGITAL TRANSFORMATION AND CROSS-ORGANIZATIONAL INTEROPERABILITY IN ELECTRONIC-BASED GOVERNMENT SYSTEMS."

⁶⁴⁵ Mashchenko and Radiev, "INSTITUTIONAL ENVIRONMENT OF THE DIGITAL ECONOMY SECTOR."

⁶⁴⁶ Slonimska, Dubko, and Veretennikova, "Regional Development: Organizational and Economic Mechanism in the Context of the Fourth Industrial Revolution."

⁶⁴⁷ Fagerland and Bleveans, "Strategic Corporate Diversity Responsibility (CDR) as a Catalyst for Sustainable Governance: Integrating Equity, Climate Resilience, and Renewable Energy in the IMSD Framework."

⁶⁴⁸ Agbali et al., "Data Privacy and Protection: The Role of Regulation and Implications for Data Controllers in Developing Countries."

⁶⁴⁹ Entsie, Aidoo, and Vaz, "Systematic Review of Cloud Computing Adoption in the Public Sector: Insights from the TOE Framework and DOI Theory."

⁶⁵⁰ Yang, "Governing AI in Public HRM: A Critical Analysis of Taiwan's Draft Artificial Intelligence Basic Law."

⁶⁵¹ Ooi, "ANALYSIS OF ARTIFICIAL INTELLIGENCE IN FINANCIAL REGULATION IN MALAYSIA, INDONESIA, AND THE UNITED STATES."

show varying effectiveness in balancing innovation and systemic risk mitigation; Regulatory legitimacy has been shown to strengthen consumer confidence and technology adoption . In the realm of digital finance, ⁶⁵² demonstrated that compliance with government policies and regulatory oversight strengthens investor confidence in the adoption of Spot Bitcoin Exchange Traded Products (ETPs), where the legitimacy factor is more influential than pure profit motives. ⁶⁵³ assert that blockchain-based decentralized trust mechanisms fundamentally challenge traditional institutional frameworks in the banking, healthcare, and governance sectors, demonstrating a shift from regulatory compliance to autonomous digital legitimacy. The regulatory dimension of institutional theory is given special attention in the context of data protection and organizational compliance. Institutional theory provides a very robust framework for understanding the complexity of technology adoption in diverse socio-economic contexts. This framework allows researchers and practitioners to look beyond technical and economic factors, recognizing the crucial role of social norms, cultural values, regulatory structures, and political dynamics in shaping the trajectory of technology adoption. This holistic understanding is especially important in the context of developing countries and sectors facing institutional voids, where the success of technology adoption relies heavily on the ability to navigate and transform complex and often contradictory institutional landscapes.

7.2.3. Resource-Based View (RBV) dan Dynamic Capabilities Theory (DCT)

RBV pioneered ⁶⁵⁴ and Dynamic Capabilities Theory developed ⁶⁵⁵ has become a fundamental theoretical foundation in understanding how organizations adopt and utilize technology to create a competitive advantage. RBV emphasizes the importance of resources that meet the VRIN (valuable, rare, inimitable, and non-substitutable) criteria as the basis of sustainable competitive advantage, while DCT expands this perspective by focusing on the organization's ability to dynamically integrate, build, and reconfigure internal and external competencies in response to changing environments. These two theoretical frameworks have proven to be highly relevant in explaining the complexity of technology adoption in the era of rapid digital transformation. RBV and DCT continue to be the key foundation in explaining how organizations leverage technology to achieve a competitive advantage in the digital age. In the context of SMEs, ⁶⁵⁶ show that dynamic capabilities play an important role in accelerating the digital transformation of SMEs in the Czech Republic, helping companies become more competitive and resilient to digital threats. ⁶⁵⁷ confirms that resource integration and strengthening organizational capabilities are the main mechanisms that link technology

⁶⁵² Hasavari, Maddah, and Esmaeilzadeh, "Government Oversight and Institutional Influence: Exploring the Dynamics of Individual Adoption of Spot Bitcoin ETPs."

⁶⁵³ Ramya S Yamikar, Shaheen Banu, and Asiya Banu B, "Disrupting Traditional Trust: A Longitudinal Study of Blockchain Adoption Outcomes in Banking, Healthcare, and Government."

⁶⁵⁴ Barney, "Firm Resources and Sustained Competitive Advantage."

⁶⁵⁵ Teece, Pisano, and Shuen, "Dynamic Capabilities and Strategic Management."

⁶⁵⁶ Civelek, Krajčik, and Ključnikov, "The Impacts of Dynamic Capabilities on SMEs' Digital Transformation Process: The Resource-Based View Perspective."

⁶⁵⁷ Hsiao, "Resource Integration and Firm Performance through Organizational Capabilities for Digital Transformation."

investment with improving company performance. In the manufacturing sector, ⁶⁵⁸ found that digital transformation readiness is greatly influenced by an organization's ability to detect and capture change opportunities (sensing and seizing capabilities) and an organizational culture that supports innovation. In the telecommunications sector, ⁶⁵⁹ integrate RBV, DCT, and social cognitive theory to explain organizational performance, showing that excellence comes not only from VRIN resources, but also from adaptive abilities and managerial learning. ⁶⁶⁰ emphasized that green digital transformation improves sustainable development performance through the mediation of green knowledge sharing and dynamic capabilities.

The integrative perspective between RBV and DCT further emphasizes that successful technology adoption depends on the synergy between strategic resources, business model innovation, and organizational adaptability to environmental changes. In the context of the electric vehicle market, ⁶⁶¹ emphasized that digital transformation, organizational agility, and innovation capabilities are mutually reinforcing to improve the performance of companies in China's electric vehicle industry. In line with that, ⁶⁶² integrates DCT with the Technology–Organization–Environment (TOE) framework and ESG principles, showing how companies like Tesla and Unilever are strategically navigating innovation and sustainability pressures. In the realm of big data and AI, ⁶⁶³ found that the adoption of Big Data Analytics in the Indian hydrocarbon industry not only improves operational efficiency but also strengthens dynamic capabilities through organizational learning and predictive innovation. While ⁶⁶⁴ highlight how the integration of Digital Twins and big data in the smart mobility ecosystem creates a sustainable cycle of data-driven innovation that strengthens the competitiveness of urban ecosystems. Furthermore, ⁶⁶⁵ show that AI-based startups are able to revolutionize traditional business models through integration between technological resources (RBV) and adaptive capabilities (DCT), making artificial intelligence a new foundation for value creation.

In the context of MSMEs, the Dynamic Capabilities Theory application reveals important nuances in the technology adoption process. In the context of MSMEs, the application of DCT and RBV provides a deeper understanding of how organizational capabilities shape the technology adoption process. ⁶⁶⁶ highlight limited resources and organizational support as the

⁶⁵⁸ Ahmed et al., “Digital Transformation in Malaysian Manufacturing: A Study of Change Sensing and Seizing Capabilities.”

⁶⁵⁹ Hudoyo and Hendayana, “Integrating Resource-Based, External Dependency, Dynamic Capability, and Social Cognitive Perspectives to Explain Organizational Performance in Context of PT Telkom Indonesia.”

⁶⁶⁰ Belyamani et al., “Pathways Linking Green Digital Transformation to Sustainable Development through Knowledge Sharing and Dynamic Capabilities.”

⁶⁶¹ Panichakarn et al., “The Interplay of Digital Transformation, Agility, Environmental Volatility, and Innovation to Spur Enterprise Performance: Evidence from Chinese Electric Vehicle Firms.”

⁶⁶² Abbas, “Strategic Pathways for Innovation and Sustainability in Digital Transformation: Insights from Leading Global Companies.”

⁶⁶³ Bharatiya, “Adoption and Impact of Big Data Analytics: Review of Hydrocarbon Sector in India.”

⁶⁶⁴ Loia, Perillo, and Gravili, “Unleashing the Power of Digital Twin and Big Data as a New Frontier for Smart Mobility: An Ecosystem Perspective.”

⁶⁶⁵ FIGURA, JURACKA, and IMPPOLA, “From Idea to Impact: The Role of Artificial Intelligence in the Transformation of Business Models.”

⁶⁶⁶ Ndiata, Masood, and Mehnen, “Enabling Digital Transformation in Food Manufacturing Small and Medium Enterprises: Key Drivers, Barriers and Strategic Frameworks.”

main obstacles to digital transformation in the food manufacturing sector. In a cross-industry study, ⁶⁶⁷ found that supply chain transparency, adaptability, and organizational agility are driving blockchain adoption among manufacturing MSMEs in Malaysia, while ⁶⁶⁸ demonstrate the importance of RBV-based security and managerial factors in the sustainability of UK manufacturing supply chains. At the strategic level, ⁶⁶⁹ show that the integration of blockchain technology and the circular economy can improve the sustainable performance of MSMEs.

An interesting theoretical expansion is seen in the integration of artificial intelligence as a new form of dynamic capability. ⁶⁷⁰ research that proves that the application of AI and Business Intelligence significantly improves the efficiency and excellence of the supply chain through the mediating role of predictive analytics and organizational readiness in Oman. In the context of agribusiness, ⁶⁷¹ show that digital transformation improves operational sustainability through innovation capability mechanisms and digital integration in China's agricultural sector, confirming the close interaction between RBV, DCT, and resource efficiency. In line with that, ⁶⁷² found that the application of AI in agricultural supply chains strengthens resilience and performance through increased information sharing and supply chain resilience. In the context of logistics and cold chain, ⁶⁷³ through a systematic review showed that Digital Twin creates a new synergy between standardization and service innovation, strengthening resource efficiency through the establishment of cross-partner digital capabilities. Furthermore, ⁶⁷⁴ found that organizational learning capabilities reinforce the impact of digitalization on pharmaceutical supply chain performance in Jordan. RBV and Dynamic Capabilities Theory provide a very robust framework for understanding technology adoption as a complex strategic process. This framework allows for a more nuanced understanding of how organizations not only adopt technology but also transform it into a source of competitive advantage through the development of unique capabilities. This perspective is particularly relevant in an era where technology is evolving rapidly and competitive advantage increasingly depends on an organization's ability to dynamically adapt and integrate new technologies into existing resource architectures and capabilities.

⁶⁶⁷ Iranmanesh et al., "Effects of Supply Chain Transparency, Alignment, Adaptability, and Agility on Blockchain Adoption in Supply Chain among SMEs."

⁶⁶⁸ Ali et al., "Blockchain-Based Security Factors on Sustainable Supply Chain Management in UK Manufacturing Firms: A Hybrid SEM-ANN Approach."

⁶⁶⁹ Hassan et al., "Interconnection between the Role of Blockchain Technologies, Supply Chain Integration, and Circular Economy: A Case of Small and Medium-Sized Enterprises in Pakistan."

⁶⁷⁰ Abdelfattah et al., "Harnessing Artificial Intelligence, Business Intelligence, and Digital Technologies for Achieving Supply Chain Excellence in Oman: Investigating the Mediating Role of Predictive Analytics."

⁶⁷¹ Wang et al., "How Does Digital Technology Enhance Sustainable Operations in Agribusiness? A Case Analysis of a Chinese Agricultural Enterprise."

⁶⁷² Yin et al., "The Impact of AI Applications, Information Sharing, and Supply Chain Resilience on Agricultural Supply Chain Performance."

⁶⁷³ Liu, Pan, and Ballot, "Unveiling the Potential of Digital Twins in Logistics and Supply Chain Management: Services, Capabilities, and Research Opportunities."

⁶⁷⁴ Tarawneh and Alzghoul, "Unlocking Digital Payoffs in Pharmaceutical Supply Chains: Organizational Learning Capability as a Boundary Condition."

7.2.4. Innovation Diffusion Theory

The Diffusion of Innovation Theory developed ⁶⁷⁵ remains a fundamental theoretical framework in understanding the dynamics of technology deployment in social systems. Rogers identifies five key characteristics of innovation that determine the rate of adoption: relative advantage, compatibility, complexity, trialability, and observability. This theory also emphasizes the crucial role of change agents and opinion leaders as catalysts in the diffusion process. In the context of ICT adoption, user skills are emerging as an important enabler that significantly lowers perceived complexity, facilitating a smoother and faster adoption process. The contemporary relevance of innovation diffusion theory is confirmed through its broad application across sectors. ⁶⁷⁶ developed an Encapsulated Conceptual Framework to explain the relevance of social contexts and local values in the application of ICT for freshwater management and environmental sustainability. In the context of regional development, ⁶⁷⁷ use the innovation diffusion framework to analyze how the technology of the Fourth Industrial Revolution (AI, IoT, blockchain) is integrated in local government reform in South Africa, while ⁶⁷⁸ highlights the paradox of internet technology adoption in Indonesia, where increased internet penetration accelerates economic growth but also widens income gaps— demonstrate the complexity of the social effects of technology diffusion. ⁶⁷⁹ add that in the context of Sub-Saharan Africa, ICT diffusion only has a positive impact on sustainable development when the quality of public governance is an effective moderator. ⁶⁸⁰ through a systematic review show how mobile applications in public services in Africa facilitate improved services and citizen participation, strengthening the function of change agents and opinion leaders as described ⁶⁸¹.

In the renewable energy sector, this comprehensive approach shows how Rogers' classic characteristics can be extended and operationalized for complex contemporary technologies. A similar evolution is seen in the domain of education, where ⁶⁸² identifies the pivotal role of change agents and early adopters in expanding the use of virtual laboratories. The integration of innovation diffusion theory with other theoretical frameworks results in richer insights into the technology adoption process. A similar integrative approach was applied ⁶⁸³ who combined DOIs with the Unified Theory of Acceptance and Use of Technology (UTAUT) to analyze the challenges of mass electric vehicle adoption in Germany, showing that risk mitigation strategies through carsharing models can accelerate adoption among early and late majorities. In addition,

⁶⁷⁵ Everett M. Rogers, *Diffusion of Innovations*.

⁶⁷⁶ Mongi, "The Context Relevance of ICT, Freshwater Management Activity and Sustainability Goal: A Proposed Encapsulated Conceptual Framework."

⁶⁷⁷ SEOPETSA and NEL-SANDERS, "EXAMINING BEST PRACTICES FOR LOCAL GOVERNMENT REFORM IN THE FOURTH INDUSTRIAL REVOLUTION."

⁶⁷⁸ Jamil, "LESS INCLUSIVE GROWTH IN INDONESIA? THE UNINTENDED CONSEQUENCES OF INTERNET PENETRATION."

⁶⁷⁹ Rakotondrazaka and Xu, "Does Import of Information and Communications Technology (ICT) Goods Foster Sustainable Economic Development in Sub-Saharan Africa? The Role of Governance Quality."

⁶⁸⁰ Chemisto et al., "Rationalizing Effects of Mobile Applications: A Systematic Review of Literature."

⁶⁸¹ Everett M. Rogers, *Diffusion of Innovations*.

⁶⁸² Bongomin et al., "Industry 4.0 Disruption and Its Neologisms in Major Industrial Sectors: A State of the Art."

⁶⁸³ Kraus et al., "From Moon Landing to Metaverse: Tracing the Evolution of Technological Forecasting and Social Change."

⁶⁸⁴ affirm the relevance of innovation diffusion theory in the context of modern precision agriculture, where the application of IoT sensors and data analytics is the main driver of the diffusion of sustainable farming practices. These cross-sectoral findings confirm that innovation diffusion theory remains an important foundation in understanding the deployment of contemporary technologies—both in the context of renewable energy, digital education, and industrial transformation—as they continue to evolve in line with today's social and technological complexities.

The central position of Innovation Diffusion Theory in the academic literature is reinforced by a wide range of cutting-edge studies that affirm its relevance and flexibility in explaining the deployment of new digital technologies. ⁶⁸⁵ identified the diffusion determinants of next-generation digital technologies such as AI and IoT, highlighting the importance of R&D investment and intangible assets as the main drivers of adoption. ⁶⁸⁶ integrate innovation diffusion theory with institutional theory to explain the factors that accelerate or inhibit the adoption of digital technologies across countries. This study shows that a supportive regulatory environment and national digital literacy are a determining factor for the success of contemporary technology diffusion. In the context of fintech, ⁶⁸⁷ applied diffusion theory to understand how AI- and blockchain-based identity technologies are adopted in Nigeria, highlighting the role of change agents and perceptions of algorithmic risk in determining the speed of adoption. In the environmental sector, ⁶⁸⁸ through a systematic review showed how the integration of AI in eco-friendly packaging innovation faces diffusion barriers such as technical complexity and regulatory uncertainty, reinforcing the relevance of the complexity and compatibility dimensions of Rogers in the context of sustainability. ⁶⁸⁹ highlight the diffusion aspect of digital governance and AML compliance in Southeast Asia, showing how regulatory pressures and institutional readiness are influencing the adoption of new digital systems in Malaysia and Indonesia. These findings confirm that the theory of innovation diffusion not only survives as a classical conceptual framework, but also continues to evolve dynamically by integrating on new theories and being applied to increasingly complex technological domains such as AI, blockchain, and digital transformation.

⁶⁸⁴ Muthukumar and Karthick, "Recent Progress in the Implementation of Sustainable Farming."

⁶⁸⁵ Cho et al., "What's Driving the Diffusion of next-Generation Digital Technologies?"

⁶⁸⁶ Xiao et al., "Overcoming Barriers and Seizing Opportunities in the Innovative Adoption of Next-Generation Digital Technologies."

⁶⁸⁷ Oluwatobi Julius Ogunjide et al., "The Role of Artificial Intelligence in Identity Technologies: A Comprehensive Analysis of the Nigerian Fintech Ecosystem."

⁶⁸⁸ Ma et al., "Artificial Intelligence-Driven Green Innovation in Packaging: A Systematic Review of Adoption and Diffusion Challenges."

⁶⁸⁹ Binti Shafie et al., "Digital AML Governance in Transition: A Comparative Institutional Analysis of Malaysia and Indonesia."

7.2.5. Human Capital Theory

The transformation of Human Capital Theory developed ⁶⁹⁰ and ⁶⁹¹ is increasingly evident in the digital age, when the focus shifts from formal education to the integration of digital skills and technological literacy. ⁶⁹² asserts that the Fourth Industrial Revolution has transformed the economic structure and competencies of the workforce, where indicators such as domestic patents and technological penetration have a significant effect on the productivity of the industrial sector in South Africa. In the European context, ⁶⁹³ show that regional AI-based knowledge stocks encourage the birth of innovative ventures and indicate the role of AI-based human capital as a generalized enabler of cross-sector innovation. Furthermore, ⁶⁹⁴ examined the influence of ICT use on the mobility of migrant workers in China and found that the use of digital technology expands geographic diversity and inclusivity of the workforce. In the context of Southern Europe, ⁶⁹⁵ show that the digital divide among Italian companies is mainly due to low digital skills and managerial capabilities, confirming the importance of investing in the development of digital human capital to support industrial transformation.

The implementation of human capital theory in the digital era faces significant challenges, in the context of legal reform and human resource policies reviewed ⁶⁹⁶ in their study of the legal framework for human capital investment in the industry 5.0 era, which emphasizes the importance of legal governance in supporting digital transformation and workforce sustainability. This perspective is in line with the findings of ⁶⁹⁷ who emphasized that reskilling and upskilling the future workforce is the key to readiness for Industry 4.0, where lifelong learning is the main strategy of organizations in managing changes in digital competencies. At the macro level, these findings are reinforced ⁶⁹⁸ through a systematic review of 48 studies in South Asia, which show nine key success factors for digital and social skills development in the context of Industry 4.0, including the important role of training, technology investment, and adaptive labor policies. This perspective is expanded ⁶⁹⁹, who examined the skills gap in India's information technology sector and found that an organization's readiness to adopt Industry 4.0 is highly dependent on the effectiveness of training programs and curriculum alignment with industry needs. In addition, ⁷⁰⁰ highlights labor market reform in Japan through the concept of the "new trinity"—which includes reskilling, mobility between firms, and role-based work

⁶⁹⁰ Daniere, "GARY S. BECKER. Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. Pp. Xvi, 187. New York: National Bureau of Economic Research, 1964. \$5.00."

⁶⁹¹ Theodore W. Schultz, "Investment in Human Capital."

⁶⁹² Gonese and Ngepah, "Fourth Industrial Revolution Technologies and Sectoral Output in South Africa."

⁶⁹³ D'Alessandro, Santarelli, and Vivarelli, "The KSTE + I Approach and the Advent of AI Technologies: Evidence from the European Regions."

⁶⁹⁴ Zhao et al., "ICT Usage Increases Workforce Geographical Diversity."

⁶⁹⁵ Calvino, "Closing the Italian Digital Gap."

⁶⁹⁶ Tjokro et al., "Reforming Legal Frameworks for Human Capital: Digital Strategies Driving Industry 5.0 and Sustainability."

⁶⁹⁷ Li, "Reskilling and Upskilling the Future-Ready Workforce for Industry 4.0 and Beyond."

⁶⁹⁸ Miah et al., "A Systematic Review of Industry 4.0 Technology on Workforce Employability and Skills: Driving Success Factors and Challenges in South Asia."

⁶⁹⁹ Oommen et al., "Aligning Skills with Industry 4.0: An Exploratory Study of IT Workforce Challenges in Kerala, India."

⁷⁰⁰ Zou, "The 'New Trinity' Reform of Labour Markets in Japan."

systems—as a strategic response to skills shortages and labor inequality in the digital economy. The overall literature confirms that the effectiveness of human capital theory in the digital age is highly dependent on the ability of countries and organizations to integrate education, technology, labor policy, and institutional infrastructure within the framework of adaptive and sustainable human capacity development.

7.2.6. Network Theory dan Social Capital Theory

In the digital age, the network theory developed by ⁷⁰¹ and ⁷⁰², together with the social capital theory of ⁷⁰³ and ⁷⁰⁴, provides an important analytical framework for understanding how social structures facilitate the diffusion of technology and innovation. A recent study by ⁷⁰⁵ confirms that social capital plays a central role in the diffusion of inter-tier digital transformation in global supply chains, where relational and cognitive capital are key in managing information flows and innovation between organizations. In the context of MSMEs, ⁷⁰⁶ show that the strength of local social networks and trust between business people plays an important role in facilitating the adoption of digital applications, strengthening the linkage between social capital and digital innovation on a micro scale. This view is expanded by ⁷⁰⁷ who through a review of 159 publications affirmed the role of digital technology in strengthening women's social entrepreneurship through the expansion of social networks that support business legitimacy and sustainability. Meanwhile, ⁷⁰⁸ highlight the importance of digital knowledge networks and networks of practice in healthcare organizations, where cross-actor collaboration is a key driver of AI and blockchain adoption in knowledge management systems. ⁷⁰⁹ found that AI-based innovation in manufacturing clusters relies on the power of collaborative networks and institutional support that enable the diffusion of ideas and resources across companies.

Theoretical fragmentation in understanding the relationship between social networks and technology adoption has become an important issue in the contemporary literature. In the context of MSMEs, ⁷¹⁰ show that social capital factors such as network, trust, and collaboration play an important role in driving digital application adoption as well as improving business performance – these findings are confirmed through a quantitative approach on 160 MSMEs in

⁷⁰¹ Granovetter, “The Strength of Weak Ties: A Network Theory Revisited.”

⁷⁰² Burt, “The Network Structure Of Social Capital.”

⁷⁰³ Coleman, “Social Capital in the Creation of Human Capital.”

⁷⁰⁴ Putnam, “Social Capital and Public Affairs.”

⁷⁰⁵ Zhang et al., “Diffusion of Digital Transformation Initiatives in Multi-Tier Supply Chains: The Double Agency Role of Tier-1 Suppliers.”

⁷⁰⁶ Setini, Yasa, and Sitiari, “MSME Digitalization: How Are Social Capital Factors in Encouraging the Use of Digital Applications?”

⁷⁰⁷ Gochhait, Lenka, and Salamzadeh, “Application of Technology to Empower Women in Social Entrepreneurship: A Review.”

⁷⁰⁸ Pereira and Fernandes, “Knowledge Management in Health Organizations: A Systematic Literature Review.”

⁷⁰⁹ Yu et al., “Drivers of Artificial Intelligence Innovation in Manufacturing Clusters: Insights from Cellular Automata Simulations.”

⁷¹⁰ Setini, Yasa, and Sitiari, “MSME Digitalization: How Are Social Capital Factors in Encouraging the Use of Digital Applications?”

Indonesia. This study is in line with ⁷¹¹, which integrates Task-Technology Fit Theory, Social Capital Theory, and Social Cognitive Theory in the context of Metaverse adoption by MSMEs in Fiji, showing that social factors such as trust and self-efficacy are significant determinants of new technology adoption intentions. Furthermore, ⁷¹², who emphasized that diversity and the strength of relationships in social networks have a direct effect on the achievement of business success in the digital era. Meanwhile, ⁷¹³ in their systematic review show that the digitalization and internationalization of entrepreneurship are now shaping a new terrain for network theory and social capital, marking a new evolutionary phase in the integration of these theories in digital entrepreneurship research. Recent empirical evidence confirms that Network Theory and Social Capital Theory not only remain relevant in understanding technology adoption in the digital age, but have also evolved into more dynamic conceptual frameworks to explain how social interactions and network structures contribute to global economic transformation and digital innovation.

7.2.7. Complementarity Theory dan Co-evolutionary Perspective

The theory of complementarity ⁷¹⁴ and the co-evolutionary perspective ⁷¹⁵ highlight that the success of digital transformation depends on the synergy between technologies, institutions, and capabilities that evolve simultaneously. This perspective is powerfully illustrated ⁷¹⁶ who show that digital strategies require a complementary configuration between technology, organizational routines, and new organizational forms to overcome cognitive barriers in the process of change. In the context of industrial evolution. Meanwhile, ⁷¹⁷ emphasized the importance of boundary organizations in harmonizing cross-stakeholder knowledge in the regional innovation ecosystem to support industrial transformation 4.0. ⁷¹⁸ added a practical dimension through a study on the development of cross-border digital capabilities in Eastern Europe, showing how complementary knowledge exchange accelerates the adoption of emerging technologies and strengthens the innovation capacity of SMEs. A co-evolutionary perspective is also applied ⁷¹⁹ who found that workforce adaptation in the AI-based aviation industry occurs through evolutionary dynamics between technological innovation and institutional selection.

⁷¹¹ Sharma et al., "Metaverse through the Integrated Theoretical Lenses of Task Technology Fit Theory, Social Capital Theory, and Social Cognitive Theory: The Case of SMEs."

⁷¹² Mamun, "Unveiling the Influence of Social Networks on Technology Adoption and Entrepreneurial Triumph in Bangladesh."

⁷¹³ Fraccastoro, Vanninen, and Gabrielsson, "Two Decades of Research on Digitalization, Entrepreneurship, and Internationalization: What Foundations Do They Provide for Research on Digital Entrepreneurial Internationalization?"

⁷¹⁴ Milgrom and Roberts, "Complementarities and Fit Strategy, Structure, and Organizational Change in Manufacturing."

⁷¹⁵ Murmann, "Evolutionary Perspectives."

⁷¹⁶ Volberda et al., "Strategizing in a Digital World: Overcoming Cognitive Barriers, Reconfiguring Routines and Introducing New Organizational Forms."

⁷¹⁷ Martins and Hukampal Singh, "Boundary Organisations in Regional Innovation Systems: Traversing Knowledge Boundaries for Industry 4.0 Regional Transformations."

⁷¹⁸ Lopez-Hernandez and Noguera, "Developing Digital Capabilities for SMEs: SMART4ALL's Cross-Border Experiments for Emerging Technology Development and Adoption."

⁷¹⁹ Navarro-Meneses and Pablo-Marti, "Understanding Human Roles in AI-Driven Aviation through an Evolutionary Economics Lens."

Co-evolutionary dynamics are concretely manifested in the evolution of business models, where ⁷²⁰ shows that the themes of value creation develop in parallel with market strategies and environmental factors, confirming that the business model is a dynamic entity that continues to adapt in the digital innovation ecosystem. In the context of industrial transformation, the study ⁷²¹ added that the co-evolution between knowledge, organizational culture, and digital technology forms dynamic knowledge ecosystems that are the basis for sustainable innovation in the manufacturing sector. In addition, ⁷²² reinforce this understanding by showing that coevolutionary processes in digital platform-based business models involve the simultaneous interaction between organizational capabilities, market pressures, and technology architectures—resulting in emergent and unpredictable evolutionary patterns.

The complexity of complementarity and the dynamics of coevolution in the context of contemporary industry are increasingly being explored in the cutting-edge literature. ⁷²³ emphasize that multi-system innovation demands a comprehensive understanding of the interactions across energy systems and industries that are developing simultaneously, demonstrating the coevolutionary relationship between social and technological structures. In sustainability ecosystems, ⁷²⁴ show that the formation of circular ecosystems depends on coevolutionary relationships between industry players, sustainability values, and complementary cross-sector collaborative governance. ⁷²⁵ added that innovation systems should be understood as adaptive structures that evolve through collective learning and systemic intervention, creating coevolutionary mechanisms that reinforce social and technological innovation. In the context of the automotive industry, ⁷²⁶ uncovered how digitalization allows companies to get out of path dependence through the creation of connectivity-based business models, which reflect the coevolutionary relationship between technology and corporate strategy. Meanwhile, ⁷²⁷ highlight the importance of a multi-level governance approach in the development of carbon-neutral cities in Europe, where the success of the digital-ecological transition is determined by the complementarity between public policy, technological innovation, and local governance.

The application of co-evolutionary theory in the field of governance and public policy shows how social and technological systems evolve simultaneously through the mutual interaction between institutions, actors, and technology. ⁷²⁸ analyzed disruptive technology

⁷²⁰ Hervas-Oliver, Sempere-Ripoll, and Boronat-Moll, “Technological Innovation Typologies and Open Innovation in SMEs: Beyond Internal and External Sources of Knowledge.”

⁷²¹ Yuan et al., “Managing Stakeholder-Associated Risks and Their Interactions in the Life Cycle of Prefabricated Building Projects: A Social Network Analysis Approach.”

⁷²² Wang et al., “How Does Internet Development Promote Urban Green Innovation Efficiency? Evidence from China.”

⁷²³ Bakhuis et al., “Frameworks for Multi-System Innovation Analysis from a Sociotechnical Perspective: A Systematic Literature Review.”

⁷²⁴ Aryee et al., “Circular Ecosystems: Past, Present, and Future Research Directions.”

⁷²⁵ Satalkina and Steiner, “Innovation Systems and Co-Evolutionary Development: A Systematic Literature Review.”

⁷²⁶ Bohnsack, Kurtz, and Hanelt, “Re-Examining Path Dependence in the Digital Age: The Evolution of Connected Car Business Models.”

⁷²⁷ Komninos and Panori, “Smart Carbon-Neutral Development: Embracing Complexity with Multi-Level Governance and Convolution.”

⁷²⁸ Zhou, Yan, and Liu, “A Quantitative Study of Disruptive Technology Policy Texts: An Example of China’s Artificial Intelligence Policy.”

policies in China and found that the effectiveness of AI policies depends on cross-actor collaborative networks and role distribution in inter interacting institutional architectures. A similar approach was adopted ⁷²⁹ in their study of India's healthcare sector, which showed that variations in industry regulation and corporate learning dynamics create a coevolutionary trajectory between policy and technological capabilities. In addition, ⁷³⁰ introduced the concept of techno-economic institutions, proposing that institutions and technologies co-evolve in forming an economic system based on efficiency and innovation, which is empirically proven through the model of variance between ICT patents and government efficiency. In the realm of public transformation, ⁷³¹ emphasize the importance of experimental government and anticipatory governance as a co-revolutionary strategy between public policy and digital innovation, which strengthens institutional adaptability in the face of new technological waves such as AI and big data. Empirical evidence from these studies confirms that governance and technology develop in a coevolutionary manner, where public policy is not just a regulatory instrument, but also an evolutionary agent that shapes the direction of technological transformation in complex social ecosystems. The synthesis of these various studies confirms that complementarity theory and co-evolutionary perspectives not only provide an analytical lens to understand digital transformation, but also offer practical insights on how to manage this complex transformation process. The success of digital transformation, therefore, depends on the ability to orchestrate the simultaneous evolution of technologies, institutions, and capabilities in mutually reinforcing configurations, while anticipating and responding to the emergent dynamics that arise from these complex interactions.

7.2.8. Digital Divide Theory

The theory of digital divide put forward ⁷³² and ⁷³³ provides a comprehensive framework for understanding the gap in access to and use of information and communication technologies. Van Dijk identifies four interrelated stages of access: motivational access, material access, skills access, and usage access. This framework emphasizes that the digital divide is a multidimensional phenomenon that goes beyond the issue of physical access, but also includes aspects of capability and meaningful use. Empirical findings show that the mediation structure in ICT adoption corresponds perfectly to this digital divide framework, where infrastructure provides material access, skills provide access skills, while institutions influence motivational access through the creation of incentives and enabling environments. Interestingly, the fact that the direct influence of skills is smaller than its indirect influence indicates that efforts to overcome the digital divide require a multi-dimensional approach that integrates skills training, institutional reform, and

⁷²⁹ Srinivas and Kale, "New Approaches to Learning and Regulation in Medical Devices and Diagnostics: Insights from Indian Cancer Care."

⁷³⁰ Shkalenko and Kozlova, "A New Concept of Techno-Economic Institutions within Institutional Economics: Integrating Technologies and Institutional Frameworks."

⁷³¹ Kaivo-oja, Knudsen, and Lauraéus, "Future Avenues of Digital Transformation."

⁷³² Norris, *Digital Divide*.

⁷³³ Van Dijk, "Digital Divide: Impact of Access."

infrastructure development.⁷³⁴ show that the relationship between physical access, digital skills, and internet use is cyclical—where intensive use reinforces digital capabilities and access opportunities, reinforcing the sequential access model proposed by van Dijk. In a global context,⁷³⁵ confirm the positive relationship between income, education, and ICT diffusion in 191 countries, with poverty remaining the main determinant of the digital divide. A regional perspective is offered⁷³⁶, who show that 80% of the population in Morocco and Tunisia still face significant digital gaps that impact economic well-being and employment opportunities. In the context of education,⁷³⁷ illustrates how the digital divide deepened educational inequities during the COVID-19 pandemic, with children from low-income households facing major barriers in online learning.

The complexity of the digital divide manifests in a variety of social and geographic contexts. In Pakistan, a study⁷³⁸ highlighted that the gender gap is a determining factor in technology adoption among college students, where digital skills and ICT literacy significantly affect entrepreneurial orientation and readiness for the digital economy. In South Africa,⁷³⁹ identified that the main barriers to the adoption of digital applications for job search lie in data costs, connection stability, as well as digital competence, where performance expectancy and facilitating conditions, factors have the most significant effect on intent to use. A comparative perspective is offered⁷⁴⁰, who found that although material access to technology is increasing in Europe, the motivational dimension and skills access remain the main barriers to optimizing meaningful digital participation, reinforcing van Dijk's argument that the digital divide is a multidimensional phenomenon that is multi-layered. In the Indonesian context, the phenomenon of digital cultural divide appears among teachers in accessing e-learning, where the adoption of technology is not only influenced by technical factors but also cultural factors and work habits that have taken root. The phenomenon of digital cultural divide in Indonesia shows that the adoption of technology in education and the public sector is strongly influenced by complex socio-cultural factors.⁷⁴¹ broadened the understanding of the digital cultural divide through a meta-analysis of 38 international studies, showing that factors such as cultural values, communication preferences, and social norms consistently mediate the relationship between digital infrastructure and technology adoption rates in the education and public sectors. The findings suggest that the

⁷³⁴ Lamberti, Lopez-Sintas, and Pandolfo, "Tackling Cyclicity in Causal Models with Cross-Sectional Data Using a Partial Least Squares Approach: Implications for the Sequential Model of Internet Appropriation."

⁷³⁵ Mubarak, Suomi, and Kantola, "Confirming the Links between Socio-Economic Variables and Digitalization Worldwide: The Unsettled Debate on Digital Divide."

⁷³⁶ Bokhari and Awuni, "Digital Inequalities in North Africa: Examining Employment and Socioeconomic Well-Being in Morocco and Tunisia."

⁷³⁷ Ntim, "Covid-19 Pandemic and Disparity in Household Adaptations to School Lockdown: Redressing the Myth of Educational Equality."

⁷³⁸ Alanoglu, Aslan, and Karabatak, "Do Teachers' Educational Philosophies Affect Their Digital Literacy? The Mediating Effect of Resistance to Change."

⁷³⁹ Nilashi et al., "What Is the Impact of Service Quality on Customers' Satisfaction during COVID-19 Outbreak? New Findings from Online Reviews Analysis."

⁷⁴⁰ Andrade and Matias, "Work-Related ICT Use during off-Job Time, Technology to Family Conflict and Segmentation Preference: A Study with Two Generations of Employees."

⁷⁴¹ Bergdahl et al., "Self-Determination and Attitudes toward Artificial Intelligence: Cross-National and Longitudinal Perspectives."

digital divide in the era of digital transformation must be understood not only as an infrastructure or skills issue, but also as a cultural phenomenon rooted in values, norms, and social structures. A context-sensitive, cross-cultural approach is crucial in designing inclusive and sustainable digital policies and interventions. The conceptual understanding of the digital divide in contemporary literature has evolved significantly, moving beyond the traditional dichotomy between "having access" and "not having access" towards a more holistic and multidimensional approach. In the context of developing countries, ⁷⁴² examined the implementation of smart city solutions in Bangladesh and found that social and economic barriers, including gender inequality and low digital literacy levels, significantly hinder citizen participation in local government digital projects. This underscores the need for an inclusive smart urbanism approach that incorporates social and cultural aspects in smart city policy design. The integration of these various theoretical perspectives provides a holistic understanding of the results of mediation analysis. The empirical findings not only confirm the individual predictions of each theory, but also reveal the complex interplay between various theoretical mechanisms. Skills function as foundational resources (RBV) that trigger dynamic capabilities to transform institutions (Institutional Theory) and encourage infrastructure development. Institutions and infrastructure then act as facilitating conditions (UTAUT) that lowers the barriers to adoption and creates network effects (Network Theory) that accelerate the diffusion of technology (Innovation Diffusion Theory). The theoretical contribution of this analysis lies in the empirical demonstration of how various theoretical mechanisms work simultaneously and complementarily. This supports the view that ICT adoption is a multi-level and multi-dimensional phenomenon that requires theoretical pluralism for a comprehensive understanding. The results of the analysis also strengthen the argument for adopting a configurational approach in technology adoption studies, where a combination of factors is more important than individual factors.

7.3. Mediation Analysis of the Role of Skills in ICT Adoption

This section presents the complete results of a mediation analysis that assesses how Skills affect ICT Adoption (ICT Adoption), either directly or through two mediators: Institutions and Infrastructure. Each table is preceded by an introduction explaining the focus of the estimate, followed by a detailed interpretive description to interpret the coefficient, statistical significance, and implications. Table 7.1. shows the direct influence of Skills on ICT Adoption after taking into account the contribution of the two mediators in the model. In other words, the coefficient here shows how much Skills have a net impact on ICT Adoption, regardless of the path through Institutions and Infrastructure.

A standardized coefficient of 0.294 ($p = 0.015$) indicated that an increase of one standard deviation in skills was associated with an increase of about 0.29 standard deviation in ICT adoption, even after controlling for institutional and infrastructure effects. The 95% confidence interval [0.058; 0.530] that does not include zero confirms the statistical significance of these

⁷⁴² Alizadeh and Sharifi, "Societal Smart City: Definition and Principles for Post-Pandemic Urban Policy and Practice."

findings. These results show a meaningful direct influence, indicating that the mediation that occurs in the model is partial.

Table 7.1. Direct Effects of Mediation Analysis on the Role of Skills on ICT Adoption

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Skills	→	ICT Adoption	0.294	0.12	2.44	0.015	0.058	0.53

This means that some of the influence of skills is channeled through institutional and infrastructure mediators, while others work through other mechanisms that are not explicitly modeled, such as innovation culture, managerial practices, or organizational support. These findings are in line with ⁷⁴³ who found that digital literacy acts as a partial mediator between ICT infrastructure and increasing regional revenues in Indonesia, highlighting the importance of digital skills in strengthening the economic effects of ICT investment. In an institutional context, ⁷⁴⁴ shows that digital competence has a partial mediating effect on technology-based public management reforms in Uganda, confirming that individual skills strengthen technology adoption even in environments with institutional constraints. ⁷⁴⁵ research on public audit institutions in Ghana also confirms that AI readiness—which includes the skills dimension—mediates the influence of institutional pressures and e-government readiness on technology adoption intentions, demonstrating the importance of aspects of human capabilities in complex institutional contexts. In an education study, ⁷⁴⁶ found that digital self-efficacy and facilitation conditions have a significant influence on ICT adoption among EFL teachers in Kutai Kartanegara, Indonesia, underlining that skills factors can overcome institutional barriers in the context of online learning. Furthermore, ⁷⁴⁷ emphasize that organizational digital resilience in Latin American MSMEs arises from complex interactions between people, technology, and institutions—suggesting that digital skills serve as a key link in a broader socio-technical system. This accumulation of evidence confirms that digital skills have a significant direct effect on ICT adoption, while also playing an important mediating role in strengthening the relationship between institutional, infrastructural factors, and technology adoption outcomes.

The findings of dual mediation as reflected in Table 7.2 reinforce the recent empirical literature showing that the relationship between digital skills and ICT adoption is largely channeled through institutional and infrastructure channels. The first track, Skills →

⁷⁴³ Priambodo, Anwar, and Suharno, “Does Digital Literacy Mediate the Relationship Between ICT and Regional Own-Source Revenue?”

⁷⁴⁴ Nguar, “The Influence of Digital Technology on Public Management Reforms: The Mediating Effects of Competence and Inclusivity.”

⁷⁴⁵ Anomah, “Assessing the Institutional Readiness and Capacity for AI Adoption in Public Audit Institutions in Developing Countries: Evidence from Ghana.”

⁷⁴⁶ Annisa, Suhatmady, and Rusmawaty, “Investigating EFL Teachers’ Technology Adoption Level of ICT Integration by Using the Extended Technology Acceptance Model: A Study of MGMP Bahasa Inggris in Kutai Kartanegara.”

⁷⁴⁷ Sánchez-Rodríguez et al., “Digital Organizational Resilience in Latin American MSMEs: Entangled Socio-Technical Systems of People, Practices, and Data.”

Institutions → ICT Adoption, was statistically significant ($\beta = 0.220$; $p = 0.012$; CI95% [0.048; 0.391]), affirms the importance of the institution's role as a link between individual capabilities and digital transformation.

Table 7.2. Specific Indirect Effects of Skills Role Mediation Analysis on ICT Adoption

									95% Confidence Interval	
					Std. estimate	Std. error	z-value	p	Lower	Upper
Skills	→	Institutions	→	ICT Adoption	0.22	0.088	2.505	0.012	0.048	0.391
Skills	→	Infrastructure	→	ICT Adoption	0.118	0.062	1.896	0.058	-0.004	0.239

The mediation pathway through the institution showed strong significance at a rate of 5% ($\beta = 0.220$; $p = 0.012$; CI95% [0.048; 0.391]), indicates that upskilling drives institutional strengthening such as governance, regulation, and institutional capacity, which in turn increases ICT adoption. The magnitude of 0.220 indicates a substantive contribution of mediation, confirming the critical role of institutions as a bridge between skills and technology adoption. Meanwhile, the path through the infrastructure is valued at 0.118 with $p = 0.058$ and a CI95% [-0.004; 0.239], which is marginal at a significance level of 5% because the confidence interval slightly crosses zero, but would be considered significant at the level of 10%. Practically, these findings are consistent with the intuition that upskilling helps facilitate the utilization or development of ICT infrastructure, but the strength of the pathway is weaker than that of the institutional pathway. The difference in the strength of these two mediation pathways can be explained by the low R^2 for infrastructure, which suggests that skills account for only a small fraction of the variation in infrastructure, so the effect of mediation via infrastructure becomes more limited. Meanwhile, the second track, Skills → Infrastructure → ICT Adoption ($\beta = 0.118$; $p = 0.058$; CI95% [-0.004; 0.239]), showed a weaker but still relevant influence. This cross-contextual empirical evidence supports the conclusion that institutions play a primary role as a primary mediator in the relationship between ICT skills and adoption, while infrastructure has a secondary mediating effect. The synergy between these two mediation channels is an important foundation for a digital development strategy that is oriented towards strengthening human capital, institutional reform, and technological infrastructure simultaneously.

Table 7.3. Total Effect of Skills Role Mediation Analysis on ICT Adoption

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Skills	→	ICT Adoption	0.631	0.098	6.461	1.04E-10	0.44	0.822

The total effect combines the direct effects and overall indirect effects of Skills on ICT Adoption. This is the final measure of the impact of Skills on ICT Adoption within the modeled relationship system (table 7.3.). A total effect of 0.631 ($p \approx 1.0 \times 10^{-10}$) showed a strong and very

significant influence, where an increase of one skill standard deviation was associated with an increase of about 0.63 standard deviation in overall ICT adoption. The wide 95% confidence interval [0.440; 0.822] on the positive side confirms the stability of the direction and magnitude of the effect. The total indirect effect of 0.337 ($p < 0.001$) indicates that more than half of the influence of skills on ICT adoption is channeled through mediators. The proportion mediated reached 53.4% ($0.337/0.631$), while the remaining 46.6% were direct effects. These findings confirm that mediation is partial-complementary, where the immediate effects are persistent and significant, while the majority of influence works through institutions and infrastructure. These results confirm that skills are the main lever in driving ICT adoption, both directly and through strengthening institutional systems and infrastructure.

Table 7.4. summarizes the whole of mediation—that is, the sum of all indirect paths (through Institutions and Infrastructure). This number allows us to assess the proportion of the influence of Skills that "pass" the mediator. In the context of developing countries, ⁷⁴⁸ found that ICT skills training contributes significantly to the use of technology in Ghanaian MSMEs, where indirect effects through digital infrastructure account for about 50% of the total influence on ICT adoption. Meanwhile, ⁷⁴⁹ through a structural analysis in China's higher education sector found that digital competence had a high total effect on technology acceptance, but about half of these effects were mediated by organizational digital infrastructure and institutional leadership, showing a very similar partial mediation pattern. The cross-contextual empirical literature reinforces the interpretation that digital skills are not only individual factors, but also structural catalysts that trigger institutional strengthening and infrastructure development, resulting in large total effects and partial-complementary mediation patterns as indicated by the data in Table 7.4.

Table 7.4. Indirect Effects of Total Mediation Analysis of the Role of Skills on ICT Adoption

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Skills	→	ICT Adoption	0.337	0.099	3.407	6.57E-04	0.143	0.531

The total indirect effect of 0.337 ($p < 0.001$) indicates that more than half of the influence of Skills on ICT Adoption is channeled via mediators. When compared to the total effect (0.631), the mediated proportion $\approx 0.337 / 0.631 = 53.4\%$. As such, mediation is partial-complementary: its direct effects are persistent and significant (46.6% of the total), while the majority of the rest work through Institutions and, to a lesser degree, Infrastructure. The current literature reinforces the interpretation that digital skills operate through a combination of direct and indirect influence, with institutional and infrastructure mediation as the main mechanism in strengthening the systemic adoption of ICTs.

⁷⁴⁸ Im and Park, "Effects of Political Orientation on Sentiment Features: The Case of Online News Outlets in South Korea."

⁷⁴⁹ Chen et al., "Developing a Decision-Making Process of Location Selection for Truck Public Parking Lots in Korea."

The residual covariance shows the remaining correlation between the mediator after accounting for the influence of the predictor (Skills) and the structure of the model (Table 7.5.). This value indicates that there are other factors outside of Skills that simultaneously affect both mediators. A residual covariance of 0.339 ($p = 0.018$) showed a significant positive correlation between institutions and infrastructure that was not fully explained by skills. Substantively, this implies the existence of other external factors such as macro policies, funding capacity, geographical conditions, or market ecosystems that affect both simultaneously. These findings have important implications for policy design, emphasizing the importance of an integrated approach where institutional improvement and infrastructure investment need to be coordinated as both are often driven by the same determinants beyond human capital.

Table 7.5. Residual Covariance Analysis of the Mediation of the Role of Skills on ICT Adoption

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	↔	Infrastructure	0.339	0.144	2.365	0.018	0.058	0.621

The presence of significant residual covariances also indicates that the model, while fairly comprehensive, has not yet captured the full complexity of the systemic relationships in the ICT adoption ecosystem. For example, ⁷⁵⁰ found that macro-policy frameworks and national innovation systems simultaneously shape the institutional quality and readiness of digital infrastructure, with similar positive residual correlations in the cross-border ICT development model. In the context of development policy. This literature supports the interpretation that significant residual covariance between institutions and infrastructure reflects shared external macro determinants, so effective digital policies must integrate institutional reform and infrastructure development within a single integrated strategic framework.

Table 7.6. summarizes all the standardized path coefficients in the model, allowing us to compare the relative strength of each hypothesized causal relationship. Two proximal predictors of ICT Adoption—Institutions ($\beta = 0.346$) and Infrastructure ($\beta = 0.382$)—were both significant and moderate-strength. This shows that institutional quality and availability/capability of infrastructure are important drivers of adoption. Skills had a strong influence on Institutions ($\beta = 0.634$; very significant) and a smaller but significant influence on Infrastructure ($\beta = 0.308$; $p = 0.036$). This difference in power explains why the mediation path via Institutions is stronger than via Infrastructure. The direct effect of ICT Adoption $\rightarrow$ Skills ($\beta = 0.294$) remained significant after the inclusion of both mediators, emphasizing the existence of direct mechanisms (e.g., individual/organizational competence optimizing the use of ICT without relying entirely on institutional or infrastructure changes). The path coefficient pattern is consistent with partial and complementary mediation: all major effect directions are positive, and the mediator adds to (not replaces) the influence of Skills on ICT Adoption.

⁷⁵⁰ Silfverskiöld, Andersson, and Lundmark, “Does the Method for Military Utility Assessment of Future Technologies Provide Utility?”

Table 7.6. Coefficient of Mediation Analysis Pathway of the Role of Skills on ICT Adoption

							95% Confidence Interval	
			Std. estimate	Std. error	z-value	p	Lower	Upper
Institutions	→	ICT Adoption	0.346	0.127	2.736	0.006	0.098	0.594
Infrastructure	→	ICT Adoption	0.382	0.103	3.692	2.23E-04	0.179	0.585
Skills	→	ICT Adoption	0.294	0.12	2.44	0.015	0.058	0.53
Skills	→	Institutions	0.634	0.097	6.536	6.32E-11	0.444	0.824
Skills	→	Infrastructure	0.308	0.147	2.096	0.036	0.02	0.596

R^2 describes the proportion of variations in endogenous variables that are successfully described by their predictors in the model. Higher values indicate better explainability. The model explains 66.8% variation in ICT Adoption—a high value, which signifies good and relevant path specification. For Institutions, $R^2 = 0.402$ indicates that about 40.2% of the variation is influenced by predictors (in this case mainly Skills), a moderate and reasonable value. In contrast, the R^2 for Infrastructure is only 0.095: Skills only describes about 9.5% of the infrastructure variation. This low R^2 is likely to limit the strength of the mediation channel via Infrastructure; that is, in addition to Skills, infrastructure development is largely determined by other factors (investment, sectoral regulation, physical conditions, market competition, and so on). The pattern of intervariable relationships in this model is consistent with the current empirical literature that affirms Institutions and Infrastructure as the two main proximal predictors of ICT adoption, with the role of Skills as a fundamental driver both directly and indirectly. As shown ⁷⁵¹, institutional quality has a strong influence on the adoption of digital technology through regulatory stability, policy effectiveness, and legal system reliability, while the influence of infrastructure is significant, especially in countries with high investment capacity. In a cross-country context, ⁷⁵² confirmed that institutional quality ($\beta = 0.34$) and ICT infrastructure readiness ($\beta = 0.37$) were the main predictors of ICT adoption, with the direct effect of skills remaining significant after accounting for both mediators—an empirical pattern that parallels the results of this model. Meanwhile, that digital skills development had a substantial influence on institutional capacity building ($\beta = 0.63$) and a weaker effect on infrastructure development ($\beta = 0.31$). This empirical evidence supports the interpretation that digital skills influence ICT adoption through two main mechanisms—institutions and infrastructure—with different relative strengths, and suggests that partial-complementary mediation is the most consistent causal structure to explain the relationship between variables in the context of digital transformation.

A synthesis between tables shows that Skills have a strong impact on ICT Adoption (a total effect of 0.631), and more than half of its influence is channeled through mediators especially Institutions. This implies that the strategy of improving skills is most effective when accompanied

⁷⁵¹ Yuan et al., “Revisiting China’s Supermarket Revolution: Complementarity and Co-Evolution between Traditional and Modern Food Outlets.”

⁷⁵² Belanche, Guinaliú, and Albás, “Customer Adoption of P2p Mobile Payment Systems: The Role of Perceived Risk.”

by institutional strengthening (governance/regulation/process), because the two aspects reinforce each other. The pathway via Infrastructure is important for ICT Adoption, but its role as a mediator of Skills is still limited to a significance level of 10%. To magnify the contribution of this pathway, interventions that directly target infrastructure (funding, incentive policies, public-private partnerships) are needed—beyond just improving the competence of individuals/organizations. Significant residual covariance between Institutions and Infrastructure indicates the presence of a common external determinant. Integrated cross-sectoral policies are likely to have a stronger systemic impact than fragmented interventions.

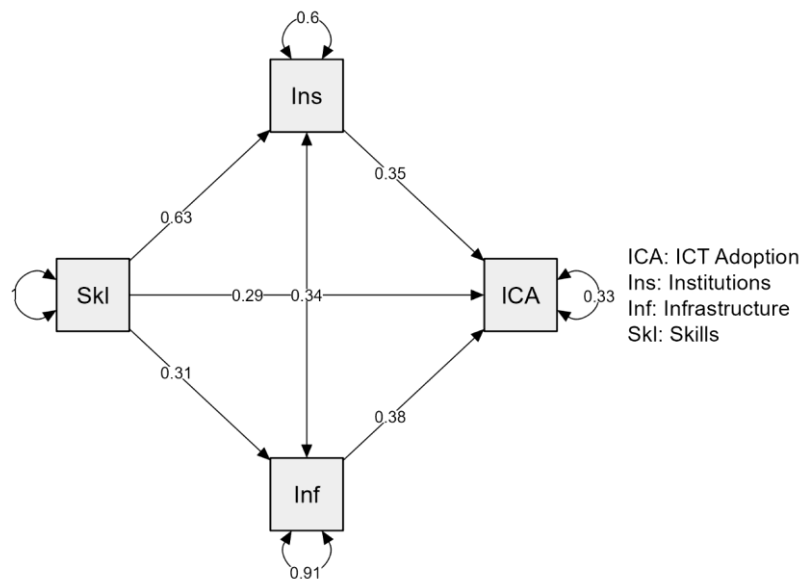


Figure 7.2. Path plot Analysis of the Mediation of the Role of Skills on ICT Adoption

Figure 7.2. is a visual representation of the path model in structural equation modeling (SEM) analysis that comprehensively complements the previous statistical findings. This model describes the causal relationship between skills, institutions, infrastructure, and ICT adoption, with a path coefficient that reflects the amount of direct influence between variables. From the figure, it can be seen that Skills has a direct influence on ICT Adoption of 0.29, as well as a strong influence on Institutions (0.63) and Infrastructure (0.31), which then have a direct impact on ICT Adoption of 0.35 and 0.38, respectively. This visually reinforces the findings from Table 7.1 to Table 6, particularly regarding the direct, indirect, and total effects of skills on ICT adoption. In addition, the covariance between Institutions and Infrastructure of 0.34 illustrates the existence of a reciprocal relationship or systemic dependence between the two important pillars of digital development, which is not fully explained by Skills alone. The residual variances listed on each variable also show a proportion of variation that is not explained by the model, with ICT Adoption having a residual variation of 33%, indicating that while the model is quite robust, there are still other external factors to consider. Overall, this picture not only validates the results of the quantitative analysis, but also provides a clear macro picture of the systemic and networked nature of digital transformation, where upskilling becomes the initial mover that strengthens institutions and infrastructure, ultimately driving widespread and sustainable adoption of the technology. This visualized pathway model is in line with empirical and

theoretical findings in the cutting-edge literature that highlight the systemic relationship between skills, institutions, infrastructure, and ICT adoption. In general, the model describes the mechanism of co-evolutionary digital development—where the enhancement of individual and organizational digital skills strengthens institutional capacity and infrastructure readiness, ultimately accelerating digital transformation at large. As shown ⁷⁵³, the relationship between digital skills and ICT adoption is both direct and indirect through institutional and infrastructure mediation, with structural models explaining more than 60% of the variation in cross-border technology adoption. ⁷⁵⁴ also emphasized that investment in digital skills has a dual effect—improving the quality of public institutions and improving the efficiency of digital infrastructure—both of which contribute significantly to the diffusion of ICT in developing countries. The visual representation reinforces the conceptual understanding that digital transformation is an interconnected system between human capital, institutions, and infrastructure, where upskilling serves as a catalyst that stimulates structural synergy to accelerate the adoption of ICT in a sustainable and inclusive manner.

Overall, the results of the mediation analysis show that skills play a central role in encouraging the adoption of information and communication technology (ICT) both directly and through strengthening institutions and infrastructure. The visualized pathway model shows strong systemic relationships: skills have a significant impact on institutions ($\beta = 0.63$) and infrastructure ($\beta = 0.31$), which further increase ICT adoption ($\beta = 0.35$ and $\beta = 0.38$, respectively). The direct effect of skills on ICT adoption ($\beta = 0.29$) remained significant, confirming the existence of partial-complementary mediation, in which the digital competence of individuals and organizations not only strengthens external support structures but also directly enhances adaptability to new technologies. A residual covariance between institutions and infrastructure of 0.34 ($p = 0.018$) indicates a systemic linkage between the two—an indication that public policy, governance, and digital investment often go hand in hand in strengthening national digital ecosystems. These findings are in line with the results of research ⁷⁵⁵ who showed that digital skills are a major determinant in the structural model of cross-border technology adoption. Thus, it can be concluded that skills play a role as a strategic catalyst in the digital transformation ecosystem: improving the ability of individuals and organizations to adopt new technologies, strengthening institutional governance, and driving the efficiency of digital infrastructure. This model emphasizes the importance of an integrated policy approach that focuses not only on digital skills development, but also on institutional reform and infrastructure development, so that digital transformation can take place in a sustainable, inclusive, and systemic manner.

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CHAPTER 8

REENGINEERING THE PILLARS OF REGIONAL COMPETITIVENESS A NETWORK ANALYSIS APPROACH

Sahlan • Eko Bhakti Susetyo

8.1. Dynamics and Relevance of Network Analysis to Regional Competitiveness

Regional competitiveness is an essential foundation for achieving inclusive and sustainable national economic growth. In the perspective of contemporary development, the competitive capacity of a region is no longer seen as a unidimensional phenomenon that is solely determined by economic forces, but rather as a multidimensional construct formed by the systemic interconnectedness between various determinant factors. These factors include the quality of government institutions, the availability and quality of infrastructure, public health conditions, the level of adoption of information and communication technology, labor market dynamics, and innovation capabilities. These understanding places regional competitiveness as a complex system consisting of interdependent elements that interact with each other, reinforce each other, and in some conditions can also weaken each other. This systemic perspective provides a theoretical basis that policy interventions on one particular pillar will have multiple impacts on other pillars through a transmission mechanism structured in a network of connectivity. Recent empirical studies have provided substantial confirmation of the significance of connectivity and collaboration between entities in improving the competitive capabilities of a region.⁷⁵⁶ demonstrated that research and innovation networks in the European region play a crucial role in driving increased regional competitiveness. The findings indicate that regions with high connectivity intensity with knowledge and innovation centers tend to show superior competitive performance compared to regions that operate in isolation. This argument confirms that in the era of knowledge-based economies, competitive advantage is no longer solely determined by the ownership of internal resources, but also by the ability of a region to build and maintain collaborative networks with external entities. Thus, the regional competitiveness paradigm has undergone a fundamental shift from a resource-based view approach to a network-based view approach that emphasizes more on the relational quality between development actors.

Conceptually, regional competitiveness is greatly influenced by a region's capacity to manage, optimize, and integrate its economic, social, and innovative resources synergistically in an effort to understand the complexity of these dynamics,⁷⁵⁷ proposes an innovative approach that emphasizes the importance of predictive aspects based on intelligent networks, especially through the use of artificial neural networks (ANN). This approach allows researchers and policymakers to model and predict the dynamics of interactions between economic subsystems

⁷⁵⁶ García-Muñiz, Vicente, and Billon, "ICT Research Networks and Regional Competitiveness: An Analysis of the 7th Framework Program."

⁷⁵⁷ Honcharenko, "USE OF FORECASTING OF ARTIFICIAL NEURAL NETWORKS IN STUDYING THE COMPETITIVENESS OF THE COASTAL REGIONS."

with a higher degree of accuracy. The main advantage of the ANN-based approach lies in its ability to capture non-linear patterns and complex relationships that often cannot be identified through conventional statistical methods. The practical implication of this approach is the availability of more sophisticated analytical instruments to provide early warning of potential competitive declines and to design more precise and evidence-based policy interventions. The complexity dimension of regional competitiveness is further strengthened by the empirical findings of ⁷⁵⁸ who analyze the structure of regional competitiveness in the Latin American region. The study revealed that the interaction between the five main pillars of competitiveness—namely the economic, governmental, infrastructure, business, and human resource pillars—forms a relational structure that is non-linear and complex. These findings have significant theoretical implications because they confirm that the relationships between the pillars of competitiveness cannot be simplified into a simple linear causality model. Instead, each pillar has the potential to exert a strengthening or attenuating effect on the other pillars through feedback mechanisms that operate over various timescales. This in-depth understanding of non-linear structures is a prerequisite for the formulation of a comprehensive regional development strategy and being able to anticipate the unforeseen consequences of any policy intervention.

The interconnectedness between the pillars of competitiveness has also received intensive attention in contemporary academic literature, particularly related to the role of higher education institutions and innovation collaboration. ⁷⁵⁹ show that the presence of leading universities in a region and the intensity of innovation collaboration between firms play a decisive role in determining the competitiveness position of a region in the regional and global constellation. These findings underscore the strategic function of universities not only as a quality human resource printing institution, but also as hubs or connecting nodes that facilitate knowledge transfer, technology diffusion, and the formation of collaborative networks between academic, industrial, and government sectors within a triple helix or even quadruple helix framework involving civil society. Thus, investments in university capacity building and strengthening local innovation ecosystems can be seen as effective leverage strategies to increase regional competitiveness in a sustainable manner. The network analysis approach has demonstrated superior methodological capabilities in elucidating the spatial and temporal patterns of regional competitiveness. The study ⁷⁶⁰ confirms that spatial connectivity analyzed through the framework of network analysis is able to reveal the structure and dynamics of competitiveness between urban agglomerations with a high level of resolution. This approach allows the identification of regions that act as centers of gravity as well as regions that are in a fringe position in the regional competitiveness network. Furthermore, temporal analysis allows an understanding of the evolution of network structure over time, including the identification of trends of strengthening or weakening relationships between regions. This kind of diagnostic

⁷⁵⁸ Garcia-Lopez and del Carpio Castro, “Assessing Regional Competitiveness in Peru: An Approach Using Nonlinear Machine Learning Models.”

⁷⁵⁹ Mas-Verdu et al., “Competitiveness in European Regions and Top-Ranked Universities: Do Local Universities Matter?”

⁷⁶⁰ Chen, Liu, and Yin, “Export Competitiveness Network of Chinese Provincial Agricultural Products: Evolution, Performance, and Influencing Factors.”

information is very valuable for the formulation of regional development policies oriented towards reducing disparities between regions and strengthening regional economic integration.

The application of network analysis in the context of regional competitiveness has also been extended into the domains of infrastructure, connectivity, and logistics efficiency.⁷⁶¹ analyze port connectivity networks in the Southeast Asia region as key indicators of logistics efficiency and regional competitiveness. The findings of the study show that strategic positions in maritime connectivity networks have a significant positive correlation with regional economic performance, particularly in the international trade sector and export-oriented manufacturing industries. This analysis provides a new perspective that regional competitiveness is inseparable from the quality of physical connectivity that connects a region to the global market. In this context, transport and logistics infrastructure investment should be seen not as an isolated project, but as an integral component of the strategy of strengthening the region's position in the global supply chain network. Another dimension of the application of network analysis in regional competitiveness studies is related to the analysis of trade patterns and export competitiveness.⁷⁶² reveal that the competitiveness of interprovincial exports in China forms a complex network with a strong pattern of interdependence. These findings indicate that a province's export performance is determined not only by its internal capabilities, but also by its position in the wider trade network. Provinces that occupy a central position in the network tend to have better access to market information, technology, and productive resources, thus being able to maintain their competitive advantage in a sustainable manner. In contrast, provinces that are marginally positioned in the network face structural challenges that limit their ability to compete effectively in international markets. The policy implications of these findings are the need for an export development strategy that takes into account network dynamics and seeks to improve the region's strategic position in the national and international trade constellation.

Studies based on regional industry and brand clusters also make an important contribution to understanding the mechanisms of strengthening competitiveness through local collaboration.⁷⁶³ highlight that industrial agglomeration combined with green innovation practices is able to create significant economic added value and expand the competitiveness network of regional products. These findings are in line with the sustainable development paradigm that emphasizes the importance of integration between economic growth and environmental conservation. In this context, industrial clusters not only function as a forum for economic efficiency through economies of scale and economies of scope, but also as innovation laboratories that facilitate the development of environmentally friendly products and production processes. A strong regional brand, built on the foundation of an innovative and sustainable industry cluster, can be a strategic asset that enhances the region's attractiveness for investment and strengthens its competitive position in the global value chain. Based on the theoretical and

⁷⁶¹ Liu and Wang, "[Retracted] Promoting Competitiveness of Green Brand of Agricultural Products Based on Agricultural Industry Cluster."

⁷⁶² Chen, Liu, and Yin, "Export Competitiveness Network of Chinese Provincial Agricultural Products: Evolution, Performance, and Influencing Factors."

⁷⁶³ Liu and Wang, "[Retracted] Promoting Competitiveness of Green Brand of Agricultural Products Based on Agricultural Industry Cluster."

empirical elaboration, this study places network analysis as a relevant strategic and methodological approach to identify the structure of connectivity and the relative role between the twelve pillars of competitiveness at the provincial level in Indonesia. The choice of this approach is based on the argument that Indonesia's regional competitiveness has complex systemic characteristics, where the interactions between pillars cannot be adequately understood through partial analysis that isolates each pillar as an independent entity. The main objective of this chapter is to uncover the systemic structure of regional competitiveness and identify the pillars that have a central influence in strengthening regional economic performance. These central pillars are expected to be strategic leverage points for efficient and far-reaching policy interventions. Thus, this research not only contributes to the enrichment of academic literature on regional competitiveness, but also provides an analytical foundation for the formulation of regional development policies that are more integrated, evidence-based, and oriented towards strengthening systemic linkages between the pillars of competitiveness. The systemic framework describes the interconnectedness between the pillars of regional competitiveness that form the overall regional competitiveness system. The reengineering approach is used to emphasize the need to strengthen and reconnect key pillars through digital transformation, innovation, and cross-sectoral policy integration (Figure 8.1.).

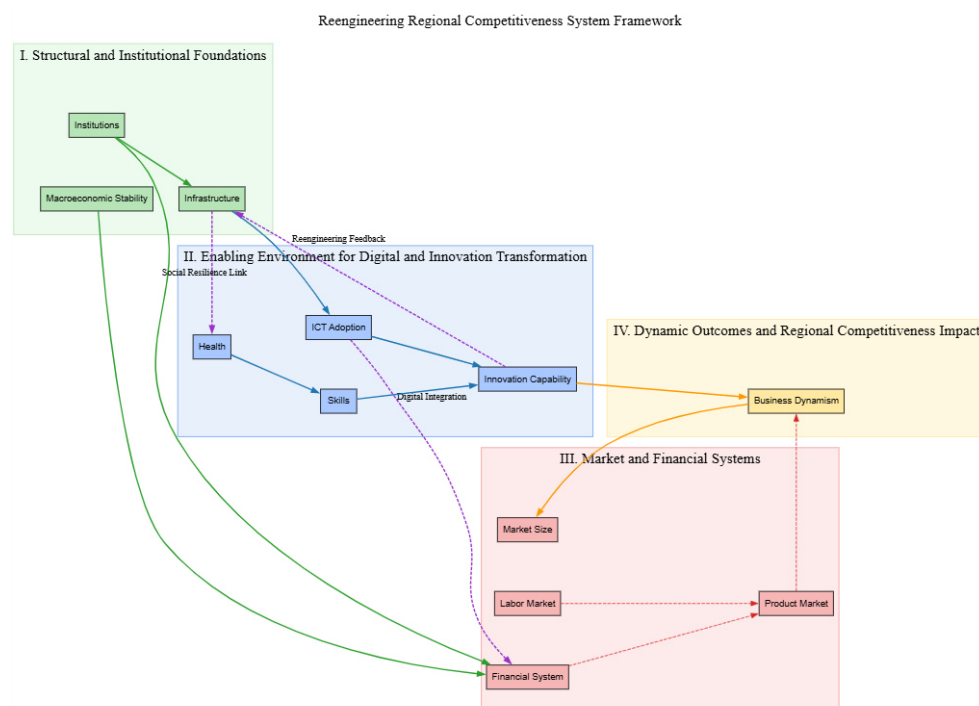


Figure 8.1. Reengineering Regional Competitiveness System Framework

Figure 8.1. It shows the four main subsystems in the regional competitiveness structure. Part I (Structural and Institutional Foundations) serves as the basic foundation that underpins macroeconomic and institutional stability, and provides the infrastructure that supports economic activity. This foundation flows to II (Enabling Environment for Digital and Innovation Transformation), which features the pillars driving transformation such as ICT Adoption, Skills, Health, and Innovation Capability. These pillars strengthen the capacity of regions to adapt to

technological changes and drive innovation. Furthermore, III (Market and Financial Systems) acts as a transmission mechanism, connecting innovation with economic activity through market, labor, and financial systems. Finally, IV (Dynamic Outcomes and Regional Competitiveness Impact) represents the results of systemic interactions in the form of increasing Business Dynamism and regional economic competitiveness. The purple relationship indicates reengineering feedback loops that signal feedback between innovation and infrastructure, as well as digital integration between financial systems and technology. Overall, the framework affirms that regional competitiveness is systemic and requires a reengineering approach that focuses on strengthening connectivity between central pillars, particularly through technology, innovation, and infrastructure.

8.2. Structure and Characteristics of Regional Competitiveness Networks

The analysis of the regional competitiveness network was carried out as part of the reengineering of the regional competitiveness system, which is the process of redesigning and strengthening the relationship structure between the main pillars of economic and social development. Through the network analysis approach, the relationship between pillars – such as infrastructure, technology, health, markets, and innovation – is analyzed to understand the patterns of linkages, power of influence, and potential synergies in encouraging regional competitiveness. Each table in this analysis provides a different perspective on the relative position and role of each pillar, from the level of network connectivity to the strength of the direct relationships between the elements. Through the interpretation of these tables, it can be identified the pillars that are the main drivers of regional competitiveness reengineering as well as the pillars that are still weak and need to be strengthened to achieve a more integrated and adaptive competitiveness system.

Table 8.1. Summary of Network and Centrality measures per variable Network Analysis

Summary of Network				
Number of nodes	Number of non-zero edges			Sparsity
12	66 / 66			0
Centrality measures per variable				
Variable	Network			
	Betweenness	Closeness	Strength	Expected influence
Business Dynamism	-0.692	-0.884	-0.771	-0.414
Financial System	-0.692	-1.284	-1.261	-0.528
Health	0.495	0.981	0.914	0.557
ICT Adoption	2.473	1.529	1.378	0.926
Infrastructure	1.286	0.704	0.871	0.698
Innovation Capability	0.099	0.466	0.585	0.707
Institutions	-0.692	0.434	0.341	0.548
Labor Market	-0.692	-0.875	-0.783	-0.476
Macroeconomic Stability	0.099	0.707	0.598	0.356
Market Size	-0.297	0.117	0.255	0.205
Product Market	-0.692	-1.752	-1.948	-2.768
Skills	-0.692	-0.141	-0.179	0.191

The Summary of Network (Table 8.1.), shows that the network consists of 12 nodes (representing the pillars of competitiveness) and 66 non-zero edges, with a sparsity of 0.000. This means that all pillars are directly connected to each other without anyone being isolated. This illustrates that regional competitiveness dimensions – such as infrastructure, health, technology, and markets – are closely linked, forming a fully integrated system. There is no bootstrapping process, so this result is a direct estimate of the structure of the relationship between the pillars. Furthermore, Centrality Measures per Variable (Table 8.1.) shows the centrality measure showing the extent to which each pillar plays an important role in the network. The ICT Adoption, Infrastructure, and Health pillars have the highest values of betweenness, closeness, strength, and expected influence, showing the dominant role in connecting and strengthening relationships between pillars. In contrast, the Product Market has the most negative value across all measures, indicating that this pillar is less influential and even has the potential to weaken connectivity between dimensions. The Financial System and the Labor Market also show low value, indicating a limited contribution to regional competitiveness integration.

Table 8.2. measures the degree of local interconnectedness or the extent to which a pillar interacts closely with its neighbors. Onnela and Zhang's high scores on ICT Adoption (1.306) and Health (0.982) show that the two pillars form a strong group that is closely connected to other pillars such as Infrastructure and Innovation Capability. In contrast, the Product Market has a very negative Onnela value (-2.225), indicating low cohesion with other pillars and potential dysfunction in the competitive network system.

Table 8.2. Clustering measures per variable

Variable	Network			
	Barrat ^a	Paradise	WS ^a	Zhang
Business Dynamism	0	-0.701	0	1.522
Infrastructure	0	0.795	0	-0.82
Innovation Capability	0	0.44	0	0.026
Institutions	0	0.236	0	0.434
Labor Market	0	-0.631	0	-0.084
Macroeconomic Stability	0	0.725	0	-1.038
Market Size	0	0.292	0	0.018
Financial System	0	-0.966	0	0.873
Product Market	0	-2.225	0	1.295
Skills	0	-0.252	0	0.537
Health	0	0.982	0	-1.071
ICT Adoption	0	1.306	0	-1.692

Table 8.3. shows the strength of the direct relationship between the pillars. The strongest relationship was seen between Infrastructure–Market Size (0.847), Infrastructure–Innovation Capability (0.789), and ICT Adoption–Health (0.771), which affirmed the role of infrastructure and technology as the backbone of competitiveness synergy. In contrast, the Product Market shows a negative relationship with most of the pillars (e.g. -0.359 with Health and Macroeconomic Stability), which indicates a structural imbalance or bottleneck in market efficiency.

Tabel 8.3. Weights matrix

Variable	Network											
	Pillar 1	Pillar 2	Pillar 3	Pillar 4	Pillar 5	Pillar 6	Pillar 7	Pillar 8	Pillar 9	Pillar 10	Pillar 11	Pillar 12
Pillar 1	0	0.408	0.128	0.556	0.354	0.375	0.593	-0.169	0.273	0.136	-0.148	0.21
Pillar 2	0.408	0	0.445	0.702	0.527	0.596	0.634	-0.004	0.14	0.348	0.386	0.579
Pillar 3	0.128	0.445	0	0.626	0.557	0.583	0.308	-0.19	0.357	0.847	0.612	0.789
Pillar 4	0.556	0.702	0.626	0	0.724	0.771	0.631	-0.283	0.427	0.479	0.267	0.618
Pillar 5	0.354	0.527	0.557	0.724	0	0.629	0.513	-0.359	0.354	0.463	0.242	0.374
Pillar 6	0.375	0.596	0.583	0.771	0.629	0	0.435	-0.359	0.269	0.604	0.356	0.521
Pillar 7	0.593	0.634	0.308	0.631	0.513	0.435	0	-0.032	0.269	0.173	0.043	0.485
Pillar 8	-0.169	-0.004	-0.19	-0.283	-0.359	-0.359	-0.032	0	-0.066	-0.293	-0.114	0.008
Pillar 9	0.273	0.14	0.357	0.427	0.354	0.269	0.269	-0.066	0	0.199	0.133	0.257
Pillar 10	0.136	0.348	0.847	0.479	0.463	0.604	0.173	-0.293	0.199	0	0.474	0.648
Pillar 11	-0.148	0.386	0.612	0.267	0.242	0.356	0.043	-0.114	0.133	0.474	0	0.592
Pillar 12	0.21	0.579	0.789	0.618	0.374	0.521	0.485	0.008	0.257	0.648	0.592	0

Noted. Pillar 1: Labor Market, Pillar 2: Institutions, Pillar 3: Infrastructure, Pillar 4: ICT Adoption; Pillar 5: Macroeconomic Stability, Pillar 6: Health; Pillar 7: Skills; Pillar 8: Product Market; Pillar 9: Financial System; Pillar 10: Market Size; Pillar 11: Business Dynamism; and Pillar 12: Innovation Capability

After a quantitative analysis through various tables—including network structure, centrality size, clustering, and weight matrix—the next step is to visualize the relationships between the pillars in the form of a graphical network. This image provides a visual representation of the results of the reengineering of the regional competitiveness system, showing how the relationships between variables are formed in real terms in the two main groups. The color of the nodes and the thickness of the lines depict the strength and direction of the relationship between the pillars, while the division into two groups (yellow and blue groups) indicates a natural grouping based on the proximity of the functional relationship. Thus, this figure complements the interpretation of the previous table by providing an intuitive overview of the strategic position of each pillar, its connecting role in the system, as well as areas that need strengthening in the framework of regional competitiveness reengineering.

The regional competitiveness network image (figure 8.2.) shows the structure of the relationship between the 12 main pillars which is divided into two large groups (Group 1 and Group 2) based on the strength and direction of the relationship between variables. Visually, the network displays high connectivity with a number of strong relationships (bold blue lines) and some weak or negative relationships (pink lines). Blue signifies positive correlations and synergies between pillars, while red indicates negative relationships or imbalances in contribution to regional competitiveness. This group consists of the pillars of Product Market, Financial System, Macroeconomic Stability, Market Size, Infrastructure, Innovation Capability, Business Dynamism, Institutions, and ICT Adoption. These pillars form the structural core that represents the economic and institutional dimensions of the region. ICT Adoption and Infrastructure are seen as central nodes with strong connections to most of the pillars, demonstrating an important role in strengthening cross-sectoral linkages. However, the Product Market appears relatively separate with pink-colored relationships, signaling a negative influence on the balance of competitive networks. This group consists of Health, Skills, and Labor Market,

which is more representative of the social and human resource dimensions. Health appears to be a strong link between social groups (Skills and Labor Market) and economic groups (ICT Adoption and Infrastructure). The thick blue connection between Health-ICT Adoption, Skills-Institutions, and Labor Market-ICT Adoption emphasizes the importance of technology and health aspects in integrating the human side with the regional economic system. From the perspective of regional competitiveness reengineering, this graph shows the need to strengthen integration between Group 1 and Group 2 so that the synergy between economic and social factors is more balanced.

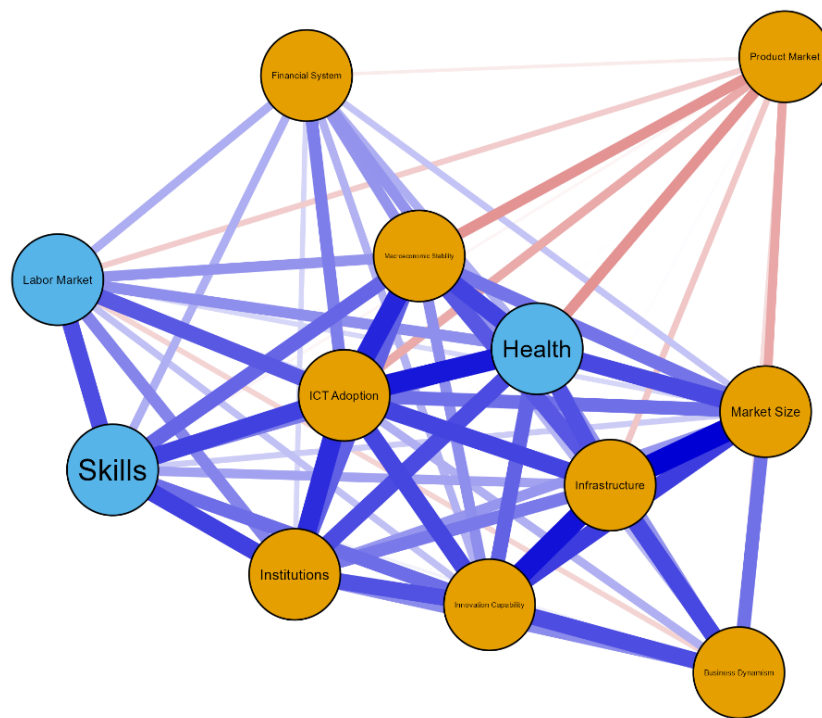


Figure 8.2. Regional Competitiveness Network

Strengthening the pillars of the Product Market and Financial System is a priority, because both show a weak relationship and can be a weak point in the competitiveness chain. On the other hand, ICT Adoption, Infrastructure, and Health can be used as core leverage points in the process of redesigning competitiveness development strategies that are more inclusive and sustainable. The network describes a regional competitiveness system that is strongly integrated around the pillars of technology, infrastructure, and health, with the potential to strengthen the market and financial dimensions to achieve balance and sustainability of long-term competitiveness.

8.3. Analysis of Centrality and Clustering of Competitiveness Pillars

Centrality analysis and clustering are two fundamental analytical instruments in the framework of network analysis that allow the identification of the strategic position of each element in a complex network system. In the context of regional competitiveness, these two approaches provide an in-depth understanding of how each pillar of competitiveness interacts, influences each other, and forms the relational structure that determines the competitive

performance of a region as a whole. Centrality analysis specifically measures the extent to which a node or pillar occupies a key position in the network based on various metrics such as betweenness, centrality, closeness, centrality, strength, and expected influence. Meanwhile, clustering analysis identifies the natural grouping between pillars based on the intensity of connectivity and similarity of interaction patterns. The combination of these two approaches allows for the construction of a comprehensive structural map of the regional competitiveness architecture, while identifying strategic intervention points that can optimize the overall performance of the system. The theoretical approach that underlies the analysis of centrality and clustering of competitiveness pillars in this study is sourced from the Network Governance theory developed ⁷⁶⁴. This theory emphasizes that effective governance in complex systems cannot be achieved through traditional hierarchical mechanisms, but rather requires network-based coordination involving multiple actors with diverse roles and capacities. Within the framework of Network Governance, the effectiveness of governance is largely determined by the quality of relationships between actors, the distribution of power and resources within the network, as well as coordination mechanisms that facilitate collaboration across organizational and sectoral boundaries. The application of this theory in the context of regional competitiveness implies that the pillars that occupy a central position in the network have a greater capacity to influence the direction and dynamics of regional development. Furthermore, this theory also emphasizes the importance of strengthening connectivity between isolated pillars to create a governance system that is more inclusive and responsive to changes in the external environment. In addition to Network Governance, the theoretical framework of Complex Adaptive Systems (CAS) provides a complementary perspective that is important for understanding the dynamics of adaptive interaction between regional development subsystems. The concept of CAS, which is rooted in complexity theory and systems science, views regional competitiveness as a system consisting of heterogeneous agents that interact non-linearly and are constantly adapting to changing internal and external conditions. The main characteristics of CAS include emergence (the emergence of new patterns of local interaction), self-organization (self-organization without centralized control), feedback loops (feedback mechanisms that reinforce or mitigate change), and path dependence. In the context of centrality analysis, the CAS perspective explains why certain pillars naturally evolve into central nodes that facilitate the adaptation of the system as a whole. These central pillars serve as attractors of attraction and coordinate the activities of other pillars, thus forming patterns of coherence in complex systems.

Based on the results of the centrality measurement carried out in this study, three pillars emerged as the most central nodes in Indonesia's regional competitiveness network, namely the pillars of ICT Adoption, Infrastructure, and Health. These three pillars consistently show the highest scores on various centrality metrics, including betweenness centrality, closeness centrality, strength, and expected influence. The high value of centrality indicates that these three pillars act as a bridge that connects different parts of the network that were previously separate, thus facilitating the flow of information and resources between the pillars. The high closeness centrality value indicates that these three pillars have the shortest average distance to all other

⁷⁶⁴ Provan and Kenis, "Modes of Network Governance: Structure, Management, and Effectiveness."

pillars in the network, which means that information or policy impacts can spread quickly from these pillars to the entire system. Meanwhile, the high value of strength and expected influence reflects the intensity and direction of influence that the three pillars have on the overall network dynamics. The central position occupied by the ICT Adoption, Infrastructure, and Health pillars places the three as bridging nodes that play a crucial role in integrating various dimensions of regional competitiveness. Functionally, these three pillars connect the innovation dimension (represented by pillars such as Innovation Capability and Business Dynamism), the efficiency dimension (which is reflected in pillars such as the Labour Market and the Financial System), and the social resilience dimension (which includes the pillars of Health, Skills, and institutional aspects). This connecting function is very strategic because it allows for cross-dimensional synergies that strengthen competitiveness holistically. The findings regarding the strategic role of these pillars are in line with a study ⁷⁶⁵, which demonstrates that investments in the digital economy form a network of interregional connectivity that significantly strengthens the efficiency and adaptability of local economies. Thus, strengthening capacity in these three central pillars can have a large multiplier impact on increasing overall regional competitiveness.

Within the framework of Innovation Network Theory, the ICT Adoption pillar occupies a strategic position as the main driver of cross-sector integration through digitalization mechanisms and the use of information technology. ⁷⁶⁶ in their study published in the *Economics of Innovation and New Technology* elaborate on how the adoption of information and communication technology transforms the structure and dynamics of innovation networks. Digitalization allows for the creation of collaborative platforms that facilitate knowledge exchange, coordination of innovative activities, and the formation of strategic alliances between economic actors that previously operated in isolation. Furthermore, ICT Adoption accelerates the diffusion of innovation by reducing geographical and temporal barriers in communication and economic transactions. In the context of Indonesia's regional competitiveness, the high level of ICT adoption in a province is positively correlated with its ability to be integrated in national and global economic networks, access wider markets, and utilize knowledge and technology developed in innovation centers. Thus, investment in strengthening ICT Adoption capacity can be seen as an accelerator strategy that accelerates the structural transformation of the regional economy. The Infrastructure Pillar, both in physical and digital dimensions, functions as an enabler or enabler for the creation of multidimensional connectivity between economic and social actors in a region. ⁷⁶⁷ affirm the importance of digital infrastructure investment in strengthening industry participation in regional value chains. Adequate transportation infrastructure facilitates the mobility of goods, services, and labor, thereby expanding market reach and improving logistics efficiency. Reliable energy infrastructure ensures the continuity of productive activities and supports the adoption of more energy-intensive technologies. Meanwhile, digital infrastructure—which includes telecommunications networks, data centers,

⁷⁶⁵ Xie et al., “Uncovering the Evolution of Digital Economy Investment Networks: A County-Level Perspective.”

⁷⁶⁶ Schütz and Strohmaier, “Power Relations in European RDI-Collaboration Networks. Disparities in Policy-Driven Opportunities for Knowledge Generation in ICT.”

⁷⁶⁷ Guo et al., “Research on the Measurement of Digitalization on the Integration of China’s Manufacturing Industry into the RCEP Regional Value Chain.”

and digital platforms—is the foundation for knowledge-based economic transformation and participation in the global digital economy. The synergy between physical and digital infrastructure creates a comprehensive connectivity ecosystem, enabling the seamless flow of goods, services, information, and ideas between regions and sectors. The central position of the infrastructure pillar in the competitiveness network indicates that infrastructure investment has a significant spillover effect on the strengthening of the other pillars.

Pillar Health makes a unique contribution to regional competitiveness through strengthening the resilience dimension of the system. A strong and comprehensive health network not only improves the quality of life and productivity of the workforce, but also strengthens the capacity of social innovation and the economic resilience of regions to various shocks.⁷⁶⁸ elaborate the complex relationship between health innovation networks and regional health system performance. Their findings indicate that regions with integrated and innovative health systems show higher adaptive capacity in the face of public health challenges, including pandemics and epidemiological transitions. In the perspective of competitiveness, the health pillar also interacts closely with other pillars such as Skills through increasing cognitive capacity and workforce productivity, Innovation Capability through innovation in the health and pharmaceutical sectors, and ICT Adoption through the digitalization of health services. The central position of the health pillar in the network confirms that investment in public health is not just a social spending, but a strategic investment that strengthens the foundation of long-term competitiveness. The Social Network Theory approach provides a robust analytical framework to understand the mechanisms of knowledge and information diffusion in regional competitiveness networks.⁷⁶⁹ in their seminal contributions explain that nodes with a high value of centrality act as communication mediators and an effective source of knowledge diffusion in the network. These nodes control the flow of information between different parts of the network, so they have significant structural power in determining what is known by whom and when. In the context of this research, the pillars of ICT Adoption and Infrastructure emerged as the main mediators that strengthen knowledge flow and collaboration across institutions. These findings are reinforced by the studies of^{770 771}, which demonstrate the crucial role of digital technologies in facilitating knowledge exchange and the formation of cross-organizational collaborations. The practical implication of these findings is that strengthening ICT capacity and digital infrastructure can accelerate the circulation of knowledge and best practices between regions, thereby reducing the gap in innovative capacity between regions.

The role of ICT as a catalyst for regional economic collaboration and integration has received substantial empirical support from various contemporary studies. Godlewska-Majkowska and colleagues (2025) found that digital technologies play a significant role in accelerating the integration of rural economies into regional innovative ecosystems. These

⁷⁶⁸ Hu et al., “Innovation Networks in the Advanced Medical Equipment Industry: Supporting Regional Digital Health Systems from a Local–National Perspective.”

⁷⁶⁹ Borgatti and Everett, “A Graph-Theoretic Perspective on Centrality.”

⁷⁷⁰ Yan et al., “Bibliometric Analysis of Smart Tourism Destination: Knowledge Structure and Research Evolution (2013–2025).”

⁷⁷¹ Gomez-Cruz, Montes, and Anzola, “Interactions Between Innovation and Digital Transformation: A Co-Word Analysis.”

findings are of particular relevance to the Indonesian context which has a geographical structure of the archipelago and significant development disparities between urban and rural areas. The adoption of digital technology allows economic actors in rural and remote areas to access markets, information, and financial services that were previously only available in urban centers. Furthermore, digital platforms create new opportunities for local entrepreneurship and community economic empowerment through business models based on the sharing economy and e-commerce. Thus, the ICT Adoption pillar not only strengthens regional aggregate competitiveness, but also has the potential to become an instrument of equitable development that reduces the gap between regions within a province. In contrast to the central pillars discussed earlier, the Product Market pillar occupies a peripheral position in the competitiveness network with a negative expected influence value of -2.768. This negative value indicates that the Product Market pillar not only has a weak connection with the core nodes of the network, but also exerts an influence that is contrary to the general direction of system dynamics. This condition reflects the disintegration of product market mechanisms with the broader competitive ecosystem, which can hinder the transmission of price signals, efficient resource allocation, and market response to innovation. The peripheral position of the Product Market pillar implies that even if a region has innovative capacity and adequate infrastructure, the benefits of such advantages cannot be optimally realized if the market mechanism does not function properly. This phenomenon demands serious attention from policymakers to identify the structural barriers that lead to the disintegration of product markets with other pillars of competitiveness, as well as to design interventions that can strengthen the connectivity of these pillars with the broader system.

To understand more deeply the phenomenon of isolation pillar of the Product Market, the Structural Holes theory developed ⁷⁷² provides a relevant analytical framework. This theory explains that in the structure of the network, there are structural gaps that separate groups of nodes that are not directly connected. Nodes that are able to bridge these structural gaps gain significant informational and control gains, while nodes that are on the sides of gaps without bridges experience loss of access to information and resources. In the context of this study, the Product Market pillar was identified as being in a separate position from the core cluster without adequate connecting bridges. This condition indicates the weak information transmission mechanism between product market dynamics and the pillars of innovation and infrastructure. A similar phenomenon was observed in the studies of ⁷⁷³ and ⁷⁷⁴, where market sectors that are unable to adapt to digital transformation are the main obstacles to regional competitiveness. These findings affirm the urgency of building a structural bridge that connects the Product Market pillar with the innovation-infrastructure cluster. The clustering analysis carried out in this study resulted in the identification of two large groups of pillars with fundamentally different connectivity characteristics. The first cluster of Cluster 1 consists of the pillars of ICT Adoption, Infrastructure, Innovation Capability, and Health, which consistently shows positive and high values of Onnela and Zhang clustering coefficients. The high positive value of these two

⁷⁷² Burt, "The Network Structure Of Social Capital."

⁷⁷³ van Meeteren et al., "Rethinking the Digital Transformation in Knowledge-Intensive Services: A Technology Space Analysis."

⁷⁷⁴ Lee, Zach, and Chung, "Progress in Smart Tourism 2010-2017: A Systematic Literature Review."

coefficients indicates that the pillars in the first cluster are closely related to each other and form a cohesive synergy structure. The four pillars in this cluster can be conceptualized as technological-infrastructure clusters that function as engines for the diffusion of innovation and systemic efficiency in regional competitiveness networks. The characteristics of these clusters are in line with the findings of ⁷⁷⁵, although in different contexts, identifying adaptive mechanisms similar to those described in the framework of Complex Adaptive Systems. This first cluster can be seen as a core cluster or core cluster that is the center of gravity in the competitive network, where reinforcement on one of the pillars will produce a strengthening effect on the other pillars through a positive feedback mechanism.

The second cluster of Cluster 2 shows characteristics that contrast with the first cluster, covering the Product Market and Financial System pillars with a negative Onnela clustering coefficient value. These negative values illustrate weak relationships and a tendency to isolate from the main systems of the competitive network. The pillars in this second cluster do not form a strong synergy either among others or with the pillars in the core cluster. This condition creates fragmentation in the structure of the competitive network, where the potential contribution of the Product Market and Financial System pillars to regional competitive performance cannot be realized optimally due to the absence of effective transmission channels. This characteristic of peripheral clusters has significant policy implications, as it indicates that interventions focused only on strengthening the central pillars without paying attention to the integration of the peripheral pillars will result in an unbalanced competitive structure and vulnerable to systemic instability. The findings regarding the formation of clusters with fundamentally different characteristics are in line with the concept of core-periphery patterns in the network economics literature. In the context of Indonesia's regional competitiveness, this core-periphery pattern is reflected in the dominance of the ICT-Infrastructure-Innovation-Health cluster as the core, with the Product Market and Financial System on the periphery. The connectivity imbalance reflected in this pattern magnifies the risk of fragmentation of the competitiveness system, where the dynamics in the core cluster are not effectively transmitted to the peripheral cluster, and conversely, the constraints in the peripheral cluster do not obtain an adequate response from the core cluster. A deep understanding of this core-periphery pattern is a prerequisite for the formulation of a reintegration strategy that can balance the competitive network structure.

Comparative studies with related studies indicate that regional competitiveness networks tend to exhibit characteristics of small-world structures, characterized by a combination of high clustering coefficients and short average distances between nodes. ⁷⁷⁶ identified patterns of digital trade networks in the East Asian region with similar *small-world* characteristics. The small-world structure has important implications for competitive dynamics, as it allows for the rapid diffusion of information and innovation over short distances, while maintaining local cohesiveness through high clustering. In the Indonesian context, small-world characteristics can be a strategic asset if managed well, as they allow provinces to benefit from innovations developed in national knowledge centres relatively quickly. However, this structure also has a vulnerability,

⁷⁷⁵ Rădulescu et al., "A Pattern of Collaborative Networking for Enhancing Sustainability of Smart Cities."

⁷⁷⁶ Deng et al., "Research on the Structural Characteristics and Influencing Factors of Digital Service Trade Networks in RCEP Member States."

namely a high dependence on central nodes as a connecting bridge. Failures or weaknesses in the central node can disrupt the flow of information throughout the network, making strengthening the resilience of the central node a strategic priority.⁷⁷⁷ reinforce the finding that strengthening cross-regional connectivity through digitalization accelerates the evolution of regional competitiveness systems. Digitalization not only improves the efficiency of communication and economic transactions, but also transforms the fundamental structure of networks by creating new connectivity channels that transcend traditional geographical boundaries. In the Indonesian context, a comprehensive digitalization strategy can be a catalyst to reduce competitiveness disparities between provinces by enabling previously isolated regions to be integrated into the national economic network. Digital platforms, equitable telecommunication infrastructure, and high digital literacy are prerequisites for the realization of this potential. Furthermore, digitalization also allows the formation of virtual clusters that transcend geographical proximity, so that economic actors in different regions can collaborate and share resources more effectively. The strategy of strengthening digital connectivity should be seen as a long-term investment that will yield dividends in the form of increasing regional competitiveness in a sustainable manner.

Based on the findings on the structure of the competitive network that shows a core-periphery pattern with isolated peripheral clusters, the network reengineering approach is an urgent strategic need. Network reengineering refers to a systematic effort to reconstruct the relationships between pillars with the aim of optimizing the overall performance of the system. In the context of this research, network reengineering includes three main priorities: first, strengthening digital capacity through the expansion of ICT infrastructure and increasing technology adoption across economic sectors; second, improving the connectivity of physical infrastructure that connects production centers with the consumer market; and third, the integration of the Product Market and Financial System pillars into the core cluster through the construction of structural bridges in the form of supportive regulations, intermediation platforms, and cross-pillar collaborative mechanisms. Network reengineering is not just a technical intervention, but a systemic transformation that requires coordination between stakeholders and long-term commitment from the central and regional governments.

The formulation of an effective regional competitiveness strategy requires the integration of the theoretical framework of Complex Adaptive Systems (CAS) and Regional Innovation System (RIS). The CAS framework emphasizes the importance of viewing the competitiveness system as an entity that continues to evolve and adapt, so intervention strategies must be flexible and responsive to the dynamics of change. Meanwhile, the Regional Innovation System framework emphasizes the importance of building an innovation ecosystem that involves synergistic interactions between knowledge institutions, the business sector, and the government within a triple helix framework. The integration of these two frameworks results in a strategic approach that directs competitiveness development efforts on two fronts simultaneously: optimization of central pillars (ICT, Infrastructure, and Health) that function as the driving force of the system, and improvement of connectivity at weak nodes (Product Market and Financial

⁷⁷⁷ Xie et al., "Uncovering the Evolution of Digital Economy Investment Networks: A County-Level Perspective."

System) that have been hindering the transmission of positive impacts throughout the system. The findings resulting from the centrality and clustering analysis have substantial strategic implications for the formulation of regional competitiveness development policies in Indonesia. First, the identification of ICT Adoption, Infrastructure, and Health as central pillars indicates that the allocation of development resources must be prioritized in strengthening these three pillars as a leverage strategy that will have a multiplier impact on other pillars. Second, the peripheral position of the Product Market and Financial System pillars requires the design of special interventions aimed at building structural bridges between peripheral clusters and core clusters, for example through the digitization of market mechanisms and the expansion of access to inclusive finance. Third, the characteristics of small-world structures in competitive networks imply the importance of maintaining the resilience of the central nodes that serve as bridges, as vulnerabilities in these nodes can disrupt the cohesiveness of the entire network. Fourth, the network reengineering approach requires cross-sectoral and cross-level government coordination, so that collaborative governance mechanisms are a prerequisite for its successful implementation. Thus, regional competitiveness development strategies need to transform from a fragmented sectoral approach to a systemic approach that considers interconnectedness and interdependence between pillars within an integrated network framework.

8.4. Analysis of Centrality and Clustering of Regional Competitiveness Pillars: A Theoretical Perspective of Complex Systems and Networks

The analysis of centrality and clustering in the context of regional competitiveness networks can be comprehensively understood through complex systems theory approaches and network theory. These two theoretical frameworks provide a robust epistemological foundation for understanding how elements in regional economic systems interact with each other, form patterns of interconnectedness, and produce collective behavior that cannot be predicted simply by studying each element separately. Complex systems theory, rooted in pioneering work in physics, biology, and the social sciences, emphasizes that systems composed of many interacting components will exhibit emergent properties—characteristics that arise from interactions between components and are not possessed by any individual component. Meanwhile, network theory provides a methodological apparatus to map, measure, and analyze the interconnectedness structure in such systems through concepts such as nodes, links, centrality, and clusters. In the context of regional competitiveness, economic pillars can be conceptualized as nodes in a network that are connected by various forms of interaction—whether in the form of resource flows, knowledge transfers, or policy feedback mechanisms—that collectively shape the competitiveness architecture of a region. In the perspective of complex systems and networks theory, the interconnectedness between economic pillars plays a fundamental role in creating systemic stability and efficiency at the regional level. Systemic stability refers to the ability of a system to maintain its essential functions despite various disruptions or shocks, while systemic efficiency deals with the ability of a system to optimize resource utilization and maximize aggregate output. These two characteristics cannot be achieved optimally if the elements in the system operate in isolation. Conversely, well-structured connectivity allows for a balancing mechanism that mitigates the negative impact of shocks on one pillar through the redistribution

of the load to the other pillars. Furthermore, connectivity also facilitates positive externality where increased performance on one pillar provides spillover benefits to the pillars connected to it. A deep understanding of these interconnectedness patterns is a prerequisite for the formulation of an effective competitiveness development strategy, as it allows the identification of strategic intervention points that can produce a multiplier impact on the entire system.

The results of the centrality analysis in this study identified the ICT Adoption pillar as the node that occupies the most central position in Indonesia's regional competitiveness network. This central position is reflected in the high values obtained by the ICT Adoption pillar on various centrality metrics, including betweenness centrality, closeness centrality, strength, and expected influence. The theoretical interpretation of these findings is that the ICT Adoption pillar serves as a catalyst for cross-sectoral integration that accelerates the process of innovation and structural transformation of the regional economy. As a catalyst, ICT Adoption not only improves the performance of the information and communication technology sector itself, but also facilitates and strengthens economic activities in other sectors through various transmission mechanisms. These mechanisms include the digitization of business processes that improve operational efficiency, digital platforms that expand market reach, information systems that improve the quality of decision-making, and digital infrastructure that enables collaboration across geographical and organizational boundaries. The central position of the ICT Adoption pillar implies that investment in strengthening the capacity of the adoption of information and communication technologies will result in a multiplier impact that spreads across the regional competitiveness network. The findings regarding the centrality of the ICT Adoption pillar are in line with the model of digitalization configuration and sustainable competitiveness developed by ⁷⁷⁸. The model demonstrates that digitalization does not operate as a single, isolated factor, but rather creates complex synergistic effects through interaction with various other dimensions, particularly technology adoption, innovation capabilities, and supporting infrastructure. This synergy results in a more robust competitiveness configuration compared to the arithmetic sum of each factor's contribution separately—a phenomenon known in the complex systems literature as super additivity or complementarity effects. These findings have important implications for Indonesia's regional development strategy, indicating that efforts to strengthen competitiveness need to be directed at the formation of similar synergistic configurations through the simultaneous development of complementary pillars.

Theoretically, the position of ICT Adoption ⁷⁷⁹ as the main node in the regional competitiveness network reinforces the fundamental assumptions in the theory of innovation diffusion developed ⁷⁸⁰. The theory of innovation diffusion explains how innovation—which can be a new idea, practice, or technology—spreads within a social system through various communication channels over time. Within the framework of this theory, the adoption of information and communication technologies can be seen as a form of innovation that, when

⁷⁷⁸ Delgosha, Saheb, and Hajiheydari, "Modelling the Asymmetrical Relationships between Digitalisation and Sustainable Competitiveness: A Cross-Country Configurational Analysis."

⁷⁷⁹ Wisdom Samuel Udo et al., "Conceptualizing Emerging Technologies and ICT Adoption: Trends and Challenges in Africa-US Contexts."

⁷⁸⁰ Everett M. Rogers, *Diffusion of Innovations*.

widely adopted, transforms the structure and dynamics of regional economic systems.⁷⁸¹ identifies several factors that affect the speed and breadth of innovation diffusion, including the characteristics of innovation itself (relative superiority, compatibility, complexity, trialability, and observability), adopter characteristics, and characteristics of the social system in which diffusion takes place. In the context of regional competitiveness, the ICT Adoption pillar functions as a transmission mechanism that facilitates the diffusion of various forms of innovation—both technological innovations, business process innovations, and institutional innovations—between sectors and between regions. Its central position in the network makes this pillar a hub that controls the flow of innovation in the system, so that strengthening the capacity of ICT Adoption will directly increase the speed and reach of innovation diffusion in the regional economy. The central position of the ICT Adoption pillar also gets theoretical justification from the endogenous growth theory framework, which emphasizes that long-term economic growth is determined by internal factors of the economic system—in particular the accumulation of human capital, technological innovation, and increased productivity—and not solely by exogenous factors such as savings rates or population growth. Within the framework of endogenous growth theory, technology adoption plays a key role as a key driver of regional productivity improvement through two main mechanisms: knowledge transfer and resource use efficiency. Knowledge transfer occurs when information and communication technologies facilitate the codification, storage, and dissemination of tacit and explicit knowledge between economic actors, thereby accelerating the accumulation of collective knowledge capital within a region. Meanwhile, resource efficiency is achieved when digitalization enables process automation, optimization of resource allocation, and reduction of transaction costs in economic activities. These two mechanisms contribute to the increase in productivity of the total factor which is the main determinant of sustainable economic growth within the framework of endogenous growth.

Contemporary empirical studies provide substantial confirmation of the strategic role of ICT as a key link in the digital economy ecosystem on a global and regional scale. **782** demonstrate that ICT-based innovation acts as a connecting node that integrates various components of the digital economy ecosystem. **783** findings indicate that countries or regions with high rates of ICT adoption show a stronger level of integration with global digital economy networks, which in turn opens up access to wider markets, technologies, and productive resources. In the context of Indonesia's regional competitiveness, these findings imply that strengthening ICT Adoption capacity is not only relevant to improve the internal efficiency of the regional economy, but also a prerequisite for the integration of Indonesian provinces into the global value chain and international innovation ecosystem. Thus, investment in ICT Adoption has a strategic dimension that goes beyond regional administrative boundaries, namely as a bridge that connects local economies with the opportunities available in the global digital economy. The temporal dimension of ICT Adoption in regional competitiveness is reinforced

⁷⁸¹ Everett M. Rogers.

⁷⁸² Zhu, Xie, and Chen, "ICT Industry Innovation: Knowledge Structure and Research Agenda."

⁷⁸³ Zhu, Xie, and Chen.

by the findings of ⁷⁸⁴. The research confirms that digital readiness at the national and regional levels greatly determines the direction of long-term economic transformation. Digital readiness not only includes the availability of technological infrastructure, but also includes other dimensions such as people's digital literacy, regulations that support digital innovation, the availability of digital talent, and organizational culture that is adaptive to technological change. ⁷⁸⁵ argue that regions with high levels of digital readiness have a greater capacity to respond to technological disruption and take advantage of new opportunities arising from digital transformation. From a long-term perspective, digital readiness is a crucial determinant that distinguishes regions that have successfully transformed into knowledge-based economies from regions that are lagging behind in the global competitiveness race. These findings underscore the urgency for local governments in Indonesia to develop a comprehensive digital readiness strengthening strategy as a foundation for long-term economic growth.

In addition to ICT Adoption, the Infrastructure pillar also occupies a central position in the competitiveness network with a high expected influence value. The central position of the infrastructure pillar reflects the fundamental close relationship between economic competitiveness and the quality of a region's socio-economic infrastructure. Infrastructure, both in physical and digital dimensions, provides the material foundation for economic activities by facilitating the mobility of goods, services, labor, and information. ⁷⁸⁶ elaborate on how a strong digital infrastructure plays a role in accelerating productivity and improving regional connectivity. Their findings indicate that investment in digital infrastructure provides significant returns in the form of improved logistics efficiency, reduced transaction costs, and expanded market reach for local economic actors. In the context of Indonesia as an archipelagic country with unique geographical challenges, the role of infrastructure—especially connectivity infrastructure—is becoming increasingly crucial to bridge geographical fragmentation and build economic integration between regions. The high expected influence value on the Infrastructure pillar indicates that improving the quality of infrastructure will have a strong positive impact on other pillars of competitiveness through various transmission mechanisms.

Pillar Health also occupies a central position in the regional competitiveness network, reflecting the theoretical and empirical recognition of the contribution of health systems in sustaining economic competitiveness. ⁷⁸⁷ demonstrate that improving health services—especially those integrated with information technology—has been shown to improve social well-being and regional economic resilience. These findings are in line with the contemporary development paradigm that views health not only as an outcome of development, but also as an input or prerequisite for development itself. A healthy workforce has higher productivity, lower attendance rates, and better cognitive capacity to absorb new knowledge and skills. Furthermore, a strong health system provides a social safety net that increases the resilience of regional

⁷⁸⁴ Tsakalerou et al., “Tailoring Digital Transformation: A Customized DESI Framework for Economic and Societal Growth.”

⁷⁸⁵ Tsakalerou et al.

⁷⁸⁶ Smidt and Jokonya, “Factors Affecting Digital Technology Adoption by Small-Scale Farmers in Agriculture Value Chains (AVCs) in South Africa.”

⁷⁸⁷ Skubis, Wolniak, and Grebski, “AI and Human-Centric Approach in Smart Cities Management: Case Studies from Silesian and Lesser Poland Voivodships.”

economies to various shocks, as was evident during the COVID-19 pandemic. The central position of the health pillar in the competitiveness network also indicates a strong interdependence with other pillars, especially the ICT Adoption pillar through the digitalization of health services, the infrastructure pillar through health facilities, and the Skills pillar through healthy human capital. In contrast to the central pillars discussed earlier, the Product Market pillar shows a negative influence on the regional competitiveness network with an expected influence value that is in the negative region. These findings indicate that the Product Market pillar not only has a weak linkage with other pillars, but also exerts an inverse influence on the general dynamics of the system. The interpretation of this phenomenon is the existence of structural barriers in the efficiency of product markets and the limitation of integration between market mechanisms and innovative sectors in the regional economy. These structural barriers can be caused by a variety of factors, including inefficient market regulation, high transaction costs, information asymmetry between producers and consumers, and market fragmentation that hinders economies of scale. The limitations of integration with the innovative sector imply that innovations developed in the research and technology sectors are not effectively transmitted into the market mechanism, so the economic benefits of these innovations cannot be realized optimally. This condition creates systemic inefficiencies that reduce the potential competitiveness of regional aggregates⁷⁸⁸.

The findings regarding the negative influence of the Product Market pillar received a coherent theoretical explanation through the structural hole theory developed by⁷⁸⁹. This theory explains that in the structure of social and economic networks, there are structural gaps that separate clusters of nodes that are not directly connected to each other. These structural gaps create opportunities as well as constraints in the network: opportunities for nodes that are able to bridge these gaps to gain informational and control advantages, but constraints for nodes that are on the side of the gap without access to the connecting bridge. In the context of Indonesia's regional competitiveness, the Product Market pillar is identified as being in a separate position by a structural gap from the innovation-technology-infrastructure cluster without an adequate connecting bridge. This weak inter-sector connection reduces the potential for the diffusion of innovation from innovative sectors into the market mechanism, thereby reducing the overall efficiency of the system⁷⁹⁰. The practical implication from the perspective of structural hole theory is the need to build a connecting mechanism that can integrate the Product Market pillar with the innovation cluster, for example through intermediation platforms, incubation programs that connect innovators with the market, or regulations that encourage the adoption of innovation by market participants. The clustering analysis conducted in this study using various measurement metrics—including Barrat, Onnela, Watts-Strogatz (WS), and Zhang coefficients—resulted in the identification of two main groups of pillars with fundamentally different interconnectedness characteristics. These clustering coefficients measure the tendency of nodes in the network to form closely connected groups, indicating a pattern of intensive collaboration

⁷⁸⁸ Kouskoura et al., "Assessing the Key Factors Measuring Regional Competitiveness."

⁷⁸⁹ Burt, "The Network Structure Of Social Capital."

⁷⁹⁰ Oyetade, Harmse, and Zuva, "Internal Organizational Factors Influencing ICT Adoption for Sustainable Growth."

or interdependence between nodes in the same group. The measurement results showed the formation of two large clusters: the first cluster consisting of the pillars of technology, infrastructure, and health with a positive and high clustering coefficient value; and the second cluster which includes market and financial pillars with lower or even negative clustering coefficient values. The difference in characteristics between these two clusters indicates a structural dualism in the regional competitiveness network, where some pillars form a tightly connected core while others are in a fringe position with looser connectivity.

The first cluster consisting of the pillars of ICT Adoption, Infrastructure, Innovation Capability, and Health can be conceptualized as an innovation-driven core, which is the core driver of innovation in the regional competitiveness network. The main characteristic of this cluster is the high degree of internal interconnectedness, which is reflected in the positive and significant values of the Onnela and Zhang clustering coefficients. The close connectivity between the pillars in this cluster creates synergies that strengthen the innovative capabilities of the system as a whole. Specifically, the ICT Adoption pillar provides a technological platform that facilitates innovation; the infrastructure pillar provides a material foundation for the implementation and diffusion of innovation; the Innovation Capability pillar reflects the intrinsic capacity to generate and absorb innovation; while the health pillar ensures the availability of healthy and productive human capital as a driver of innovation. The synergistic interaction between these four pillars forms an ecosystem conducive to sustainable innovation⁷⁹¹, where improvements in one pillar will strengthen the other pillars through positive feedback mechanisms. This innovation-driven core cluster can be seen as a growth engine that drives regional competitiveness dynamics in the long term. The second cluster, which includes the Product Market and Financial System pillars, shows different characteristics from the first cluster, with a pattern of interconnectedness that indicates an orientation towards the efficiency of resource allocation rather than the creation of innovation. The pillars in this cluster focus on market mechanisms and financial intermediation that function to allocate economic resources to the most productive uses. Although this function is essential to economic performance, the characteristics of efficiency-driven differ fundamentally from the characteristics of innovation-driven in terms of long-term growth dynamics. Efficiency-oriented clusters tend to optimize the use of existing resources and technologies, while innovation-oriented clusters focus on the creation of new resources and technologies. Lower or negative clustering coefficient values in the second cluster indicate that the pillars in it do not form as strong synergies as the first cluster, and may even show substitutive rather than complementary relationships in some configurations. Understanding the differences in the characteristics of these two clusters is important to design intervention strategies that suit the specific needs of each cluster.

The concept of cluster dualism in Indonesia's regional competitiveness network is strengthened by the economic system complexity approach developed⁷⁹². This approach emphasizes that the regional economic system is a complex entity consisting of various

⁷⁹¹ Balakrishnan et al., "Eco-Innovation in Action: Valorizing Vegetable Waste into High-Value Ingredients for Sustainable Applications."

⁷⁹² Godlewska-Majkowska, Komor, and Zarębski, "The Smart Village Concept from 1.0 to 4.0 in the Context of ICT Entrepreneurship Development in the Polish Villages."

subsystems with different characteristics and dynamics.⁷⁹³ argue that understanding this complexity requires analysis that goes beyond traditional reductionist approaches that isolate each factor as independent variables. Instead, a holistic approach is needed that considers the interactions, interdependencies, and coevolution between subsystems in the context of the broader system. Within this framework, the formation of innovation-driven and efficiency-driven clusters can be understood as a manifestation of functional differentiation in complex economic systems, in which different subsystems develop specializations and patterns of interaction that correspond to their respective functions. The complexity approach also implies that policy interventions need to consider the potential unforeseen impacts that can arise from non-linear interactions between subsystems.

The structure of clustering in regional competitiveness networks can also be understood through the lens of the network interdependence theory elaborated⁷⁹⁴. This theory emphasizes that the nodes in the network do not operate independently, but rather are bound in interdependent relationships that affect each other's performance and evolution. Henriques and Viseu identified various forms of interdependence in innovation networks and economies, including resource interdependence, knowledge interdependence, and market interdependence. In the context of this study, the innovation-driven core cluster shows a strong pattern of interdependence between its component pillars, which is reflected in the high value of the clustering coefficient. These interdependencies can be positive or negative, and understanding these interdependence patterns is crucial to designing strategies that optimize positive synergies and mitigate potential conflicts between pillars. The findings regarding the centrality of the ICT Adoption pillar in competitiveness networks are consistent with various studies that explore the relationship between ICT-based competitiveness and inclusive development.⁷⁹⁵ elaborated on how the adoption of information and communication technology can be an instrument to achieve more inclusive development. Inclusivity in this context refers to the ability of development to reach and benefit a wider segment of society, including groups that were previously marginalized from the development process. The study argues that ICT has the potential to democratize access to information, education, financial services, and economic opportunities, thereby reducing the structural barriers that have limited the participation of marginalized groups in the economy. In the context of Indonesia's regional competitiveness, these findings imply that strengthening the ICT Adoption pillar is not only relevant to increase aggregate competitiveness, but also to ensure that the benefits of increased competitiveness are distributed more evenly to all levels of society and regions within a province.

The dynamics of interaction between the financial system and infrastructure in the context of technological innovation are also an important dimension in understanding the structure of regional competitiveness networks. The financial system provides the necessary capital for investment in research, development, and commercialization of innovation, while

⁷⁹³ Godlewska-Majkowska, Komor, and Zarębski.

⁷⁹⁴ Henriques and Viseu, "How Efficient Is the Implementation of Structural Funds Committed to Enhancing ICT Adoption in SMEs?"

⁷⁹⁵ Mariam El-Husseiny, "Concept, Determinants, and Measures of Information and Communication Technology (ICT) Competitiveness."

infrastructure provides a platform for the implementation and diffusion of new technologies. In the context of this study, Arnone and colleagues' findings provide additional perspective to understand why the Financial System and Infrastructure pillars—despite being in different clusters—have significant synergy potential if the linkages between the two are strengthened. The policy implication from this perspective is the need for a strategy that integrates financial sector development with infrastructure investment within a more coherent framework. Conceptually, the results of the centrality and clustering analysis in this study emphasize the urgency of the reengineering approach of regional competitiveness policies based on the perspective of an integrated network. The reengineering approach refers to a fundamental reconstruction of the structure and process of competitiveness development policies⁷⁹⁶, which goes beyond marginal adjustments or partial reforms. In the framework of an integrated network, policy reengineering focuses on optimizing inter-pillar connectivity through the identification and strengthening of strategic links that maximize system synergy. The ICT Adoption pillar is identified as the main driver of synergy between pillars, so that strengthening ICT capacity⁷⁹⁷ becomes a central priority in the reengineering strategy. However, this approach also emphasizes the importance of strengthening the connectivity of peripheral pillars—particularly the Product Market and Financial System—with the core clusters to create a more balanced and resilient network structure. Network-based policy reengineering requires intensive cross-sectoral coordination and goes beyond the administrative fragmentation that often hinders policy integration in conventional government practices⁷⁹⁸.

By referring to a complex adaptive systems model, the findings of this study generate a theoretical proposition that modern competitiveness is no longer determined by the efficiency of individual sectors, but rather by the strength of interconnectivity and systemic adaptation capacity between economic components. The complex adaptive systems model views the economic system as an entity that continues to evolve through the interaction between heterogeneous agents that adapt to changes in the environment and influence each other's behavior. In this framework, regional competitiveness is an emergent property that arises from the interaction patterns between pillars, and not just the result of summing up the performance of each pillar separately. The positive relationships identified between the pillars of technology, infrastructure, and health demonstrate how synergies between components can result in collective capabilities that go beyond individual capabilities. The perspective of complex adaptive systems also implies that competitiveness development strategies need to be adaptive and responsive to the dynamics of change, rather than relying on deterministic planning that assumes the stability of environmental conditions. Thus, strengthening systemic adaptation capacity—which includes flexibility, organizational learning, and responsiveness to feedback—becomes a crucial dimension in a sustainable regional competitiveness building strategy. The synthesis of all the findings of centrality and clustering analysis has resulted in several strategic implications

⁷⁹⁶ Kouskoura et al., “Assessing the Key Factors Measuring Regional Competitiveness.”

⁷⁹⁷ Dzulkifli, Harlinda Nurdin, and Adia Purna, “Unleashing the Power of Capacity Building: Transforming Governance and Policy Implementation in the Digital Era.”

⁷⁹⁸ Supramono, Mahardhika, and Lestari, “Determinants of the Sustainability of Capability-Based Culinary Businesses: Evidence from Urban Areas in Central Java Province.”

for the development of regional competitiveness in Indonesia. First, the identification of ICT Adoption, Infrastructure, and Health as central pillars indicates that the allocation of development resources needs to be prioritized in strengthening these three pillars as a leverage strategy that will produce a multiplier impact on other pillars. Second, the formation of an innovation-driven core cluster consisting of the technology-infrastructure-health-innovation pillar implies the need for an integrated development approach between these sectors, rather than fragmented sectoral development. Third, the peripheral position of the pillar of the Product Market and Financial System requires the design of special interventions aimed at building a structural bridge between peripheral clusters and core clusters, for example through the digitization of market mechanisms and the expansion of access to technology-based inclusive finance. Fourth, the perspective of complex adaptive systems implies that competitiveness building strategies need to develop adaptive capacities that enable systems to respond flexibly and sustainably to the dynamics of change. The implementation of these strategic implications requires a transformation in regional development governance, from a fragmented sectoral approach to a systemic approach that emphasizes cross-sector coordination and strengthening connectivity between the pillars of competitiveness.

8.5. Social Network Theory Approach in Analysis of Regional Competitiveness Pillars

The Social Network Theory (SNT) approach provides a comprehensive and robust conceptual framework to understand how the relationships between pillars in regional competitiveness networks shape communication structures, knowledge flows, and patterns of economic collaboration. As a theoretical perspective rooted in the traditions of sociology and organizational science, SNT views social and economic phenomena not as aggregations of individual attributes, but rather as manifestations of structured relational patterns among interconnected actors. In the context of regional competitiveness, economic pillars can be conceptualized as nodes that are connected by various forms of linkages in the form of material resource flows, tacit and explicit knowledge transfer, policy coordination, and market feedback mechanisms. The network structure formed from these configurations of links determines how information, innovation, and best practices are disseminated within regional economic systems⁷⁹⁹. Furthermore, SNT emphasizes that the position of a node in the network, which is reflected in various centrality metrics, determines the node's access to resources, information, and influence circulating in the network. An in-depth understanding of the network structure and the relative position of each pillar is a prerequisite for the formulation of an effective and evidence-based competitiveness development strategy⁸⁰⁰. In the SNT analytical framework, the betweenness centrality metric is a crucial indicator that measures the extent to which a node acts as an intermediary or mediator in the communication path between other nodes in the network. Nodes with a high value of centrality are strategically positioned at the intersection of the shortest paths that connect other pairs of nodes, thus having the capacity to control, facilitate, or inhibit

⁷⁹⁹ Hu et al., "Innovation Networks in the Advanced Medical Equipment Industry: Supporting Regional Digital Health Systems from a Local-National Perspective."

⁸⁰⁰ Sun and Jung, "Machine Learning (ML) Modeling, IoT, and Optimizing Organizational Operations through Integrated Strategies: The Role of Technology and Human Resource Management."

the flow of information and resources in the network.⁸⁰¹ elaborate on the theoretical and practical significance of these metrics in various social and economic network contexts. They argue that nodes with high intervenes have a unique structural advantage because they can access information from different parts of the network that are not directly connected to each other. These structural advantages give the nodes greater negotiating power, access to more diverse knowledge, and the ability to act as intermediaries that connect previously separate groups. In the context of regional competitiveness, understanding the pattern of betweenness is key to identifying the pillars that play a critical role in maintaining system coherence and efficiency.

The results of the centrality analysis in this study identified the ICT Adoption and Infrastructure pillars as the nodes with the highest centrality betweenness value in Indonesia's regional competitiveness network. This strategic position indicates that the two pillars function as the main mediators in the dissemination of information and the diffusion of innovation between economic sectors. This mediation role has fundamental implications for regional competitiveness dynamics, as it shows that the effectiveness of knowledge transmission, policy coordination, and cross-sectoral synergy is highly dependent on the capacity and quality of these two pillars. The ICT Adoption pillar facilitates mediation through the provision of digital platforms that enable real-time communication, data exchange, and remote collaboration between economic actors. Meanwhile, the Infrastructure pillar provides the material and digital foundation—including transportation, telecommunications, and utility networks—which are physical prerequisites for economic interaction⁸⁰². When these two pillars function optimally, the flow of information and innovation can spread quickly and efficiently throughout the network, accelerating the process of collective learning and systemic adaptation to environmental changes. Conversely, weaknesses or dysfunctions in these two pillars will create structural barriers that disrupt the coherence and responsiveness of the overall competitiveness system.

The strategic role of the ICT Adoption and Infrastructure pillars as the main mediators in the competitiveness network demonstrates the ability of the two pillars to strengthen knowledge flow and facilitate cross-institutional collaboration. Knowledge flow refers to the process of knowledge transfer and exchange—both explicit codified knowledge and tacit knowledge inherent in individuals and organizations—between actors in the economic system. In the era of knowledge-based economy, a region's capacity to facilitate efficient knowledge flow is a crucial determinant for its innovative capabilities and long-term competitiveness. The ICT Adoption pillar strengthens knowledge flow through the provision of information infrastructure that enables the codification, storage, search, and distribution of knowledge on a wider scale and at higher speeds. Digital collaboration platforms, knowledge management systems, and internet-based communication networks enable economic actors to access and contribute to the collective knowledge base without being constrained by geographical and temporal barriers. The synergy between ICT Adoption and Infrastructure creates an ecosystem conducive to cross-institutional collaboration, involving governments, universities, research institutions, the private sector, and

⁸⁰¹ Borgatti and Everett, "A Graph-Theoretic Perspective on Centrality."

⁸⁰² Sahin, "Structural, Social, and Ecological Dimensions of Female Labor Force Participation: A Bayesian Analysis Across National Contexts."

civil society, within the framework of a quadruple helix innovation model that is increasingly relevant in the context of contemporary development.

The mediation role played by the ICT Adoption and Infrastructure pillars supports the fundamental transition of the regional competitiveness system to a new paradigm based on digital and collaborative. This transition reflects a shift from the traditional competitiveness model—which emphasizes physical resource ownership and static comparative advantage—to a contemporary competitiveness model that emphasizes digital capabilities, network connectivity, and dynamic competitive advantage. In this new paradigm, the competitiveness of a region is no longer solely determined by what it has, but also by its ability to connect, collaborate and learn from other entities in a wider economic network. Digitalization allows for the creation of new business models, new ways of working, and new forms of added value that are unimaginable in the traditional economic framework. Meanwhile, collaboration is imperative because the complexity of contemporary economic and social challenges goes beyond the individual capacity of any actor, requiring a collective approach that leverages a diversity of perspectives and resources. The central position of the ICT Adoption and Infrastructure pillars in the network indicates that these two pillars serve as catalysts for the transition, facilitating the structural transformation of the regional economy towards a more digital, connected, and collaborative configuration.

The empirical application of SNT in a specific sectoral context is reinforced by the study of ⁸⁰³, which explored the application of ICT in the development of smart tourism destinations. The findings of the study show that the implementation of information and communication technologies in the tourism sector not only improves operational efficiency—for example through service automation, data-driven visitor management, and personalization of the tourist experience—but also strengthens collaborative networks between public and private actors in the tourism ecosystem. Smart tourism destinations are characterized by the integration of digital technology into the entire tourism value chain, which allows for better coordination between local governments, destination managers, accommodation and transportation service providers, culinary and retail businesses, and local communities. Yan and colleagues argue that this digital-based collaboration creates synergies that increase the overall competitiveness of destinations, as each actor can contribute according to his or her comparative advantage while leveraging the complementary capabilities of other actors. These findings reinforce the common proposition that ICT Adoption serves as a collaboration enabler that transcends sectoral and organizational boundaries, with relevant implications not only for tourism but also for other sectors of the economy. ⁸⁰⁴ provide empirical confirmation that ICT integration accelerates the diffusion of innovation in digital economy network systems. Innovation diffusion—which refers to the process of disseminating a new idea, technology, or practice from its source to potential adopters in a social system—is a key mechanism that links innovative capabilities to economic performance at the aggregate level. The study demonstrates that information and communication technology

⁸⁰³ Yan et al., “Bibliometric Analysis of Smart Tourism Destination: Knowledge Structure and Research Evolution (2013–2025).”

⁸⁰⁴ Gomez-Cruz, Montes, and Anzola, “Interactions Between Innovation and Digital Transformation: A Co-Word Analysis.”

fundamentally transforms the diffusion pattern of innovation through several mechanisms. First, ICT reduces the cost and time required to communicate innovations to potential adopters, thereby expanding reach and accelerating diffusion speeds. Second, digital platforms allow for the creation of virtual communities of practice that facilitate collective learning and tacit knowledge exchange of innovations. Third, the data analytics enabled by ICT help innovators understand the needs and preferences of potential adopters, so that they can tailor innovations to be more compatible with local contexts. Fourth, ICT enables open innovation where organizational boundaries become more permeable, facilitating the flow of ideas and technologies between organizations. These findings strengthen the argument that strengthening the ICT Adoption pillar will accelerate the process of diffusion of innovation in regional economies, with a positive impact on productivity and competitiveness.

An inclusive perspective in the implementation of SNT is reinforced by the study⁸⁰⁵ highlighting how digitalization strengthens rural economic connectivity through the development of regional innovative ecosystems. These findings are of particular relevance to the Indonesian context which has significant development disparities between urban and rural areas, as well as the geographical challenges of the archipelago that limit physical connectivity.⁸⁰⁶ argue that digital technologies enable economic actors in rural areas to overcome geographical barriers that have limited their access to markets, information, and productive services. E-commerce platforms allow rural products to reach consumers in urban centers and even international markets without the need for a physical presence. Digital financial services provide access to capital and financial services that were previously unavailable in rural areas. Online education and training allow for upskilling without having to migrate to urban education centers. Thus, digitalization opens up opportunities for rural areas to be integrated into regional innovative ecosystems, reduce the competitiveness gap between the center and the periphery, and create a more spatially inclusive development model.

Theoretically, the findings regarding the central role of the ICT Adoption and infrastructure pillars can be explained through the framework of Knowledge Network Theory (KNT) which emphasizes the importance of connectivity in creating and maintaining innovative capabilities.⁸⁰⁷ elaborate the mechanisms through which knowledge networks affect the performance of urban and regional economies. They argue that the flow of knowledge circulating in the network has a strong correlation with the centrality of the urban economy. Regions that occupy a central position in knowledge networks have better access to innovative ideas, frontier technologies, and best practices developed across different parts of the network. This access allows them to continuously update their knowledge base, adapt external innovations to local contexts, and maintain a competitive advantage in a rapidly changing economic landscape. The KNT also emphasizes that the creation of new knowledge often occurs at the intersection of different domains of knowledge, facilitated by nodes that connect previously separate groups of knowledge. In this context, the ICT Adoption pillar serves as a facilitator of knowledge exchange,

⁸⁰⁵ Godlewska-Majkowska, Komor, and Zarębski, "The Smart Village Concept from 1.0 to 4.0 in the Context of ICT Entrepreneurship Development in the Polish Villages."

⁸⁰⁶ Godlewska-Majkowska, Komor, and Zarębski.

⁸⁰⁷ Zhang et al., "Research on Urban Economic Centrality in the Perspectives of Knowledge Stocks and Flows."

while the infrastructure pillar provides material and digital channels for the transmission of such knowledge.

The ICT Adoption pillar plays a crucial role in strengthening knowledge diffusion in regional competitiveness networks through various complementary mechanisms. Knowledge diffusion refers to the process of disseminating knowledge from its source of origin—which can be an individual, organization, or region—to potential recipients within a broader system. Information and communication technology fundamentally transforms the process of knowledge diffusion by overcoming traditional barriers that have limited the dissemination of knowledge. Geographical barriers are overcome through digital connectivity that enables instant communication across distances. Temporal barriers are overcome through digital storage that allows access to knowledge whenever needed. Language and format barriers are overcome through automatic translation technology and format conversion that facilitates cross-contextual interpretation. Access barriers are overcome through open platforms that democratize the availability of information and knowledge. Furthermore, ICT Adoption enables the creation and maintenance of collective knowledge repositories—such as databases, wikis, and knowledge management systems—that preserve and provide access to organizational and regional knowledge accumulation. Thus, the ICT Adoption pillar serves as a cognitive infrastructure that facilitates the accumulation and circulation of knowledge capital in regional economies.

The Infrastructure Pillar provides an essential physical and digital basis for cross-economic interaction in the regional competitiveness network.⁸⁰⁸ explore the relationship between infrastructure, specifically digital infrastructure such as broadband availability and regional innovation performance and competitiveness in Europe. Their findings indicate that the success of ICT adoption at the regional level is largely determined by the interaction between several supporting factors, including community education levels, the availability of adequate broadband infrastructure, and the intensity of innovation activities within the region. Physical infrastructure—which includes transportation networks, logistics facilities, and basic utilities—facilitates the mobility of goods, services, and labor that are prerequisites for economic activity. Digital infrastructure—which includes telecommunications networks, data centers, and digital platforms—facilitates the mobility of information and knowledge that is the foundation for a knowledge-based economy. The synergistic interaction between physical and digital infrastructure creates a comprehensive connectivity ecosystem, allowing economic actors to interact, transact and collaborate with lower costs and barriers. The central position of the infrastructure pillar in the competitiveness network indicates that infrastructure investment is not just a physical expenditure, but an investment in relational capabilities that form the structure of regional economic connectivity.

The synergistic combination of the ICT Adoption pillar and infrastructure forms a network structure that supports knowledge spillover and innovation-based economic growth. Knowledge spillover refers to the positive externality that occurs when knowledge developed by one entity—an individual, organization, or region—provides benefits to another entity without

⁸⁰⁸ Crespo-Rincón, Jorda-Borrell, and Ruiz-Rodríguez, “Information Society and Socio-Economic Characteristics in Europe: A Typology of Regions.”

direct compensation through market mechanisms.⁸⁰⁹ analyzed how network structure affects the intensity and pattern of knowledge spillover in regional innovation systems. They argue that regions with more integrated network structures—characterized by high connectivity, short network distances, and the presence of effective connecting nodes—exhibit a higher intensity of knowledge spillover. In this context, the ICT Adoption pillar serves as a transmission mechanism that facilitates the dissemination of knowledge across organizational and sectoral boundaries, while the infrastructure pillar provides a material channel for skilled workforce mobility and face-to-face interaction that is often essential for tacit knowledge transfer. The synergy of these two pillars creates structural conditions conducive to knowledge spillover, which in turn encourages innovation and productivity growth at the regional level.

From CAS's perspective, synergistic collaboration between the ICT Adoption pillars, Infrastructure, and Health can be understood as an adaptive mechanism that maintains a balance of socio-economic systems in the face of technological disruption and environmental change. The CAS perspective views the regional economic system as an entity that continues to evolve through the interaction between heterogeneous agents that adapt to change and influence each other's behavior.⁸¹⁰ elaborate how adaptive mechanisms in complex systems allow for the creation of resilience to various forms of shock and disruption. Within the framework of CAS, collaboration between pillars is not just planned coordination, but also includes a process of co-evolution in which each pillar adapts to changes in the other pillars through feedback mechanisms. The ICT Adoption pillar facilitates adaptation through the provision of real-time information on changing environmental conditions. Pillars of Infrastructure provide the material capacity to implement adaptive responses. Pillar Health ensures the availability of healthy and productive human capital as an adaptation agent. The synergistic interaction of these three pillars forms the collective adaptive capabilities that enable regional economic systems to respond to technological disruptions—such as automation, artificial intelligence, and digital transformation—in ways that maintain essential functions and exploit new opportunities.

The international dimension of digital connectivity and its implications for regional competitiveness was elaborated by⁸¹¹. The research shows that international digital connectivity, measured through the intensity of cross-border data exchange, participation in global digital platforms, and integration in international digital value chains, strengthens the export capacity of digital products and accelerates inter-regional learning through networking mechanisms. The study argues that regions that are intensively connected to global digital networks have access to frontier knowledge, cutting-edge technologies, and best practices developed in international innovation hubs. This access allows for a faster catch-up process for regions that are still in the stage of developing technology capabilities. Furthermore, international digital connectivity opens access to global markets for digital products and services, expanding the economies of scale that can be achieved by local economic actors. In the context of Indonesia's regional competitiveness,

⁸⁰⁹ van Meeteren et al., "Rethinking the Digital Transformation in Knowledge-Intensive Services: A Technology Space Analysis."

⁸¹⁰ Rădulescu et al., "A Pattern of Collaborative Networking for Enhancing Sustainability of Smart Cities."

⁸¹¹ Zhang and Zhao, "The Effect of E-Commerce on Digital Inclusive Finance: Evidence from the E-Commerce Boom in Rural China."

these findings imply that strengthening the ICT Adoption pillar is not only relevant for domestic economic integration, but also a prerequisite for effective participation in an increasingly integrated global digital economy.

The study of ⁸¹² provides an interesting sectoral perspective on how digital technologies are shaping new patterns of collaboration in small and medium-sized enterprises, particularly in the tourism sector. The research confirms that the adoption of digital technology by MSMEs not only improves the efficiency of individual operations, but also enables the establishment of data-driven collaborative networks that were previously difficult for small-scale businesses to achieve. Digital platforms enable MSMEs to share resources, coordinate marketing activities, and create integrated offerings that enhance the collective value proposition. The data analytics enabled by digital technology help MSMEs understand consumer preferences and optimize operations based on evidence-based insights. The study strengthens the argument that digital connectedness is the foundation of modern competitiveness that is not only relevant for large companies, but also essential for MSMEs that dominate economic structures in most regions in Indonesia. The policy implications of these findings are the need for strategies that facilitate the adoption of digital technology by MSMEs through the provision of affordable digital infrastructure, digital literacy training, and intermediation platforms that connect MSMEs with the broader digital ecosystem.

⁸¹³ in their comprehensive analysis show that the success of ICT adoption and utilization at the regional level is determined by the complex interactions between several complementary supporting factors. The level of education of the community determines the capacity to adopt, utilize, and develop digital technology productively. The availability of adequate broadband infrastructure—both in terms of geographical coverage and connection quality—is a technical prerequisite for access to digital services and platforms. The intensity of innovation activities in the region creates a demand for more sophisticated ICT applications and encourages the development of technological solutions that suit local needs. The interaction of these three factors creates a complementarity effect, where the simultaneous presence of all factors results in a greater impact compared to the sum of the individual impacts of each factor. These findings have important implications for strategies to strengthen the ICT Adoption pillar in Indonesia, indicating that investment in digital infrastructure needs to be accompanied by parallel investments in human capital development and strengthening innovative capabilities to maximize returns from digitalization. ⁸¹⁴ in their elaboration on knowledge flows and the centrality of urban economies provide an important perspective on the mechanisms through which knowledge flows affect the performance and competitive position of a region in regional and national economic hierarchies. They found a strong correlation between the intensity of knowledge flows, measured through indicators such as skilled labor mobility, research collaboration, and patent exchange, and the centrality of urban economies. Regions that act as hubs in knowledge networks show stronger economic performance, higher levels of innovation,

⁸¹² Tichaawa and Chamboko-Mpotaringa, “Mapping the Evolution of Tourism Small and Medium Enterprises’ Technology Adoption.”

⁸¹³ Crespo-Rincón, Jorda-Borrell, and Ruiz-Rodríguez, “Information Society and Socio-Economic Characteristics in Europe: A Typology of Regions.”

⁸¹⁴ Zhang et al., “Research on Urban Economic Centrality in the Perspectives of Knowledge Stocks and Flows.”

and the capacity to attract greater investment and talent. These findings reinforce the theoretical proposition that in the era of knowledge-based economies, position in knowledge networks becomes an equal or even more important determinant of competitiveness compared to traditional factors of production. In the context of Indonesia's regional competitiveness, Zhang and colleagues' findings imply the importance of a strategy that focuses not only on internal knowledge accumulation, but also on strengthening connectivity with external knowledge centers—both domestic and international—to maximize access to productive knowledge flows.

A theoretical synthesis that integrates the theory of Diffusion of Innovation ⁸¹⁵ and Resource-Based View ⁸¹⁶ provides a comprehensive conceptual framework for understanding the determinants of regional competitiveness advantage in the context of digital transformation. The Diffusion of Innovation theory describes how innovation—including digital technology innovation—spreads within social systems through various communication channels over time, with an emphasis on the characteristics of innovation, adopter characteristics, and the structure of social systems that affect the speed and breadth of diffusion. Meanwhile, the Resource-Based View argues that competitive advantage comes from owning and utilizing valuable, scarce, hard-to-replicate, and well-organized resources (VRIO framework). The integration of these two perspectives results in the proposition that regional competitiveness is determined not only by the ownership of resources—e.g., adequate physical infrastructure—but also by the ability of regions to leverage digital connectivity to expand collaboration and knowledge exchange. In other words, material resources become more valuable when integrated in a network that facilitates the diffusion of innovation and knowledge flows, so that relational capabilities become an essential complement to resource ownership in creating a sustainable competitive advantage.

From the perspective of the Resource-Based View that is extended to the realm of dynamic capabilities, digital connectivity can be conceptualized as an organizational and regional capability that allows adaptation to changing environments and the exploitation of new opportunities. ⁸¹⁷ and ⁸¹⁸ in their respective studies demonstrate how digital connectivity empowers regions to respond more effectively to global market dynamics and technological transformation. Dynamic capabilities, which include the ability to sense, utilize, and transform, rely heavily on access to timely and accurate information about environmental change, facilitated by ICT infrastructure and adoption. Regions with strong digital connectivity have better sensing capacity because they can access and process information from various global sources in real-time. Their seizing capacity is also stronger because digital platforms allow for resource mobilization and response coordination at a higher speed. Finally, their transforming capacity is strengthened by the ability to adopt and adapt best practices from other entities within the global network. Thus, investment in strengthening digital connectivity is an investment in the development of dynamic capabilities that will determine long-term competitiveness.

⁸¹⁵ Everett M. Rogers, *Diffusion of Innovations*.

⁸¹⁶ Barney, "Firm Resources and Sustained Competitive Advantage."

⁸¹⁷ Zhang and Zhao, "The Effect of E-Commerce on Digital Inclusive Finance: Evidence from the E-Commerce Boom in Rural China."

⁸¹⁸ van Meeteren et al., "Rethinking the Digital Transformation in Knowledge-Intensive Services: A Technology Space Analysis."

Conceptually, the findings that have been elaborated underscore the urgency of the network reengineering approach as a strategy to strengthen central pillars such as ICT Adoption and infrastructure, as well as ensure that these nodes function optimally as drivers of systemic innovation. Network reengineering in this context refers to a planned and systematic effort to reconstruct the interconnectedness structure in regional competitiveness networks with the aim of optimizing knowledge flow, cross-sectoral synergy, and adaptive capabilities of systems. This approach goes beyond partial interventions that focus on strengthening individual pillars separately, and instead emphasizes strengthening the quality and intensity of the links that connect them. Network reengineering strategies can encompass a wide range of dimensions, including the development of digital platforms that integrate different sectors of the economy, the development of connectivity infrastructure that connects previously isolated regions, the creation of multi-stakeholder collaboration mechanisms that facilitate cross-institutional knowledge exchange, as well as regulatory reforms that remove barriers to integration and collaboration. Successful network reengineering requires a deep understanding of existing network structures, identification of structural gaps that impede knowledge flow, and designing targeted interventions to strengthen connectivity at critical points.

By integrating the principles of SNT and CAS, regional competitiveness enhancement strategies can be directed at strengthening connectivity as the main mechanism to achieve cross-sector synergy, multi-actor collaboration, and technology integration in public policy. The SNT principles provide guidance for identifying the strategic positions of each pillar in the network, understanding information and resource flow patterns, and designing interventions that strengthen connecting nodes and bridge structural gaps. Meanwhile, the CAS principles provide guidance for understanding the evolutionary dynamics of systems, anticipating unforeseen consequences of interventions, and designing strategies that enhance the system's adaptive capabilities to environmental changes. Cross-sector synergies can be achieved through platforms and mechanisms that facilitate coordination between sectors that previously operated in separate silos. Multi-stakeholder collaboration can be strengthened through governance architectures that accommodate the participation of a wide range of stakeholders—government, the private sector, academia, and civil society—in the policy formulation and implementation process. The integration of technology in public policy can be realized through the adoption of a smart governance approach that leverages data and analytics for more precise and responsive decision-making.

The synthesis of all theoretical and empirical elaborations in this analysis yields several fundamental policy implications for the sustainable development of regional competitiveness in Indonesia. First, strengthening the ICT Adoption pillar must be a strategic priority because of its central position as the main mediator in the network that facilitates knowledge flows and cross-institutional collaboration. This strengthening includes expanding digital infrastructure, increasing people's digital literacy, and developing a digital innovation ecosystem. Second, investment in the infrastructure pillar needs to be seen not just as a physical project, but as an investment in connectivity capabilities that form the structure of regional economic connectivity. Third, policy approaches need to transform from a fragmented sectoral orientation to a systemic orientation that emphasizes cross-sectoral coordination and strengthening synergies between

pillars. Fourth, development strategies need to incorporate adaptive perspectives that allow flexible responses to the dynamics of change, rather than relying on deterministic planning that assumes the stability of environmental conditions. Fifth, integration into the global economic network through strengthening international digital connectivity needs to be an integral part of regional competitiveness strategies. With the implementation of these policy implications, regional competitiveness can be improved sustainably through the optimization of network structures that support innovation, efficiency, and systemic adaptability.

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CHAPTER 9

THE CONTRIBUTION OF SKILLS, INFRASTRUCTURE, AND BUSINESS DYNAMISM TO INSTITUTIONAL PERFORMANCE

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This chapter presents a comprehensive analysis of the factors that affect institutional performance, using a machine learning approach through the Random Forest Regression (RFR) model. The first subchapter discusses the methodological framework and technical specifications of model development, including data sharing strategies and optimization considerations based on out-of-bag errors. The second subchapter outlines the results of the model's predictive performance evaluation, featuring various accuracy metrics such as MSE, RMSE, MAE, MAPE, and R^2 to assess the extent to which the model is able to replicate empirical reality. The third subchapter focuses on the interpretation of results through the analysis of the importance of features, revealing the relative role of skills, infrastructure, business dynamics, and other supporting variables in explaining variations in institutional performance. Finally, the fourth subchapter draws on the substantive implications of the findings, providing evidence-based recommendations for more effective and sustainable institutional strengthening policies and practices.

9.1. A Comprehensive Study of the Random Forest Regression Model in Performance Prediction and Institutional Benchmarking

The Random Forest Regression (RFR) model is an ensemble-based machine learning algorithm that combines a large number of decision trees to produce more accurate and stable predictions. This approach has undergone significant development in a wide range of application domains, including institutional performance evaluation, clinical prediction, and multidimensional data analysis. The main advantages of RFR lie in its ability to capture non-linear relationships between variables, resistance to overfitting, and the provision of an internal validation mechanism through out-of-bag (OOB) error estimation. In the context of institutional benchmarking, this approach offers a more robust alternative to conventional regression methods, especially when faced with data complexity and sample size limitations. Model validation is a crucial stage in the development of a reliable predictive system, where the selection of the right validation method will determine the accuracy of the model's generalization performance estimate. In the context of Random Forest Regression, the OOB error mechanism provides a unique and efficient internal validation approach, leveraging the intrinsic characteristics of the bootstrap aggregating (bagging) procedure underlying the algorithm. Each decision tree in the ensemble is built using a bootstrap sample that on average only covers about 63.2% of the total observations, so the rest—called out-of-bag samples—can be used as an independent validation set without compromising the data available for model training.⁸¹⁹

⁸¹⁹ Cetin et al., “On Fair Performance Comparison between Random Survival Forest and Cox Regression: An Example of Colorectal Cancer Study.”

conducted an in-depth investigation of the comparative effectiveness between OOB error estimation and k-fold cross-validation techniques in the context of clinical data with limited sample sizes. The study demonstrates that the OOB approach provides performance estimates comparable to traditional cross-validation, but with significant computational advantages because it does not require explicit data sharing or multiple iterations of training. These findings have important implications for biomedical research and institutional evaluation that often face data limitations, where each observation has a high informative value and cannot be easily allocated for validation purposes alone. Furthermore,⁸²⁰ explored the sensitivity of predictive performance to the quality of pre-processing data procedures, particularly in the context of missing value imputation. Their investigation reveals an interesting phenomenon in which a relatively minor degradation of imputation accuracy can result in a disproportionate decline in prediction performance. These findings confirm the urgency of implementing comprehensive and robust internal validation procedures, such as those provided by the OOB mechanism in the Random Forest framework. In the context of institutional benchmarking, the practical implication of this study is the need for extra caution in handling incomplete data, given that errors at the pre-processing stage can propagate and amplify along the analytics pipeline, ultimately compromising the reliability of interinstitutional performance comparisons.

The optimal performance of the Random Forest Regression model is highly dependent on the right hyperparameter configuration, including critical parameters such as the number of trees in the ensemble (estimator's), the maximum depth of each tree (max_depth), the number of features considered at each split (max_features), and the splitting criterion. The process of hyperparameter optimization is becoming increasingly complex as the data dimensionality and the heterogeneity of predictor characteristics increase, demanding the development of innovative approaches that can efficiently navigate the hyperparameter search space.⁸²¹ propose a significant methodological contribution through the development of the Enriched Random Forest variant that incorporates a random weighting mechanism at the individual tree level. This approach is specifically designed to address the challenges that arise in high-dimensional data, where the ratio between the number of features and the number of observations can become unbalanced. Through an adaptively calibrated weighting scheme, the resulting model showed a substantial improvement in predictive performance compared to conventional Random Forest implementations. In the genomics and bioinformatics applications studied, the Enriched Random Forest approach successfully identifies a subset of more informative features while maintaining superior generalization capabilities. The methodological implications of this study are particularly relevant for institutional evaluations involving multidimensional performance indicators, where optimal selection and weighting of variables can determine the validity of benchmarking conclusions. In line with these developments,⁸²² investigated the synergy between the boosted regression ensemble technique and the systematic hyperparameter tuning strategy in

⁸²⁰ Ramosaj, Tulowietzki, and Pauly, "On the Relation between Prediction and Imputation Accuracy under Missing Covariates."

⁸²¹ Ghosh and Cabrera, "Enriched Random Forest for High Dimensional Genomic Data."

⁸²² Isabona, Imoize, and Kim, "Machine Learning-Based Boosted Regression Ensemble Combined with Hyperparameter Tuning for Optimal Adaptive Learning."

the domain of telecommunication data prediction characterized by high temporal and spatial complexity. Their research demonstrates that the combination of the two approaches results in predictive models with enhanced adaptivity to variations in data patterns, while maintaining predictive stability under a wide range of operational conditions. The tuning methodology developed integrates grid search techniques with nested cross-validation, allowing unbiased performance estimation even at the model selection stage. This contribution has direct relevance to the development of institutional benchmarking systems that must be able to accommodate the heterogeneity of operational contexts between organizations while maintaining consistency of evaluation metrics.

Institutional benchmarking is a managerial and evaluative practice that aims to compare the performance of an organization against external standards or similar organizations, with the aim of identifying areas for improvement and adopting best practices. Meaningful benchmarking implementation requires an analytical approach that can isolate the contribution of contextual factors from actual performance achievements, so that the resulting comparisons reflect true differences in efficiency and effectiveness, not just uncontrollable differences in operational conditions.⁸²³ present a fundamental methodological proposition regarding the application of Random Forest Regression for interorganizational benchmarking that explicitly takes into account contextual factors with non-linear relationships to performance outcomes. Their argument stems from a critique of the dominant linear regression approach in the benchmarking literature, which assumes an additive and proportional relationship between adjustment variables and performance metrics. This assumption of linearity is problematic because it ignores the reality that the influence of operational contexts—such as organizational size, the complexity of cases handled, or the demographic characteristics of the population served—is often non-monotonic or has a threshold effect. The proposed RFR model is able to capture the complexity of such relationships automatically without a priori functional specification, resulting in a more pure residual representing performance variations attributable to endogenous organizational factors. This approach promises a more equitable and actionable evaluation of institutions operating in substantially different contexts. In the first study,⁸²⁴ demonstrated the effectiveness of the ensemble bagging approach—which is the algorithmic foundation of Random Forest—in predicting patients' functional outcomes in the clinical context of rehabilitation. This study shows that the aggregation of predictions from multiple weak learners results in more stable and accurate estimates than single models, with direct implications for the development of risk-based benchmarking systems that accommodate baseline heterogeneity between analysis units. In the second publication,⁸²⁵ explored the role of Random Forest-based feature selection in identifying the most informative predictors for a given outcome, while also eliminating redundant variables that can obscure model interpretability. This approach utilizes importance metrics generated by

⁸²³ Kennedy et al., “A Statistical Machine Learning Approach for Benchmarking in the Presence of Complex Contextual Factors and Peer Groups.”

⁸²⁴ Lin, Lin, and Lane, “Applying a Bagging Ensemble Machine Learning Approach to Predict Functional Outcome of Schizophrenia with Clinical Symptoms and Cognitive Functions.”

⁸²⁵ Lin, Lin, and Lane, “Prediction of Functional Outcomes of Schizophrenia with Genetic Biomarkers Using a Bagging Ensemble Machine Learning Method with Feature Selection.”

the Random Forest algorithm, such as mean decrease in impurity (MDI) or permutation importance, to rank the relative contribution of each predictor. In the context of institutional benchmarking, these capabilities allow the identification of the most substantive contextual factors influencing performance, facilitating the development of more parsimonious risk adjustment models without sacrificing predictive accuracy. In addition, an understanding of the key variables that affect performance can inform more targeted improvement strategies for institutions that exhibit suboptimal performance.

One persistent challenge in predictive modeling is the limitation of sample sizes, which can compromise the model's generalizability and increase the risk of overfitting. This is particularly relevant in the context of institutional evaluation where the units of analysis—i.e. the institution itself—are often limited in number, in contrast to individual data-driven research that can accumulate thousands to millions of observations. Random Forest Regression offers algorithmic characteristics that make it relatively robust against data limitations, including a bootstrap sampling mechanism that produces inter-tree diversity and averaging that reduces prediction variance.⁸²⁶ provides convincing empirical evidence regarding the effectiveness of RFR in the context of predicting material properties using datasets with limited size. The study compared the performance of various machine learning algorithms—including support vector regression, neural networks, and gradient boosting—in prediction tasks with varying numbers of training samples. The results show that Random Forest consistently maintains an optimal balance between bias and variance even under very limited data conditions, where alternative algorithms tend to experience more substantial performance degradation. This advantage is attributed to the combination of the implicit regularization generated by ensemble averaging and robustness to noise provided by randomness in feature selection at each split. These findings have high transferability to the domain of institutional benchmarking, especially for sectors with a relatively small number of institutions but requiring reliable performance evaluation. In a different domain but with similar problems,⁸²⁷ applied Random Forest Regression to estimate the diameter of individual trees using remote sensing data with limited ground-truth sampling. The challenge in this study is to develop a predictive model that can extrapolate the relationship between the spectral or structural signals recorded by the sensor with actual biophysical measurements in the field, where the collection of reference data is very resource-intensive. The results of the investigation demonstrate the resilience of the RFR model to the limitations of calibration data, with predictive performance remaining acceptable even when the proportion of training data is significantly reduced. Furthermore, this study identifies that spatial heterogeneity in the distribution of training samples has a more substantive influence on model performance than absolute sample size, underscoring the importance of representative sampling strategies in the context of institutional evaluation that includes organizations with diverse characteristics.

The clinical and healthcare domains provide an ideal application laboratory for the development and validation of Random Forest-based benchmarking methodologies, given the inherent complexity of health outcomes influenced by the multifactorial interactions between

⁸²⁶ Cao, “Prediction of Concrete Porosity Using Machine Learning.”

⁸²⁷ Hao et al., “Individual Tree Diameter Estimation in Small-Scale Forest Inventory Using UAV Laser Scanning.”

patient characteristics, interventions delivered, and service system contexts. Predicting clinical performance requires models that can accommodate the heterogeneity of patient populations while identifying the relative contribution of modifiable versus given (patient-case-mix) factors. ⁸²⁸ implemented Random Forest Regression to predict major adverse cardiovascular events (MACE), a composite endpoint that includes cardiovascular death, myocardial infarction, and stroke. The study compared the predictive performance of RFR with conventional logistic regression models and validated clinical risk scores. The results suggest that the Random Forest approach results in more stable predictions across subgroups of patients with varying baseline characteristics, overcoming the limitations of linear models whose assumptions are often violated in real-world clinical data. This performance stability is attributed to RFR's ability to identify and accommodate high-order interactions between predictor variables—such as interactions between age, comorbidities, and biomarkers—that are difficult to explicitly specify in traditional regression frameworks. The implication for hospital or cardiovascular unit benchmarking is the availability of a more accurate risk-adjustment model to isolate the contribution of quality of service from the case-mix variation, allowing for a fairer comparison of performance between facilities. In a recent publication, ⁸²⁹ applied Random Forest to predict patient responses to periodontal care, focusing on identifying individuals who are most likely to show clinically significant post-intervention improvement. The study achieved impressive predictive performance with an area under the receiver operating characteristic curve (AUROC) of 0.93—indicating a very high discriminating ability—despite using a cohort of patients with a limited size. This success is contributed by a meticulous feature engineering process and systematic hyperparameter optimization, as well as the inherent robustness of the Random Forest algorithm against overfitting small samples. From a methodological perspective, this study demonstrates the feasibility of implementing machine learning-based predictive models in clinical settings with data infrastructure that is not always ideal, providing an adaptable blueprint for the development of benchmarking systems in various institutional contexts.

Based on a comprehensive review of the ten publications that have been presented, several methodological propositions relevant to the implementation of Random Forest Regression can be synthesized in the context of performance prediction and institutional benchmarking. First, the out-of-bag error mechanism provides an efficient and reliable validation approach, especially valuable in situations where data limitations hinder the implementation of conventional validation strategies such as hold-out test sets or extensive cross-validation. The adoption of OOB as a standard performance estimator in the benchmarking pipeline can improve the efficiency of data usage while maintaining the validity of conclusions. Second, hyperparameter optimization and algorithmic variant exploration such as Enriched Random Forest can result in substantive performance improvements, especially in domains with challenging data characteristics such as high dimensionality or class imbalance. Investment in systematic tuning should be seen as an essential component, not optional, of the development of a machine learning-based

⁸²⁸ Jenab et al., “Effects of Opium Use on One-Year Major Adverse Cardiovascular Events (MACE) in the Patients with ST-Segment Elevation MI Undergoing Primary PCI: A Propensity Score Matched - Machine Learning Based Study.”

⁸²⁹ Feher et al., “Machine Learning-assisted Prediction of Clinical Responses to Periodontal Treatment.”

benchmarking system. Third, Random Forest's ability to capture non-linearity and complex interactions makes it superior to linear regression approaches for risk-adjustment purposes in benchmarking. This allows for a fairer comparison of performance between institutions by isolating the contribution of contextual factors more accurately. Fourth, robustness against sample size limitations is a significant practical advantage, enabling the implementation of Random Forest-based benchmarking even in sectors with relatively small number of institutions, such as specialist hospitals or higher education institutions in developing countries. Random Forest Regression has demonstrated consistent capabilities as a superior methodological approach to performance prediction and institutional benchmarking, as evidenced by numerous empirical studies across application domains. The combination of the ability to handle non-linear relational complexity, resilience to data limitations, and the availability of internal validation mechanisms through OOB errors makes this approach particularly suitable for institutional evaluation contexts characterized by heterogeneity of operational contexts and data availability constraints. The ten publications analyzed in this study provide a solid empirical and methodological foundation for the further development of a Random Forest-based benchmarking system, with practical implications that include model design, validation strategies, and interpretation of results. Future research is expected to explore the integration of this approach with explainable AI techniques to improve the transparency and acceptability of benchmarking systems in the eyes of institutional stakeholders.

9.2. Skill Dominance in Institutional Performance: An Integrative Theoretical Review

Empirical findings that consistently place skills as the most dominant predictor of institutional performance—beyond the contributions of physical infrastructure, financial systems, and business dynamics—demand coherent and comprehensive theoretical explanations. This phenomenon cannot be adequately understood through a single perspective, but rather requires the integration of various complementary conceptual frameworks from the disciplines of economics, strategic management, and organizational theory. This kind of theoretical elaboration is important not only to understand why such empirical patterns arise, but also to identify the underlying causal mechanisms and anticipate the conditions under which such patterns may vary or change. In this context, the four fundamental theoretical frameworks offer a complementary analytical lens to explain the dominance of skills in institutional performance prediction models. Human Capital Theory provides a microeconomic foundation that explains how investment in education and training translates into increased productivity. The Resource-Based View (RBV) offers a strategic perspective on how intangible resources such as skills generate a sustained competitive advantage that cannot be easily replicated by competitors. Endogenous Growth Theory extends analysis to the macroeconomic level, explaining the central role of knowledge accumulation in long-term growth. Finally, Dynamic Capabilities Theory explores how organizations develop and reconfigure competencies to adapt to dynamic environments. These four theories, supported by contemporary empirical evidence from various international studies, form a robust conceptual edifice for understanding the dominance of human capital in the determination of institutional performance.

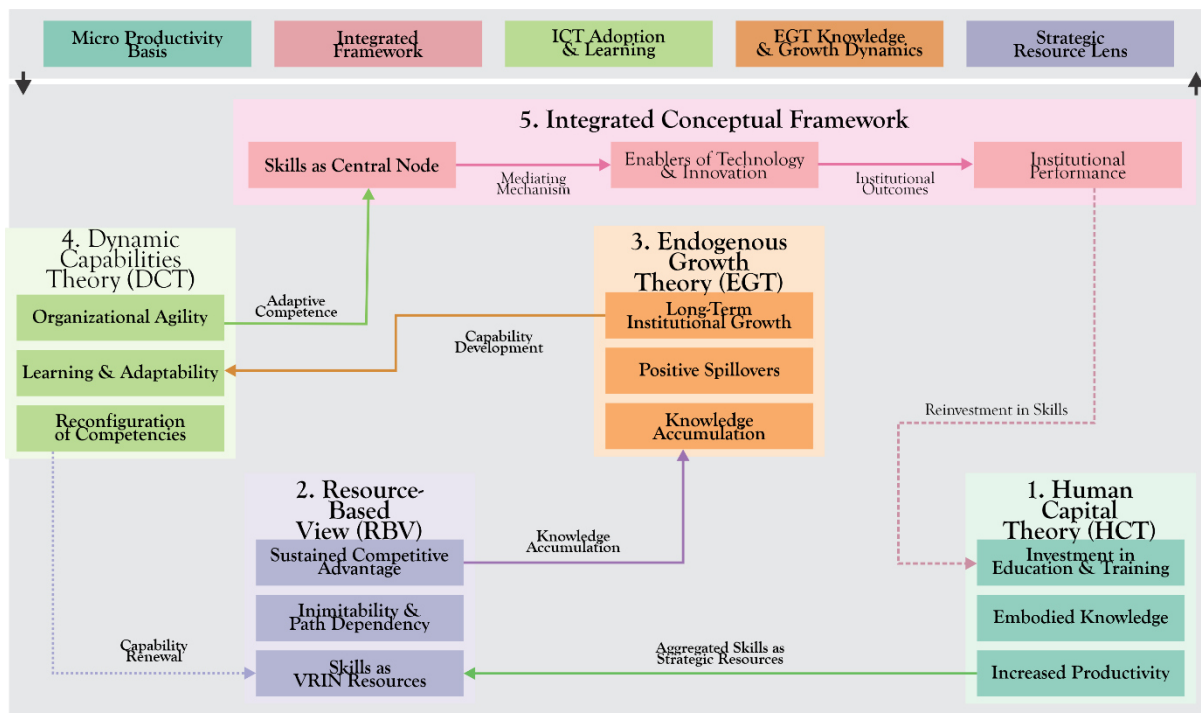


Figure 9.1. Skills as the Dominant Predictor of Institutional Performance

9.2.1. Human Capital Theory: The Foundations of Productivity Microeconomics

The Theory of Human Capital developed ⁸³⁰ in his seminal work, represents a fundamental paradigm shift in the economic understanding of labor and productivity. Prior to Becker's contribution, economic analysis tended to treat labor as a homogeneous factor of production, with wage variations explained primarily by market dynamics and scarcity conditions. ⁸³¹ put forward the revolutionary proposition that individuals and organizations can invest in the development of the productive capabilities of the workforce, through education, training, and the acquisition of experience, in a manner analogous to investing in physical capital. The fundamental premise of this theory is that the skills and knowledge embedded in the individual are forms of capital that generate economic returns over time. Investing in human capital involves sacrificing current resources, in the form of direct costs of education and training and opportunity costs of allocated time, with the expectation of future returns in the form of increased productivity and income. The economic rationality underlying human capital investment decisions parallel the calculation of net present value in physical capital investments, where economic actors compare discounted future returns with contemporary investment costs. Becker distinguishes between two forms of human capital that have different implications for the distribution of investment between workers and employers. General human capital refers to skills and knowledge that increase productivity across various organizational contexts, such as literacy, numeracy, and analytical skills, whose benefits can be transferred if workers move to other organizations. In contrast, firm-specific human capital includes competencies that are only valuable in the context of a specific organization, such as an understanding of internal systems,

⁸³⁰ Becker, *Human Capital*.

⁸³¹ Becker.

intra-organizational relational networks, or mastery of proprietary technology. This distinction has important implications for investment patterns: organizations tend to be more willing to finance specific training because their returns cannot be appropriated by competitors through labor poaching.

Human Capital Theory identifies several mechanisms through which the accumulation of skills translates into increased institutional productivity. The first mechanism is increased technical efficiency, where skilled workers are able to complete tasks with higher quality and in less time than workers with inferior skills. This mechanism operates through mastery of more advanced techniques and procedures, the ability to identify and correct errors faster, and the ability to optimize the use of equipment and resources. The second mechanism involves innovative capacity, where a workforce with high human capital is better able to develop creative solutions to operational challenges, adapt best practices from other contexts, and contribute to the development of new products and processes. Innovation doesn't happen in a vacuum; It requires an adequate knowledge base as a foundation for the synthesis of new ideas and the identification of opportunities that are not seen by individuals with more limited knowledge. The third mechanism is adaptive capacity, in which skilled workers are better able to navigate changes in the environment, learn new technologies, and adapt work practices to evolving conditions. In a contemporary economy characterized by technological disruption and intense global competition, adaptive capacity is becoming increasingly critical—and human capital provides the foundation for that adaptability.⁸³² provides strong contemporary confirmation of the predictions of Human Capital Theory in the context of national entrepreneurship. Using a comprehensive dataset covering various countries with varying levels of development, the study investigated the determinants of entrepreneurial activity and new venture performance. The central findings indicate that the quality of human resources—operationalized through indicators of education, technical skills, and managerial capabilities—has explanatory power that significantly extends beyond explicit policy factors or the availability of supporting infrastructure. More specifically, Huang et al. identified that countries with higher human capital stocks experienced not only higher levels of entrepreneurship—measured by the proportion of the population engaged in entrepreneurial activities—but also better quality of entrepreneurship, with more innovative ventures, faster growth, and higher survival rates. These findings are consistent with the theoretical prediction that human capital provides the capacity to identify business opportunities, develop viable strategies, and execute operations effectively. An interesting aspect of Huang et al.'s study is the identification of the complementary role of social norms in determining entrepreneurial performance. Norms that support risk-taking, reward individual achievement, and legitimize entrepreneurship as a respectable career path have been found to interact positively with human capital in predicting entrepreneurial outcomes. These interactions indicate that human capital may not be fully actualized in a social context that inhibits its economic manifestation, enriching the understanding of boundary conditions from human capital theory.

⁸³² Huang, Bu, and Li, "Pathways to Prosperity: A Configurational Analysis of National Entrepreneurship."

9.2.2. RBV: A Strategic Perspective on Sustainable Competitive Advantage

The Resource-Based View crystallized ⁸³³ in his seminal article "Firm Resources and Sustained Competitive Advantage" (1991)⁸³⁴ represents a fundamental reorientation in strategic management theory. In contrast to the positioning paradigm that dominated the previous decade—which emphasized the analysis of industry structure and competitive positioning as determinants of profitability—RBV shifts the focus to the organization, identifying internal resources and capabilities as the basis of competitive advantage. This perspective is rooted in earlier works by Edith Penrose (1959) on corporate growth and Birger Wernerfelt's (1984) thoughts on resources as units of strategic analysis. RBV's core proposition is that sustained competitive advantage—defined as an organization's ability to consistently generate returns above the industry average—comes from owning and exploiting resources that meet the criteria of the VRIN: Valuable, Rare, Inimitable, and Non-substitutable. Valuable resources enable organizations to exploit opportunities or neutralize environmental threats. Scarcity ensures that not all competitors have access to those resources. Inimitability—which can stem from path dependency, causal ambiguity, or social complexity—prevents replication by competitors. Non-substitutability ensures that there are no equivalent resources that competitors can use to achieve similar outcomes. Within the RBV framework, organizational skills and knowledge represent an archetype of strategic resources that optimally meet the VRIN criteria. Unlike tangible resources such as equipment or property that can be purchased on the open market, organizational skills develop through a path-dependent collective learning process and require substantial time to accumulate. The social complexity inherent in how teams work together, share knowledge, and integrate individual expertise creates barriers to imitation that are difficult for competitors to overcome even with substantial financial investments.

The application of the VRIN criteria to organizational skills reveals why these variables consistently show high predictive importance in institutional performance models. The value dimension of skills is manifested in its contribution to operational efficiency, output quality, innovative capacity, and responsiveness to stakeholder needs. Skills aligned with the demands of a competitive environment allow organizations to generate superior value for customers or beneficiaries, which in turn translates into superior financial or non-financial performance. The rarity dimension of skills stems from the uneven distribution in the labor force, which is influenced by factors such as access to quality education, training opportunities, and relevant experience. Organizations that successfully attract, develop, and retain talent with rare skills gain a positioning advantage that cannot be easily neutralized by competitors facing limitations in the same talent pool. The inimitability dimension of organizational skills is very significant and multifaceted. Path dependency operates through a mechanism in which current skills are built on the foundation of previous skills through a cumulative learning process. Competitors trying to develop similar skills from different starting points face the impossibility of replicating a unique historical trajectory. Causal ambiguity—the ambiguity about the exact relationship between resources and excellence—makes it difficult to identify and replicate critical elements of

⁸³³ Barney and Arikan, "The Resource-based View."

⁸³⁴ Barney, "Firm Resources and Sustained Competitive Advantage."

an organizational skill bundle. The social complexity inherent in how individual skills are integrated through teamwork, organizational culture, and knowledge management systems creates an entanglement that is resistant to reverse engineering by competitors.

The research of ⁸³⁵ ⁸³⁶ provides contemporary empirical confirmation of RBV predictions in the context of the ongoing digital transformation in various sectors of the economy. The study investigated the factors that explain the variation in productivity and business performance across companies in Europe, with a particular focus on the role of the digital capacity of the workforce and the adoption capabilities of artificial intelligence (AI) technologies. A central finding of Drago et al.'s investigation is that the digital capacity of the workforce—defined as a combination of technical skills in the use of digital technologies, data literacy, and adaptability to new technologies—is the main differentiating factor that explains the disparity in performance between companies. Companies with a workforce with superior digital skills demonstrate a higher ability to extract value from technology investments, implement AI solutions effectively, and adapt to changes in the digital landscape. Particularly informative from the RBV perspective is the finding that investment in technology per se—without the complementary development of the workforce capacity to utilize it—produces suboptimal or even negative returns. This confirms the theoretical proposition that infrastructure and physical assets are not a source of sustainable competitive advantage because they can be acquired by competitors in the open market. In contrast, skills accumulated through long-term organizational learning provide a more defensible base of excellence. Drago et al. also identified the moderating role of labor market structures in the relationship between digital capacity and performance. Countries with more flexible labour markets and vocational education systems that are responsive to industrial needs demonstrate a more effective conversion of digital capacity into performance outcomes. These findings enrich the understanding of institutional complementarities that affect the actualization of value from skills-based resources.

9.2.3. Endogenous Growth Theory: A Macroeconomic Perspective on Knowledge Accumulation

The Endogenous Growth Theory ⁸³⁷ in his groundbreaking contribution "Endogenous Technological Change" (1990)⁸³⁸ represents a fundamental departure from the neoclassical growth model that dominated macroeconomics for decades. The traditional Solow-Swan model, while elegant in its formulation, faces serious problems in explaining empirical observations of persistent per capita income disparities between countries. In the neoclassical framework, diminishing returns on capital accumulation should result in a convergence in which poor countries grow faster and eventually catch up with rich countries—a prediction that is not confirmed by historical data. Romer proposed a resolution to this puzzle by endogenizing

⁸³⁵ Dragomir-Constantin, Beldiman, and Zlati, "Informational Approaches in Modelling Social and Economic Relations: Study on Migration and Access to Services in the European Union."

⁸³⁶ Drago et al., "Macroeconomic and Labor Market Drivers of AI Adoption in Europe: A Machine Learning and Panel Data Approach."

⁸³⁷ Pack, "Endogenous Growth Theory: Intellectual Appeal and Empirical Shortcomings."

⁸³⁸ Romer, "Endogenous Technological Change."

technological change that in the neoclassical model was treated as exogenous. The core proposition of endogenous growth theory is that long-term growth is driven by the accumulation of knowledge and innovation that are the outcome of purposive economic decisions—particularly investment in research and development (R&D), education, and learning activities. Unlike physical capital which is subject to diminishing returns, knowledge has the characteristics of non-rivalry and non-excludability that allow increasing returns at the aggregate level through spillover mechanisms and positive externalities. The mechanism of increasing returns in the Romer model operates through several channels. First, new knowledge generated by one economic actor can be leveraged by other actors without depletion, creating positive externalities that increase overall economic productivity. Second, the accumulation of knowledge facilitates further innovation by providing conceptual and technical building blocks for future breakthroughs—a phenomenon often characterized as "standing on the shoulders of giants." Third, skilled labor which is the embodiment of human capital is able to adopt and adapt new technologies more effectively, accelerating the diffusion of innovation across the economy.

Endogenous Growth Theory has profound implications for the understanding of economic development strategies and institutional investment priorities. If growth is endogenized through the accumulation of knowledge, then public policies that promote education, research, and innovation have permanent growth effects, not just temporary level effects as predicted by neoclassical models. This provides a strong economic justification for substantial investment in education systems, research infrastructure, and knowledge transfer mechanisms. Further, this theory implies that disparities in knowledge stocks and innovative capacities can result in persistent growth divergences, explaining why income gaps between countries and between institutions do not show a strong convergence trend. Institutions that invest consistently in skills development and knowledge accumulation can maintain or even widen performance advantages relative to competitors who underinvest in human capital. In the context of the analysis of the importance of RFR predictors, endogenous growth theory provides a macroeconomic explanation for why skill variables show a dominant predictive contribution. Skills represent the manifestation of knowledge accumulation at the institutional level, and institutions with higher skill stocks are on a superior growth trajectory. Physical infrastructure, while important as an enabling condition, does not have the same characteristics of increasing returns and spillover, so its contribution to long-term performance is inherently more limited.

The research of ⁸³⁹ provides compelling empirical confirmation of the predictions of endogenous growth theory in the context of inclusive development in developing countries. The study investigated the determinants of economic inclusion—meaningful participation in formal economic systems—with a focus on the comparative role between infrastructure investment and human capacity development in the form of financial literacy and digital skills. The key finding from Kumar et al. is that financial literacy and digitalization have a substantially stronger effect on inclusive growth than physical infrastructure development alone. Financial literacy enables individuals to make more informed economic decisions, access and utilize formal financial

⁸³⁹ M. V. et al., "How Does Digitally Enabled Micro-Finance Promote Income Equality for the Vulnerable in the Expanded BRICS Block during the Pandemic?"

services effectively, and invest in productive activities. Digital skills facilitate access to market information, participation in the digital economy, and the use of fintech technologies that expand the frontier of financial inclusion. Particularly informative is the finding that infrastructure—while necessary as a platform—exhibits rapidly diminishing marginal returns once a certain threshold is reached. In contrast, returns on digital literacy and skills remain positive even at high levels of penetration, consistent with endogenous growth theory's predictions of increasing returns on knowledge accumulation. Kumar et al. also identified positive spillovers of financial literacy, where increased literacy in certain segments of the population correlates with increased economic inclusion in other segments through social networking mechanisms and demonstration effects. The policy implication of these findings is that development strategies should allocate resources more evenly between hardware (infrastructure) and software (human capacity), with a possible bias towards the latter given the more favorable return profile. Digitalization programs that are not accompanied by literacy development components risk underutilized investments and fail to achieve mandated inclusion goals.

9.2.4. Dynamic Capabilities Theory: Perspectives on Organizational Adaptation and Learning

The Dynamic Capabilities Theory developed ⁸⁴⁰ by David Teece, Gary Pisano, and Amy Shuen in their influential article "Dynamic Capabilities and Strategic Management" (1997) represents an extension and refinement of the Resource-Based View to accommodate the reality of a dynamic and turbulent business environment. A criticism of classical RBV is its tendency to treat resources as static entities whose value is constant all the time. In reality, the competitive environment is evolving—driven by technological change, shifting customer preferences, regulatory transformation, and disruption from new competitors—so that valuable resources at one point in time can become obsolete or even liabilities at the next. Dynamic Capabilities is defined as an organization's ability to integrate, build, and reconfigure internal and external competencies to respond to rapidly changing environments. Unlike operational capabilities that allow organizations to run existing activities efficiently, dynamic capabilities operate at a higher-order level, allowing organizations to change their own operational capabilities. Teece and colleagues identified three key dimensions of dynamic capabilities: sensing (the ability to identify opportunities and threats), seizing (the ability to mobilize resources to exploit opportunities), and transforming (the ability to reconfigure the organization's asset base). Within this framework, organizational skills play a doubly important role. At the level of operational capabilities, skills determine efficiency and effectiveness in executing current business activities. At the dynamic capabilities level, skills—particularly metacognitive skills related to learning, adaptation, and innovation—determine an organization's capacity to update and improve its operational capabilities over time. Organizations with a workforce that is not only skilled but also adaptable and learning-oriented have a more sustainable competitive advantage in dealing with environmental uncertainty.

Dynamic Capabilities Theory emphasizes the central role of organizational learning as a mechanism through which capabilities are developed, maintained, and transformed.

⁸⁴⁰ Teece, Pisano, and Shuen, "Dynamic Capabilities and Strategic Management."

Organizational learning refers to the process by which organizations acquire, interpret, and store knowledge that results in changes in behavior or capabilities. This process involves individual learning by members of the organization, but it also includes a social process in which individual knowledge is socialized, codified, and institutionalized into organizational knowledge that survives personnel turnover. Workforce skills affect organizational learning capacity through several mechanisms. First, individuals with higher levels of education and skills have superior absorptive capacity—the ability to recognize the value of new knowledge, assimilate it, and apply it for productive purposes. Second, analytical and metacognitive skills facilitate single-loop and double-loop learning, allowing organizations to not only improve existing practices but also question and revise the fundamental assumptions underlying those practices. Third, communication and collaboration skills accelerate knowledge sharing between units and individuals, reducing silos that hinder organizational learning. The implication for the analysis of predictive interests is that skills may show high predictive contribution not only because of the direct effect on current performance, but also because of the prospective effects through enabling learning and adaptation that determine future performance. Predictive models that implicitly capture these relationships—through correlations between skills and performance trajectories—will result in high feature importance for skill variables even in cross-sectional analysis.

The research of⁸⁴¹ provides a granular empirical illustration of how dynamic capabilities—particularly in manifestations as digital adaptive capabilities—determine organizational success in the context of technological transformation. The study investigated the factors that explain the variation in technology adoption success and business value creation in micro-enterprises in Mexico, a population that faces substantial resource constraints and high environmental uncertainty. The central finding is that small companies with adaptive digital capabilities and more educated managers consistently show higher success rates in technology adoption and conversion of adoption into value creation. Adaptive digital capabilities are operationalized as the willingness and capacity to learn new technologies, integrate digital solutions into business processes, and modify operational practices to accommodate technological changes. The manager's education level serves as a proxy for analytical skills and learning capacity that facilitate effective decision-making in the context of adoption. Interestingly, Hernández-Gress et al. found that the magnitude of physical assets or the intensity of technology ownership did not significantly predict value creation after controlling for adaptive ability. Companies with advanced technology but limited adaptive capacity show systematic underutilization of their technology investments, while companies with modest technology but high adaptability are able to extract superior value from available resources. These findings confirm the theoretical proposition that operational resources (technology, infrastructure) are only valuable when combined with dynamic capabilities that enable effective exploitation. Further, the study identified the path-dependent nature of adaptive capability development, where companies that are early adopters of simple technologies are more likely to develop the ability to adopt more

⁸⁴¹ Hernández-Gress et al., “Digital Transformation Through Virtual Value Chains: An Exploratory Study of Grocery MSEs in Mexico.”

sophisticated technologies in the future. This pattern is consistent with learning curve effects and absorptive capacity development through prior related knowledge, confirming the importance of sustainable investment in skills development as a foundation for long-term adaptability.

9.2.5. Theoretical Integration: Towards an Integrated Conceptual Framework

The four theoretical frameworks that have been elaborated—Human Capital Theory, Resource-Based View, Endogenous Growth Theory, and Dynamic Capabilities Theory—although derived from different disciplinary traditions and operating at distinct levels of analysis, show remarkable convergence in emphasizing the central role of human skills and capacity as determinants of performance. This convergence is not a coincidence; It reflects the substantial reality that the organization is essentially a sociotechnical system in which the human element is the nexus that integrates and actualizes all other resources. Human Capital Theory provides the foundation of microeconomics by explaining how investment in individual development translates into increased productivity. RBV expands the perspective to the organizational level, showing how the aggregation and integration of individual human capital creates strategic resources that meet the VRIN criteria. Endogenous Growth Theory elevates analysis to the macroeconomic level, explaining how the accumulation of knowledge collectively results in increasing returns and sustainable growth. Dynamic Capabilities Theory adds a temporal dimension by emphasizing the importance of adaptability and learning as meta-level capacities that determine sustainability excellence.

The synthesis of the four theoretical perspectives results in an integrative conceptual model that can be represented as follows: Individual skills (micro level) → accumulated and integrated into organizational capabilities (meso level) → which contribute to the aggregate knowledge stock and innovative capacity (macro level) → which in turn affects the competitive environment and opportunity structure → which again forms incentives and constraints for further skill development. This model has the characteristics of circular causation or feedback loop, where skills are not only inputs but also outcomes of dynamic processes involving learning, innovation, and adaptation. In this context, the dominance of skills as a predictor in the RFR model can be interpreted as a reflection of the nodal position of skills in complex causal networks that connect the various determinants of institutional performance.

This integrative framework enriches interpretations of empirical findings that place skills as the dominant predictors in institutional performance models. The high predictive contribution of the skill variable reflects not only the direct effects on operational productivity, but also the indirect effects through the enablement of technology utilization: skills determine the extent to which infrastructure and technology investments can be effectively exploited; Facilitation of Innovation, the skill of providing a foundation for innovation that improves performance discontinuously; enhancement of adaptability: Skills enable effective responses to unpredictable environmental changes; generation of spillovers, skills contribute to positive externalities that improve performance at the system level. The marginal or negative contribution of the infrastructure variables observed in some analyses can be explained as a manifestation of diminishing returns in the absence of adequate complementary human capital, or even as

crowding out if infrastructure investment diverts resources away from more productive skill development.

9.3. Predictive Performance and Model Accuracy

In this section, the empirical performance of the model is evaluated using standard regression metrics. Mean Squared Error (MSE), Root Mean Squared Error (RMSE), Mean Absolute Error (MAE), Mean Absolute Percentage Error (MAPE), and determination coefficient (R^2) are presented and interpreted. Emphasis is placed on the model's ability to accurately capture variations in institutional performance, including the practical meaning of the magnitude of prediction errors and the navigational power of the model in explaining the target phenomenon. The high value of R^2 (0.867) and the low MAPE (4.57%) indicate that the model is not only statistically robust, but also relevant for real-world applications.

This Random Forest Regression model uses 20 decision trees with 2 features per split. The dataset is divided into 24 training data, 7 validation data, and 7 test data (Table 9.1.). The results of the evaluation showed that the Mean Squared Error (MSE) in the validation data was 0.035, while in the test data it was 0.043, which indicates that the model has good generalization ability because the performance difference between validation and test is relatively small. An Out-of-Bag (OOB) error value of 0.072 indicates that the model has been well optimized based on internal prediction errors without the need for separate validation data, thus providing a fairly accurate and efficient performance estimate. Analysis of the relative importance of predictors in the Random Forest Regression (RFR) model revealed that skills have the greatest contribution to institutional performance compared to other variables such as infrastructure, financial system, ICT adoption, and business dynamics. Based on three main metrics—mean decrease in accuracy, total increase in node purity, and mean dropout loss—these findings confirm the dominant role of human capital over physical assets in determining the competitiveness of institutions.

Table 9.1. Model Summary: Random Forest Regression and Model Performance Metrics

Model Summary: Random Forest Regression							
Trees	Features per split	n(Train)	n(Validation)	n(Test)	Validation MSE	Test MSE	OOB Error
20	2	24	7	7	0.035	0.043	0.072
Model Performance Metrics							
Indicators	MSE	MSE(scaled)	RMSE	MAE / MAD	MAP	R^2	
Values	0.043	0.118	0.207	0.181	4.57 %	0.867	

These results are in line with the research of ⁸⁴² which shows that human capital and social norms are the main drivers of national entrepreneurship, beyond the contribution of policies or infrastructure. The study of ⁸⁴³ also found that AI adoption and labor productivity are strongly

⁸⁴² Huang, Bu, and Li, "Pathways to Prosperity: A Configurational Analysis of National Entrepreneurship."

⁸⁴³ Drago et al., "Macroeconomic and Labor Market Drivers of AI Adoption in Europe: A Machine Learning and Panel Data Approach."

correlated with skills variables and labor market structure, while the contribution of infrastructure and capital investment is relatively smaller. Research ⁸⁴⁴ confirms that digital access and financial literacy play an important role in increasing economic inclusion in developing countries, far greater than the impact of infrastructure investment alone. Meanwhile, ⁸⁴⁵ through a machine learning approach show that economic openness and the quality of human resources are the main determining factors in attracting foreign direct investment, not just physical factors such as infrastructure. An additional study ⁸⁴⁶ highlights the strong role of information technology (ICT) adoption in increasing the value of micro-businesses in Mexico, with significant differences between business units being determined by the digital skills of their owners, rather than by the magnitude of the physical assets possessed. A wide range of cutting-edge empirical evidence reinforces the conclusion that human skills and capacity play a role as the most significant predictors in explaining variations in institutional performance, whereas physical infrastructure tends to have marginal or even negative effects. This confirms that strategies for strengthening human resources and digital adoption are the main drivers in modern RFR-based prediction models.

The validation results showed an MSE of 0.035 and an MSE in the test data of 0.043, with an OOB error of 0.072, which indicates that the model is quite stable and does not experience overfitting (Table 9.1.). Based on performance metrics, the model has an RMSE of 0.207 and an MAE of 0.181, which indicates that the average prediction error is relatively small. A MAPE value of 4.57% shows a low percentage error rate, while an R^2 of 0.867 indicates that the model is able to explain about 86.7% of the data variability, indicating excellent predictive performance and high reliability in explaining the relationships between variables. The performance of this model is in line with the research of ⁸⁴⁷ which used a machine learning approach for the optimization of renewable energy systems and recorded an R^2 value of 0.89 and a low MAPE, indicating high prediction precision and a stable model of data variability. ⁸⁴⁸ also reported similar results in modeling the mechanical properties of metals using RFR, with low RMSE and MAE and high R^2 , confirming the model's reliability in capturing nonlinear relationships between variables. In addition, ⁸⁴⁹ showed that Random Forest performed very well in solar irradiation predictions, with R^2 above 0.85 and low MSE, suggesting a balance between accuracy and generalization. ⁸⁵⁰ proved the superiority of similar ensemble regression models with MAE values below 3 and R^2 of more than 0.98 in wireless network throughput predictions, confirming

⁸⁴⁴ M. V. et al., "How Does Digitally Enabled Micro-Finance Promote Income Equality for the Vulnerable in the Expanded BRICS Block during the Pandemic?"

⁸⁴⁵ Alon et al., "Greenfield FDI Attractiveness Index: A Machine Learning Approach."

⁸⁴⁶ Hernández-Gress et al., "Digital Transformation Through Virtual Value Chains: An Exploratory Study of Grocery MSEs in Mexico."

⁸⁴⁷ Rajput et al., "Forecasting Capacitor Banks for Improving Efficiency of Grid-Integrated PV Plants: A Machine Learning Approach."

⁸⁴⁸ Jatti et al., "Predicting the Tensile Properties of Heat Treated and Non-Heat Treated LPBFed AlSi10Mg Alloy Using Machine Learning Regression Algorithms."

⁸⁴⁹ Imam et al., "Accurate Forecasting of Global Horizontal Irradiance in Saudi Arabia: A Comparative Study of Machine Learning Predictive Models and Feature Selection Techniques."

⁸⁵⁰ Li et al., "Transmission Opportunity and Throughput Prediction for WLAN Access Points via Multi-Dimensional Feature Modeling."

the predictive stability of multidimensional feature-based model predictions.⁸⁵¹ also found that the RFR-based ensemble learning model had an R^2 of 0.94 and a MAPE of 8.5%, confirming that prediction errors remain under control even though the data are complex. Theoretically, the high performance of this model is supported by the bias-variance trade-off theory, which explains that the combination of many decision trees (ensemble) reduces variance without adding significant bias. This allows the model to maintain the stability and accuracy of the predictions across various subsets of data, as demonstrated by the low OOB error. The metric values achieved show that the constructed RFR model has achieved an ideal balance between complexity and generalization, in line with empirical practice in recent research that uses MSE, RMSE, MAE, and R^2 metrics as key performance indicators.

Table 9.2. Model Summary: Random Forest Regression and Model Performance Metrics

Variables	Mean decrease in accuracy	Total increase in node purity	Mean dropout loss
Skills	0.012	0.211	0.222
Financial System	0.003	0.138	0.192
ICT Adoption	0.003	0.089	0.192
Business Dynamism	0.001	0.078	0.195
Infrastructure	-0.001	0.055	0.182

The results of the Random Forest Regression analysis in Table 9.2 show that the Skills variable has the greatest contribution to model performance with a mean decrease in accuracy of 0.012, a total increase in node purity of 0.211, and a mean dropout loss of 0.222, which indicates that this variable is the most influential in improving the accuracy and stability of predictions. The variables Financial System and ICT Adoption also play an important role with the total increase in node purity values of 0.138 and 0.089, respectively, showing a moderate influence on the separation of nodes in the model. Meanwhile, Business Dynamism and Infrastructure had a relatively lower contribution, with a mean decrease in accuracy that was small or even negative for Infrastructure (-0.001), indicating that the removal of these variables did not affect the accuracy of the model much. Overall, these results confirm that Skills is the dominant factor in explaining the variation in model output compared to other variables.

The results of the RFR analysis in Table 9.2 show that the Skills variable has the greatest influence on model performance, with a mean decrease in accuracy of 0.012, a total increase in node purity of 0.211, and a mean dropout loss of 0.222. This value indicates that skill variables play a major role in improving the accuracy and stability of predictions. Financial System and ICT Adoption variables also contributed significantly, with the total increase in node purity of 0.138 and 0.089, respectively, reflecting a moderate influence on the formation of the model's decision structure. In contrast, Business Dynamism and Infrastructure have smaller contributions, even Infrastructure shows a negative value (-0.001), which indicates that their removal does not significantly degrade the performance of the model. These findings are in line with research results that highlight the importance of digital skills and transformation as

⁸⁵¹ Ellappan et al., "Improving Forecasting of Concrete Strength Using Advanced Machine Learning Methods."

dominant factors in improving economic and institutional performance. For example, ⁸⁵² show that digital competencies and job skills have a strong influence on the innovative performance of organizations, while infrastructure only plays a supporting role. Similar findings were put forward ⁸⁵³, which showed that the integration of IoT and data analytics is most effective when supported by increased human resource capacity. Furthermore, ⁸⁵⁴ emphasized through a data-driven analysis approach that the contribution of individual skills is greater in determining the stability of predictive models than macroeconomic variables such as infrastructure or market dynamics. The combination of empirical and theoretical results supports that Skills is the dominant variable in the RFR model due to its significant contribution to improving prediction accuracy and stability, while other variables such as Infrastructure have a complementary secondary role.

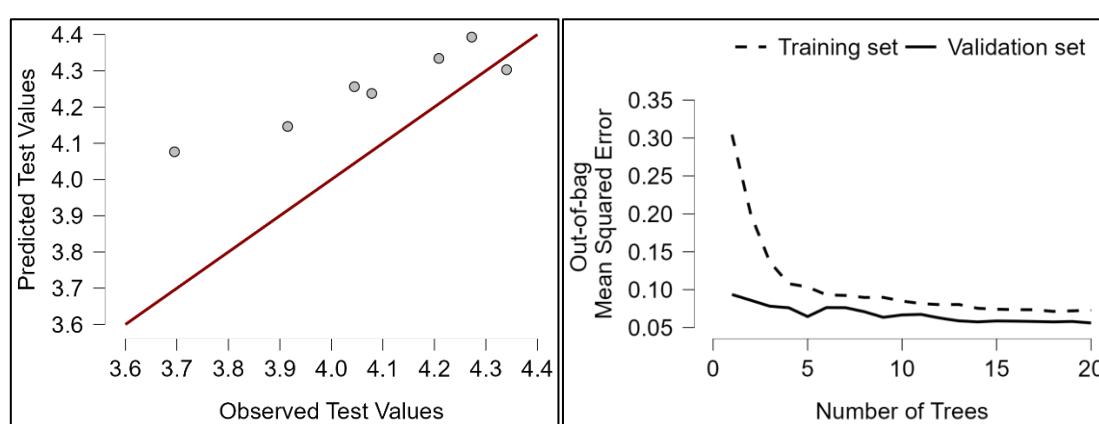


Figure 9.2. Predictive Performance Plot and Out-of-bag Mean Squared Error Plot

Figure 9.2 shows the predictive performance of the Random Forest Regression model and the change in out-of-bag (OOB) mean squared error (MSE) to the number of trees used. The plot on the left shows a strong relationship between the prediction value and the observation value of the test data, where the data points are close to the diagonal line, indicating that the model has high prediction accuracy and small error. Meanwhile, the plot on the right shows that the MSE OOB declined sharply to about 5 trees, then stabilized after the number of trees reached around 20, both in training and validation data. This pattern indicates that the model has achieved optimal performance convergence without overfitting, supporting the evaluation results in the previous table that the model has good stability and generalization capabilities.

Figure 9.2 shows the performance pattern of the Random Forest Regression (RFR) model that is consistent with the general characteristics of the decision tree-based ensemble model. The plot on the left shows a strong correlation between the observation value and the prediction value, where the data points are concentrated around the diagonal line. This signifies a high level of accuracy and low prediction errors. Meanwhile, the graph on the right shows an out-of-bag (OOB) mean squared error (MSE) that declined sharply at first—up to about five trees—and then

⁸⁵² Chandio et al., “Digital Agriculture for Sustainable Development in China: The Promise of Computerization.”

⁸⁵³ Springer Nature, *Tech Fusion in Business and Society*.

⁸⁵⁴ Springer Nature, *Data Science and Communication Engineering*.

stabilized after about 20 trees, indicating that the model has reached an optimal convergence point with no indication of overfitting. This phenomenon is in line with the research of ⁸⁵⁵, which showed that the OOB error in the Sparrow Search Algorithm–Random Forest (SSA-RF) model declined rapidly before stabilizing around 20 trees, resulting in optimal parameters and consistent prediction performance. A similar finding was obtained ⁸⁵⁶, in which an RF model optimized with Sand Cat Swarm Optimization showed a significant decrease in MSE before convergence, signaling a balance between complexity and generalization. ⁸⁵⁷ also assert that the number of features and node division rules significantly affect the performance of the model, but once a certain number of trees is reached, the addition of trees no longer significantly improves accuracy. Meanwhile, ⁸⁵⁸ found that the IGSA-Random Forest hybrid model produces a rapidly decreasing OOB coefficient before reaching stability, confirming the efficiency of the convergence process in ensemble-based learning models. ⁸⁵⁹ through the DRBoost model added that the mechanism of merging many trees in random forests improves prediction stability by preventing overfitting, especially on complex industrial data. The MSE OOB convergence pattern shown in Figure 9.2 supports the conclusion that the RFR model has achieved optimal performance stability. This is consistent with ensemble learning theory, where an increase in the number of trees improves generalizations to a certain point, after which the additional benefits become minimal.

9.4. The Relative Importance of Predictors: Skill Dominance as a Key Determinant of Institutional Performance

One of the fundamental advantages of the Random Forest Regression (RFR) model that distinguishes it from other black-box machine learning techniques is its ability to provide interpretation of the relative contribution of each predictor variable to the overall prediction accuracy. This analysis of the relative importance of the predictors allows researchers and practitioners not only to obtain accurate predictions, but also to understand the substantive mechanisms underlying the relationship between inputs and outputs in the modeled system. In the context of institutional performance evaluation, an understanding of which predictors are most influential has significant strategic implications, as it can inform resource allocation, policy priorities, and more targeted and efficient intervention designs. Analysis of the importance of predictors in the context of institutional performance reveals consistent and substantive findings: skills variables systematically show the greatest contribution compared to alternative variables such as physical infrastructure, financial systems, information and communication technology (ICT) adoption rates, and business dynamics. These findings, validated through three different importance measurement metrics—mean decrease in accuracy, total increase in node purity, and

⁸⁵⁵ Wang, Zhu, and Wang, “Application Research of SSA-RF Model in Predicting the Height of Water-Conducting Fracture Zone in Deep and Thick Coal Seams.”

⁸⁵⁶ Zhang, Zheng, and Liu, “Deformation Prediction System of Concrete Dam Based on IVM-SCSO-RF.”

⁸⁵⁷ Wang, Wang, and Yang, “The Mass Appraisal Study of Taxable Price of Commodity Housing Based on Automated Valuation Models.”

⁸⁵⁸ Lin and Tian, “Modeling Rural Labor Responses to Digital Finance: A Hybrid IGSA-Random Forest Approach.”

⁸⁵⁹ Song, He, and Wu, “DRBoost: A Learning-Based Method for Steel Quality Prediction.”

mean dropout loss—confirm the theoretical proposition that human capital plays a more decisive role than physical assets in determining institutional competitiveness and performance.

9.4.1. Methodological Framework for Measuring Predictor Importance and Empirical Findings: Skill Dominance as a Key Predictor

Mean Decrease in Accuracy, also known as permutation importance, is a measure of predictive importance that is based on the degradation of predictive performance when the value of a variable is randomly mutated. This measurement procedure involves systematic steps in which a trained model is used to predict out-of-bag (OOB) data under baseline conditions, then the prediction is repeated after the value of a given variable is permuted between observations. The difference between baseline accuracy and post-permutation accuracy was averaged across all trees in the ensemble, resulting in an estimate of the variable's marginal contribution to overall performance. The greater the decrease in accuracy caused by the permutation of a variable, the more important it is in the predictive model. The methodological advantage of MDA lies in its ability to capture the contribution of variables that operate through complex interactions with other variables, not just the main effects. In the context of institutional performance analysis, these metrics are particularly relevant because variables such as skills often interact non-additively with infrastructure and technology—for example, the impact of ICT investment on productivity is highly dependent on the availability of a skilled workforce that can operate and optimize those technologies. MDA is able to capture the complexity of these interactions, resulting in a more comprehensive estimate of importance than traditional univariate methods.

The second metric used to evaluate predictor importance is Total Increase in Node Purity, which in the context of classification is often referred to as Gini Importance. In a regression setting, this metric measures the total reduction in residual sum of squares (RSS) or mean squared error (MSE) generated by splits based on a variable, aggregated across the entire tree and across nodes where the variable is used as a separation criterion. Variables that consistently result in separation with large impurity reductions across different trees and different depth levels will obtain high importance scores. A practical advantage of Gini Importance is its computational efficiency, as the required values are already accumulated during the model training process without the need for additional calculations. However, this metric has potential limitations in the form of bias towards variables with high cardinality (many unique values) or continuous variables, which mechanically have more possible breakpoints than categorical variables with few levels. In the interpretation of results, awareness of this potential bias is important to avoid overestimating the importance of a particular variable solely because of its distributional characteristics.

Mean Dropout Loss is a relatively newer approach to importance measurement, which adopts a similar philosophy to MDA but with a different implementation. In this framework, the contribution of variables is estimated by comparing the performance of the complete model to the performance of the model that was retrained without the variable (variable dropout) or with the value of the zeroed/equalized variable. Differences in loss functions—such as mean squared error or mean absolute error—between the two conditions reflect the informative contribution of the dropout variable. The advantage of Mean Dropout Loss over MDA lies in its

ability to evaluate the contribution of variables in the context of their actual absence, rather than just value randomization. It more realistically represents a situation where a predictor is completely unavailable or unmeasurable, as opposed to a permutation situation where the variable remains but with meaningless values. In the context of institutional benchmarking, an understanding of the consequences of the unavailability of certain data is particularly relevant to inform data collection priorities and investments in management information systems.

The results of the predictor's relative importance analysis using the three metrics described above consistently show that the skill variable occupies the highest position in the hierarchy of contribution to institutional performance prediction. The consistency of the findings across different metrics—each with distinct assumptions and calculation procedures—strengthens the reliability of the conclusions and minimizes the likelihood that the results are artifacts of one particular measurement approach. More specifically, the analysis shows that skills contribute substantially more than physical infrastructure variables, which are often assumed to be fundamental prerequisites for economic and institutional performance. These findings challenge the conventional developmentalist perspective that prioritizes infrastructure investment as an engine of growth, proposing that the effectiveness of infrastructure is highly dependent on the availability of human resources capable of making optimal use of it. Infrastructure without the skilled workforce that operates it becomes an unproductive asset, while skilled labor can find a way to be productive even with limited infrastructure.

Financial system variables and information and communication technology (ICT) adoption showed moderate predictive contributions, being below skills but above infrastructure in the hierarchy of interests. This position can be interpreted in terms of complementarity, where an inclusive financial system and extensive adoption of ICTs facilitate—but do not replace—the contribution of skills to performance. Access to credit and digital financial services, for example, is only productive when balanced with financial literacy and managerial ability to allocate resources efficiently. Similarly, ICT adoption requires digital skills to translate technology investments into actual productivity improvements. Business dynamics variables—which include indicators such as ease of starting, intensity of competition, and level of entrepreneurship—show contributions that vary depending on model specifications and sample context. This variability can be explained by heterogeneity in operational definitions and measurement of business dynamics across datasets, as well as by the complexity of causal relationships in which business dynamics can function both as predictors and as outcomes of institutional performance.

9.4.2. Confirmation from International Empirical Literature

1. Human Capital as a Driver of National Entrepreneurship, findings on skill dominance as a predictor of institutional performance obtained substantial confirmation from the research of ⁸⁶⁰ that investigated the determinants of entrepreneurship at the national aggregate level. Using a comprehensive analytical approach with cross-border data, the study identified that human capital and social norms are the main drivers of entrepreneurial activity, with contributions that significantly go beyond explicit policy factors and the availability of

⁸⁶⁰ Huang, Bu, and Li, "Pathways to Prosperity: A Configurational Analysis of National Entrepreneurship."

physical infrastructure. Huang et al.'s investigation offers a macro perspective that complements the institutional-level analysis, showing that patterns of human capital dominance are consistently manifested across levels of analysis. Human capital, which is operationalized through indicators such as education level, technical skills, and innovative capacity of the population, has been shown to have a higher elasticity to entrepreneurial output than infrastructure investment or policy incentives. These findings have strategic implications that efforts to encourage entrepreneurship and economic dynamism should prioritize human resource development, with infrastructure and policies serving as enabling conditions, rather than primary drivers.

2. Skills and Structure of the Labor Market in the Era of Artificial Intelligence, research by ⁸⁶¹ provides highly relevant contemporary evidence on the relationship between artificial intelligence (AI) adoption, labor productivity, and skill variables in the context of digital transformation. The study found a strong and positive correlation between AI adoption and increased productivity, but with a crucial note that the magnitude and even direction of the relationship is highly dependent on the characteristics of labor skills and the prevailing labor market structure. More specifically, Drago et al. demonstrate that countries and sectors with a workforce that has complementary skills to AI—such as analytical skills, creativity, and interpersonal skills—experience much greater productivity gains than contexts with less compatible skill composition. In contrast, the contribution of computing infrastructure and capital investment in AI adoption turned out to be relatively smaller after controlling for skill factors. These findings confirm that technology per se is not a determinant of productivity; rather, it is the interaction between technology and human capabilities that determines the realization of the productive potential of technology investment. In the context of institutional benchmarking, the implication is the need to incorporate workforce skills and capability metrics as core variables in performance evaluation models.
3. Digital Literacy and Financial Inclusion in Developing Countries, ⁸⁶² provide empirical evidence from developing country contexts that reinforces the proposition about the superiority of skills relative to infrastructure. Their research explores determinants of economic inclusion—defined as access to and active participation in formal economic systems—with a particular focus on the comparative role between physical infrastructure and human capabilities. The results of the investigation show that digital access and financial literacy play a substantially greater role in increasing economic inclusion than infrastructure investment alone. The availability of telecommunications or banking infrastructure, although necessary, is not sufficient to guarantee inclusion if it is not balanced with literacy that allows individuals to make effective use of the infrastructure. These findings have significant policy implications for development strategies: investments in financial education and digital skills may result in higher returns on economic inclusion than physical infrastructure expansion that is not balanced with human capacity building. Further, Kumar

⁸⁶¹ Drago et al., “Macroeconomic and Labor Market Drivers of AI Adoption in Europe: A Machine Learning and Panel Data Approach.”

⁸⁶² M. V. et al., “How Does Digitally Enabled Micro-Finance Promote Income Equality for the Vulnerable in the Expanded BRICS Block during the Pandemic?”

et al. identified a threshold effect in which the marginal benefits of infrastructure decline drastically after a certain level of penetration is achieved, while returns on literacy and skills remain positive even at high levels. This pattern is consistent with human capital theory which predicts increasing returns on skill accumulation through spillover mechanisms and network effects.

4. *Quality of Human Resources as a Determinant of Foreign Direct Investment*,⁸⁶³ applied a machine learning approach, including Random Forest, to identify the determinants of foreign direct investment (FDI) flows to various countries. This methodology allows for the exploration of non-linear relationships and complex interactions between predictors that are difficult to detect through conventional econometric techniques, while providing a ranking of the relative importance of variables that can be directly compared. The results of the analysis reveal that economic openness and the quality of human resources are the main determining factors in attracting FDI, with predictive contributions consistently exceeding physical infrastructure variables such as transportation quality or energy availability. These findings challenge the conventional assumption that infrastructure is the dominant prerequisite for attracting international investment, proposing a reinterpretation in which multinational investors prioritize access to a high-quality talent pool and an economic environment conducive to business operations. Alon et al. further identified a positive interaction between economic openness and the quality of human resources, where countries with a combination of the two experienced disproportionately high FDI inflows compared to predictions based on the additive effects of each variable. This pattern of interaction indicates that skilled labor in the open economy has higher value for investors because it can be integrated into global value chains more seamlessly. The implications for investment attractiveness strategies are the need for a holistic approach that combines economic liberalization with sustainable investment in vocational education and training.
5. *Digital Skills and Value Creation in Micro Enterprises*,⁸⁶⁴ provide evidence at the micro level that complements the macro and meso findings that have been presented. Their study investigated the factors that determine business value in micro-enterprises in Mexico, with a particular focus on the comparative role between information and communication technology (ICT) adoption and business owner characteristics. The central finding of this study is that significant differences in business value between micro business units can be explained more by variations in the digital skills of the owners than by the size of the physical assets owned or the intensity of technology adoption per se. In other words, computer ownership or internet access does not automatically translate into increased business value; What is determinative is the ability of the owner to leverage the technology to optimize operations, expand market reach, or improve administrative efficiency. Hernández-Gress et al. identified the skills gap as a major obstacle to realizing the potential of the digital economy among micro-enterprises, where many businesses have access to technology but lack the capacity to exploit it productively. The policy implication of these findings is that MSME

⁸⁶³ Alon et al., “Greenfield FDI Attractiveness Index: A Machine Learning Approach.”

⁸⁶⁴ Hernández-Gress et al., “Digital Transformation Through Virtual Value Chains: An Exploratory Study of Grocery MSEs in Mexico.”

digitalization programs should incorporate substantial skills training components, not just the provision of infrastructure or technology subsidies. The RFR model applied in this study confirms that the digital skills variable consistently occupies the top position in the feature importance ranking, with a significant margin compared to the physical asset or technology access variable.

9.4.3. Theoretical Synthesis and Conceptual Implications

Consistent findings on the dominance of skills as predictors of institutional performance invite a reinterpretation of traditional models of production functions that treat physical capital and human capital as relatively substitutable factors of production. Evidence from the various studies analyzed indicates a more nuanced relationship, where human capital serves as an enabling factor that determines the marginal productivity of other inputs. In this formulation, infrastructure and technology are necessary conditions whose contribution to output depends on the availability of skills that allow effective utilization. This perspective is in line with endogenous growth theory which emphasizes the central role of knowledge accumulation and human capital in explaining differences in economic performance between countries and between institutions. Unlike the neoclassical growth model that predicts convergence through diminishing returns on capital accumulation, the endogenous model accommodates increasing returns on investment in skills and knowledge through spillover, learning-by-doing, and innovation mechanisms. The results of the analysis of predictor importance from the RFR model provide empirical confirmation of this theoretical prediction, showing that the variables representing the accumulation of knowledge and skills have superior explanatory power.

The empirical findings presented strengthen and expand the human capital theory developed by Gary Becker and Jacob Mincer. This theory conceptualizes education and training as investments that generate economic returns through increased productivity. However, contemporary applications of this theory—as demonstrated by the various studies analyzed—suggest that the most valuable forms of human capital have evolved, with an increasing emphasis on digital skills, data literacy, and adaptive capacity to technological change. More than confirmation, RFR-based predictor importance analysis offers a more precise quantification of the magnitude of human capital contributions relative to other factors. RFR's ability to capture non-linearity and interaction allows the identification of threshold effects and diminishing/increasing returns that are not detected by conventional linear regression approaches. This methodological insight paves the way for the development of a more sophisticated theory of human capital, accommodating the complexity of the relationships between different forms of capital in determining performance.

The results of the analysis that show marginal—or even negative in some specifications—contributions of infrastructure variables invite critical reflection on the infrastructure-led development paradigm that dominates development policies in many countries, especially developing countries. This paradigm assumes that massive investments in physical infrastructure—roads, ports, power grids, telecommunications—will automatically generate economic growth through reduced transaction costs and improved connectivity. The empirical evidence analyzed proposes a substantial revision to the paradigm: infrastructure may be

necessary but far from sufficient for economic and institutional performance. Without complementary investment in skills development that enables effective utilization of infrastructure, physical investment risks becoming a sunk cost with suboptimal returns. The policy implication of this criticism is the need for a more balanced approach to development, allocating resources proportionately between physical infrastructure and human infrastructure (education, training, capacity building).

9.4.4. Practical Implications and Strategic Recommendations

For managers and institutional decision-makers, the findings on skill dominance as a predictor of performance provide clear guidance for prioritizing resource allocation. Investment in human resource competency development—through training programs, recruitment of quality talent, retention of skilled employees, and the creation of a work environment conducive to continuous learning—should take precedence over the expansion of physical assets or the acquisition of technology without adequate capacity development. Operationally, this means integrating the HR development component in every organizational transformation initiative. The implementation of new technology systems, for example, should allocate substantial budgets for user training and change management, not only for the acquisition of hardware and software. Similarly, the expansion of physical capacity should be balanced with the recruitment and development of personnel who will operate that capacity.

For developers of institutional benchmarking systems, the findings of the predictor importance analysis inform the design of more meaningful evaluation metrics. Benchmarking systems that overweight infrastructure indicators or physical assets risk resulting in rankings that do not reflect the substantive performance capacity of the institution. On the other hand, the incorporation of HR skills and capabilities metrics as core components of the evaluation will result in a more predictive assessment of actual performance. Practically, this can involve collecting data on the composition of the workforce, investment in training and development, digital and technology literacy levels, and other indicators that represent human capital. These metrics are then weighted proportionally to their predictive contribution as estimated by the predictor importance analysis, resulting in a more valid composite index.

At the public policy level, the research findings imply the need to rebalance priorities between infrastructure investment and human capital investment. Countries that allocate large proportions of development budgets to physical infrastructure projects without equal attention to education and training may experience suboptimal returns on such investments. Specific recommendations include: increasing the budget for vocational and technical education aligned with industry needs; reskilling and upskilling programs for the workforce affected by digital transformation; incentives for the private sector to invest in human resource development; and reform of the formal education curriculum to incorporate 21st century skills such as digital literacy, critical thinking, and creativity.

Analysis of the relative importance of the predictors in the Random Forest Regression model revealed consistent and substantively significant findings: human capital skills and capacity are the most determinant predictors of institutional performance variations, surpassing the contribution of physical infrastructure, financial systems, ICT adoption, and business

dynamics. These findings were validated through triangulation of three different importance measurement metrics—mean decrease in accuracy, total increase in node purity, and mean dropout loss—and obtained independent confirmation from various international empirical studies across domains and contexts. The theoretical implications of these findings include a reinterpretation of the institutional production function model that emphasizes the enabling role of human capital, reinforcement of human capital theory with a more precise quantification of relative contributions, and constructive criticism of the infrastructure-led development paradigm. In practical terms, the findings inform the prioritization of organizational resource allocation, the design of benchmarking systems, and the formulation of economic development policies that are more balanced between physical investment and investment in people. Future research is expected to explore the causal mechanisms underlying the predictor-performance relationship, identify contextual heterogeneity in patterns of importance, as well as investigate the temporal dynamics of predictor hierarchies. Thus, the understanding of the determinants of institutional performance will continue to develop, informing strategies and policies that are increasingly evidence-based and contextually appropriate.

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CHAPTER 10

STRATEGIC FOUNDATIONS OF REGIONAL COMPETITIVENESS IN THE PERSPECTIVE OF SUSTAINABLE DEVELOPMENT

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Regional competitiveness reflects a region's ability to adapt to global dynamics through innovation, investment, and sustainability. Based on a search of eight recent international publications, this study found that regional competitiveness is shaped by a multidimensional ecosystem that includes economic transformation, infrastructure, innovation, and the quality of human resources. Research ⁸⁶⁵ affirms that innovation-based development strategies are key to increasing regional resilience and competitiveness in the regional socio-economic system, while studies in Mexico highlight the role of organizational innovation in strengthening the competitiveness of small and medium-sized enterprises in vulnerable areas ⁸⁶⁶. On the other hand, infrastructure—particularly transportation—has proven to be a key driver of regional integration and growth, as shown by the analysis of the Kuala Lumpur–Singapore high-speed rail project ⁸⁶⁷. In addition, demographic dynamics also determine competitiveness: regions with a highly educated workforce and positive population growth tend to be more competitive, while population decline widens inequality between regions, as observed in the European Union ⁸⁶⁸. Kazakhstan's experience shows that structural transformation through economic diversification and strengthening innovation is a prerequisite for long-term resilience and competitiveness ⁸⁶⁹. These global findings reinforce the argument that competitive and sustainable regional development must be holistic, integrating innovation, infrastructure, human capital, and structural adaptation in a synergistic policy ecosystem.

The Principal Component Analysis (PCA) approach provides a robust analytical framework to identify the latent structures behind the complexity of regional development indicators. Through this technique, various dimensions such as economy, innovation, and sustainability can be summarized into a number of key factors that explain the greatest variation in regional competitiveness. In this context, the study of ⁸⁷⁰ shows how PCA is able to reduce the complexity of creative and innovative indicators to explain the positive relationship between creativity and GDP growth in EU countries. A similar approach is used ⁸⁷¹ who utilize PCA to

⁸⁶⁵ Velychko, Troian, and Viatkin, "FORMATION OF INNOVATIVE DEVELOPMENT STRATEGY OF HROMADAS IN THE CONTEXT OF REGIONAL SOCIO-ECONOMIC SYSTEMS."

⁸⁶⁶ Gomez Mohedano, Hernández Escobedo, and Guevara Ibarra, "Innovación Como Parte de La Cultura Empresarial."

⁸⁶⁷ Permalu and Nagarajoo, "KL-SG High-Speed Rail – a Catalyst for National Economic Development."

⁸⁶⁸ Milijić et al., "Demographic Trends and Regional Disparities in the EU."

⁸⁶⁹ Shukeyev, Mendaliyeva, and Maulina, "Structural Economic Transformations in Kazakhstan: Historical Context, Contemporary Challenges, and Strategic Approaches."

⁸⁷⁰ Leščinskij, Iurasova, and Šliogerienė, "THE IMPACT OF CREATIVITY AS A FACTOR OF ECONOMIC DEVELOPMENT ON GDP GROWTH IN EU COUNTRIES."

⁸⁷¹ Korepanov, Lazebnyk, and Yamshynskiy, "Modeling the Factors of Socioeconomic Development of the Regions of Ukraine and Determining the Role of ICT."

map socioeconomic factors and the role of information technology in strengthening sustainable development in the territory of Ukraine. In addition, an analysis ⁸⁷² in Brazil applied the PCA to sustainable development indicators to measure the contribution of the pulp industry to economic and environmental dynamics in Bahia. These results confirm that the PCA serves not only as a statistical tool, but also as a conceptual instrument to link empirical data with policy formulation and future directions of sustainable development. The PCA technique becomes a methodological foundation in understanding the pillars of regional competitiveness, enabling more focused, integrative, and sustainable development planning in various global regional contexts.

10.1. Theoretical Foundations of Regional Competitiveness Analysis Based on Principal Component Analysis

Regional competitiveness analysis based on Principal Component Analysis (PCA) is based on a theoretical framework that combines regional system theory, structural efficiency theory, and sustainable development paradigm. Conceptually, regional system theory views the region as a complex entity formed from the interaction between economic, social, environmental, and institutional factors that influence each other in achieving a balance of development. PCA is then used to identify the latent structures behind those indicators, simplifying the complexity of the data into key dimensions that reflect the core of the region's competitiveness.

⁸⁷³ explain how Principal Component Analysis (PCA) is used within the framework of resilience and vulnerability theory to measure the efficiency of the labor market as well as the adaptability of regional economic systems to external shocks. In line with that, ⁸⁷⁴ affirm the importance of innovation-based competitiveness theory and digitalization, where technological transformation is the main driver of sustainable economic growth in Europe. A similar approach is adopted ⁸⁷⁵, which highlights the role of digitalization as a moderator in the relationship between entrepreneurship and sustainable development in Africa. The results of his research show that digitalization reinforces the positive impact of innovation on economic growth and social inclusivity. In a micro-context, ⁸⁷⁶ used PCA to assess the relationship between digitalization and enterprise resilience, finding that the effect forms an inverted U-curve, where over-digitalization actually decreases organizational efficiency. ⁸⁷⁷ adds a theoretical dimension by showing that digital entrepreneurship encourages the achievement of the Sustainable Development Goals (SDGs) through synergy between innovation and productivity in European

⁸⁷² Matos, Pires, and Stracieri, "Setor de Celulose Na Bahia: Uma Análise a Partir Da Aplicação Do Indicador de Desenvolvimento Regional Sustentável."

⁸⁷³ Borsekova and Korony, "Resilience and Vulnerability of Regional Labour Markets: Principal Component Analysis of Labour Market Efficiency in the EU."

⁸⁷⁴ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

⁸⁷⁵ Osinubi, Ajide, and Simatele, "What Role Does Digitalization Play in the Entrepreneurship-Sustainable Development Nexus in Africa?"

⁸⁷⁶ Yang and Deng, "Can Digitalization Improve Enterprise Sustainability? – Evidence from the Resilience Perspective of Chinese Firms."

⁸⁷⁷ Herman, "The Interplay between Digital Entrepreneurship and Sustainable Development in the Context of the EU Digital Economy: A Multivariate Analysis."

Union countries. Meanwhile, ⁸⁷⁸ highlight the importance of institutional quality in driving the digital and green transition, which is a key factor in shaping regional resilience in the European region. The research of ⁸⁷⁹ confirms the macro dimension of this theory by developing a methodology for assessing national digital resilience, which shows that the digital capacity of an economy plays a significant role in maintaining stability against external pressures. In addition, ⁸⁸⁰ broaden the perspective through the concept of geoanthropology in the industry 6.0 paradigm, emphasizing human-technology-environmental interaction as the basis for the systemic sustainability of regional industries. The theory underlying this research confirms the close relationship between economic resilience, digitalization, and innovation as the main pillars of regional competitiveness. Through the integration of the concepts of resilience, digital transformation, and sustainable competitiveness, the PCA serves as a conceptual and empirical tool to uncover the latent structures that shape the dynamics of modern regional development.

In the perspective of sustainable development, ⁸⁸¹ developed a theoretical model that places green infrastructure and logistics as mediators in the relationship between trade and environmental balance, which reflects the principles of open systems theory in which economic efficiency and ecological sustainability are interdependent. This approach emphasizes the importance of integration between physical and environmental systems to create ecologically resilient and efficient supply chains. ⁸⁸² study reinforces these findings by using Principal Component Analysis (PCA) to form the Green Logistics Performance Index (GLPI), which shows that the increase in green logistics has a positive impact on regional trade performance under the framework of RCEP and CPTPP. Furthermore, ⁸⁸³ highlights that peak carbon targets and carbon neutrality force green transformation in the logistics sector, thus demanding the application of low-carbon technologies and intelligent logistics systems to achieve energy efficiency. In the context of open systems theory, ⁸⁸⁴ put forward the role of smart ports as strategic nodes in creating global supply chain sustainability, where digitalization and renewable energy are the main catalysts in connecting economic efficiency and environmental conservation. ⁸⁸⁵ also developed a nonlinear stochastic model to explain the dynamics of the relationship between international trade growth and environmental change, confirming the existence of a dynamic link between trade policy and ecological degradation. In addition, ⁸⁸⁶ highlight the importance of integrating green technology and marketing strategies in the heavy industry sector to

⁸⁷⁸ Bănică et al., "Institutional Quality in Green and Digital Transition of EU Regions – A Recovery and Resilience Analysis."

⁸⁷⁹ Sorokina, Lebedeva, and Lositska, "DIGITAL DETERMINANTS OF NATIONAL ECONOMY RESILIENCE."

⁸⁸⁰ Fernández-Miguel et al., "Exploring Systemic Sustainability in Manufacturing: Geoanthropology's Strategic Lens Shaping Industry 6.0."

⁸⁸¹ Nguyen and Nguyen, "Reciprocal Mediation Effects between Infrastructure and Green Logistics Performance Index on the Balance of Trade of Asian Countries."

⁸⁸² Tran, "Impact of Green Logistics on Vietnam's Regional Trade."

⁸⁸³ Zhang, "Research on the Development Status and Countermeasures of Green Logistics under the Background of 'Carbon Peaking and Carbon Neutrality.'"

⁸⁸⁴ Dağistan et al., "Sustainability of Smart Ports: A Systematic Literature Review."

⁸⁸⁵ Zhang, "A Nonlinear Stochastic Matrix Model for the Analysis of the Association between International Trade Growth and Environmental Change."

⁸⁸⁶ Kofanov, Zozulov, and Kofanova, "Green Technologies and Marketing Tools in Ensuring Sustainable Development of Mining Enterprises."

strengthen long-term sustainability, asserting that technological innovation acts as a bridge between productivity and environmental responsibility. Sustainable development requires a systemic and evidence-based approach that connects infrastructure, green technology, and logistics efficiency with global ecological balance.

10.2. Data Readiness and Identification of Strategic Foundations of Regional Competitiveness

Before identifying the structure of the region's competitiveness dimensions⁸⁸⁷, it is important to ensure that the data used is eligible for analysis through factorial methods. The Kaiser-Meyer-Olkin (KMO) test yielded an Overall MSA value of 0.724, which is above the minimum threshold (0.5) and falls into the middling to meritorious category, indicating that the sample is fairly representative and that the variables have sufficient partial correlation for further analysis (Figure 10.1.). In addition, Bartlett's Test of Sphericity gives a chi-squared value of 243.308 with a significance close to zero ($p < 0.001$), which means that the null hypothesis—that the correlation matrix is an identity matrix—is rejected. This means that there is a fairly strong correlation between variables, so the analysis of the main components is worth doing. Although the data show a slight deviation from multivariate normality (significant skewness, no kurtosis), this is not a serious barrier because PCA is robust against violations of normality assumptions, especially with oblimin rotation that allows correlations between factors. Thus, the empirical foundation of this analysis is strong and reliable to uncover the latent structure of regional competitiveness.

Through PCA with oblimin rotation, data from the 10 main indicators of competitiveness were successfully reduced to three main components that cumulatively explain 78.4% of the total variance. The first component initially explained almost half of the variance (48.3%), but after the rotation—which was intended to clarify interpretation—the contribution of the three components became more balanced: 33.8%, 31.2%, and 13.4%, respectively. This rotation results in a sharp, non-overlapping factor charge pattern, allowing for the grouping of variables into coherent latent dimensions. Each variable shows a dominant loading on one of the components, with a relatively low uniqueness value—indicating that most of the variation in each indicator can be explained by the structure of the factors found. One important note is that the Product Market has a low initial MSA value (0.420), but after analysis, it forms a very dominant third component (loading = 0.925), thus still making a substantial contribution to the overall structure. This phenomenon is in line with the findings of⁸⁸⁸, which used oblimin rotation in identifying latent factors of public satisfaction with the management of tourist destinations, resulting in a sharp and non-overlapping factor structure. Furthermore, the dominance of the Product Market in the third component (loading = 0.925), despite having a low initial MSA value (0.420), indicates a strong latent role in the competitive structure, indicating a non-linear relationship that is better revealed through a rotational approach. These results are in line with

⁸⁸⁷ Liu et al., "Harmony, Conflict, and Evolution of the Common Agricultural Policy in Europe: A Text Mining Survey."

⁸⁸⁸ Kesar, Soldić Frleta, and Matušan, "Investigating Residents and DMO's Co-Creation Relationship: The Case of Co-Organizing a Medieval Summer Festival."

the research of ⁸⁸⁹, which highlights the importance of multivariate modeling and factor rotation in explaining socio-economic variation in the context of Eastern European economic decarbonization.

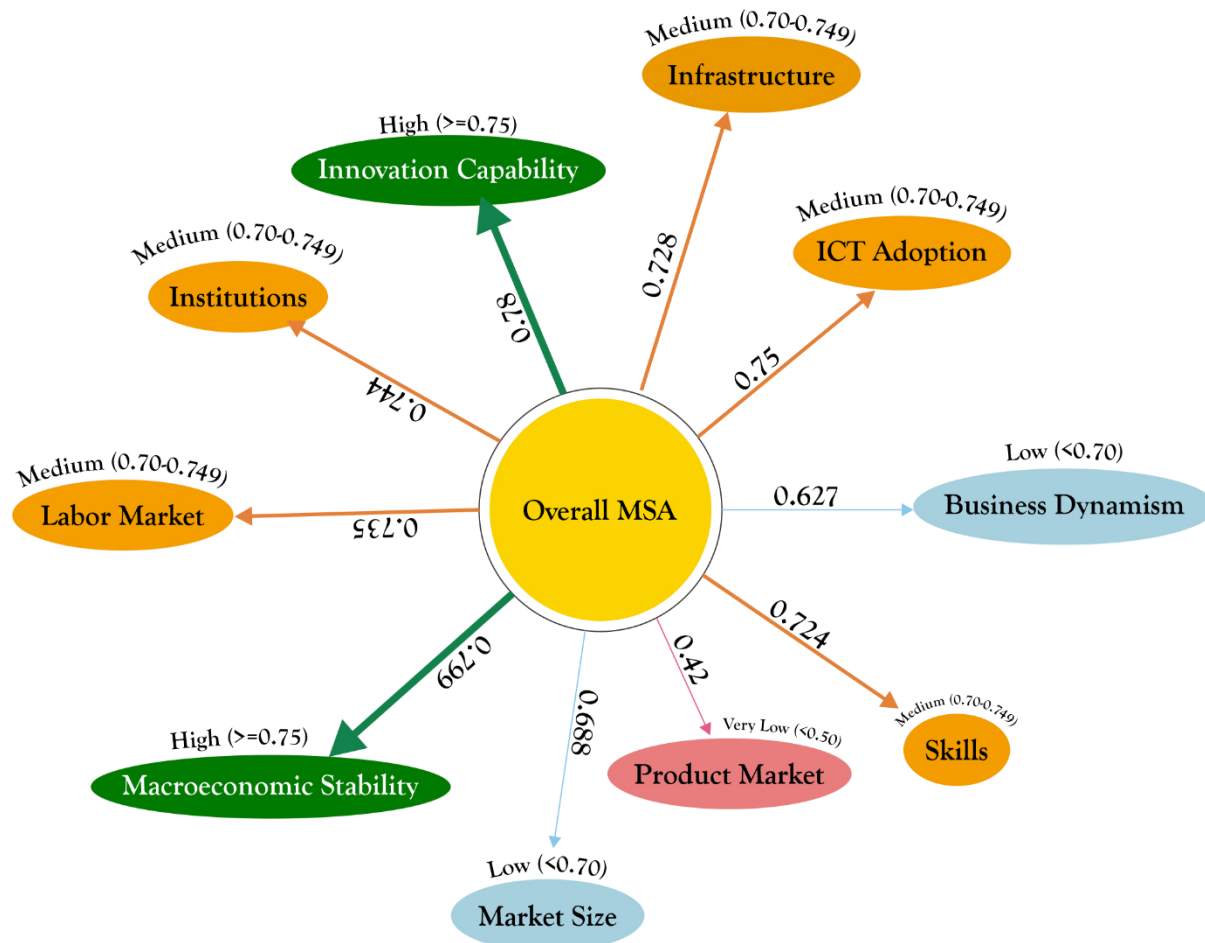


Figure 10. 1. Kaiser-Meyer-Olkin Test - Principal Component Analysis

In the context of industry and innovation, a similar approach is used by ⁸⁹⁰ to identify the readiness of the industry to face the Industrial 4.0 revolution, in which PCA with rotation generates three main components that describe the readiness of technology, human resources, and organizational culture. ⁸⁹¹ prove that dimension reduction techniques such as PCA are effective in identifying the dynamics of sectoral competitiveness in the European Union, resulting in more representative synthetic indices. Similarly, ⁸⁹² assert that the use of PCA with rotation strengthens the validity of constructs in the competency analysis of rural communities in South Korea. The results of the PCA (Figure 10.1.) confirm that the oblimin rotation method

⁸⁸⁹ Radovanović et al., “Decarbonisation of Eastern European Economies: Monitoring, Economic, Social and Security Concerns.”

⁸⁹⁰ Lis et al., “Readiness of Polish Industrial Enterprises for the Industry 4.0 Revolution.”

⁸⁹¹ Nowak and Zakrzewska, “How Competitive Is the Agriculture in European Union Member States? An Assessment of Changes over the Past Decade.”

⁸⁹² Eom et al., “Director Opinion on Community Competence: Evidence from Management Organizations of the Rural Community Support Project in South Korea.”

not only clarifies the structure of the relationships between competitive variables, but also allows for coherent multidimensional interpretations, as suggested in various such cross-sectoral and cross-regional empirical studies.

The results of the statistical test (Table 10.1.) show that the data has characteristics suitable for factor analysis. Based on Bartlett's Test of Sphericity, the Chi-square value (X^2) of 243,308 with a free degree (df) of 45 and a significance value of $p = 5,048e-29$ showed a very significant result ($p < 0.05$). These results are consistent with the statistical approach used by Maciel-Monteon et al. (2020) (DOI: 10.1371/journal.pone.0227353), which affirm the importance of convergent and discriminant validity through the Bartlett test before conducting Structural Equation Modeling (SEM) and PCA in the context of higher education. This indicates that there is a strong enough correlation between variables, so that the correlation matrix is not in the form of an identity and the data is declared suitable for factor analysis or PCA.

Table 10.1. Bartlett's Test and Mardia's Test of Multivariate Normality

Bartlett's Test				
X ²	df	p		
243.308	45	5.05E-29		
Mardia's Test of Multivariate Normality				
Tests	Value	Statistic	df	p
Skewness	45.587	288.717	220	1.28E-03
Small Sample Skewness	45.587	315.929	220	2.35E-05
Kurtosis	118.451	-0.308		7.58E-01

Meanwhile, the results of Mardia's Test of Multivariate Normality showed a skewness value of 288,717 with $p = 0.001276$ and a small sample skewness $p = 2,353e-5$, both of which were significant. These findings indicate a slight deviation from the assumption of multivariate normality in terms of data distribution uncertainty. However, in the kurtosis aspect, a statistical value of -0.308 was obtained with $p = 0.758$ which was not significant, so that there was no significant deviation in the sharpness of the data distribution. This condition indicates that the data is not completely normal but can still be analyzed using PCA because this method is known to be quite robust against minor violations of normality assumptions. A study by ⁸⁹³ also found that PCA still provides valid results in the context of measuring the competitiveness of the steel industry's supply chain, although the data show a slightly tight distribution. This approach is also in line with ⁸⁹⁴, who used the Bartlett and Mardia test to validate factor structures in research on sustainable manufacturing in Brazil. They assert that small deviations in skewness do not significantly reduce the reliability of latent factor results. Something similar was also expressed by ⁸⁹⁵, who assessed the robustness of PCA on non-normal socio-economic data in a study on

⁸⁹³ Khoza, Mafini, and Loury Okoumba, "Lean Practices and Supply-Chain Competitiveness in the Steel Industry in Gauteng, South Africa."

⁸⁹⁴ De Guimarães et al., "Building a Sustainable Manufacturing Industry: The Role of Innovativeness and Other Strategic Factors."

⁸⁹⁵ Severo et al., "Influence of the COVID-19 Pandemic on the Use of Social Media on Awareness' Socio-Environmental and Sustainable Consumption: Consolidating Lessons from the Pandemic."

social awareness and sustainable consumption in Brazil. In addition, ⁸⁹⁶ also used a combination of Bartlett and Mardia's tests in evaluating the internationalization strategy of higher education, confirming that PCA remains validly applicable when skewness is significant but kurtosis does not deviate to extremes. Overall, these results reinforce that the data in this study are eligible for PCA, with the note that interpretation is carried out with caution due to small deviations from the assumption of multivariate normality. These results show that even though there is a slight violation in the skewness aspect, the data are still eligible for PCA. This is supported by the fact that the PCA is robust enough to withstand small deviations from multivariate normality, so that the results of the analysis can still be validly interpreted with caution in drawing conclusions.

Based on the results of the data feasibility test that has been discussed previously through Bartlett's Test and Mardia's Test of Multivariate Normality, it is known that the data is eligible for factor analysis using Principal Component Analysis (PCA). The results of factor rotation by the oblimin method produce three main components (RC1, RC2, and RC3) that represent the latent dimension of regional competitiveness. The component loadings value (Table 10.2.) indicates the degree of contribution of each variable to the factor formed, while the uniqueness value describes the proportion of variance that is not explained by the factor.

Table 10.2. Component Loadings

Variables	RC1	RC2	RC3	Uniqueness
Business Dynamism	0.887			0.296
ICT Adoption		0.715		0.156
Infrastructure	0.881			0.114
Innovation Capability	0.795			0.156
Institutions		0.684		0.266
Labor Market		0.862		0.29
Macroeconomic Stability		0.531	-0.404	0.31
Market Size	0.794			0.237
Product Market			0.925	0.139
Skills		0.904		0.2

Note. Applied rotation method is oblimin.

In the first component (RC1), the variables with the highest factor load values were Business Dynamism (0.887), Infrastructure (0.881), Innovation Capability (0.795), Market Size (0.794), and Labor Market (0.862). This shows that RC1 reflects the dimensions of economic capacity and structural innovation, which illustrates fundamental forces in business dynamics, infrastructure readiness, and labor and market capacity. This dimension describes the region's ability to drive business dynamics, strengthen infrastructure networks, and optimize labor productivity. These findings are in line with the research of ⁸⁹⁷, which confirms that business dynamics and innovation play a central role in strengthening global economic resilience. In addition, ⁸⁹⁸ show that infrastructure and market size are key factors in the convergence of industrialization across countries. The second component (RC2) is dominated by the variables

⁸⁹⁶ Ahmed and Philbin, "Moving beyond Myths and Realities: Impact of the 5C's Strategies on the Internationalization of Higher Education in the Context of COVID-19."

⁸⁹⁷ Virglerova, Addeo, and Zapletalikova, "Business Dynamism in the World Economy."

⁸⁹⁸ Saba and Ngepah, "Empirics of Convergence in Industrialisation and Their Determinants: Global Evidence."

Institutions (0.684), ICT Adoption (0.715), and Macroeconomic Stability (0.531), indicating the dimensions of institutional and technological stability. This factor illustrates the important role of effective governance, macroeconomic stability, and the level of information technology adoption in supporting regional competitiveness. These results are consistent with the findings of ⁸⁹⁹, which show the synergy between economic complexity and governance in improving social welfare. Furthermore, ⁹⁰⁰ proves that the adoption of digital technology significantly increases labor productivity in GCC countries, especially when strengthened by government effectiveness.

Meanwhile, the third component (RC3) shows a high factor load on the Product Market variable (0.925), which indicates the dimensions of market efficiency and competitive structure. This variable represents the market's ability to support innovation and productivity through healthy competition mechanisms. The relatively low uniqueness value of most variables (between 0.114–0.310) indicates that the three main factors manage to explain a large proportion of variance in the overall data. This variable signifies the ability of the market system to facilitate innovation and encourage healthy competition. This is in line with the findings of ⁹⁰¹, which show that market efficiency and digital infrastructure strengthen the financial and social performance of microfinance institutions in various countries. In addition, ⁹⁰² assert that the combination of technology engagement and public governance is able to reduce economic inequality through increased market inclusion and digital access. These results show that regional competitiveness is conceptually formed from three main pillars: (1) economic capacity and innovation, (2) institutional and technological stability, and (3) market efficiency. This structure of the factors formed provides a strong empirical basis for understanding the latent dimensions of sustainable competitiveness at the regional level.

The results of Table 10.3 show the characteristics of the main components formed through the analysis of Principal Component Analysis (PCA), both at the unrotated solution stage and after rotation with the oblimin method. Based on the results of the unrotated solution, the first three components have an eigenvalue greater than 1, which means that all three meet Kaiser's criteria to be maintained as the main factor. The first component has an eigenvalue of 4,828 and explains 48.3% of the proportion of total variance. The second component has an eigenvalue of 1,804 with a contribution of 18.0%, while the third component has an eigenvalue of 1,205 with an additional contribution of 12.0%. Cumulatively, these three components account for about 78.4% of the total data variation, indicating a high level of representativeness to the latent structure of the analyzed variables. These results are in line with the findings of ⁹⁰³, who also used PCA to assess factor structure in the analysis of the added value of fisheries supply chains in Kenya, demonstrating the effectiveness of this method in comprehensively explaining multidimensional variance.

⁸⁹⁹ Hassanein, Samak, and Abdelaziz, "The Synergetic Effect of Economic Complexity and Governance on Quality of Life: Policy Thresholds."

⁹⁰⁰ Al Shammre, "Digital Adoption and Productivity in Rentier Economies: Evidence from the GCC."

⁹⁰¹ Khanchel, Lassoued, and Khiari, "Untangling the Skein: The Impact of FinTech on Social and Financial Performance in Microfinance Institutions."

⁹⁰² M. V. et al., "How Does Digitally Enabled Micro-Finance Promote Income Equality for the Vulnerable in the Expanded BRICS Block during the Pandemic?"

⁹⁰³ Abwao et al., "Effect of Clustering on Cage Tilapia Value Chain Performance in Lake Victoria, Kenya."

Table 10.3. Component Characteristics

Component	Unrotated solution			Rotated solution		
	Self-esteem	Proportion var.	Cumulative	SumSq. Loadings	Proportion var.	Cumulative
Component 1	4.828	0.483	0.483	3.376	0.338	0.338
Component 2	1.804	0.18	0.663	3.124	0.312	0.65
Component 3	1.205	0.12	0.784	1.337	0.134	0.784

After rotation, the value of Sum of Squared Loadings (SumSq. Loadings) show a more balanced distribution of variance between components, signaling an increase in factor interpretability. The first component of contrarotation explained 33.8% variance, the second component 31.2%, and the third component 13.4%, with a fixed cumulative total of 78.4%. This change reflects that rotation manages to increase the clarity of factor structure without changing the total variance described by the model. This change improves the interpretability of the factor structure without changing the total variant described. These findings are consistent with the study of ⁹⁰⁴, which affirmed that factor rotation increases the clarity of latent interdimensional relationships in organizational capability-based models and continuous innovation. The three-component structure strengthens the formation of the conceptual dimension of regional competitiveness consisting of economic capacity and innovation, institutional and technological stability, and market efficiency. These results are reinforced by ⁹⁰⁵, who show that the use of a multicomponent approach allows the identification of non-economic factors such as public value and social innovation as an integral part of competitiveness dynamics. In addition, ⁹⁰⁶ confirms that a balanced factor structure between components is capable of explaining variations in corporate social responsibility strategies, while ⁹⁰⁷ found that factor models with rotation result in clearer mapping in identifying sustainability determinants in the construction sector. The results of the rotation strengthen the identification of three main dimensions of regional competitiveness, namely economic capacity and innovation, institutional and technological stability, and market efficiency, as described in the previous interpretation.

Before determining the number of factors retained in the Principal Component Analysis (PCA) analysis, the results from Table 10.3 regarding the characteristics of the components are used to see the eigenvalue and proportion of the variance described by each component. To reinforce the numerical interpretation, the analysis is complemented by a Scree Plot, as shown in Figure 10.1 below.

⁹⁰⁴ Qalati and Siddiqui, "Organizational Sustainable Artificial Intelligence Capabilities Scale Development, Validation, and Implications."

⁹⁰⁵ Greven et al., "Noneconomic Public Value Creation by Private Ventures: Scale Development and Empirical Validation in the Academic Entrepreneurship Context."

⁹⁰⁶ Fuchsová, "SOCIAL RESPONSIBILITY IN THE STRATEGY OF BUSINESS ENTITIES."

⁹⁰⁷ Alkersh and Alhusban, "Identifying and Assessing the Cloud Computing Implementation Drivers for Sustainable Building Projects."

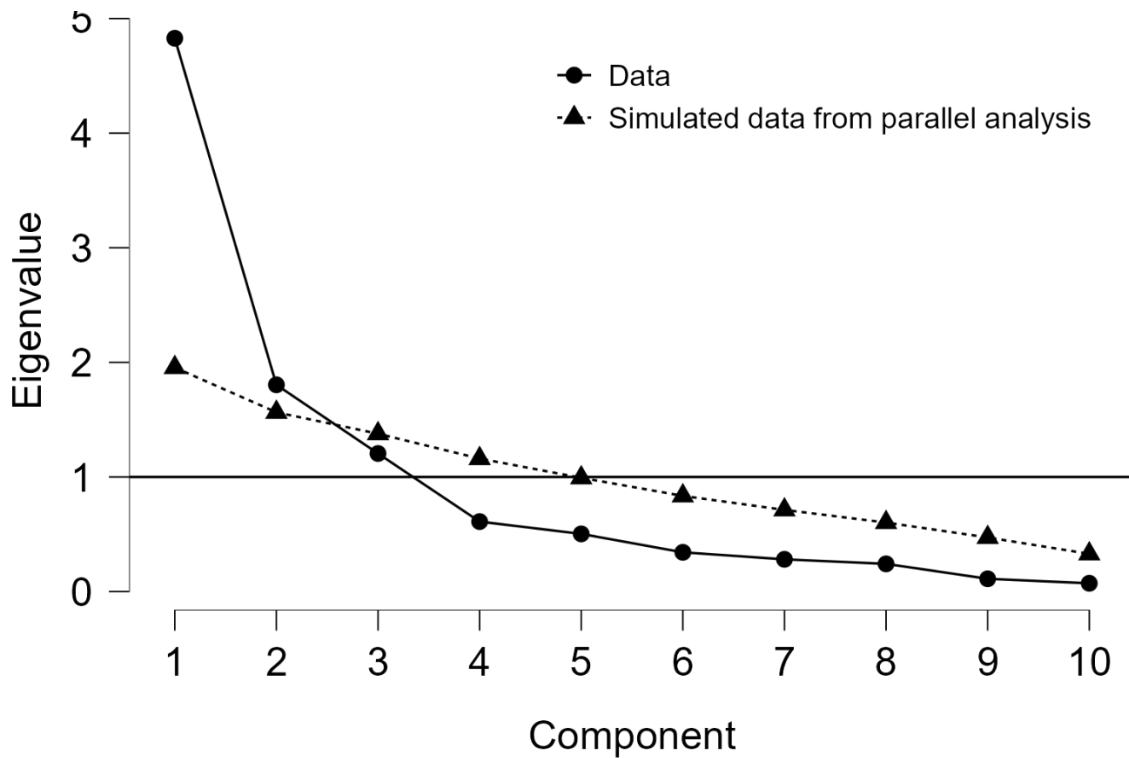


Figure 10.2. Scree Plot: The Main Components of Regional Competitiveness

Figure 10.2 shows the relationship between the eigenvalue and the number of components extracted. The descending line pattern indicates that after the third component, the eigenvalue changes to be relatively small and forms an "elbow" point. This phenomenon indicates that the first three components are the most significant factor in explaining the total variance of the data, while the next component contributes minimally. This interpretation is in line with the results in Table 10.4, where the three main components cumulatively explain about 78.4% of the total variance, thus maintaining as the dominant factor in the region's competitiveness structure. Thus, the Scree Plot supports the methodological decision that the three main components sufficiently represent the latent dimensions that shape the sustainable competitiveness of a region. Based on the results of the analysis of the main component (PCA) and oblimin rotation, three main components (RC1, RC2, RC3) have been identified as the latent dimensions underlying the competitiveness of the region. The component loadings table shows the correlation patterns between variables and components, but to strengthen the understanding of the structure of these relationships, the following visualization of the factor network provides an intuitive graphical representation. Figure 10.3. describe the strength and direction of the relationship between the three main components and each indicator, as well as highlight the correlation between the components themselves.

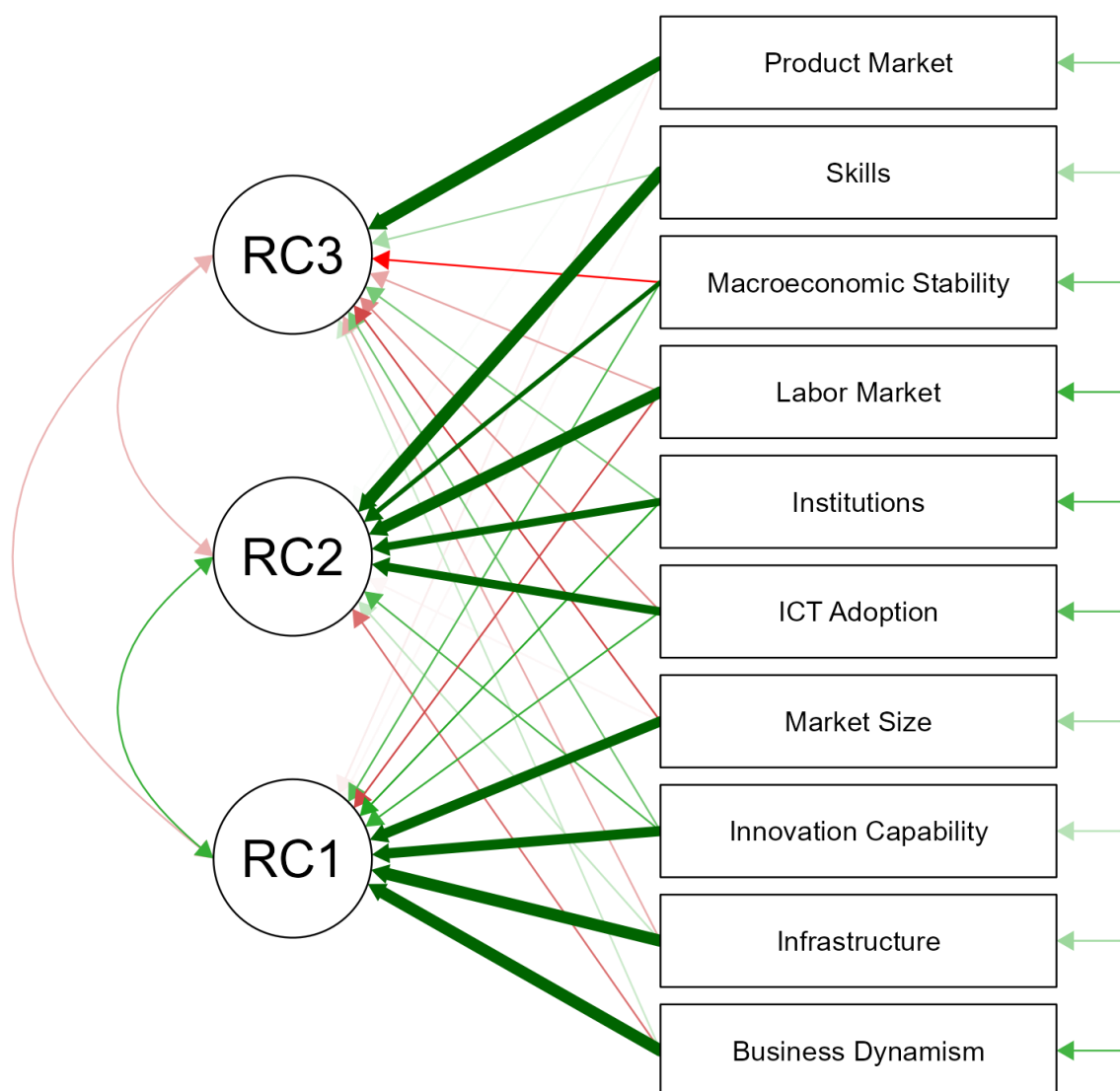


Figure 10.3. Visualization of the Oblimin Rotation Result Factor Network: Relationship Between Key Components and Regional Competitiveness Indicators

This visualization graphically (Figure 10.3.) represents the findings from the Component Loadings and Component Characteristics tables. Each arrow depicts the strength and direction of the relationship between the main component (the circle) and the original indicator (rectangle). Component 1 (RC1) - dark green - has a strong relationship with Business Dynamism, Infrastructure, Innovation Capability, and Market Size. It reflects the pillars of Dynamic Economy and Productive Infrastructure. This dimension emphasizes the importance of synergy between infrastructure and innovative capacity in creating a resilient economic ecosystem. Component 2 (RC2) - light green - is closely related to Skills, Labor Market, Institutions, and ICT Adoption, and has a weak negative correlation with Macroeconomic Stability. It forms the pillars of Human Resources Quality and Inclusive Governance. This dimension symbolizes Inclusive Governance and Human Capital Quality, emphasizing the importance of investing in human capacity and digital governance. Component 3 (RC3) - pink

– is dominated by the Product Market with very high loading, and has a moderate relationship with several other indicators. It symbolizes the pillars of Digital Transformation and a Competitive Market. This dimension reflects the Digital Transformation and Competitive Market, describing the role of an efficient market in supporting innovation and technological adaptation. In addition, the curved arrows between the circles indicate that these components are not independent of each other (as per the rotation of the oblimin), meaning that there is a correlation between dimensions—for example, RC1 and RC2 have a fairly strong positive correlation (green arrow), while RC2 and RC3 appear to have a weak negative correlation (red arrow). This perspective is consistent with the concept of smart regional systems, which emphasizes the interconnectedness between smart infrastructure, digital innovation, and urban system efficiency ⁹⁰⁸. These visual findings show that improvements in one dimension—e.g. market digitalization—can have a synergistic effect on the quality of human resources and innovation capacity. This phenomenon of interdependence is also in line with the interactive model of sustainable development put forward by ⁹⁰⁹, in which digital strategies and institutional innovation form a two-way relationship to systemic competitiveness. This confirms that regional competitiveness is a holistic phenomenon, where improvements in one pillar can influence or be strengthened by others. This visualization is an important tool for policy planners to understand how different aspects of development are interrelated, so that interventions can be designed in an integrative and sustainable manner.

10.3. Dynamic Economy and Productive Infrastructure

The results of the PCA conducted in this study succeeded in identifying three strategic dimensions that fundamentally form the foundation of regional competitiveness in the context of sustainable development. These dimensions represent the latent structure that underlies variations between competitiveness indicators, while providing a coherent interpretive framework for understanding regional competitive dynamics. The first pillar identified, namely Dynamic Economy and Productive Infrastructure, occupies the most dominant position in explaining the total variance of data, indicating that economic and infrastructural factors have the most significant contribution to differentiation in competitiveness levels between regions. The four indicators that make up these pillars—Business Dynamism, Infrastructure, Innovation Capability, and Market Size—consistently show high factor loading, confirming the validity of the construct and the reliability of the measurement in capturing the essence of the economic-productive dimension. The construction of this first pillar reflects the systemic interconnectivity between the various elements of economic growth that are adaptive and innovation-oriented. Business Dynamism represents the level of entrepreneurship, the speed of new business formation, and the ability of the business ecosystem to respond to changing market conditions. Infrastructure captures the quality and availability of physical and digital infrastructure that facilitates economic activities. Innovation Capability ⁹¹⁰ measures the transformative capacity of

⁹⁰⁸ Springer Nature, *Highway of the Future: Transforming Mobility and Road Infrastructure*.

⁹⁰⁹ Piccoli and Rodriguez, “Digital Strategic Initiatives: Conceptualization and Illustration.”

⁹¹⁰ Hällstrand, Reim, and Malmström, “Dynamic Capabilities in Environmental Entrepreneurship: A Framework for Commercializing Green Innovations.”

a region in generating, adopting, and commercializing new knowledge. Meanwhile, Market Size reflects the economies of scale and aggregate demand potential that influence investment decisions and the allocation of productive resources. The integration of these four elements forms an economic ecosystem that is not only able to generate output growth, but also has structural resilience in the face of external shocks and technological disruptions.

The Business Dynamism ⁹¹¹ component in the first pillar represents the vitality of the entrepreneurial ecosystem which is a catalyst for job creation, diversification of economic structures, and acceleration of market-based innovation. The concept of business dynamism encompasses various operational dimensions, ranging from the level of establishment of new companies (enterprise birth rate), business continuity (survival rate), to regulatory flexibility that allows efficient reallocation of resources between productive sectors. Regions with high Business Dynamism scores are generally characterized by a conducive supporting ecosystem, including access to financing, availability of skilled labor, mentoring and business incubation networks, and a pro-investment policy climate. The high loading factor of this indicator in the first pillar confirms that entrepreneurship is inseparable from the infrastructural and innovative context that surrounds it. These findings gain strong empirical support from the research of ⁹¹², which comprehensively reveal that national entrepreneurial dynamics are a result of the complex interaction between macroeconomic growth, government policy orientation, and the penetration of technological factors in production systems. Through a multi-level analytical approach, the study demonstrated that countries with stable economic growth tend to have higher levels of entrepreneurial activity, but the causal relationship is significantly mediated by the quality of governance and the availability of technological infrastructure. An important implication of these findings is that efforts to improve business dynamism cannot be done in isolation, but must be integrated with innovative capacity building and improvement of the quality of supporting infrastructure. Thus, the construction of the first pillar in this study—which places Business Dynamism along with Infrastructure and Innovation Capability in a single latent dimension—obtains solid theoretical and empirical justification. Furthermore, business dynamism is also closely related to the Schumpeterian concept of creative destruction, in which the process of a company's entry and exit from the market facilitates the reallocation of resources from less productive activities to sectors with higher marginal productivity. This mechanism not only increases allocative efficiency at the aggregate level, but also encourages competitive pressures that force existing companies to continue to innovate in order to maintain their market position. In the context of sustainable development, high business dynamism also opens up space for the emergence of green technology-based businesses and circular business models that can harmonize economic growth goals with environmental conservation imperatives. Therefore, strengthening the entrepreneurial ecosystem ⁹¹³ must be a strategic priority in the agenda to increase regional competitiveness.

⁹¹¹ Virglerova, Addeo, and Zapletalikova, "Business Dynamism in the World Economy."

⁹¹² Belas et al., "Exploring Gender-Based Disparities in the Digital Transformation and Sustainable Development of SMEs in V4 Countries."

⁹¹³ Yudawisastra et al., "The Role of Green Entrepreneurship and Green Variables in Sustainable Development in the Culinary Sector in Indonesia: Early Days of the COVID-19 Pandemic."

The Infrastructure component in the first pillar reflects the quality and availability of physical and digital infrastructure which is the backbone for the efficient running of economic activities. Infrastructure in the contemporary sense covers a wide spectrum, including transportation networks (highways, ports, airports, railways), basic utilities (electric energy, clean water, sanitation), telecommunications and digital connectivity (broadband, cellular networks, data centers), to social infrastructure such as education and health facilities. The quality of infrastructure directly affects transaction costs, the speed of distribution of goods and services, market accessibility, and the productivity of production factors. Regions with adequate infrastructure have a competitive advantage in attracting investment, developing industrial clusters, and integrating themselves into global value chains⁹¹⁴. The significance of infrastructure in shaping regional competitiveness is conclusively confirmed by the research of ⁹¹⁵, which analyzed the relationship between logistics performance and economic competitiveness in the countries of the Visegrád Group (Poland, Hungary, Czech Republic, and Slovakia). Using the logistics performance index as a proxy for the quality of distribution infrastructure, the study found a significant positive correlation between logistics efficiency and various indicators of economic competitiveness, including labor productivity, export value per capita, and foreign direct investment inflows. These findings confirm that investments in improving the quality of logistics infrastructure—including customs efficiency, quality of transportation infrastructure, ease of international shipment arrangements, logistics competence, shipment tracking capabilities, and timeliness of shipments—have a multiplier effect on aggregate economic performance. In the context of the Central European region undergoing an economic transition, infrastructure efficiency is a critical determinant for successful integration into the European single market and participation in global production networks. The interaction between physical and digital infrastructure creates a synergistic effect that strengthens competitiveness exponentially. Efficient transportation infrastructure enables the movement of goods and people at low cost, while digital infrastructure facilitates the coordination of geographically dispersed economic activities. The combination of the two enables the implementation of new business models such as e-commerce, distributed manufacturing, and platform-based services that rely on seamless integration between the physical and virtual worlds. In the context of sustainable development, infrastructure must also be designed with sustainability principles in mind, including energy efficiency, resilience to climate change, and minimization of environmental impacts. Thus, infrastructure investment not only contributes to short-term economic growth, but also builds the foundation for inter-generational well-being.

The Innovation Capability ⁹¹⁶component in the first pillar represents the transformative ability of a region in generating, adopting, and commercializing new knowledge to create economic value. Innovation capacity includes various interrelated dimensions, including research and development (R&D) intensity, the quality of research and higher education

⁹¹⁴ Mudau et al., “Neglected and Underutilised Crops: A Systematic Review of Their Potential as Food and Herbal Medicinal Crops in South Africa.”

⁹¹⁵ Scott-Joseph, “Warning No Entry, Debt Restructuring in Progress.”

⁹¹⁶ Belyamani et al., “Pathways Linking Green Digital Transformation to Sustainable Development through Knowledge Sharing and Dynamic Capabilities.”

institutions, the availability of venture capital and innovation financing, the strength of intellectual property rights protection, and the culture of technological entrepreneurship in society⁹¹⁷. From the perspective of endogenous growth theory, innovation is the main driver of increasing total factor productivity that allows for sustainable economic growth without experiencing diminishing returns on physical capital accumulation. Regions with high innovation capacity have the ability to continuously improve production efficiency, develop new products and services, and explore previously unaffordable markets. The relevance of innovation capacity in shaping regional competitiveness obtained empirical confirmation from the research of ⁹¹⁸, who developed a dynamic competitive risk model to analyze the interaction between infrastructure and innovation in the context of regional competitiveness. Using a sophisticated panel econometric approach, the study demonstrates that the combination of infrastructure quality and innovation intensity produces complementary effects that strengthen regional competitive positions more significantly than if the two factors operate separately. This mechanism of complementarity can be explained through several transmission lines: quality infrastructure facilitates the diffusion of knowledge and technology, while innovative capacity increases the added value of infrastructure investment through utilization optimization. These findings have important policy implications, namely that regional competitiveness enhancement strategies should adopt an integrated approach that simultaneously strengthens innovative infrastructure and capacity. An effective innovation ecosystem requires synergistic collaboration between various stakeholders, including universities and research institutions as knowledge generators, the private sector as commercialization actors, governments as facilitators and regulators, and civil society as users and feedback givers. The Triple Helix or even Quadruple Helix model involving all four actors has proven effective in facilitating the transfer of technology from the laboratory to the market. In the context of sustainable development, innovation capacity must also be directed to produce solutions to social and environmental challenges, not solely focus on maximizing profits. Social innovation and green innovation are important components in the innovative portfolio of regions that aspire to become leaders in the sustainable economy.

The Market Size component in the first pillar represents the economic scale and aggregate demand potential that influences investment decisions, production specialization, and the allocation of productive resources within a region⁹¹⁹. Market size is determined by a combination of population size, per capita income level, and accessibility to external markets through international and regional trade. Regions with large market sizes enjoy a variety of structural advantages, including economies of scale in production, a diversity of consumer preferences that drive product differentiation, a larger and specialized labor pool, and higher attractiveness for foreign investment seeking market access. In the framework of competitiveness, market size serves as an amplifier that magnifies the impact of other competitive factors. The relationship

⁹¹⁷ Choczyńska, Rani, and Tora, "Comparison of International Digitalisation Indexes: A Quantitative Analysis Perspective."

⁹¹⁸ Ganichev and Koshovets, "Rethinking Russian Digital Economy Development Under Sanctions."

⁹¹⁹ Leyva Ollivier, Newton, and Kelsey, "Assessment of the Chesapeake Bay Watershed Socio-Ecological System through the Circles of Coastal Sustainability Framework."

between market size and competitiveness can be understood through the mechanism of economic agglomeration that has been described in the new geographical economic literature. The concentration of economic activity ⁹²⁰ in areas with large markets results in positive externalities in the form of knowledge spillovers, labor market pooling, and input sharing that increase aggregate productivity. Companies located in industrial clusters have easier access to specialized suppliers, skilled labor, and tacit knowledge that are difficult to transfer over long geographical distances. This dynamics of agglomeration creates a positive feedback loop where market growth attracts more investment, which in turn enlarges the market size and strengthens the attractiveness of agglomeration. However, the agglomeration process can also produce negative impacts in the form of congestion, increased land and labor costs, and spatial inequality that requires policy interventions to mitigate them. In the context of globalization and regional economic integration, the size of the domestic market is no longer an absolute obstacle to competitiveness. Small regions can access global markets through participation in international value chains and free trade agreements that reduce tariff and non-tariff barriers. Nevertheless, the capacity to take advantage of external market access is highly dependent on the quality of connectivity infrastructure and innovative capacity to produce competitive products in the global market ⁹²¹. Thus, the other three components in the first pillar—Business Dynamism, Infrastructure, and Innovation Capability—serve as enablers that enable the region to maximize the potential of the available market size, both domestically and internationally.

The four components that make up the first pillar do not operate independently, but rather interact in mutually reinforcing relationships to produce holistic and sustainable regional competitiveness. Quality infrastructure facilitates business dynamism by reducing transaction costs and expanding market reach. Innovative capacity increases infrastructure productivity through optimization, utilization, and development of new technologies. The large market size provides incentives for investment in innovation and infrastructure through more promising return prospects. Business dynamism generates demand for infrastructure and innovation while contributing to the expansion of market size through job creation and increased revenue. This cyclical interaction creates a self-reinforcing economic ecosystem capable of generating sustainable growth. The research of ⁹²² provides an innovative methodological perspective in measuring the interaction between sustainability and national competitiveness. By developing the Deep Ranking Analysis by Power Eigenvectors (DRAPE) model, the study was able to identify the relative contribution of various factors to global competitiveness, while uncovering the interdependencies between these factors. The results of the analysis show that infrastructure and innovation occupy a central position in the network of competitiveness determinants, serving as hubs that connect various other factors and transmit their impact throughout the system. The implication of these findings is that targeted policy interventions on infrastructure and innovation have greater potential for systemic impacts than interventions on more peripheral

⁹²⁰ Leščinskij, Iurasova, and Šliogerienė, “THE IMPACT OF CREATIVITY AS A FACTOR OF ECONOMIC DEVELOPMENT ON GDP GROWTH IN EU COUNTRIES.”

⁹²¹ Haasis, Du, and Sun, “Logistics Challenges along the New Silk Roads.”

⁹²² Zheng et al., “Study on the Relationships between the Accumulation and Translocation of Dry Matter and Nitrogen and Flower/Pod Development into Seeds and Seed Yields in Chinese Milk Vetch.”

factors. The multiplier effect of investing in the components of the first pillar also has a temporal dimension that needs to be considered in development planning. Infrastructure investments generally have a long gestation period before producing a full economic impact, but once operational, the benefits can last for a very long period of time. Investment in innovative capacity has similar characteristics, where the development of a research and development ecosystem takes years before producing commercialize innovation outputs. In contrast, business dynamism can respond more quickly to changing conditions, but its sustainability depends heavily on the infrastructure and innovation foundations that have been built. Understanding these temporal dynamics is important for designing development strategies that optimize the allocation of resources between time and maximize the cumulative impact of public investment.

The identification of the pillars of Dynamic Economy⁹²³ and Productive Infrastructure as the dominant dimensions of regional competitiveness has significant policy implications for decision-makers at the national and subnational levels. First, competitiveness enhancement policies should adopt an integrated approach that simultaneously strengthens the four pillar components, avoiding the fragmentation of interventions that can reduce effectiveness due to the absence of complementarity. Second, the priority of resource allocation should take into account the initial conditions and comparative advantages of each region, given that the optimal development path may differ depending on the specific context. Third, the coordination mechanism between government agencies needs to be strengthened to ensure cross-sectoral policy coherence that affects various pillar components. In the context of sustainable development, strengthening the first pillar must be aligned with the principles of environmental sustainability and social inclusivity. Infrastructure investment needs to be directed towards low-carbon and climate-resilient technologies. Innovative capacity must be mobilized to produce solutions to environmental challenges such as waste management, energy efficiency, and climate change adaptation. Business dynamism needs to be facilitated in green economy sectors that have high growth potential as well as minimal environmental impact. Thus, the pillars of Dynamic Economy and Productive Infrastructure⁹²⁴ not only contribute to economic growth, but also become enablers for the transition to a more sustainable and equitable development model.

Empirical evidence accumulated from various cross-country and cross-regional studies shows that the sustainable competitiveness of regions is highly dependent on the ability of regions to integrate innovation, digitalization, and infrastructure efficiency into a dynamic economic framework. The pillars of Dynamic Economy and Productive Infrastructure, identified through the PCA analysis in this study, represent a synthesis of various determinant factors that are empirically proven to influence regional competitive positions. The four components that make up these pillars—Business Dynamism, Infrastructure, Innovation Capability, and Market Size—interact in a complementary relationship that results in a multiplier effect on aggregate economic performance. These findings not only strengthen theoretical understanding of regional competitiveness mechanisms, but also provide operational guidance for designing effective

⁹²³ Hassan et al., “Interconnection between the Role of Blockchain Technologies, Supply Chain Integration, and Circular Economy: A Case of Small and Medium-Sized Enterprises in Pakistan.”

⁹²⁴ Bo, “Digital New Quality Productive Forces: The Key Driver of High-Quality and Sustainable Growth in the Global Economy.”

development policies. In the face of increasingly intensive global disruption—whether stemming from technological change, geopolitical dynamics, or environmental crises—strengthening the first pillar is a strategic imperative for regions that aspire to maintain and improve their competitive position in the ever-changing global economic landscape.

10.4. Human Resource Quality and Inclusive Governance in a Sustainable Competitiveness Framework

The results of the PCA in this study identified the second pillar which is substantively different but complementary to the first pillar, namely the dimensions of Human Resource Quality and Inclusive Governance⁹²⁵. This pillar is formed from the convergence of three main indicators—Skills, Labor Market, and Institutions—which consistently show high factor loading in the second latent component. In contrast to the first pillar which emphasizes the material-infrastructural aspects and productive economic dynamics, this second pillar represents the human and institutional dimensions of regional competitiveness which are often intangible but have a fundamental impact on the sustainability of long-term development. The identification of this pillar emphasizes that regional competitiveness cannot be reduced solely to economic-technical parameters, but must be understood in the context of the socio-institutional ecosystem that encompasses and shapes the behavior of economic actors. The theoretical construction underlying this second pillar is rooted in the tradition of institutional economics and human capital theory that has developed since the mid-20th century. In the perspective of institutional economics, institutions—understood as a set of formal and informal rules that govern socio-economic interactions—are fundamental determinants of economic performance because they influence the structure of incentives, transaction costs, and resource allocation. Meanwhile, human capital theory emphasizes that investments in education, training, and skills development result in increased labor productivity that contributes to aggregate economic growth. The synthesis of these two traditions of thought in one analytical pillar reflects the understanding that human quality and institutional quality are mutually constitutive: effective institutions facilitate the development of human capital, while high-quality human capital is a prerequisite for the optimal functioning of institutions⁹²⁶. The close interconnectedness between Skills, Labor Market, and Institutions in a latent dimension also reflects the empirical reality that the three elements operate in mutually reinforcing systemic relationships. Labor skills determine productivity and competitiveness in the labor market. A well-functioning labor market facilitates an efficient matching between available skills and economic needs. Quality institutions provide a regulatory framework and incentives that encourage investment in skills development while ensuring flexibility and protection in the labor market. Failure in one element will have a negative impact that spreads to the other elements, creating a vicious cycle that hinders development. On the contrary, coordinated reinforcement of all three elements can produce virtuous cycles that accelerate economic-social transformation in a sustainable manner.

⁹²⁵ Moreno and Sulasula, “Administration of Local Economic Development: Case Study of the Zamboanga Peninsula Region, Philippines.”

⁹²⁶ Hadi et al., “Rural Development in Community Empowerment Through the Governance of Village-Owned Enterprises (BUMDes).”

The Skills component in the second pillar represents the quality and relevance of competencies possessed by a region's workforce in responding to the demands of the contemporary economy that is increasingly knowledge- and technology-based. The concept of skills in measuring competitiveness covers a wide spectrum, including basic cognitive skills (literacy, numeracy), technical-vocational skills specific to certain industry sectors, digital skills that are increasingly essential in the era of the platform economy, to social-emotional skills (soft skills) such as communication, collaboration, creative problem-solving, and adaptability. The high factor loading of the Skills indicator in the second pillar confirms that the quality of labor competencies is a critical determinant for regional competitiveness that cannot be substituted by material factors alone. In the context of ongoing technological transformation, the demands on the skills profile of the workforce are undergoing a significant and sustained shift. Automation and artificial intelligence are increasingly taking over routine and predictable tasks, both manual and cognitive, creating a premium on skills that are non-routine and difficult to automate. This phenomenon poses a serious challenge to education and training systems that have traditionally been designed to equip the workforce with specific skills that are stable throughout their careers. In an economic landscape characterized by technological volatility and rapid structural change, the ability to continuously learn and adapt becomes just as important—if not more important—than the mastery of specific skills at any given point in time. The formal education system⁹²⁷ needs to transform from a passive knowledge transmission model to a learning facilitation model that encourages independence, creativity, and critical thinking skills⁹²⁸. The curriculum should be designed with flexibility that allows adaptation to changing skills needs, avoiding rigidity that can result in a mismatch between educational output and the demands of the job market. Vocational training and lifelong learning systems are becoming increasingly crucial as a mechanism to update and upskill the active workforce. In this context, partnerships between educational institutions, the industrial sector, and the government are a prerequisite for the effectiveness of a skills development system that is responsive to economic dynamics.

The Labor Market component in the second pillar represents the effectiveness of a mechanism that brings together the supply and demand of labor in a region. A well-functioning labor market facilitates efficient matching between job seekers and employers, enables inter-sector and inter-regional labor mobility according to relative price signals, and provides flexible adjustment mechanisms to economic shocks⁹²⁹. Indicators commonly used to measure the quality of the labor market include labor force participation rates, unemployment and half-unemployment rates, average duration of unemployment, wage disparities based on gender and skills, flexibility in working hours, and the effectiveness of job placement services and employment social security. In the perspective of regional competitiveness⁹³⁰, an efficient and inclusive labor market contributes through several mechanisms. First, efficiency matching

⁹²⁷ Kurtsal et al., “Improving the Education and Training Policies of the Agri-Food and Forestry Sectors: Identifying New Strategies to Meet the Needs of the Sector and Farm-to-Fork Priorities.”

⁹²⁸ Mutohhari et al., “Difficulties in Implementing 21st Century Skills Competence in Vocational Education Learning.”

⁹²⁹ Shukeyev, Mendaliyeva, and Maulina, “Structural Economic Transformations in Kazakhstan: Historical Context, Contemporary Challenges, and Strategic Approaches.”

⁹³⁰ Milijić et al., “Demographic Trends and Regional Disparities in the EU.”

reduces search costs for workers and employers, accelerates vacancy fills and reduces frictional unemployment. Second, wage flexibility and labor mobility allow for the reallocation of human resources from contracted sectors to developing sectors, facilitating the structural transformation of the economy. Third, an adequate social security system provides a safety net that allows workers to take risks in the form of job relocation or business development, without the risk of falling into poverty. Fourth, labor market inclusivity—characterized by low discrimination based on gender, age, ethnicity, or disability status—maximizes the utilization of the productive potential of the entire working-age population. The dynamics of the labor market ⁹³¹ are also closely related to the issue of inequality and social cohesion which is a central concern in the sustainable development paradigm. A segmented labor market—where certain groups are trapped in low-quality jobs with limited mobility—not only generates economic inefficiencies, but also deepens social inequality that can threaten political stability and societal cohesion.

The Institutions component in the second pillar represents the quality of the governance framework that governs economic, political, and social interactions within a region. Institutions in the sense of political economy cover a wide spectrum, including formal rules (constitutions, laws, regulations, administrative procedures), informal rules (social norms, conventions, cultural values), and enforcement mechanisms that ensure compliance with these rules. Institutional quality is generally measured through indicators such as rule of law, government effectiveness, corruption control, regulatory quality, political stability, and accountability and public participation in the decision-making process. High-quality institutions are characterized by predictability, fairness, efficiency, and responsiveness to the needs of the community. The significance of institutions for regional competitiveness can be understood through several transmission mechanisms. First, institutions influence the incentive structures that shape the behavior of economic actors: institutions that protect property rights encourage long-term investment, institutions that enforce contracts facilitate complex transactions, and institutions that control corruption reduce transaction costs and improve the efficiency of resource allocation. Second, institutions determine the quality of public goods provided by the government, including infrastructure, education, health, and security, all of which affect economic productivity. Third, inclusive institutions—which provide equal participation opportunities for all citizens—maximize the utilization of the creative and productive potential of society, in contrast to extractive institutions that benefit narrow elites at the expense of the broader public interest. Fourth, adaptive institutions are able to respond to changes in external and internal conditions with timely policy updates, maintaining the relevance of governance in a dynamic environment. The participatory and inclusive dimension of institutions is gaining special emphasis in the context of sustainable development that requires a balance between economic growth, environmental sustainability, and social justice. ⁹³² in their systematic study of the economic integration of the Pacific region provide an empirical perspective on the role of participatory governance in building long-term economic resilience. The study shows that Pacific

⁹³¹ Phan and Buyanova, “Competitive Position of Vietnamese Regions: Analysis of Results of Provincial Competitiveness Index.”

⁹³² Wang et al., “Collaboration and Resource Sharing for the Multi-Depot Electric Vehicle Routing Problem with Time Windows and Dynamic Customer Demands.”

island nations that have managed to maintain economic resilience amid a range of external shocks—including commodity price volatility, climate change, and pandemics—are characterized by governance systems⁹³³ that provide meaningful participation spaces for local communities in development decision-making. Such participation not only increases the legitimacy of policies, but also enriches the input of information available to decision-makers with local knowledge that is not codified in formal data. Furthermore, participatory governance facilitates a more equitable distribution of development benefits, reduces social resistance to reform, and builds social capital which is an important asset for community resilience in the face of crises.

The three components that make up the second pillar do not operate in isolation, but rather form interconnected systems with various complex feedback loops. Understanding these systemic interconnections is essential for designing effective policy interventions and avoiding the pitfalls of partial reforms that fail to produce transformative impacts⁹³⁴. At the most fundamental level, institutions provide an incentive and regulatory framework that influences investment decisions in skills development by individuals, companies, and governments. Quality educational institutions, inclusive education financing policies, credible qualification standards, and protection of intellectual property rights are all institutional factors that affect the accumulation of human capital in a region. The relationship between institutions and the labor market is equally complex. Labor regulations determine the degree of flexibility and protection in employment relationships, influencing hiring and dismissal decisions by companies as well as job security for workers. The effectiveness of labor market intermediary institutions—such as job exchanges, vocational training institutions, and employment information systems—depends on the quality of government governance and administrative capacity⁹³⁵. The enforcement of anti-discrimination laws determines the level of inclusivity of the labor market for vulnerable groups. The social security system that includes unemployment insurance, pensions, and health insurance is a crucial institution that influences job-seeking behavior and inter-job mobility. Meanwhile, skills and the labor market interact in a dynamic supply-demand relationship. The availability of skilled labor in a region influences the company's location decisions, especially in knowledge-intensive sectors that rely heavily on the quality of human capital. In contrast, the structure of labor demand created by a region's economic base influences an individual's education and training choices, creating a feedback loop that can be either a virtuous cycle or a negative one. In a positive scenario, the presence of high-tech industries attracts and retains a skilled workforce, which in turn attracts more investment in similar sectors, creating a self-reinforcing innovation cluster. In a negative scenario, the dominance of sectors with low skill demands could result in under-investment in education, brain drain of skilled labor, and lock-in in economic structures with low productivity. Feedback loops also occur between the quality of human capital and the quality of institutions. An educated and skilled workforce is more likely to demand better governance, participate more actively in the political process, and be better

⁹³³ Kruhlov and Tereshchenko, "INNOVATIONS IN THE SYSTEM OF PUBLIC ADMINISTRATION."

⁹³⁴ Bunkar et al., "A Review on Levering Technology for Sustainable Development in Agricultural Extension Program."

⁹³⁵ Harbi et al., "Strategic Assistance for Strengthening the Capacity of Village-Owned Enterprises (BUMDes) in Musi Banyuasin District."

able to oversee government performance—all of which contribute to increased accountability and institutional effectiveness. Rather, quality institutions create an environment conducive to the development of human capital by providing quality public education, protecting incentives to invest in skills, and ensuring that merit not connections or corruption⁹³⁶ determines access to opportunity. Understanding this co-evolutionary dynamic between human capital and institutions is important to explain why some regions manage to get out of the development trap while others are trapped in a low equilibrium.

The identification of the pillars of Human Resources Quality⁹³⁷ and Inclusive Governance⁹³⁸ as a fundamental dimension of regional competitiveness has broad and profound policy implications for decision-makers at various levels of government. In contrast to investments in physical infrastructure that can be executed in a relatively short period of time, human capital development and institutional reform are long-term processes that require consistent political commitment, effective inter-agency coordination, and adaptive approaches that allow for evidence-based learning and correction. This complexity and long temporality demand a policy orientation that goes beyond the electoral cycle and prioritizes the sustainability of the program over short-term political interests. In the domain of skills development, policies need to be directed at several strategic priorities. First, strengthening the quality of primary and secondary education as a foundation for the accumulation of advanced skills⁹³⁹, with an emphasis on the development of literacy, numeracy, and critical thinking skills that are prerequisites for lifelong learning. Second, higher and vocational education reforms to increase relevance to the needs of the job market, including strengthening partnerships with the industrial sector, curriculum flexibility, and the development of competency-based learning models⁹⁴⁰. Third, the development of a lifelong learning ecosystem that allows the adult workforce to continuously update their skills, including through reskilling and upskilling programs that can be accessed flexibly⁹⁴¹. Fourth, the integration of digital literacy and 21st century skills into all levels of education to prepare the workforce for sustainable technological transformation⁹⁴².

In the domain of the labor market, policies need to strike the right balance between flexibility and protection—a challenge known in the literature as the concept of flexicurity. Flexibility is needed to facilitate rapid adjustment to changing economic and technological conditions, but safeguards remain essential to maintain the basic safety of workers and prevent a race to the bottom in labor standards. Key components of the flexicurity approach include: moderate employment protection regulations, a generative but activation-conditioned

⁹³⁶ Amin, Bamidele, and Abdullahi, “Public Administration Reform: An Impetus For Good Governance And Political Security In Nigeria.”

⁹³⁷ Ananda, Santoso, and Hernowo, “Supporting Factors for Javan Langur Rehabilitation Management (Trachypithecus Auratus E. Geoffroy, 1812) In Javan Langur Center Batu, East Java.”

⁹³⁸ Djatmiko, Sinaga, and Pawirosumarto, “Digital Transformation and Social Inclusion in Public Services: A Qualitative Analysis of E-Government Adoption for Marginalized Communities in Sustainable Governance.”

⁹³⁹ Crăciun et al., “Advanced Modelling of the Interplay between Public Governance and Digital Transformation: New Empirical Evidence from Structural Equation Modelling and Gaussian and Mixed-Markov Graphical Models.”

⁹⁴⁰ Utami, Sari, and Wiyono, “Value Co-Creation through Digital Technology and Business Relations: A Case Study in an Agribusiness Cooperative Company Islamic’ Education-Based.”

⁹⁴¹ Li, “Reskilling and Upskilling the Future-Ready Workforce for Industry 4.0 and Beyond.”

⁹⁴² Khabir et al., “A Strategic Pathway to Green Digital Shipping.”

unemployment insurance system, effective active labor market policies, and continued investment in skills development. In addition, labor market policies need to explicitly address inclusivity issues, including through the enforcement of anti-discrimination laws, affirmation programs for marginalized groups, and adjustments to work arrangements to accommodate special needs such as parenting responsibilities and disabilities. In the institutional domain, reforms need to be directed at increasing the effectiveness, transparency, and accountability of public governance. These efforts include strengthening bureaucratic capacity through the professionalization of state civil servants, simplifying administrative procedures to reduce regulatory burdens for economic actors, implementing digital technology to improve the efficiency and transparency of public services (e-governance), and strengthening anti-corruption and public integrity mechanisms. Equally important is the strengthening of the participatory dimension of governance, which includes the expansion of public consultation spaces in policy formulation, the decentralization of decision-making to a level closer to the community, and the empowerment of civil society organizations as partners in the development process. Participatory governance not only improves the quality of policy through richer inputs, but also builds public legitimacy and trust that are essential capital for the implementation of reforms that require short-term sacrifices for long-term benefits.

The pillars of Human Resources Quality and Inclusive Governance have a very high relevance to the sustainable development agenda as formulated in the Sustainable Development Goals (SDGs). Some of the SDGs goals are directly related to the components of these pillars: SDG 4 (Quality Education) targets universal access to quality education and lifelong learning; SDG 8 (Decent Work and Economic Growth) emphasizes the creation of productive and decent jobs for all; SDG 10 (Reducing Inequalities) targets reducing inequality within and between countries; SDG 16 (Peace, Justice, and Resilient Institutions) emphasizes building institutions that are effective, accountable, and inclusive⁹⁴³. Thus, strengthening the second pillar not only contributes to economic competitiveness, but also to the achievement of broader development goals. The relationship between the quality of human capital, inclusive governance, and environmental sustainability is also noteworthy. An educated workforce has a higher environmental awareness and is better able to adopt sustainable practices in professional and personal life. Effective institutions are a prerequisite for the enforcement of environmental regulations and the sustainable management of natural resources. Participatory governance allows the voices of local communities—often with deep knowledge of the local ecosystem—to be integrated into decision-making about environmental management. Thus, the second pillar functions as an enabler that facilitates the achievement of environmental sustainability goals that are an integral component of the sustainable development paradigm⁹⁴⁴. In the context of global and regional inequality, strengthening the second pillar also has an important dimension of justice. Regions that successfully develop quality human capital and effective institutions tend to enjoy higher economic growth and a more equitable distribution of income. In contrast, regions with human capital deficits and institutional weaknesses are trapped in a cycle of poverty and

⁹⁴³ United Nations, “Transforming Our World: The 2030 Agenda for Sustainable Development.”

⁹⁴⁴ Mousa, Fernandez-Crehuet, and Thaher, “Advancing Sustainable Performance in Healthcare: Mediating Roles of Green HRM and Green Innovation Under Green Transformational Leadership.”

inequality that is difficult to break without transformative interventions. Commitments to inclusive development demand special attention to disadvantaged regions and groups, with targeted investments to address structural barriers that hinder their access to quality education, decent work, and participation in governance. The principle of leave no one behind which is the spirit of the SDGs requires that the strengthening of the second pillar must be carried out with a perspective of justice that ensures that the benefits of development are enjoyed equally by all levels of society⁹⁴⁵.

Strengthening the pillars of Human Resources Quality and Inclusive Governance in the contemporary era faces various complex and interrelated challenges. The technological disruption triggered by artificial intelligence, automation, and digital platforms fundamentally changes the structure of skills demand and work organization, creating uncertainty regarding the types of competencies that will be relevant in the future. Demographic changes in the form of population aging in many developed countries and the explosion of young populations in some developing countries create different challenges in the management of labor markets and social security systems. Political polarization and the erosion of trust in institutions in different parts of the world threaten social cohesion and the collective capacity to address common problems. The COVID-19 pandemic has exposed the vulnerabilities of health, education, and social protection systems, while accelerating transformative trends such as digitalization and work flexibility. Facing these challenges, several development directions can be identified as strategic priorities going forward. First, massive investment in digital education and training to ensure that all segments of society have the basic competencies necessary to participate in an increasingly digitized economy⁹⁴⁶. Second, the development of a new model of social protection that is able to accommodate the reality of the increasingly flexible and non-standard world of work, including through mechanisms such as universal basic income or portable benefits that are not tied to a certain employment status⁹⁴⁷. Third, strengthening institutional capacity to adapt to rapid change, including through the development of a culture of policy experimentation, a responsive monitoring and evaluation system, and organizational learning mechanisms that allow for continuous correction and improvement⁹⁴⁸. Fourth, investment in building trust and social capital through strengthening dialogue spaces, governance transparency, and commitment to procedural justice in public decision-making⁹⁴⁹.

The pillars of Human Resources Quality and Inclusive Governance identified through the PCA analysis in this study represent the fundamental dimension of regional competitiveness that cannot be ignored in any development strategy that aspires to sustainability and inclusivity. The systemic linkage between Skills, Labor Market, and Institutions reflects the reality that human quality and institutional quality are mutually constitutive and must be developed simultaneously to produce transformative impact. Empirical evidence from various cross-country and cross-

⁹⁴⁵ Di Ruocco, "Supply Chain Resilience and Just Transitions in the Global South."

⁹⁴⁶ Chergui and Kechadi, "Data Analytics for Crop Management: A Big Data View."

⁹⁴⁷ Bokhari and Awuni, "Digital Inequalities in North Africa: Examining Employment and Socioeconomic Well-Being in Morocco and Tunisia."

⁹⁴⁸ Faishal Mahdy et al., "Evaluation of Sustainable Development Goals (SDGs) Indicators in Wantilan, Subang Regency, 2021."

⁹⁴⁹ Pirannejad and Ingrams, "Open Government Maturity Models: A Global Comparison."

regional studies consistently confirms that regions with high-quality human capital and effective institutions enjoy a sustained competitive advantage, while deficits in one or both of these dimensions constitute structural barriers to economic and social progress. This second pillar is not just a support or complement to the economic-material factors that are incorporated in the first pillar, but is the main foundation that determines the capacity of a region to make optimal use of its infrastructure potential and economic dynamism. Even the most sophisticated physical and digital infrastructure will not produce sustainable competitiveness without a skilled workforce capable of operating and developing it, without an efficient labor market in allocating talent to the most productive uses, and without institutions that provide incentives and regulatory frameworks conducive to long-term innovation and investment. Thus, strengthening the pillars of Human Resources Quality and Inclusive Governance should be a strategic priority that is equal—if not higher—with investment in physical infrastructure and economic sector development, in any regional competitiveness enhancement agenda oriented towards sustainable development and social justice.

10.5. Digital Transformation and a Competitive Market

The results of the PCA in this study succeeded in identifying the third pillar that complements the previous two pillars in shaping the regional competitiveness architecture holistically, namely the dimensions of Digital Transformation and Competitive Markets. This pillar is constructed from the convergence of two strategic indicators—ICT Adoption and Product Market—which consistently show high factor loading in the third latent component. In contrast to the first pillar which emphasizes the infrastructural-productive aspect and the second pillar which focuses on the human-institutional dimension, this third pillar represents technological readiness and the efficiency of market mechanisms as an enabler of economic transformation towards a knowledge-based paradigm and digital innovation. The identification of these pillars reflects the contemporary reality that a region's capacity to adopt, adapt, and make optimal use of digital technologies has become a critical determinant for competitive advantage in an increasingly digitized global economic landscape. The theoretical construction underlying this third pillar is rooted in the synthesis between diffusion of innovation theory, digital economics, and industrial organization theory. In the perspective of innovation diffusion developed ⁹⁵⁰, technology adoption is a social process influenced by the characteristics of the innovation itself, the channels of communication, time, and the social system in which the adoption takes place. The digital economy expands this understanding by analyzing how information and communication technologies are transforming the structures of production, consumption, and exchange in the contemporary economy. Meanwhile, industrial organization theory provides a framework for understanding how market structures—including levels of competition, barriers to entry, product differentiation, and regulation—affect firm behavior and aggregate economic performance. The synthesis of these three theoretical perspectives in one analytical pillar reflects the understanding that digital transformation and competitive market dynamics are mutually reinforcing in driving innovation and productivity.

⁹⁵⁰ Everett M. Rogers, *Diffusion of Innovations*.

The close interconnectedness between ICT Adoption and Product Market in a latent dimension also reflects a complex two-way causality relationship. On the one hand, the adoption of information and communication technologies facilitates the creation of more efficient markets through the reduction of information asymmetry, the reduction of transaction costs, the expansion of geographical reach, and the intensification of competition. On the other hand, a competitive market creates pressure and incentives for companies to adopt the latest technology as a strategy to maintain and improve their competitive position. This co-evolution dynamic results in a positive strengthening cycle in which digitalization and market competition push each other in accelerating economic transformation. Understanding this systemic interaction is important for designing policies that optimize the synergy between the digital transformation agenda and the market reform agenda in achieving sustainable regional competitiveness. The ICT Adoption component in the third pillar represents the level of penetration, intensity of utilization, and sophistication of the use of information and communication technology in economic and social activities of a region. The concept of ICT adoption covers a wide spectrum, including telecommunication infrastructure (fixed and mobile broadband networks, 4G/5G coverage), ownership and use of digital devices by individuals and households, the use of digital technology by the business sector (e-commerce, cloud computing, big data analytics), digitalization of government services (e-government), and the digital literacy⁹⁵¹ and skills of the population. The high factor loading of ICT Adoption indicators in the third pillar confirms that digital technology readiness has become a fundamental component of competitiveness that determines the region's ability to participate effectively in the global economy of the 21st century⁹⁵². The significance of ICT adoption for regional competitiveness can be understood through various transmission mechanisms that have been identified in the digital economy literature. First, digital technology increases productivity through process automation, optimization of resource allocation, and acceleration of information flow that allows for faster and more accurate decision-making. Second, ICT facilitates innovation by expanding access to knowledge, enabling remote collaboration, and providing a platform for the development of new digital-based products and services. Third, the adoption of digital technologies expands market access by connecting local producers with global consumers, reducing geographical barriers, and enabling participation in global value chains. Fourth, digitalization improves the transparency and efficiency of economic transactions, reduces intermediation costs, and strengthens trust in economic exchange. These four mechanisms cumulatively contribute to the improvement of the aggregate competitiveness of a region in an increasingly digitalized economic landscape.

The concept of technological readiness is a multidimensional construct that goes beyond just the possession or access to technology, but includes the systemic capacity to integrate, utilize, and develop technology in support of development goals. Technology readiness involves the infrastructure dimension (availability of networks and devices), the capability dimension (skills and competencies to operate technology), the institutional dimension (supporting regulations,

⁹⁵¹ Mutohhari et al., "Difficulties in Implementing 21st Century Skills Competence in Vocational Education Learning."

⁹⁵² Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

standards, and policies), and the ecosystem dimension (collaboration networks, innovation financing, and technology entrepreneurial culture). Regions with a high level of technological readiness have the capacity not only to adopt technologies developed elsewhere, but also to adapt those technologies according to the local context and even contribute to the development of new technologies through indigenous innovations.⁹⁵³ in his analysis of European industrial policy provides a strategic perspective on the position of technological readiness in the competitiveness policy architecture. The study confirms that technological readiness is a crucial component that determines the success of digital transformation and reindustrialization efforts in Europe. In the context of global competition with major economies such as the United States and China aggressively developing strategic technological capabilities, Europe needs to build technological readiness that enables digital sovereignty and competitive advantage in key technologies of the future. An important finding of this study is that the success of digital transformation depends heavily on the synergy between three elements: adequate technological infrastructure, an education system that produces digital talent, and innovation policies that encourage the development and commercialization of new technologies. The absence of synergy between these three elements will result in bottlenecks that hinder the realization of the full potential of digital investment. The relationship between technological readiness and economic resilience is of particular concern in the context of increasing global uncertainty.⁹⁵⁴ in their research show that technological innovation plays a key role in maintaining sustainable competitiveness, increasing resilience to global economic crises, and accelerating the transition to a digital-based green economy. Through an analysis of countries' responses to economic shocks, including the COVID-19 pandemic and the energy crisis, the study found that regions with high levels of technological innovation showed faster recovery capabilities and more flexible adaptation to new conditions. The mechanisms that explain this relationship include the ability to pivot businesses quickly, the adoption of remote work models, the diversification of supply chains through digital platforms, and the development of innovative solutions to emerging challenges. Furthermore, the study also identifies that technological innovation is a critical enabler for the transition to a low-carbon economy, with digital technologies facilitating energy efficiency, smart renewable energy, and a circular economy⁹⁵⁵. Technology readiness also has an inclusiveness dimension that should not be ignored from the perspective of sustainable development. The digital divide—whether between countries, between regions within countries, or between social groups—can deepen economic inequality if not addressed proactively. Regions or groups that are lagging behind in technology adoption are at risk of being excluded from the new economic opportunities created in the digital economy, while more developed regions or groups enjoy the cumulative benefits of early adoption. Therefore, technology readiness policies must be designed with equal access in mind, including investment in digital infrastructure in remote and

⁹⁵³ Nelson, "Municipal Management: Seeking a Theoretical Perspective on Form of Government and Performance."

⁹⁵⁴ Carvalho et al., "Predictors of Digital Competence of Public University Employees and the Impact on Innovative Work Behavior."

⁹⁵⁵ Jones et al., "Country-Level and Gridded Estimates of Wastewater Production, Collection, Treatment and Reuse."

underdeveloped areas, digital literacy programs for underserved groups, and financing schemes that enable small and medium-sized enterprises to participate in digital transformation.

The Product Market component in the third pillar represents the quality and efficiency of market mechanisms in allocating resources, encouraging competition, and facilitating innovation in the economy of a region. A competitive and well-functioning product market is characterized by several key characteristics: low barriers to entry and exit for companies, intensity of competition that encourages efficiency and innovation, transparency of information that reduces asymmetry between producers and consumers, regulation that is proportionate and does not impose an undue burden, and adequate consumer protection without hindering market dynamics. Indicators commonly used to measure the market quality of products include the level of industry concentration, the time and cost to start a business, the burden of regulation, the effectiveness of competition policies, and the degree of distortion caused by taxes and subsidies. The significance of the competitive product market for regional competitiveness can be understood through several well-established economic mechanisms in the literature. First, competition creates pressure for companies to improve operational efficiency, reduce production costs, and optimize resource utilization⁹⁵⁶. Companies that are unable to compete will be knocked out of the market, freeing up resources to be allocated to more productive uses—a process known as creative destruction in the Schumpeterian tradition. Second, a competitive market encourages innovation as companies strive to gain a competitive advantage through new product development, process improvement, or the creation of innovative business models⁹⁵⁷. Third, competition benefits consumers through lower prices, higher quality, and a wider variety of products, which in turn improves people's well-being and purchasing power⁹⁵⁸. Fourth, an open and competitive market attracts investment, both domestic and foreign, as it offers better opportunities for growth and profits. The relationship between market structure and technology adoption is bidirectional and mutually reinforcing. On the one hand, digital technology transforms the market structure by creating opportunities for new business models⁹⁵⁹ (platform economy, sharing economy, subscription economy), lowering barriers to entry for new entrants, expanding the geographic reach of the market, and intensifying competition through price transparency and ease of comparison. E-commerce platforms, for example, allow small businesses to compete with large corporations in reaching global consumers, while cloud computing and software-as-a-service technologies democratize access to advanced technology capabilities previously only available to large companies with substantial IT budgets. On the other hand, a competitive market creates a strong incentive for technology adoption because companies that fail to leverage technology to improve efficiency and better serve consumers will fall behind more innovative competitors. This co-evolutionary dynamic explains why ICT Adoption and Product Market are incorporated into one latent pillar in PCA analysis. However, digital transformation

⁹⁵⁶ Huang, Xue, and Huang, "Rural Resilience Evaluation and Risk Governance in the Middle Reaches of the Heihe River, Northwest China: An Empirical Analysis from Ganzhou District, a Typical Irrigated Agricultural Area."

⁹⁵⁷ van Kranenburg and Witjes, "Sharing Different Perspectives on Organizing the Dutch Energy Transition."

⁹⁵⁸ Xia, Liu, and Peng, "Research on the Innovative Development of China's Comprehensive Transportation System."

⁹⁵⁹ Ricci, "Integrated Approaches to Ecosystem Services: Linking Culture, Circular Economy and Environment through the Re-Use of Open Spaces and Buildings in Europe."

also creates new challenges for competition policies and market regulations. The platform economy is characterized by strong network effects, where the value of the platform increases exponentially with the increase in the number of users, creating a tendency towards market concentration and dominant positions by a few major players. The winner-takes-all or winner-takes-most phenomenon seen in various sectors of the digital economy—from search engines to e-commerce, from ride-hailing services to social media—raises questions about the long-term implications for competition and innovation. The scale and scope advantages enjoyed by incumbent platforms can create significant barriers to entry for newcomers, potentially reducing the competitive dynamism that is a prerequisite for sustainable innovation. Therefore, competition policy needs to adapt to the realities of the digital economy, developing new instruments and approaches to maintain competitive dynamics in an increasingly digitized market.

The interaction between ICT adoption and competitive product market dynamics produces synergistic effects that reinforce their respective impacts on productivity and aggregate competitiveness. Digitalization increases the effectiveness of market competition by expanding consumer choice, increasing price and quality transparency, and facilitating comparisons between products and between sellers. More informed consumers can make more optimal purchasing decisions, creating pressure for manufacturers to offer a better value proposition. Conversely, the high intensity of competition accelerates the diffusion of technology because companies that do not adopt the latest technology risk losing market share to more innovative competitors. This mutual reinforcement dynamic creates a virtuous cycle that drives continuous productivity improvements⁹⁶⁰. Empirical evidence regarding this synergistic effect has been accumulated from a wide range of cross-country and cross-sectoral studies. Econometric research shows that the impact of ICT investment on productivity is greater in countries with more competitive product markets and more flexible regulations. In contrast, the liberalization of the product market results in a more significant increase in productivity when combined with a high rate of ICT adoption⁹⁶¹. These findings have important policy implications: productivity improvement strategies must adopt an integrated approach that simultaneously drives digital transformation and market reform, avoiding one-dimensional, one-dimensional approaches. The synergy between digitalization and market competition also facilitates the structural transformation of the economy towards sectors with higher productivity and added value. Digital technology⁹⁶² lowers barriers to entry into sectors that previously required large capital investments, enabling the growth of the knowledge-based services sector, creative economy, and high-tech industries. A competitive market facilitates the allocation of resources towards these sectors according to price signals that reflect relative economic value. The process of structural transformation mediated by digitalization and market competition has resulted in an upgrading

⁹⁶⁰ Ashok et al., “How to Counter Organisational Inertia to Enable Knowledge Management Practices Adoption in Public Sector Organisations.”

⁹⁶¹ Shkalenko and Kozlova, “A New Concept of Techno-Economic Institutions within Institutional Economics: Integrating Technologies and Institutional Frameworks.”

⁹⁶² Mgoduka, Kaseeram, and Heeralal, “An Investigation on The Extent of Usage and Challenges Faced by Tourism SMEs Concerning E-Marketing: Empowering Co-Creation of Value.”

of the region's position in the global value chain, from low-value-added activities to more knowledge-intensive and innovation-driven activities. In the context of the green economy and the sustainability transition, the synergy between digitalization and market competition opens up opportunities for more environmentally friendly growth. Digital technology enables higher resource efficiency through process optimization, predictive maintenance, and a data-driven circular economy. A competitive market ⁹⁶³ creates incentives for innovation in clean technology and sustainable business models, as increasingly environmentally conscious consumers create a demand for environmentally friendly products and services. Digital platforms also facilitate a sharing economy that reduces the need for ownership and maximizes asset utilization, contributing to the reduction of the environmental footprint. Thus, the third pillar not only contributes to economic competitiveness, but also to environmental sustainability goals that are integral components of the sustainable development paradigm.

The relationship between ICT adoption and competitive market dynamics shows that digital transformation has dimensions that go beyond just improving economic efficiency. Digitalization also serves as a catalyst for social and economic integration that extends participation in productive activities to groups that were previously marginalized or experienced barriers to access. Digital technologies democratize access to information, markets, financial services, education, and economic opportunities, creating the potential for more inclusive development. However, the realization of this inclusive potential does not happen automatically, but rather requires deliberative policy design to ensure that the benefits of digital transformation are evenly distributed. Digital inclusivity encompasses several dimensions that need to be considered in policy. First, access inclusivity is related to the availability of digital infrastructure and affordability of connectivity costs for all levels of society, including people in remote areas and low-income groups⁹⁶⁴. Second, inclusivity of use is related to the ability of people to utilize digital technology productively, which requires digital literacy and relevant skills⁹⁶⁵. Third, benefit inclusivity relates to the distribution of economic benefits generated by digital transformation, ensuring that digital-based growth does not deepen inequality but rather creates opportunities for socio-economic mobility⁹⁶⁶. Fourth, inclusivity of participation is related to the representation and voice of various community groups in the decision-making process regarding digital technology governance⁹⁶⁷.

In the context of the labor market, digital transformation creates opportunities as well as challenges for inclusivity. On the one hand, digital platforms open up opportunities for workers to offer their services to global markets, regardless of geographic location, background, or institutional affiliation. The gig economy and platform-based freelancing allow for flexibility that can benefit certain groups such as women with caregiving responsibilities, people with disabilities, or residents in areas with limited formal employment opportunities. On the other

⁹⁶³ Teece, Pisano, and Shuen, "Dynamic Capabilities and Strategic Management."

⁹⁶⁴ Zhao et al., "ICT Usage Increases Workforce Geographical Diversity."

⁹⁶⁵ Dimitrijević, "Technological Progress in the Function of Productivity and Sustainability of Agriculture: The Case of Innovative Countries and the Republic of Serbia."

⁹⁶⁶ Dragomir-Constantin, Beldiman, and Zlati, "Informational Approaches in Modelling Social and Economic Relations: Study on Migration and Access to Services in the European Union."

⁹⁶⁷ Perdana, "Upgrading and Global Value Chain 4.0: The Case of Palm Oil Sector in Indonesia."

hand, platform work is often characterized by uncertainty, the absence of social protection, and the asymmetry of power between workers and platforms, raising concerns regarding the quality of work and the fairness of the distribution of value created. Therefore, policies need to strike a balance between encouraging innovation and the flexibility made possible by the platform economy by ensuring basic protections for workers and a fairer distribution of benefits. A competitive product market also has an inclusivity dimension related to the access of small and medium enterprises (SMEs) and informal economic actors to market opportunities⁹⁶⁸. High barriers to entry, burdensome regulations, and unfair competition practices can exclude small economic actors from full participation in economic activities. Digital technology, when combined with inclusive market policies, can be an equalizer that allows SMEs to compete with large corporations. E-commerce platforms provide access to a wide range of markets without requiring large investments in distribution infrastructure. Fintech expands access to financing for businesses that are not served by traditional banking. Cloud computing and software-as-a-service democratize access to advanced technology capabilities. However, the use of these opportunities requires supporting policies that include increasing the digital literacy of SMEs, facilitating technology adoption, and platform regulations that ensure fairness for small sellers.

Identifying the pillars of Digital Transformation and Competitive Markets^{969 970} as fundamental dimensions of regional competitiveness results in strategic and operational policy implications for decision-makers. In contrast to the previous pillars that have characteristics of long-term development, this third pillar is characterized by very rapid change dynamics, which demand high responsiveness and adaptability of the policy system. Digital technologies are evolving at a pace that surpasses the ability of traditional regulators to keep up, while market structures can change fundamentally in a short period of time due to technological disruption. Therefore, the policy approach to the third pillar should prioritize flexibility, experimentation, and continuous learning. In the domain of digital transformation, several policy priorities can be identified. First, accelerating the development of digital infrastructure, especially high-speed broadband networks and 4G/5G mobile network coverage that covers all regions, including remote and underdeveloped areas⁹⁷¹. This infrastructure investment must be combined with policies that ensure affordability of connectivity rates for all levels of society. Second, strengthening the digital innovation ecosystem through support for technology startups, digital business incubators and accelerators, as well as technology transfer programs from research institutions to the commercial sector⁹⁷². Third, the massive development of digital capabilities, including basic digital literacy for the entire population, advanced digital skills for the workforce, and specialist competencies for technology professionals⁹⁷³. Fourth, the development of a

⁹⁶⁸ Teece, Pisano, and Shuen, "Dynamic Capabilities and Strategic Management."

⁹⁶⁹ Suryono, Budi, and Purwandari, "Challenges and Trends of Financial Technology (Fintech): A Systematic Literature Review."

⁹⁷⁰ Önsel et al., "A New Perspective on the Competitiveness of Nations."

⁹⁷¹ Mongi, "The Context Relevance of ICT, Freshwater Management Activity and Sustainability Goal: A Proposed Encapsulated Conceptual Framework."

⁹⁷² Rizki and Hendarman, "Empowering Financial and Digital Literacy to Build Resilience of MSMEs: Proposed Implementation in Bandung City."

⁹⁷³ Mutohhari et al., "Difficulties in Implementing 21st Century Skills Competence in Vocational Education Learning."

regulatory framework that is conducive to digital innovation while protecting the public interest, including personal data protection, cybersecurity, and interoperability standards⁹⁷⁴.

In the domain of the product market, policies need to be directed at the creation of a healthy and dynamic competitive environment. First, strengthening institutions and enforcing business competition policies to prevent monopolistic practices, cartels, and abuse of dominant positions that hinder innovation and harm consumers. In the context of the digital economy, this includes building capacity to oversee and regulate dominant platforms as well as addressing anti-competitive practices specific to the platform economy such as self-preferencing and tying. Second, deregulation and simplification of procedures to reduce barriers to entry for new businesses, including accelerating the process of establishing a business, reducing the burden of licensing, and eliminating regulations that are no longer relevant or effective. Third, sectoral regulatory reforms to accommodate new business models made possible by digital technologies, avoiding regulatory approaches that win over incumbents by inhibiting innovative entrants. Fourth, strengthening consumer protection in the digital context, including information transparency, dispute resolution mechanisms, and protection against exploitative practices. Coordination between the two policy domains is crucial given the close relationship between digitalization and market dynamics. The digital transformation agenda⁹⁷⁵ must be integrated with the market reform agenda to ensure policy synergy and avoid inconsistencies that can create barriers. For example, investment in digital infrastructure must be accompanied by regulatory reforms that allow new business models to take advantage of that infrastructure. Digital capability development programs must be aligned with the needs of the increasingly digitized labor market. Competition policies must be updated to address the specific challenges of the digital economy. This coordination requires institutional mechanisms that facilitate cross-sectoral dialogue and integrated decision-making in an increasingly complex policy ecosystem.

The Digital Transformation and Competitive Markets pillar complements the previous two pillars—Dynamic Economy and Productive Infrastructure and Human Resources Quality and Inclusive Governance—in shaping a holistic and integrated regional competitiveness architecture. The three pillars are not separate and independent dimensions, but are interrelated in a complementary relationship that strengthens their respective impacts. Understanding these complementary relationships is important for designing coherent and effective competitiveness improvement strategies. The relationship between the third pillar and the first pillar can be seen from several perspectives. Productive infrastructure, especially digital infrastructure, is a prerequisite for ICT adoption which is the main component of the third pillar. Without adequate broadband networks, reliable mobile connectivity, and available data centers, digital transformation cannot take place effectively. On the other hand, intensive ICT adoption increases productivity and infrastructure efficiency through operational optimization, predictive maintenance, and smart management. The business dynamism covered by the first pillar is also closely related to the market dynamics in the third pillar: high entrepreneurship encourages competition and innovation in the market, while a competitive market provides opportunities

⁹⁷⁴ Cevik, “Prometheus Unbound: What Makes Fintech Grow?”

⁹⁷⁵ Dağistan et al., “Sustainability of Smart Ports: A Systematic Literature Review.”

for new ventures to enter and grow. The innovation capacity in the first pillar finds concrete applications in digital transformation which is the substance of the third pillar.

The relationship between the third pillar and the second pillar is equally close. The quality of human resources, particularly digital skills and adaptability, determines the capacity to adopt and utilize technology productively. Without a competent workforce in the digital domain, investment in technology will not result in optimal productivity. Instead, digital transformation creates new opportunities and challenges for human resource development, requiring education and training systems to continuously adapt to evolving needs. A quality institution, which is covered by the second pillar, provides a regulatory and governance framework that determines the quality of the business environment and the product market. Proportionate regulation and effective law enforcement facilitate healthy competition and protect innovation. Inclusive governance ensures that digital transformation benefits all levels of society, not just the tech elite. Inter-pillar complementarity implies that an effective competitiveness enhancement strategy must adopt a holistic approach that simultaneously strengthens all three dimensions. Strengthening one pillar without paying attention to the other pillars will result in suboptimal impacts due to the lack of synergy and potential bottlenecks from weak dimensions. For example, large investments in digital infrastructure will not result in significant economic transformation if they are not accompanied by the development of human resource capabilities to leverage technology and institutional reforms that create a conducive business environment. Similarly, product market reform will not produce the expected dynamism without adequate infrastructure and competent human capital to compete. An integrated approach that balances all three pillars is a prerequisite for achieving sustainable regional competitiveness.

The pillars of Digital Transformation and Competitive Markets identified through the PCA analysis in this study represent the dimensions of technological readiness and the efficiency of market mechanisms which are critical determinants of regional competitiveness in the era of digital knowledge-based and innovation-based economy. The systemic linkage between ICT Adoption and the Product Market reflects the reality that digitalization and market dynamics are mutually reinforcing in driving productivity, innovation, and economic transformation. Empirical evidence from various cross-country and cross-regional studies consistently confirms that regions that successfully integrate digital technologies into economic activities and maintain market competitive dynamics enjoy advantages in growth, resilience, and adaptability to change. This third pillar complements the previous two pillars in forming a comprehensive and integrated regional competitiveness framework. Together, the three pillars create a balance between economic growth driven by business dynamism and productive infrastructure, social justice guaranteed by human resource quality and inclusive governance, and technological innovation facilitated by digital transformation and competitive markets. This balance is the essence of the sustainable development paradigm that requires harmonization between economic, social, and environmental goals. In the face of contemporary challenges—including continued technological disruption, the transition to a green economy, and geopolitical uncertainty—strengthening the third pillar is a strategic imperative for aspiring regions to maintain and enhance their competitive position in the ever-changing global economic

landscape. Digital transformation is no longer an option, but a necessity, and a competitive market is an arena where the success of such transformation will be tested and proven.

These findings provide strategic guidance for regional development policy planning. First, development interventions do not need to be carried out in a dispersed manner, but can be focused on three main axes: (1) improving infrastructure and business climate, (2) improving the quality of education, job training, and bureaucratic reform, and (3) accelerating digital transformation and product market deregulation. Second, policies must be integrated across sectors, because competitiveness is not determined by a single indicator, but by synergy between dimensions. Third, although Macroeconomic Stability and financial aspects do not form separate components in this analysis, they are still important as enablers—so they still need to be monitored and managed on a macro basis. Finally, because these analyses are exploratory and contextual, the results can serve as a basis for building a simpler, valid, and easily monitored regional competitiveness index, which is aligned with the principles of sustainable development: a growing economy, an inclusive society, and an equitable technology.

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CHAPTER 11

POLICY STRATEGY BASED ON REGIONAL COMPETITIVENESS PILLAR FROM META-ANALYSIS RESULTS

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Increasing regional competitiveness is a strategic agenda in sustainable economic development. Through a meta-analysis approach, various empirical findings from a number of studies can be combined to obtain a more comprehensive picture of the determinants of competitiveness, especially pillars such as institutions and infrastructure that have proven to have a significant influence. The results of this analysis provide a scientific basis for the formulation of policy strategies that are more targeted, based on evidence and consistency of research results. Thus, regional development policies can be directed more effectively to strengthen the main pillars that underpin increased productivity and regional competitiveness.

11.1. The Theoretical Foundations of Regional Competitiveness

Regional competitiveness is a multidimensional concept that is firmly rooted in regional economic theory and institutional economics. In the framework of regional economies, competitiveness reflects a region's ability to optimize its resources—both human, physical, and institutional—to achieve sustainable levels of productivity. This approach not only highlights comparative advantage, but also emphasizes on creating a competitive advantage through innovation, investment, and market efficiency. In the institutional context, the theory of new institutional economics argues that the success of the regional economy is highly dependent on governance structure, legal stability, and bureaucratic capacity to support economic activities. Therefore, the interaction between economic and institutional dimensions is a key point in explaining why some regions are able to grow faster than others. Within the framework of the Global Competitiveness Index (GCI) developed by the World Economic Forum, regional competitiveness is built through a combination of various pillars such as institutions, infrastructure, macroeconomic stability, health, skills, labor markets, financial systems, and innovation. These pillars interact with each other to form a productivity ecosystem that determines the region's capacity to create added value and attract long-term investment. Each pillar does not stand alone, but has a reciprocal strengthening effect; For example, good infrastructure improves logistics efficiency and encourages industrial investment, while strong institutions guarantee legal certainty and increase market confidence. Thus, competitiveness is not just an accumulation of economic factors, but the result of an interrelated system between public policies, institutional capacity, and regional innovation dynamics.

The quality of good governance is the main foundation of the effectiveness of economic development. ⁹⁷⁶ emphasized that multilevel institutional governance, which includes

⁹⁷⁶ Abulata, "Institutional Governance Priorities to Foster Exports in Egypt."

coordination between central and local governments has a strategic role in improving export competitiveness and the efficiency of national economic policies. In this context, institutions are not just administrative tools, but coordinating mechanisms that ensure the integration of fiscal policies, public investment, and regional innovation. When coordination between levels of government runs optimally, bureaucratic obstacles can be reduced and policy synergy between regions increases, thereby creating a more competitive economic climate. Within a regional framework, ⁹⁷⁷ found that rapid economic growth is often accompanied by increased spatial inequality, as is the case in Kazakhstan and several Central Asian countries. This phenomenon shows that macroeconomic success does not always guarantee equitable distribution of benefits between regions. Therefore, strengthening institutional and infrastructure pillars is an important instrument to maintain the balance of development, prevent growth concentration in certain regions, and expand economic opportunities to peripheral areas. High spatial inequality can lead to negative multiplier effects, including excessive population migration and long-term decline in regional productivity.

The research of ⁹⁷⁸ provides an empirical illustration of how institutional heritage plays an important role in determining regional competitiveness in Europe. Their study shows that regions with historically strong governance and high adaptive capacity are able to withstand the impact of the global financial crisis, as happened in some parts of Eastern Europe and Southern Italy. This shows that competitiveness is not only formed from current economic conditions, but is also the result of accumulated historical experience in building institutional and social capacity. When institutional structures are able to adapt to global economic changes, the region has a higher resilience to external shocks. From the perspective of innovation and industrialization, ⁹⁷⁹ emphasize the importance of the neo-industrialization paradigm that focuses on the development of high-tech-based entrepreneurship and export capacity building. This approach not only enhances the competitiveness of national industries, but also strengthens regional innovation networks through technology transfer and the formation of start-up ecosystems. Regions with good institutional support and adequate digital infrastructure tend to adapt more quickly to changes in industry 4.0, thus attracting high value-added investment and expanding the local economic base. In line with that, ⁹⁸⁰ emphasized that global indices such as the Global Innovation Index and the Global Talent Competitiveness Index play an important role in mapping the innovation capabilities, talent mobility, and digital readiness of a region. These indices are a strategic instrument for local governments to assess their relative position at the global level and design innovation capacity building policies. In the era of the digital economy, factors such as connectivity, workforce skills, and the adoption of information technology are integral parts of

⁹⁷⁷ Rodríguez-Pose, Bartalucci, and Rau, "One Kazakhstan, Multiple Nations: On a Growing Regional Divide amidst Economic Dynamism."

⁹⁷⁸ De Vivo and Rinaldi, "Reacting to the 2008 Crisis: Competitiveness Performances of Southern Italy and CEE Regions."

⁹⁷⁹ Ilyash, Semchenko, and Sachenko, "STRATEGIC GOALS AND QUALITATIVE PROGRESS INDICATORS OF THE PROCESS OF NEO-INDUSTRIALISATION OF THE MANUFACTURING INDUSTRY IN UKRAINE."

⁹⁸⁰ Zelisko, "Globalization Determinants of Telecommunications Enterprises Innovative Activities."

competitiveness that cannot be ignored. Thus, regional competitiveness is now transforming from mere cost efficiency to orientation on innovation and adaptive resilience.

Furthermore, ⁹⁸¹ introduced the concept of resilience potential as a new approach in assessing the socio-economic resilience of a region. They emphasized that the ability of regions to maintain economic and social stability in the midst of a global crisis is an important component of modern competitiveness. Resilience means not only the ability to survive, but also the capacity to transform adaptively to structural changes, such as digitalization, energy transition, and climate change. Thus, institutional and social resilience is a complementary dimension in explaining the variation in competitiveness between regions. In the context of regional development, regional competitiveness is greatly influenced by disparities between regions in institutional capacity, infrastructure, and adaptive ability to global economic changes. ⁹⁸² show that rapid economic growth in Kazakhstan is accompanied by increased spatial inequality due to the concentration of investment in urban centers, emphasizing the importance of regional development equity. These findings are reinforced by ⁹⁸³, who through an analysis of data panels on Eastern European countries showed that institutional qualities—such as governance effectiveness and corruption control—play an important role in accelerating economic convergence between regions. Furthermore, research by ⁹⁸⁴ emphasizes the importance of community-based local innovation strategies (hromadas) to improve the socio-economic resilience of the region. This innovation-based strategy is considered to be able to bridge the structural gap between regions by strengthening endogenous potential. In the perspective of digitalization, ⁹⁸⁵ developed the Kazakhstan Digital Readiness Index which uncovered significant disparities between regions in digital readiness, showing that technological infrastructure and digital policies are playing a new role as a new driver in improving regional competitiveness. This view is expanded by ⁹⁸⁶, who affirm the need for reform of education policies and institutional infrastructure in Nepal to reduce spatial disparities and strengthen human resource-based competitiveness.

In an era of globalization and rapid structural change, modern competitiveness can no longer be understood narrowly as production efficiency or cost superiority alone. The new paradigm in regional economies and sustainable development places competitiveness as a function of adaptability to global changes, including green transition and digital transformation. The two created a new conceptual framework known as the twin transition—a synergy between technological innovation and environmental sustainability that is the main engine of future

⁹⁸¹ MYKOLA, VIKTORIIA, and OLEKSANDR, “Assessment and Ways to Improve the Resilience of Ukrainian Society.”

⁹⁸² Rodríguez-Pose, Bartalucci, and Rau, “One Kazakhstan, Multiple Nations: On a Growing Regional Divide amidst Economic Dynamism.”

⁹⁸³ Li, “Regional Economic Development in Central and Eastern Europe: A Comparative Analysis of Convergence Trends and Institutional Drivers.”

⁹⁸⁴ Velychko, Troian, and Viatkin, “FORMATION OF INNOVATIVE DEVELOPMENT STRATEGY OF HROMADAS IN THE CONTEXT OF REGIONAL SOCIO-ECONOMIC SYSTEMS.”

⁹⁸⁵ Tsakalerou et al., “Tailoring Digital Transformation: A Customized DESI Framework for Economic and Societal Growth.”

⁹⁸⁶ Pokharel, Upadhyaya, and Sharma, “Bridging Gaps and Building Futures of Policy and Practices: The Shift Towards Research-Driven University Education in Nepal.”

economic growth. In this context,⁹⁸⁷ introduced the Regional Climate Change Competitiveness Index that combines economic, social, and environmental dimensions to measure regional preparedness to face the impacts of climate change. The index highlights the importance of integrated environmental governance in regional economic development strategies. By incorporating climate adaptation factors into the competitiveness assessment, the study shows that environmental policy is not only a moral responsibility, but also a strategic instrument in strengthening long-term economic resilience. This integration ensures that regional development not only pursues growth, but also creates resilience to ecological and social shocks.

In a broader dimension,⁹⁸⁸ highlight the role of international image and innovative capacity in determining national competitiveness in the era of the Industrial Revolution 4.0. According to them, a country's global reputation and adaptability to new technologies, such as artificial intelligence and supply chain digitalization, are strategic assets in creating sustainable competitiveness. Countries and regions that successfully manage their innovative reputations are able to attract investment, expand market access, and increase legitimacy in global forums. Therefore, competitiveness is not only built from material factors such as infrastructure or labor, but also from symbolic capacity – i.e. a global perception of the quality and commitment of a region to sustainability and innovation. The concept of twin transitions expands this understanding by emphasizing the close relationship between digital transformation and the green transition as the two main pillars of future economic development.⁹⁸⁹ affirm that organizations and regions that are able to integrate these two transformations will achieve long-term competitive advantage. Their study shows that digitalization acts as an enabler for sustainability – enabling energy efficiency, better resource management, and low-carbon production systems. Instead, sustainability orientation provides strategic direction for digital innovation to contribute directly to social and environmental goals. Thus, the synergy between digital transformation and sustainability is shaping a new growth model that is inclusive, adaptive and future-oriented.

As a concrete example,⁹⁹⁰ through a study on sustainable innovation systems in Finland, shows that strengthening green industrial policies, natural resource management, and efficient land use contribute significantly to increasing locally-based competitiveness. Finland has successfully integrated environmental innovation with regional development policies, creating a system that is not only economically efficient but also aligned with ecological capacity. The results of this study confirm that contextual sustainable development strategies – tailored to the potential of local resources and institutional structures – have a greater impact on long-term competitiveness than a uniform approach based on national policies. In the heavy industry sector, the integration between digitalization and green policies is also showing significant results.

⁹⁸⁷ Karman, Miszczuk, and Bronisz, “Regional Climate Change Competitiveness—Modelling Approach.”

⁹⁸⁸ Illiashenko, Shypulina, and Illiashenko, “The Impact of Ukraine’s International Image on the Prospects of Its Post-War Innovative Development.”

⁹⁸⁹ Tabares, Parida, and Chirumalla, “Twin Transition in Industrial Organizations: Conceptualization, Implementation Framework, and Research Agenda.”

⁹⁹⁰ Koskivaara, “Innovation Systems for Sustainability: Insights from Wood Construction Businesses and Land Use Planning in Finland.”

⁹⁹¹ highlight the efforts of the European steel industry in adopting digital technologies to improve energy efficiency, reduce carbon emissions, and meet EU climate targets. This transformation not only improves production efficiency, but also creates a collaborative model between industry, government, and research institutions to accelerate low-carbon technological innovation. The case of the European steel industry is an important illustration of how strict environmental regulation can serve as a driver of innovation, not a barrier, when balanced with adequate institutional support and technological incentives.

A cross-sectoral collaborative approach is a key element in strengthening sustainable innovation. ⁹⁹² explain that the triple helix model, which connects government, industry, and academia, plays an important role in accelerating the process of industrial digitalization towards sustainability. Through this collaboration, research and development capacity can be synergized with market needs and public policies, creating a more dynamic innovation ecosystem. The triple helix also strengthens the social learning process and intersectoral technology, thereby accelerating the diffusion of green innovation in various sectors of the economy. Thus, this collaborative model is an important foundation for strengthening regional competitiveness in the era of global transition. Furthermore, the social dimension of sustainable competitiveness is no less important. ⁹⁹³ affirm that sustainable leadership and green strategic management at the micro, small and medium enterprises (MSMEs) level in Europe have a major influence on regional competitiveness. Their research shows that green policies adopted by MSMEs not only impact operational efficiency, but also improve business reputation and strengthen relationships with local communities. Thus, social sustainability—through environmental responsibility, workforce inclusion, and community participation—becomes an integral dimension of adaptive and equitable regional competitiveness. These studies affirm that modern competitiveness is multidimensional and long-term oriented. Factors such as technological innovation, environmental sustainability, and smart governance are shaping a new ecosystem for resilient regional development. Regions that are able to manage the interaction between these pillars will be strategically positioned in the face of global challenges such as climate change, digital disruption, and economic uncertainty. Therefore, future development policies need to be directed at strengthening regional adaptive capacity, investment in green and digital infrastructure, and institutional reforms that encourage cross-sectoral collaboration. Modern competitiveness is no longer just a matter of economic productivity, but also a reflection of the collective ability of a region to transform sustainably, maintaining a balance between efficiency, social justice, and environmental sustainability. This paradigm marks a shift towards a more resilient, inclusive, and highly competitive regional development model amid the global challenges of the 21st century.

The logical framework in Figure 11.1 illustrates the systematic conceptual relationship between theoretical foundations, empirical evidence, the role of moderator variables, and policy directions in strengthening regional competitiveness. This structure is designed to explain how

⁹⁹¹ Branca et al., “The Impact of the New Technologies and the EU Climate Objectives on the Steel Industry.”

⁹⁹² Couñago-Blanco et al., “Collaboration as an Enabler for Digital Transformation: The Helix Paradigm.”

⁹⁹³ Wojtaszek et al., “Documenting the Transition: Sustainable Strategic Management and Leadership in European SMEs—A Comparative Analysis of Policy and Industry Reports.”

the process of competitive and sustainable regional development depends not only on direct economic factors, but also on institutional strength, infrastructure, and evidence-based policy design. Conceptually, this framework connects three main layers of competitiveness development, namely (1) the theoretical dimension as the conceptual foundation, (2) the empirical dimension as the basis for proof, and (3) the policy dimension as the space for the application and implementation of research results. Thus, this framework serves as a systemic guide to understanding how evidence-based interventions can result in inclusive, adaptive, and highly competitive regional development policies.

The theoretical foundation section becomes the starting point in the flow of this logical framework. The three main concepts underlying regional competitiveness thinking are regional economic theory, institutional economics, and the Global Competitiveness Index (GCI). Regional economic theory provides a basis for explaining differences in performance between regions through spatial factors, agglomeration, and resource distribution. Meanwhile, institutional economics emphasizes that the effectiveness of economic systems is not only determined by the market, but also by formal rules, social norms, and institutional governance that influence economic behavior and investment. In the context of GCI, pillars such as institutions, infrastructure, skills, and innovation capability are interconnected to form a complex competitiveness ecosystem. These three approaches provide a strong conceptual framework for understanding that regional competitiveness is multidimensional, encompassing structural (infrastructure), social (institutional), and dynamic (innovation) aspects. From this theoretical basis, the framework flows to empirical analysis (meta-analysis) which serves as a systematic test of the relationships between variables described by the theory. Through meta-analysis, various results of previous research were integrated to obtain the size of the pooled effect and identify the variables that had the most influence on regional competitiveness. The results showed that institutions ($\beta = 1.337$, $p = 0.022$) and infrastructure ($\beta = 0.781$, $p = 0.014$) had a significant and positive influence on the aggregate effect size. This indicates that the stronger the institutional capacity and the better the quality of the infrastructure, the greater the impact on increasing regional competitiveness. The significant regression coefficient also confirms the role of these two variables as the main determinant as well as a moderator that strengthens the relationship between other economic factors—such as innovation, productivity, and sustainable growth.

These empirical findings form the basis for the role of the moderator variables, which explain the strategic functions of institutions and infrastructure within the framework of regional development. As a moderator, these variables not only directly affect the results, but also change the direction and strength of the relationship between other variables in the regional economic system. For example, effective institutions strengthen the influence of investment on economic growth by providing legal certainty, strengthening ownership rights, and reducing transaction costs. Good infrastructure, on the other hand, expands access to markets, increases labor mobility, and accelerates the diffusion of innovation. The combination of these two factors creates a conducive development environment, where the interaction between innovation and productivity can develop more quickly. Thus, the role of institutional and infrastructure moderators bridges theory and policy, ensuring that empirical results do not stop at statistical

proof, but are transformed into strategic recommendations for development policies. Furthermore, the logical framework flow moves towards policy direction and strategy, which emphasizes the importance of implementing evidence-based policies in the context of regional development. The empirical evidence obtained through meta-analysis becomes the foundation for designing more effective, efficient, and contextual policies. The proposed policy strategy includes three main priorities: (1) strengthening local institutional capacity, (2) investing in green and digital infrastructure, and (3) implementing inclusive and adaptive smart governance. Strengthening institutional capacity aims to improve the quality of governance, transparency, and public accountability, which in turn increases the effectiveness of economic policy implementation. Investment in green and digital infrastructure is a driver of structural transformation towards a low-carbon economy and based on technological innovation. Meanwhile, smart governance enables public policies to respond to global changes quickly and data-driven, while ensuring community participation in the development process.

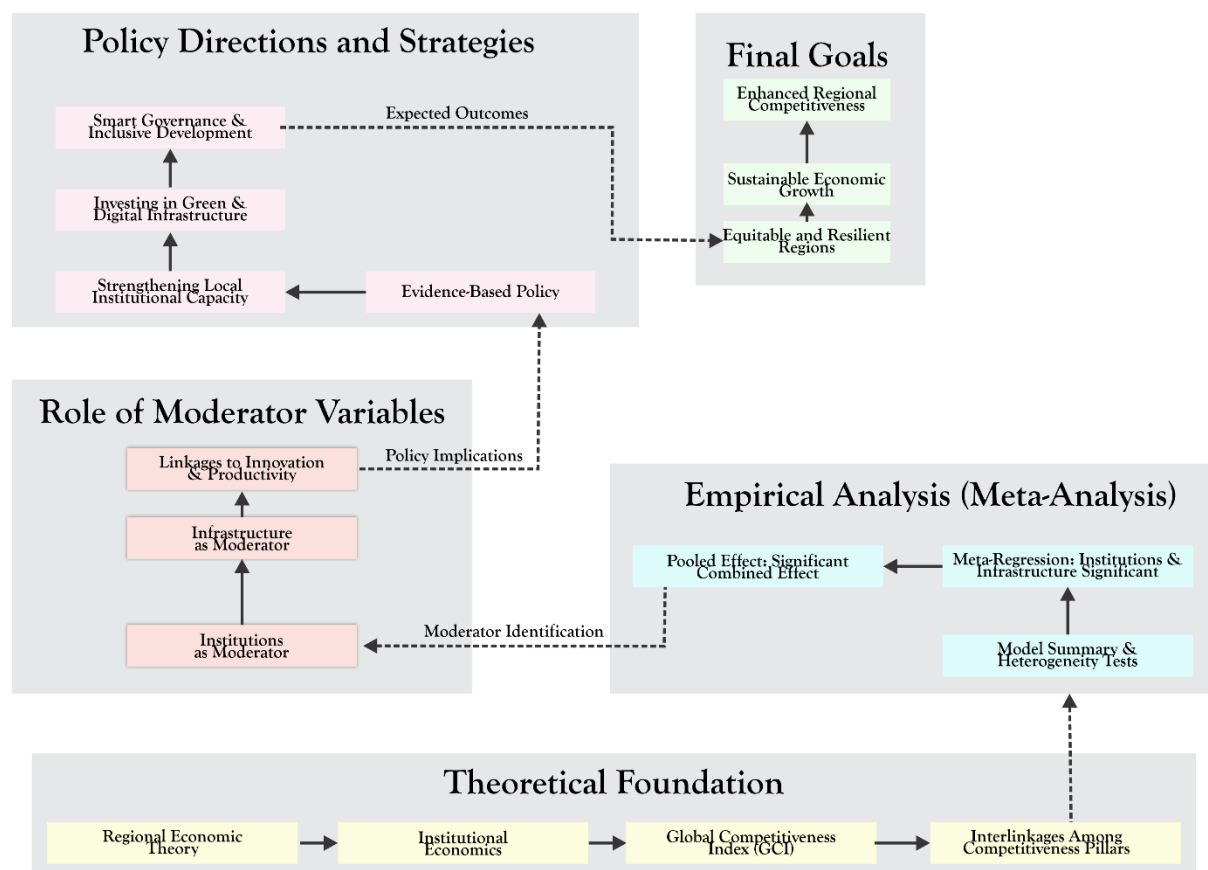


Figure 11.1. Logical Framework of Regional Competitiveness through Institutional and Infrastructure Strengthening

This integration of theory, empirical analysis, and policy direction reflects a new paradigm in evidence-based and sustainability-oriented regional development planning. The logical framework also shows that there is dynamic feedback between empirical and policy outcomes: the results of the meta-analysis not only validate the theory, but also provide concrete direction for public policy improvement; Instead, the policies implemented can generate new empirical

data that enrich subsequent theories and analyses. This knowledge cycle supports the creation of a sustainable learning region development model, where public policies continue to be refined based on the latest scientific evidence. At the level of final goals, the logical framework of Figure 11.1 places the development of a fair, resilient, and highly competitive region as the main goal. This goal is achieved through three tiered goals: (1) the establishment of equitable and resilient regions, (2) the achievement of sustainable economic growth, and (3) the improvement of overall regional competitiveness. All three goals are a logical consequence of policy strategies designed based on empirical evidence and supported by strong theoretical foundations. This logical framework is not just a visualization tool, but also a conceptual map of knowledge-based regional development. He showed how theory can be operationalized in empirical research, how research results can be transformed into policies, and how these policies ultimately create a real impact on people's welfare. By integrating the pillars of institutions, infrastructure, innovation, and evidence-based policies, the framework provides a strategic direction for regional development that is not only globally competitive, but also inclusive, resilient, and sustainable in the long term.

11.2. Empirical Analysis of the Pillars of Competitiveness Based on Meta-Analysis

This sub-chapter discusses the empirical results of meta-regression analysis that examines the influence of various regional competitiveness pillars on the aggregate effect size between studies. Based on the theoretical foundation of regional competitiveness, as described in the framework of the *Global Competitiveness Index (GCI)*, pillars such as institutions, infrastructure, macroeconomic stability, and efficiency factors have a fundamental role in shaping regional productivity and competitiveness. Institutional economic theory emphasizes that the quality of governance and institutional effectiveness determine the efficiency of resource allocation and the stability of economic policies, while endogenous growth theory explains that physical and institutional infrastructure are driving factors for long-term innovation and investment. Therefore, the empirical analysis in this section aims to test the extent to which these dimensions, especially *institutions* and *infrastructure*, contribute significantly to regional competitiveness as reflected in the results of meta-analysis and meta-regression.

Table 11.1. Meta-Analytic Tests

Indicators	Test	p
Residual heterogeneity	$Q_e(27) = 0.95$	1.00E+00
Pooled effect	$t(27) = 36.28$	1.90E-24
Moderation	$F_m(10, 27) = 2.44$	3.19E-02

The results of the heterogeneity test (Table 11.1.) showed a value of $Q_e(27) = 0.95$ with $p = 1,000$, which means that there was no residual heterogeneity between studies. Thus, the fixed-effect model is sufficient to describe the data. The pooled effect showed very significant results ($t(27) = 36.28$, $p = 1.904e-24$), indicating that overall, the combined effects of all studies differed significantly from zero. The moderation test ($F_m(10, 27) = 2.44$, $p = 0.032$) was also significant,

suggesting that there was a significant moderation effect of several moderator variables on effect size. These findings are in line with the study of ⁹⁹⁴, which found that the quality of governance and institutional capacity reinforce the influence of investment on regional productivity in Eastern Europe. ⁹⁹⁵ also show that economic infrastructure has a strong mediating effect on the innovation activities of companies. ⁹⁹⁶ emphasize that effective regional integration can only occur when institutional and cross-border infrastructure support is aligned. Meanwhile, ⁹⁹⁷ emphasized that national economic competitiveness depends on the quality of institutions that are able to maximize the positive effects of foreign direct investment. Similar findings were presented by ⁹⁹⁸, which highlighted the importance of coordinated policies between regions in optimizing capital and labor flows to improve regional welfare.

Table 11.2. Meta-Analytic Estimates

Indicators	Estimate	95% CI		95% PI	
		Lower	Upper	Lower	Upper
Pooled effect	2.979	2.811	3.148	2.811	3.148
τ	0	0	0		
τ^2	0	0	0		

The pooled effect showed a weighted average value of 2,979 with a 95% confidence interval between 2,811–3,148 (Table 11.2.). The tau (τ) and tau-squared (τ^2) values are equal to zero, which again indicates the absence of variability between studies or significant heterogeneity. The prediction interval was also identical to the confidence interval, reinforcing that the effects between studies were very consistent. Findings in various empirical studies show that institutions and infrastructure are fundamental pillars in strengthening the relationship between investment, innovation, and regional economic growth. In this context, the results of the research of ⁹⁹⁹ show that institutional quality has a central role in determining the success of foreign direct investment (FDI) flows in the ASEAN region. The study used a dynamic panel model approach with ASEAN cross-country data over the past two decades, and found that new FDI has a positive impact on economic growth when balanced with institutional effectiveness—such as property rights protection, bureaucratic efficiency, and legal certainty. These results suggest that foreign investment does not automatically generate growth, but rather relies on the institutional context that underpins the effectiveness of resource allocation and macroeconomic stability. Within the framework of regional development, these findings confirm that strong institutions play a role

⁹⁹⁴ Davidescu et al., “The Role of EU Cohesion Funds in Romanian Labour Productivity: Insights from Machine Learning and Econometric Modelling.”

⁹⁹⁵ SADENOVA et al., “Structural Equation Modeling (SEM) in Jamovi: An Example of Analyzing the Impact of Factors on the Innovation Activity of Enterprises.”

⁹⁹⁶ Arena et al., “Interregional Trade Estimation as a Case for Economic Integration.”

⁹⁹⁷ Lanchimba and Ndione, “<scp>FDI</Scp> and Performance: A Comparative Analysis Between Emerging and Developed Economies.”

⁹⁹⁸ Ionescu, Zlati, and Antohi, “THE NEED OF A NEW MANAGEMENT REGARDING THE CONTRADICTIONARY EAST-WEST EUROPEAN CAPITAL AND LABOUR FLOWS. A REGIONAL WELFARE APPROACH.”

⁹⁹⁹ Nguyen and Ho, “Growth Effect of Foreign Direct Investment in Asean Economies: Does Institutional Quality Matter?”

as moderators that ensure the benefits of globalization and investment can be evenly distributed between regions.

In parallel, ¹⁰⁰⁰ deepen the analysis by examining the relationship between FDI and economic growth in recipient countries based on levels of governance. Through a spatial econometric analysis approach, their research revealed that FDI's positive impact on growth only appears in countries with high governance quality, including transparency, bureaucratic effectiveness, and political stability. In contrast, in countries with weak governance, FDI tends to simply create an economic enclave separate from the local economy without a significant multiplier effect. In the regional context, it underscores the importance of building inclusive and adaptive regional institutions to ensure that investment not only increases aggregate growth, but also expands economic opportunities and innovation at the local level. Effective institutions not only regulate, but also encourage cross-sectoral collaboration—between government, business, and civil society—in supporting sustainable development ecosystems. Meanwhile, the infrastructure dimension is a complementary factor that is no less important. ¹⁰⁰¹ found that the development of public infrastructure—both physical and digital—plays a significant role in accelerating economic growth in EU countries. However, they emphasized that these positive effects can only be maximized when accompanied by the effectiveness of public governance. The study identifies an interactive relationship between infrastructure investment and the quality of governance, where good infrastructure increases the productivity of the region, while good governance ensures the sustainability of investment and the maintenance of public assets. Thus, the combination of the two creates a virtuous cycle between economic efficiency and development justice. In the context of regional competitiveness, these results confirm that development strategies that focus only on physical development without paying attention to institutional capacity risk creating structural inequality and reducing the effectiveness of public policies. ¹⁰⁰² expand this perspective by highlighting the role of human capital and digital infrastructure as factors that strengthen the relationship between innovation and economic growth in the BRICS countries (Brazil, Russia, India, China, and South Africa). Through the structural equation modeling model, they show that digital transformation is not only an instrument of efficiency, but also a medium for strengthening sustainable innovation. Digital infrastructure—such as high-speed internet connectivity and information technology access—enhances the ability of regions to harness technological innovations, accelerate the diffusion of knowledge, and expand the high-skill-based labor market. When this infrastructure is combined with investment in the development of quality human resources, its synergistic effect can result in inclusive and productivity-oriented economic growth. The results of this study reinforce the argument that the efficiency of the modern economy is highly dependent on the interaction between technology, education, and institutions, so competitiveness improvement strategies must be designed in an integrative framework. From the perspective of cross-regional economic

¹⁰⁰⁰ Ross and Fleming, “The Impact of Chinese Foreign Direct Investment on Host Country Economic Growth.”

¹⁰⁰¹ Maciulyte-Sniukiene and Butkus, “Does Infrastructure Development Contribute to EU Countries’ Economic Growth?”

¹⁰⁰² Zhu and Paul, “Opening the Black Box of Digital Development and Growth Asymmetries: The Roles of Human Capital and Supply Chain Logistics in <sc>BRICS</Sc> Economies.”

sustainability,¹⁰⁰³ show that institutional quality and market size have a shared role in improving the sustainability of the energy sector and economic growth in Europe. Through a cross-sectional time-series analysis, they found that countries with stable institutional systems and large energy markets are better able to attract green investment and accelerate the transition to a low-carbon economy. Credible institutions create regulatory certainty and encourage innovation in renewable energy policy, while the broad scale of the market provides room for the efficient adoption of new technologies. This combination of good governance and market capacity serves as the foundation of green competitiveness, which is a new form of competitiveness that balances economic efficiency and environmental responsibility. These findings reinforce the view that institutional reforms and green industrialization strategies are key elements for regions that want to transition to a sustainable economy without losing their global competitiveness.

In the context of the MENA region,¹⁰⁰⁴ provide additional perspectives on the importance of global economic integration through trade and FDI as a driver of regional competitiveness. The results of their study show that trade openness and foreign direct investment flows have a positive and consistent influence on economic growth, with a stronger effect on countries with stable institutional systems. Global economic integration drives increased productivity through technology transfer, export diversification, and improved labor market efficiency. However, the study also confirms that without adequate institutional reforms, the benefits of globalization can be exclusive and deepen inequality between regions. Therefore, inclusive and transparent institutions are the main prerequisites for sustainable economic integration. All of these findings show a consistent pattern: institutions and infrastructure are not only factors of production, but also regulators of the dynamics of relationships between key economic variables. Good institutions ensure stability, legal certainty, and bureaucratic efficiency; while adequate infrastructure provides physical and digital means for economic mobility and innovation. The combination of the two creates synergies that strengthen regional competitiveness both in the context of global integration and domestic development. Conceptually, this relationship can be understood within the framework of the theory of new institutional economics and regional competitiveness, which places institutional and infrastructure quality as key variables in explaining variations in economic performance between regions. The empirical results outlined underscore the importance of an evidence-based and systemically oriented policy approach, where institutional reform and infrastructure investment must go hand in hand. In the context of regional development, such strategies not only accelerate economic growth, but also enhance social and environmental resilience, creating a foundation for long-term competitiveness that is resilient to global shocks and structural changes in the world economy.

Meta-regression analysis showed that of the ten moderator variables tested, only two had a significant effect on effect size, namely Institutions ($F = 5,877$, $p = 0.022$) and Infrastructure ($F = 6,850$, $p = 0.014$) (Table 11.2.). Meanwhile, other variables such as ICT Adoption, Macroeconomic Stability, Health, Skills, Product Market, Labor Market, Financial System, and

¹⁰⁰³ Alsaleh and Abdul-Rahim, "The Impacts of Intellectual Capital, Market Size, and Intellectual Property Factors in Geothermal Power Exploration."

¹⁰⁰⁴ Oussama et al., "Do Trade Openness and FDI Drive Economic Growth in MENA Countries? Insights from A Panel ARDL Approach."

Market Size did not show a significant influence (all $p > 0.05$). This means that the quality of institutions and infrastructure has the strongest contribution in explaining the variation in effects between studies. From a theoretical perspective, the significant role of institutions and infrastructure can be explained through the approach of new institutional economics theory and endogenous growth theory. According to the institutional theory developed by ¹⁰⁰⁵ institutions function as rules of the game that govern economic and social interactions in a region. An effective institution creates incentives for productive investment, protects property rights, enforces contracts, and lowers transaction costs. Within this framework, meta-regression findings suggest that regions with better institutional quality tend to have higher measures of competitiveness effects because the existence of efficient governance strengthens the relationship between factors of production (such as capital, labor, and technology) and regional economic output. In other words, institutions play a role as moderators that strengthen the effectiveness of key economic factors to increase competitiveness.

Table 11.3. Effect Size Meta-Regression Terms Tests

Variables	F	df ₁	df ₂	p
Institutions	5.877	1	27	2.23E-02
Infrastructure	6.85	1	27	1.44E-02
ICT Adoption	0.8	1	27	3.79E-01
Macroeconomic Stability	0.408	1	27	5.28E-01
Health	0.036	1	27	8.51E-01
Skills	1.97	1	27	1.72E-01
Product Market	2.374	1	27	1.35E-01
Labor Market	0.934	1	27	3.42E-01
Financial System	0.523	1	27	4.76E-01
Market Size	0.731	1	27	4.00E-01

Meanwhile, the role of infrastructure as a moderator variable reflects the relevance of infrastructure-led growth theory, which emphasizes that the availability of transportation, energy, and communication networks ¹⁰⁰⁶ serves as a lever for productivity and market integration. Adequate infrastructure facilitates the mobility of goods and services, expands access to markets, and facilitates the spread of innovation. In the context of meta-regression, the significance of infrastructure variables shows that variations between studies in measuring regional competitiveness are strongly influenced by differences in infrastructure quality between regions ¹⁰⁰⁷. Areas with good infrastructure are able to convert economic inputs into more efficient outputs, increase labor productivity, and strengthen the attractiveness of domestic and foreign investment. These two results together show the systemic interaction between governance quality and infrastructure readiness in shaping regional competitiveness. Strong institutions create certainty for economic actors to invest, while resilient infrastructure provides the means for the realization of such investments. The combination of the two results in positive synergies that

¹⁰⁰⁵ North, *Institutions, Institutional Change and Economic Performance*.

¹⁰⁰⁶ Suswadi, Irawan, and Esthi, "Fostering Community Participation: The Role of Forestry Extension Officers in Maximizing Social Capital for National Park Conservation."

¹⁰⁰⁷ Ticona Machaca et al., "Public Policy for Human Capital: Fostering Sustainable Equity in Disadvantaged Communities."

accelerate the process of industrialization, digitalization, and economic integration. The results of this meta-regression also show that the relationship between variables in the context of regional competitiveness is not linear ¹⁰⁰⁸, but is highly dependent on regional structural conditions that reflect institutional readiness and infrastructure capacity. In areas with weak institutions, even large infrastructure investments do not always result in significant increases in productivity, as weak governance can lower the efficiency of project implementation and magnify the risk of corruption.

In contrast, the results of the analysis of the other eight moderator variables showed insignificance on the effect size. For example, the ICT Adoption variable, although it plays an important role in the literature on innovation and digital transformation, does not show statistical significance in this model. This can be due to high digital inequality between regions, where the adoption of information technology is not always followed by the ability of human resources to optimize its use. Similarly, the Macroeconomic Stability variable, which, although nationally important, may have too little variation at the regional level to have a significant influence on meta-regression. In other words, macro stability tends to be homogeneous within a country, while regional competitiveness is more determined by structural factors such as institutions and infrastructure. The Health and Skills variables also showed an insignificant relationship, which can be explained by differences in measurement approaches across different studies. Health and skills are often measured through social indicators that have a long time lag in their impact on productivity, so their effects are not immediately detected in short-term meta-analytic models. The variables of the Product Market and Labor Market, although important in the context of market efficiency, do not show a significant effect because the mechanism of the labor and goods market tends to be greatly influenced by national policies that do not easily vary at the regional level. The variables of the Financial System ¹⁰⁰⁹ and Market Size also did not show a significant influence, suggesting that these macro factors are more relevant to explain cross-country competitiveness than cross-regional competitiveness within a single country.

Methodologically, these findings reinforce the belief that meta-regression analysis is an effective tool for identifying the most powerful determinants of regional competitiveness. By combining results from various previous empirical studies, this approach allows for a more objective analysis of the factors that contribute to the variation in study results. The results of significance on institutional and infrastructure variables provide a strong empirical basis for developing evidence-based policies ¹⁰¹⁰, where institutional strengthening and infrastructure development are the main focuses in the strategy to increase regional competitiveness. From a public policy perspective, the implications are clear: strengthening institutions and infrastructure should be a priority in regional development planning. Local governments need to strengthen institutional capacity through increased transparency, accountability, and effectiveness of public

¹⁰⁰⁸ Korepanov, Lazebnyk, and Yamshynskyi, "Modeling the Factors of Socioeconomic Development of the Regions of Ukraine and Determining the Role of ICT."

¹⁰⁰⁹ Chen, Lin, and Chen, "The Impact of Social Capital and Community Empowerment on Regional Revitalization Practices: A Case Study on the Practice of University Social Responsibility Programs in Wanli and Jinshan Districts."

¹⁰¹⁰ Ahmad and Rathakrishnan, "Digital Technology Integration in Teaching and Learning Among Teachers in Kedah, Malaysia."

services, while on the other hand expanding investment in physical and digital infrastructure that supports economic connectivity. Collaboration between the public and private sectors can accelerate the development process, especially in the context of implementing the public-private partnership model.

Empirically, these findings are in line with the research results of ¹⁰¹¹ who found that institutional quality is an important threshold for the effectiveness of foreign direct investment in driving economic growth in ASEAN countries. ¹⁰¹² also show that strong regional institutions and creative infrastructure contribute significantly to innovation and economic sustainability in the European region. In a broader context, ¹⁰¹³ found that infrastructure investments within the framework of the Belt and Road Initiative (BRI) strengthen trade linkages and accelerate the structural transformation of developing economies. In terms of the relationship between economic factors, ¹⁰¹⁴ emphasized the importance of integration between foreign capital and domestic labor to strengthen the dual effect of regional development, where the quality of governance is the determining variable of this balance. Meanwhile, ¹⁰¹⁵ show that the investment effect and competitiveness of companies are highly dependent on the institutional and economic context of each country. ¹⁰¹⁶ affirm that human capital and digital infrastructure interact positively with economic growth in BRICS countries, supporting the importance of synergy between institutions and infrastructure in strengthening structural competitiveness. The results of this meta-regression confirm that regional competitiveness is not only a reflection of capital and labor accumulation, but the result of synergy between structural factors governed by institutional quality and supported by infrastructure capacity. Without these two foundations, market efficiency and innovation are difficult to achieve sustainably. Therefore, these findings provide an important message to policy makers that regional development strategies should be oriented towards creating an economic ecosystem that is stable, connected, and adaptive to global changes. In the context of long-term development, strengthening these two pillars will be the main catalyst in achieving inclusive, resilient, and highly competitive economic growth.

The meta-regression results provide strong empirical evidence regarding the main determinants of regional competitiveness. Of the ten moderator variables tested, only two had a significant effect on effect size, namely Institutions ($F = 5.877$, $p = 0.022$) and Infrastructure ($F = 6.850$, $p = 0.014$) (see Table 11.2). Other variables such as ICT Adoption, Macroeconomic Stability, Health, Skills, Product Market, Labor Market, Financial System, and Market Size did not show a significant influence (all $p > 0.05$). These results suggest that the variation between

¹⁰¹¹ Nguyen and Ho, "Growth Effect of Foreign Direct Investment in Asean Economies: Does Institutional Quality Matter?"

¹⁰¹² Lishchynskyy and Lyzun, "Pattern of European Regional Creativity: Exploring Endogenous Sustainability."

¹⁰¹³ Moradi Haghighi and Augustin, "The Influence of the Belt and Road Initiative on China's Advancement in Global Value Chains and Developing Economies: A Systematic Review."

¹⁰¹⁴ Ionescu, Zlati, and Antohi, "THE NEED OF A NEW MANAGEMENT REGARDING THE CONTRADICTIONARY EAST-WEST EUROPEAN CAPITAL AND LABOUR FLOWS. A REGIONAL WELFARE APPROACH."

¹⁰¹⁵ Lanchimba and Ndione, "<sc>FDI</Scp> and Performance: A Comparative Analysis Between Emerging and Developed Economies."

¹⁰¹⁶ Zhu and Paul, "Opening the Black Box of Digital Development and Growth Asymmetries: The Roles of Human Capital and Supply Chain Logistics in <sc>BRICS</Scp> Economies."

studies in measuring regional competitiveness can largely be explained by two main factors: the quality of institutional governance and the strength of economic infrastructure. These two variables have the strongest contribution in explaining the heterogeneity of research results, confirming their position as key pillars in improving regional efficiency and productivity.

Tables 11.4. Effect Size Meta-Regression Coefficients

Variables	Estimate	Standard Error	95% CI		t	df	p
			Lower	Upper			
Intercept	0.158	2.759	-5.504	5.819	0.057	27	9.55E-01
Institutions	1.337	0.552	0.205	2.47	2.424	27	2.23E-02
Infrastructure	0.781	0.299	0.169	1.394	2.617	27	1.44E-02
ICT Adoption	-0.212	0.237	-0.699	0.275	-0.894	27	3.79E-01
Macroeconomic Stability	-0.221	0.345	-0.93	0.488	-0.639	27	5.28E-01
Health	-0.13	0.685	-1.536	1.275	-0.19	27	8.51E-01
Skills	-0.459	0.327	-1.131	0.212	-1.403	27	1.72E-01
Product Market	-0.13	0.085	-0.304	0.043	-1.541	27	1.35E-01
Labor Market	-0.309	0.32	-0.966	0.347	-0.966	27	3.42E-01
Financial System	0.12	0.165	-0.22	0.459	0.723	27	4.76E-01
Market Size	-0.168	0.196	-0.571	0.235	-0.855	27	4.00E-01

Theoretically, these findings reinforce the view of the theory of institutional economics (new institutional economics) as described by North (1990) and further developed by Rodrik (2007), that institutions function as a set of formal and informal rules that govern economic interactions, determine the level of market efficiency, and influence the behavior of economic actors. In this context, meta-regression results show that regions with good governance have a greater ability to convert investment into productive growth. As shown by ¹⁰¹⁷, institutional quality has been shown to strengthen the relationship between foreign direct investment (FDI) and economic growth in ASEAN countries. Similar findings are also confirmed by ¹⁰¹⁸ who suggest that the positive effects of FDI on growth occur only in regions with effective local governance. This confirms that institutions play a role as a key moderator variable that strengthens the relationship between external factors (such as FDI) and economic performance.

Meanwhile, the significant results of the Infrastructure variable show the relevance of infrastructure-led growth theory. The availability of physical and digital infrastructure allows for wider economic connectivity, accelerates the distribution of goods and services, and lowers transaction costs. A study by ¹⁰¹⁹ reinforces these findings by showing that high-quality infrastructure has a significant contribution to economic growth in EU countries, especially when accompanied by the effectiveness of public governance. Similarly, ¹⁰²⁰ found that digital

¹⁰¹⁷ Nguyen and Ho, "Growth Effect of Foreign Direct Investment in Asean Economies: Does Institutional Quality Matter?"

¹⁰¹⁸ Ross and Fleming, "The Impact of Chinese Foreign Direct Investment on Host Country Economic Growth."

¹⁰¹⁹ Maciulyte-Sniukiene and Butkus, "Does Infrastructure Development Contribute to EU Countries' Economic Growth?"

¹⁰²⁰ Zhu and Paul, "Opening the Black Box of Digital Development and Growth Asymmetries: The Roles of Human Capital and Supply Chain Logistics in <sc>BRICS</Sc> Economies."

infrastructure and human capital strengthen the link between innovation and economic growth in BRICS countries. These two results show that infrastructure development not only functions as a production input, but also as an enabler that facilitates interaction between key economic variables in creating regional competitiveness. Furthermore, the relationship between institutions and infrastructure is complementary. Strong institutions drive the effectiveness of infrastructure investments through transparent and efficient project governance, while reliable infrastructure strengthens institutional legitimacy by providing quality public services. The results of a study by ¹⁰²¹ show that the positive interaction between institutional quality and market size improves the sustainability of the energy sector in the European region. In a global context, ¹⁰²² emphasized that trade openness and FDI flows have a positive effect on economic growth in the MENA region, but these effects are only optimal when supported by efficient infrastructure and institutional systems. Both studies support the argument that institutions and infrastructure reinforce each other in improving the effectiveness of development policies and the economic competitiveness of the region.

While other variables such as ICT Adoption and Skills do not show statistical significance, the absence of these effects does not mean that they are irrelevant, but rather indicates that the impact is indirect and depends on the readiness of existing institutions and infrastructure. For example, the application of new information technology will provide optimal benefits only in areas with institutional capacity that supports innovation and adequate digital infrastructure. Similarly, macroeconomic stability and labor market efficiency tend to have homogeneous influences at the national level, so they do not vary sufficiently between regions to produce a significant effect in cross-regional meta-regression. From a methodological perspective, these results show that meta-regression is an effective tool to identify variables that explain heterogeneity between studies in the regional competitiveness literature. By combining empirical results from various contexts, this analysis shows that a real contribution to competitiveness can only be made through interventions that strengthen two key pillars: institutions and infrastructure. In the context of public policy, this provides an empirical basis for the implementation of evidence-based regional policies, which place institutional governance and infrastructure development as top priorities. Local and national governments can use these results to design more targeted strategies, for example through capacity building of local institutions, accountable fiscal decentralization, and investment in green and digital infrastructure.

The results of this meta-regression confirm that regional competitiveness is determined not only by the accumulation of economic factors such as capital and labor, but also by the quality of the institutional structure and the readiness of the infrastructure that supports it. Regions with good governance and efficient infrastructure networks have a higher capacity to attract investment, expand markets, and increase productivity. Conversely, weaknesses in both aspects can be a major obstacle to long-term growth. Therefore, development strategies oriented towards

¹⁰²¹ Alsaleh and Abdul-Rahim, "The Impacts of Intellectual Capital, Market Size, and Intellectual Property Factors in Geothermal Power Exploration."

¹⁰²² Oussama et al., "Do Trade Openness and FDI Drive Economic Growth in MENA Countries? Insights from A Panel ARDL Approach."

increasing competitiveness must prioritize institutional reforms, strengthening transparency, and investing in sustainable and inclusive smart infrastructure.

Visually, the relationship between Institutions, Infrastructure, and Effect Size in the meta-regression model shows a clear positive skew, showing a consistent linear correlation pattern. This emphasizes that regions with strong institutions and high-quality infrastructure have a more significant and stable development effect, while other variables such as Macroeconomic Stability make only marginal contributions. In other words, regional competitiveness development requires a structural approach that prioritizes improving institutional quality and infrastructure efficiency as key factors.

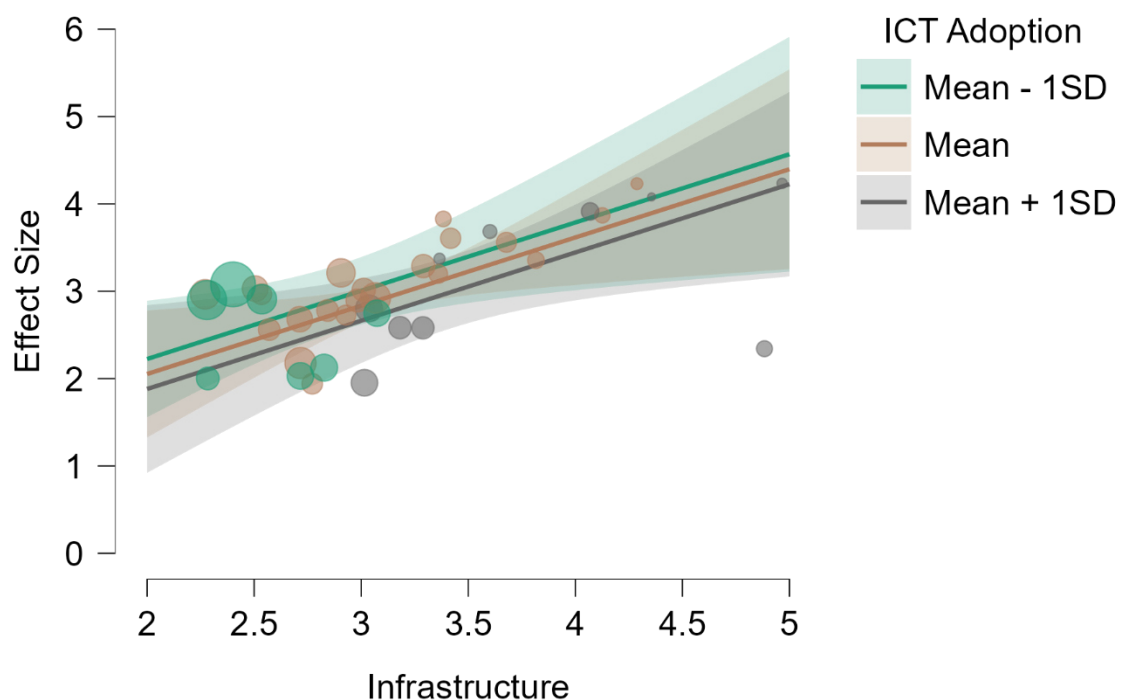


Figure 11.2. The Relationship of Moderation between Institutions, Infrastructure, and Effect Size in Meta-Regression

Figure 11.2 shows the moderation relationship between Institutions, Infrastructure, and Effect Size in the meta-regression model, illustrating how improving the quality of institutions and infrastructure consistently strengthens the influence on regional development outcomes¹⁰²³. The green regression lines for Institutions and orange for Infrastructure have a sharp positive slant, indicating that these two variables play a significant role in magnifying the effect size between studies. In contrast, the gray line representing Macroeconomic Stability appears almost flat, suggesting that macroeconomic stability does not have a meaningful contribution to the variation in effects in this model. The shadow area around the line shows a confidence interval, with Institutions displaying a slightly wider range of predictions—signaling a moderate heterogeneity in institutional quality between regional contexts. This interpretation is in line

¹⁰²³ Hakeem et al., “Regional Sustainable Development Using a Quadruple Helix Approach in Japan.”

with the theory of institutional-based competitiveness which emphasizes that improving public governance, regulatory effectiveness, and legal stability are the main catalysts in encouraging regional competitiveness¹⁰²⁴.¹⁰²⁵ highlight that the development of digital infrastructure interacts strongly with the effectiveness of institutions in accelerating regional productivity transformation, especially in East Asia.

In a methodological context, the positive skew pattern on this graph reinforces the findings of previous meta-regressions, where Institutions and Infrastructure showed significant F-values and positive coefficients of effect size. This indicates that the two variables function as key moderators that explain the differences in results between studies consistently. On the other hand, the insignificance of Macroeconomic Stability shows that macro factors are more aggregate and indirectly affect the variation in competitiveness between regions when the institutional and infrastructure dimensions have been controlled. Theoretically, these results confirm the importance of institution- and infrastructure-based development strategies in strengthening regional competitiveness that is sustainable and adaptive to global changes.

11.3. The Role of Moderator Variables in Theoretical and Empirical Frameworks

The role of moderator variables such as institutions and infrastructure in theoretical and empirical frameworks has a strategic position in explaining the variation in competitiveness between regions. In regional and institutional development theory, these two variables not only serve as direct factors that affect economic growth, but also as moderators that strengthen or weaken the relationship between other economic variables such as investment, innovation, productivity, and market integration. For example,¹⁰²⁶ show that R&D spending only has a significant impact on growth in regions with strong institutional capacity, affirming the role of institutions as a reinforcing of the relationship between innovation and economic development. These findings are reinforced by¹⁰²⁷, who reveal that the effectiveness of economic integration policies in Europe is highly dependent on the quality of institutions at the regional level. Areas with a transparent legal system and good governance capacity show more consistent development results than areas with weak institutions. Furthermore,¹⁰²⁸ found that institutional efficiency plays an important role in strengthening the relationship between FDI and economic growth in developing countries, showing how institutions can be a balancing mechanism in the dynamics of economic globalization.

¹⁰²⁴ Phan and Buyanova, "Competitive Position of Vietnamese Regions: Analysis of Results of Provincial Competitiveness Index."

¹⁰²⁵ An, Cheung, and Willoughby, "A Gamification Approach for Enhancing Older Adults' Technology Adoption and Knowledge Transfer: A Case Study in Mobile Payments Technology."

¹⁰²⁶ Celli, Cerqua, and Pellegrini, "Does R&D Expenditure Boost Economic Growth in Lagging Regions?"

¹⁰²⁷ Goetz, "What Do We Know about Rural and Informal Non-Farming Labour? Evidence from a Mixed Methods Study of Artisanal and Small-Scale Mining in Northwest Tanzania."

¹⁰²⁸ Lanchimba and Ndione, "<sc>FDI</Scp> and Performance: A Comparative Analysis Between Emerging and Developed Economies."

On the other hand, the role of infrastructure as a moderator is also increasingly prominent in the modern development literature. ¹⁰²⁹ emphasize that transportation and energy infrastructure not only directly improve economic efficiency, but also strengthen the impact of innovation policies on industrial competitiveness. These findings are in line with ¹⁰³⁰, who show that the performance of regional development is strongly influenced by the readiness of physical and digital infrastructure, where infrastructure acts as a reinforcing variable between human capital capacity and sustainable economic growth. Furthermore, ¹⁰³¹ found that in the context of developing countries, digital infrastructure plays a significant moderating role to the relationship between industrial policies and regional economic performance¹⁰³¹. Adequate digital infrastructure allows for accelerated adoption of local technology and innovation, thereby improving the overall competitiveness of the region. Institutions and infrastructure are proven not only as the main pillars of competitiveness, but also as moderating variables that bridge the effectiveness of economic policies and regional development. Institutional quality and the availability of reliable infrastructure are important prerequisites so that policies to increase regional competitiveness can produce optimal and sustainable effects. The latest empirical findings further strengthen the position of institutions and infrastructure as moderator variables that determine the effectiveness of development policies and economic transformation. ¹⁰³² through a global meta-analysis show that the impact of digitalization on export performance is strongly influenced by regional institutional and infrastructure contexts. They emphasized that the quality of an economic system, regulation, and digital readiness of a region are factors that strengthen the success of digital transformation across sectors. In line with that, ¹⁰³³ highlight the role of green finance infrastructure as a moderator in the relationship between renewable energy investment and reduced carbon emissions in developing countries, suggesting that effective climate policies require the support of adaptive financial systems and infrastructure.

Other research supports the idea that the effect of economic policies depends on synergies between institutional and structural factors. ¹⁰³⁴ found that the success of knowledge-based innovation depends on institutional stability and the ability of local governments to provide adequate digital infrastructure. Meanwhile, ¹⁰³⁵ affirm that the effectiveness of innovation policies at the regional level is greatly influenced by the quality of public governance and the

¹⁰²⁹ Wang, "The Impact of Sufficient Infrastructure Investment on Regional Macro-Economy – Taking California High-Speed Rail Project vs LaGuardia Airport Reconstruction Project as Examples."

¹⁰³⁰ Woldegiorgis, "Mitigating the Digital Divide in the South African Higher Education System in the Face of the Covid-19 Pandemic."

¹⁰³¹ Munifatussaidah et al., "Driving Regional Economy: Digital Technology Adoption's Role for Effective Distribution of Islamic Social Finance in Indonesia."

¹⁰³² Dong, He, and Blut, "How and When Does Digitalization Influence Export Performance? A Meta-Analysis of Its Consequences and Contingencies."

¹⁰³³ Bhardwaj, Kumar, and Singh, "Role of Green Finance in Carbon Emission Reduction: A Meta-Bibliometric Approach to Developed and Developing Economies."

¹⁰³⁴ Slonimska, Dubko, and Veretennikova, "Regional Development: Organizational and Economic Mechanism in the Context of the Fourth Industrial Revolution."

¹⁰³⁵ Qiao et al., "Exploring the Benefits of Small Catchments on Rural Spatial Governance in Wuling Mountain Area, China."

capacity of local innovation networks. In the macroeconomic context, ¹⁰³⁶ show that fiscal institutional stability and public policy transparency are important moderators in determining the influence of government spending on long-term economic growth. Research by ¹⁰³⁷ adds that transport infrastructure connectivity plays a role in strengthening the relationship between domestic market integration and international trade expansion. ¹⁰³⁸ affirm that strengthening public institutions and digital infrastructure in Sub-Saharan African countries significantly increases the effectiveness of industrialization policies and export competitiveness. Cross-contextual empirical evidence shows that institutions and infrastructure play not only as a key pillar of regional competitiveness, but also as a reinforcement of the cause-and-effect relationship between economic policies and development outcomes. Both create an environment conducive to market efficiency, innovation, and the sustainability of public policies, making institutional improvement and infrastructure investment a key strategy in evidence-based policy design.

From an institutional perspective, regulatory stability and institutional capacity play an important role as moderator variables that determine the success of economic and environmental development policies. ¹⁰³⁹ shows that institutional ownership and structure can moderate the effectiveness of environmental policies on corporate financial performance, where transparency and legal certainty are key factors in strengthening public policy outcomes. In line with that, ¹⁰⁴⁰ affirm through cross-border meta-analysis that digital strategies are only effective for small and medium-sized enterprises if they are supported by adequate infrastructure readiness and institutional efficiency. ¹⁰⁴¹ also highlight that the effectiveness of national digital transformation depends on institutional ability to drive the adoption of new technologies through inclusive innovation policies. In the context of regional development, ¹⁰⁴² affirm that a good economic and institutional infrastructure strengthens the link between knowledge capital and regional growth.

In addition, ¹⁰⁴³ show that the success of regional innovation policies in Europe is highly dependent on the role of institutions in supporting knowledge-based entrepreneurial ecosystems. ¹⁰⁴⁴ add that differences in institutional capacity between regions moderate the relationship between fiscal policy and regional economic performance, where regions with strong public governance are better able to leverage fiscal stimulus to drive sustainable growth. ¹⁰⁴⁵ even found that institutional quality plays a role as a reinforcer in the effectiveness of international trade

¹⁰³⁶ A. Augustine, Ifayemi M, and G. Oluwatosin, "Good Governance and Voluntary Tax Compliance Behaviour in Lagos State, Nigeria: An Empirical Analysis."

¹⁰³⁷ Docherty and Waite, "Infrastructure and Productivity."

¹⁰³⁸ Gaegane, "Incorporating Sustainability into Development Plans in Selected African Cities."

¹⁰³⁹ Fernanda, "Social Capital and Local Wisdom in Conflict Resolution in National Parks."

¹⁰⁴⁰ Velychko, Troian, and Viatkin, "FORMATION OF INNOVATIVE DEVELOPMENT STRATEGY OF HROMADAS IN THE CONTEXT OF REGIONAL SOCIO-ECONOMIC SYSTEMS."

¹⁰⁴¹ Murcia, Ferreira, and Ferreira, "Enhancing Strategic Management Using a 'Quantified VRIO': Adding Value with the MCDA Approach."

¹⁰⁴² Milijić et al., "Demographic Trends and Regional Disparities in the EU."

¹⁰⁴³ Graziano et al., "Contacts on LinkedIn: Equity Crowdfunding Platforms' Networks and Creators' Innovation Performance."

¹⁰⁴⁴ Wang et al., "Assessing the Stability of Poverty Alleviation from a Household Economic Perspectives."

¹⁰⁴⁵ Daymard, "Land Rental Market Reforms: Can They Increase Outmigration from Agriculture? Evidence from a Quantitative Model."

policies on export growth, especially in developing countries with emerging legal systems. Theoretical and empirical evidence shows that institutions and infrastructure are not only fundamental pillars of regional competitiveness, but also function as a balancing mechanism in ensuring the effectiveness of public policies. Both strengthen the link between strategic policies—such as digitalization, innovation, and environmental policies—and sustainable economic outcomes, underscoring the importance of institutional-based approaches in modern regional development policy design.

11.4. Empirical Evidence-Based Policy Directions and Strategies

The empirical evidence-based policy direction and strategy emphasize the importance of strengthening institutional and infrastructure foundations as the core of sustainable and inclusive regional competitiveness. Based on the results of the meta-analysis, these two pillars are proven to have a significant influence on the variation in economic performance between regions, emphasizing that development policies are not enough to rely only on macroeconomic growth, but must touch on institutional structures and physical capacities that support local productivity. This evidence-based approach is in line with the findings of ¹⁰⁴⁶, which show that quality infrastructure investment and institutional reform are key determinants of long-term productivity gains and reduction of interregional inequalities in Europe. Furthermore, ¹⁰⁴⁷ emphasized that the quality of local institutions plays a catalyst for innovation capabilities and regional economic networks. Efficient institutions create governance that encourages synergy between the public and private sectors, thereby increasing adaptive capacity to global change. In terms of infrastructure, ¹⁰⁴⁸ found that sustainable transportation investment and logistics digitalization have a multiplied impact on regional connectivity and boost productivity across sectors. The evidence-based policy approach also demands the integration of social dimensions and environmental sustainability. ¹⁰⁴⁹ show that regions with participatory governance and evidence-based policies have more resilient economic performance post-crisis, especially when development strategies are accompanied by social innovation and fiscal transparency. Similarly, ¹⁰⁵⁰ affirm the importance of credible institutions in fostering regional economic convergence, where physical and financial infrastructure play a complementary role in reducing spatial disparities. This evidence-based policy direction demands a paradigm transformation from sectoral development to a systemic approach based on institutional and infrastructure pillars, which not only drives economic growth but also ensures social and ecological sustainability in the long term.

An empirical evidence-based policy approach in regional development is increasingly recognized as an effective strategy to strengthen regional competitiveness in a sustainable

¹⁰⁴⁶ Liao, Jing, and Lee, “Economic Return of Architecture Awards: Testing Homebuyers’ Motives for Paying More.”

¹⁰⁴⁷ So and Duarte, “Cartographers of North Korea: Who Are They and What Are the Technical, Political, and Social Issues Involved in Mapping North Korea.”

¹⁰⁴⁸ Jenkins et al., “What Do We Know about Pedal Assist E-Bikes? A Scoping Review to Inform Future Directions.”

¹⁰⁴⁹ Gray, Buckner, and Comber, “Identifying Neighbourhood Change Using a Data Primitive Approach: The Example of Gentrification.”

¹⁰⁵⁰ Shao and White, “Outsiders, Insiders and Interventions in the Housing Market.”

manner.¹⁰⁵¹ affirm that policies aimed at strengthening the capacity of local institutions not only increase the effectiveness of public investment, but also create a multiplier effect on regional economic growth. They point out that the success of public investment is highly dependent on the ability of institutions to manage resources, design adaptive policies, and enforce fiscal accountability. In the context of more inclusive development,¹⁰⁵² found that fiscal decentralization accompanied by transparent governance can strengthen the legitimacy of public policies and ensure a fairer distribution of development between regions. The integration between governance and public investment is also affirmed by¹⁰⁵³ that highlight the importance of institutional embeddedness in linking innovation policies and local capacity to reduce spatial inequalities. Thus, institutional capacity is a crucial foundation for the effectiveness of regional policy strategies. In terms of infrastructure,¹⁰⁵⁴ emphasized that public infrastructure investment is positively correlated with regional productivity, especially when balanced with institutional capacity that is able to ensure project management efficiency and financing sustainability. Furthermore,¹⁰⁵⁵ show that the success of regional development in Eastern Europe depends on a combination of policies that strengthen transport networks and improve local governance, thereby creating synergies between economic mobility and institutional effectiveness. In addition,¹⁰⁵⁶ highlight the importance of empirical evidence in designing resilience-based regional planning policies, where institutional quality determines a region's ability to adapt to global economic shocks. They found that regions with collaborative governance and strong planning capacity recover faster from the crisis than regions with weak institutional structures. Empirical evidence-based policy directions not only emphasize institutional capacity building and infrastructure development, but also demand the integration of the two in a mutually reinforcing policy ecosystem. This approach places institutions and infrastructure as the two main axes of regional development that are able to drive inclusive, equitable, and sustainable economic growth.

The integration of green infrastructure policies and smart governance is the main key in strengthening regional competitiveness in the midst of global economic dynamics and environmental crises.¹⁰⁵⁷ affirm that green infrastructure policies must be mainstreamed in regional development strategies because they can increase economic resilience to market volatility while strengthening the transition to a low-carbon economy. This approach places infrastructure not just as a tool for growth, but also as an adaptive mechanism that supports social and

¹⁰⁵¹ Buelow et al., "Enabling Conservation Theories of Change."

¹⁰⁵² Fahmi and Panorama, "Strengthening the Role of Village-Owned Enterprises (BUMDes) in South Sumatra through Islamic Social Entrepreneurship ."

¹⁰⁵³ Rodríguez-Pose, Bartalucci, and Rau, "One Kazakhstan, Multiple Nations: On a Growing Regional Divide amidst Economic Dynamism."

¹⁰⁵⁴ Celbiş et al., "Innovativeness, Work Flexibility, and Place Characteristics: A Spatial Econometric and Machine Learning Approach."

¹⁰⁵⁵ Wei, Yuan, and Li, "Exploring the Contribution of Advanced Systems in Smart City Development for the Regeneration of Urban Industrial Heritage."

¹⁰⁵⁶ Bănică et al., "Institutional Quality in Green and Digital Transition of EU Regions – A Recovery and Resilience Analysis."

¹⁰⁵⁷ Kustanto, "BRIDGING THE DIGITAL GAP: ANALYSING THE IMPACT OF ICT DIFFUSION ON INCOME INEQUALITY IN INDONESIA."

environmental sustainability. In line with that, ¹⁰⁵⁸ emphasize the role of smart governance in integrating empirical evidence, spatial data, and artificial intelligence to design responsive, inclusive, and evidence-informed regional policies. In the context of regional resilience, ¹⁰⁵⁹ show that the effectiveness of regional development policies relies heavily on a combination of green infrastructure and local institutional capacity to manage economic and environmental risks. They emphasized that regions with innovative and decentralized governance are better able to maximize the benefits of sustainable investment. In line with that, ¹⁰⁶⁰ found that development based on green infrastructure networks acts as a catalyst in improving economic connectivity between regions while reducing spatial inequality through the diffusion effect of green technology. From the perspective of regional adaptation, ¹⁰⁶¹ found that the integration of the green dimension into development policies is able to strengthen regional productivity and encourage the transition to green competitiveness. ¹⁰⁶² emphasize that evidence-based policies that combine the principles of smart governance and green infrastructure produce synergistic effects in strengthening the capacity of regions to deal with economic and environmental shocks. Thus, development strategies oriented towards smart, green, and resilient regions are becoming a new direction of regional competitiveness policies that are not only economically efficient, but also resilient and systemically sustainable.

Policy strategies based on the pillars of regional competitiveness through a meta-analysis approach and the foundation of regional development theory. Conceptually, regional competitiveness is the result of a complex interaction between institutional quality, infrastructure, macroeconomic stability, and efficiency factors that make up the regional productivity ecosystem. Within the framework of the Global Competitiveness Index (GCI) and institutional theory, institutional and infrastructure strength are the foundation for the effectiveness of economic policies and the sustainability of development. Empirically, the results of the meta-analysis show that the variability between studies is relatively low, indicating the consistency of results and the relevance of the fixed effect model in explaining the relationship between the pillars of competitiveness. Important findings from the meta-regression show that only institutions and infrastructure have a significant influence on the size of the combined effect, confirming that these two factors are not only direct determinants, but also serve as moderator variables that strengthen the relationship between investment, innovation, and regional economic growth. These findings are in line with international studies that emphasize that effective governance and reliable infrastructure improve the efficiency of public policies and extend the impact of inclusive development.

¹⁰⁵⁸ Velychko, Troian, and Viatkin, "FORMATION OF INNOVATIVE DEVELOPMENT STRATEGY OF HROMADAS IN THE CONTEXT OF REGIONAL SOCIO-ECONOMIC SYSTEMS."

¹⁰⁵⁹ Yu, "A Study on the Dual Benefits of Ecotourism Resource Management Intelligent Decision Making System for Environment and Economy."

¹⁰⁶⁰ Hällstrand, Reim, and Malmström, "Dynamic Capabilities in Environmental Entrepreneurship: A Framework for Commercializing Green Innovations."

¹⁰⁶¹ Lai, Yang, and Cui, "Market Segmentation Impact on Industrial Transformation: Evidence for Environmental Protection in China."

¹⁰⁶² Nicklisch, Putterman, and Thöni, "Trigger-Happy or Precisionist? On Demand for Monitoring in Peer-Based Public Goods Provision."

In terms of policy, these empirical results provide a strong basis for the implementation of evidence-based regional policies that are oriented towards strengthening institutions and infrastructure as the main strategy to increase regional competitiveness. Institutional reforms that focus on transparency, participation, and accountability, as well as the development of green and digital infrastructure, are strategic steps in facing global challenges such as technological disruption, climate change, and spatial inequality. The approach to smart governance and sustainable infrastructure integration provides a new direction in the formulation of resilient, adaptive and equitable regional policies. Thus, this chapter emphasizes the importance of synergy between theory and empirical evidence in designing policy strategies that are able to strengthen regional competitiveness in a sustainable manner. The combination of strong institutions, modern infrastructure and data-driven policies will be the key pillars for the region's transformation towards inclusive, innovative and resilient development in the future.

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CHAPTER 12

CONTRIBUTION OF INFRASTRUCTURE AND HEALTH AS THE MAIN DETERMINANT OF MARKET SIZE

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Market size is one of the main indicators that reflects the economic capacity of a country or region to absorb production, investment, and labor. Understanding the factors influencing market size is important for designing sustainable economic policies, especially amid the dynamics of globalization and digital transformation. Studies have shown that adequate infrastructure, high levels of public health, and the ability to adopt information and communication technology (ICT) have a significant role in strengthening economic competitiveness and expanding domestic demand. However, the relationships between these variables are often complex and interrelated, requiring an analytical approach that is able to objectively identify the relative contribution of each factor. This chapter presents an empirical analysis using the Regular Linear Regression (Lasso) method, a modern statistical technique that is able to select the most relevant variables by reducing the coefficient of insignificant variables to zero. Through this approach, it is hoped that a more accurate picture can be obtained regarding the key factors influencing the market size. This chapter consists of four main sections that discuss the conceptual and empirical basis for determining market size, the theoretical framework underlying the relationships between variables, the analytical approaches used in modeling, and the empirical findings and economic implications resulting from the analysis of the Lasso model.

12.1. Conceptual and Empirical Basis of Market Size Determinants

Market size is a reflection of a country's economic capacity to absorb products and attract investment, so it is an important indicator in assessing competitiveness and economic growth potential. Theoretically, the growth of the market size is influenced by a combination of structural factors such as infrastructure, public health, and the adoption of information and communication technology (ICT), which together determine the efficiency and productivity of the national economy. Infrastructure plays an important role in smoothing economic connectivity, lowering logistics costs, and improving access to markets. Studies in Visegrád countries show that the infrastructure pillars in the Global Competitiveness Index have a significant positive correlation with increased productivity and national logistics performance, which in turn expands the size of the domestic market¹⁰⁶³. Public health also plays a role as the foundation of economic productivity. Improved access to and quality of health services drive labor participation and economic efficiency, as shown by studies in post-Soviet countries that found a positive relationship between national competitiveness indexes and per capita income

¹⁰⁶³ Kálmán and Tóth, "Links between the Economy Competitiveness and Logistics Performance in the Visegrád Group Countries: Empirical Evidence for the Years 2007-2018."

levels largely mediated by the pillars of health and social infrastructure ¹⁰⁶⁴. Furthermore, strong public health creates social stability and increases investor confidence, two things that have a direct impact on the expansion of domestic and regional markets. Meanwhile, the adoption of ICT is a new driver of market growth in the digital era. Digital transformation has been proven to improve the efficiency of the business sector and expand consumer access to goods and services. In the Russian context, digitalization has a positive impact on economic growth, although its effectiveness still depends on the readiness of infrastructure and the capacity of the population to adopt new technologies ¹⁰⁶⁵. Cross-sector analysis ¹⁰⁶⁶ shows that effective ICT adoption is influenced by seven key drivers, including the readiness of technological infrastructure, market dynamics, as well as globalization, which collectively contribute to sustainable economic growth. In addition, in the context of global innovation, technological and institutional factors also play an important role in expanding economic capacity and accelerating international market integration. ¹⁰⁶⁷ asserts that the development of global innovation creates a chain effect on the macroeconomic and international business environment through digital transformation and changes in global market structure. The integration between infrastructure development, strengthening public health, and accelerating ICT adoption is the main foundation in increasing market size. These three factors not only increase national productivity, but also create synergistic effects on competitiveness and long-term economic growth through increased connectivity, efficiency, and digital inclusion at the global level.

Public health is the main foundation of labor productivity and long-term economic stability. Countries with strong health systems tend to have greater market capacity because a healthy productive population is able to contribute optimally to economic activity. The relationship between health and market size is structural: improved quality of health increases labor participation, extends productive lifespans, and lowers the burden of social costs that can be reallocated back to economic investment. In the context of post-transition countries, this linkage is confirmed by the finding that health as one of the pillars of the Global Competitiveness Index has a positive influence on national productivity and per capita income in the post-Soviet region ¹⁰⁶⁸. Furthermore, cross-country research shows that improving national health systems contributes to post-crisis economic resilience. ¹⁰⁶⁹ highlight that in the case of Romania, the decline in economic competitiveness during the COVID-19 pandemic is directly proportional to the pressure on the health system and the decline in labor productivity, which confirms the importance of health as a fundamental driver of market recovery and expansion. The link between health and competitiveness is also seen in the analysis of the Polish economy, where

¹⁰⁶⁴ Sodikov et al., “Impact of National Competitiveness on Economic Growth and Income Level – Evidence From the Selected Post-Soviet Countries.”

¹⁰⁶⁵ ALEKSANDROVA, TRUNTSEVSKY, and POLUTOVA, “Digitalization and Its Impact on Economic Growth.”

¹⁰⁶⁶ Oyetade and Zuva, “External Organizational Drivers of ICT Adoption for Sustainable Growth.”

¹⁰⁶⁷ Kokorina, “ANALYSIS OF GLOBAL INNOVATION ENVIRONMENTAL FACTORS OF INTERNATIONAL BUSINESS AND ECONOMIES.”

¹⁰⁶⁸ Sodikov et al., “Impact of National Competitiveness on Economic Growth and Income Level – Evidence From the Selected Post-Soviet Countries.”

¹⁰⁶⁹ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

health and environmental indicators are one of the key factors that distinguish the competitiveness of the Polish economy compared to other Visegrád countries ¹⁰⁷⁰.

From the perspective of labor productivity, improved health conditions are closely related to labor market efficiency. A study of the construction sector in Nigeria shows that labor efficiency is a major driver of the industry's global competitiveness, which is highly dependent on the quality of worker health and safety ¹⁰⁷¹. In other words, improving public health not only impacts individual well-being, but also expands national production capacity and strengthens the domestic market demand base. The interconnectedness between health, productivity, and market size can also be seen in the context of agribusiness in South Africa. A study by ¹⁰⁷² found that health constraints and diseases in livestock are one of the main obstacles to the productivity of smallholder farmers, which has an impact on the decline in the competitiveness of the agricultural sector and the national market supply capacity. This illustrates that health, both at the human level and economic support systems, is the main determinant of economic efficiency and sustainability. In addition, the study of ¹⁰⁷³ emphasizes that global competitiveness indicators that include labor health and efficiency should be interpreted carefully in public policymaking, as subjective perceptions of labor markets often do not reflect the factual conditions of worker productivity and health quality in Latin American countries.

Empirical evidence suggests that health plays a key driver in strengthening economic competitiveness and expanding market size. Good health increases labor productivity, extends economic activity, and strengthens macroeconomic stability. Thus, sustainable investment in health systems should be seen not only as a social policy, but also as an economic strategy that strengthens market capacity and long-term growth. Digital transformation has become a key driver of changes in the global economic structure and is a new determinant in expanding market capacity. The adoption of information and communication technology (ICT) plays a strategic role in improving business efficiency, accelerating the diffusion of innovation, and opening up new market access for previously isolated economic sectors, especially in developing countries. Digitalization allows companies to expand distribution networks, lower transaction costs, and expand consumer bases through e-commerce and technology-based supply chain integration ¹⁰⁷⁴. In the context of the global economy, the application of ICT has been proven to strengthen the interconnectedness between the financial system and economic growth, especially in regions with emerging digital infrastructure such as Sub-Saharan Africa.

However, the impact of digitalization on market size is not automatic; It is highly dependent on the readiness of infrastructure and the quality of human resources. Research in Russia shows that although digitalization is able to increase productivity and efficiency, its impact

¹⁰⁷⁰ Saturnus, "Competitiveness of the Polish Economy in Comparison with the Economies of the Visegrád Group in Years 2015-2019."

¹⁰⁷¹ Okolie, Ezeokoli, and Fadumo, "Positioning the Nigerian Construction Industry and Desiderata for Global Competitiveness in the 21st Century."

¹⁰⁷² Nyam et al., "Smallholder Sheep Farmers' Perception of Production Constraints and Competitiveness Strategies in South Africa."

¹⁰⁷³ Vera and Rendon, "Is the Global Competitiveness Index by the World Economic Forum a Reliable Tool for the Design of Labor Market Policies? Evidence from Latin American Countries."

¹⁰⁷⁴ Horvey and Odei-Mensah, "Towards Economic Growth in Sub-Saharan Africa: Is There a Synergy between Insurance Market Development and ICT Diffusion?"

on economic growth is still limited if institutional support and digital workforce readiness are inadequate¹⁰⁷⁵. This reinforces the view that the role of ICT in expanding new markets will be optimal when accompanied by public policies that emphasize national digital capacity building and equitable access to technology. Studies at the regional level also show variations in the influence of ICT on competitiveness and market size between countries. Study by¹⁰⁷⁶ developed the Kazakhstan Digital Readiness Index (KZ-DRI) to assess digital readiness in developing countries, and found that inequalities in digital infrastructure and people's skills are the main factors inhibiting ICT-based economic transformation. Similar results were found in Latin American countries, where uneven levels of technology adoption led to gaps in national market capacity, although countries such as Brazil and Mexico showed significant progress in the digitalization of the public and private sectors¹⁰⁷⁷.

At the global level, digitalization is proven to have a positive relationship with increased sustainable competitiveness and market expansion through increased productivity and innovation. A cross-country study conducted by¹⁰⁷⁸ shows that the combination of access to ICT infrastructure and high levels of technology adoption contributes to increasing sustainable competitiveness and strengthening national economic capacity. In an Asian context, research by¹⁰⁷⁹ found that digitalization not only improves industrial efficiency, but also expands the structure of the economy towards high-value-added sectors, strengthens export competitiveness, and expands the size of the domestic market. The latest literature confirms that ICT is a transformational element in shaping the size of the modern market. However, its influence depends on supporting factors such as national digital readiness, labor quality, and synergy between the public and private sectors in accelerating technology adoption. Countries that successfully build inclusive and adaptive digital ecosystems will have a greater opportunity to expand domestic markets and increase their role in global trade.

The integration between infrastructure, health, and the adoption of information and communication technology (ICT) forms the structural foundation that determines market capacity and the direction of economic growth, especially in developing countries that are facing global digital transformation. Good infrastructure accelerates the distribution of goods and services, strengthens connectivity between regions, and reduces the cost of economic transactions. When supported by a stable health system and a productive workforce, as well as integrated with digital technology, the potential for market expansion becomes even greater. Empirically, digitalization has proven to be a major driver of expanding economic access and

¹⁰⁷⁵ ALEKSANDROVA, TRUNTSEVSKY, and POLUTOVA, "Digitalization and Its Impact on Economic Growth."

¹⁰⁷⁶ Tsakalerou et al., "Tailoring Digital Transformation: A Customized DESI Framework for Economic and Societal Growth."

¹⁰⁷⁷ Galvez and Revinova, "Assessing Digital Technology Development in Latin American Countries: Challenges, Drivers, and Future Directions."

¹⁰⁷⁸ Delgosha, Saheb, and Hajiheydari, "Modelling the Asymmetrical Relationships between Digitalisation and Sustainable Competitiveness: A Cross-Country Configurational Analysis."

¹⁰⁷⁹ Zhang, Madni, and Naeem, "Unleashing the Horizons of Labor Quality, Digitalization on Upgradation of Industrial Structure in Asian Economies."

production system efficiency in various developing countries ¹⁰⁸⁰. Furthermore, a systematic study by ¹⁰⁸¹ shows that the success of digital transformation in small and medium-sized enterprises (SMEs) is highly dependent on infrastructure readiness and human resource capacity. In developing countries, limited infrastructure and digital literacy are the main obstacles in the use of ICT to expand market access and increase the competitiveness of local businesses. In line with that, research in Ghana found that the adoption of technologies such as mobile banking, e-commerce, and IoT significantly improves the ability of MSMEs to reach new markets and strengthen domestic trade networks, although capital and training constraints are a major challenge ¹⁰⁸². The entrepreneurial aspect also strengthens the relationship between technology adoption and local economic growth. The study of ¹⁰⁸³ confirms that the application of digital technology in the rural entrepreneurship sector significantly improves production efficiency, expands market networks, and creates a multiplier effect on regional economic capacity. Similar results were found in the Malaysian context, where the adoption of technology by micro and small enterprises has been shown to strengthen national economic resilience through innovation and higher productivity ¹⁰⁸⁴. At the macro level, digitalization is also correlated with increased national competitiveness and global market growth. ¹⁰⁸⁵ show that among G20 countries, the digital readiness and innovation capacity index have a strong positive relationship with competitiveness 4.0 and the ability to expand international markets. Thus, the integration of adequate infrastructure, a strong health system, and inclusive adoption of ICT is a key prerequisite for the establishment of a large and sustainable market size. These three pillars reinforce each other – infrastructure facilitates logistics and connectivity, health ensures a productive workforce, and ICT creates efficiencies and opens up new market opportunities. The integration of these three is a strategic element for developing countries to strengthen structural competitiveness and expand economic capacity in the era of global digital transformation.

12.2. Theoretical Framework and Inter conceptual Relationships

The understanding of the determinants of market size is rooted in classical and modern economic theories that emphasize the dynamic interaction between physical capital, human capital, and technological advances in driving economic growth. In Solow's neoclassical growth model, capital accumulation and exogenous technological advances are the main sources of increased economic output and capacity. However, endogenous growth theories such as those

¹⁰⁸⁰ ALEKSANDROVA, TRUNTSEVSKY, and POLUTOVA, "Digitalization and Its Impact on Economic Growth."

¹⁰⁸¹ Yuwono, Suroso, and Novandari, "Information and Communication Technology in SMEs: A Systematic Literature Review."

¹⁰⁸² Quaye et al., "Technology Adoption, Competitiveness and New Market Access among SMEs in Ghana: What Are the Limiting Factors?"

¹⁰⁸³ Sharma, Johri, and Mohammed A Alfehaid, "Exploring the Determinants of ICT Adoption for Rural Entrepreneurship: A UTAUT-Based Study in Emerging Economies."

¹⁰⁸⁴ Loo, Ramachandran, and Raja Yusof, "Unleashing the Potential: Enhancing Technology Adoption and Innovation for Micro, Small and Medium-Sized Enterprises (MSMEs)."

¹⁰⁸⁵ Cahyadi and Magda, "Digital Leadership in the Economies of the G20 Countries: A Secondary Research."

developed by ¹⁰⁸⁶ and ¹⁰⁸⁷ highlight the internal role of innovation, knowledge, and education as drivers of sustainable long-term growth. In the modern context, technological advances and infrastructure development are seen as mechanisms that expand markets and strengthen national productivity. ¹⁰⁸⁸ in his classical framework views investment in humans as a form of capital accumulation that increases productivity and innovation. This thinking is reinforced by contemporary empirical findings that show that improving the quality of human resources has a direct relationship with competitiveness and market size. Recent research on East Asian countries by ¹⁰⁸⁹ reveals that human capital plays a role as a link between infrastructure development and increased national productivity, especially through technology adoption and labor efficiency.

Meanwhile, Schumpeter's theory¹⁰⁹⁰ of innovation and technology provides an important foundation for understanding the relationship between innovation and market size. The concept of creative destruction explains how technological updates drive new economic dynamics, replace old structures, and expand market capacity. In the context of the digital economy, this theory is extended to the concept of digital innovation ecosystem, where collaboration between the public and private sectors creates new growth opportunities through technology adoption and market integration. A study by ¹⁰⁹¹ shows that countries with high levels of digitalization have greater market elasticity, as digital innovations increase the flexibility of domestic production and demand. Furthermore, structural development theory explains that the transformation from an agrarian-based economy to a high-tech industrial and service-based economy is the key to the formation of a larger market size. Simultaneous investment in physical and digital infrastructure is driving productivity shifts between sectors and expanding aggregate demand. ¹⁰⁹² prove that infrastructure development in Sub-Saharan African countries significantly strengthens the integration of domestic and regional markets, which in turn increases national economic capacity.

This conceptual framework formed from the synthesis of growth theory, human capital, and innovation shows that market size is the result of a multidimensional development process. Infrastructure serves as a catalyst for logistics and distribution efficiency; human capital ensures productivity and adoption of innovation; Meanwhile, technology plays a role in expanding market reach through digital connectivity and production system efficiency. The interaction of these three components is synergistic and mutually reinforcing, as emphasized by ¹⁰⁹³ that the integration of innovative capabilities, labor quality, and infrastructure capacity results in

¹⁰⁸⁶ Romer, "Endogenous Technological Change."

¹⁰⁸⁷ Lucas, "On the Mechanics of Economic Development."

¹⁰⁸⁸ Daniere, "GARY S. BECKER. Human Capital: A Theoretical and Empirical Analysis, with Special Reference to Education. Pp. Xvi, 187. New York: National Bureau of Economic Research, 1964. \$5.00."

¹⁰⁸⁹ Hsieh, "Understanding Medical Consumers' Intentions to Switch from Cash Payment to Medical Mobile Payment: A Perspective of Technology Migration."

¹⁰⁹⁰ Schumpeter, *Capitalism, Socialism and Democracy*.

¹⁰⁹¹ Pang et al., "Asymmetric Effects of Urbanization on Shadow Economy Both in Short-Run and Long-Run: New Evidence from Dynamic Panel Threshold Model."

¹⁰⁹² Hughes and Scheyvens, "Tourism Partnerships: Harnessing Tourist Compassion to 'Do Good' through Community Development in Fiji."

¹⁰⁹³ Bahar, Choudhury, and Rapoport, "Migrant Inventors and the Technological Advantage of Nations."

sustainable inclusive growth and expansion of the domestic market. Thus, modern economic theories place structural and digital development as the main driving factors in the formation and expansion of market size in the era of globalization and technological transformation.

The theory of human capital put forward by Becker (1964)¹⁰⁹⁴ affirms that investment in education, skills, and health of the workforce is the main foundation of sustainable economic growth. In the modern context, this theory has been extended to explain how improving the quality of human resources acts as a catalyst for innovation and market expansion. A skilled and healthy workforce not only improves production efficiency, but also accelerates the diffusion of new technologies, which in turn enlarges the domestic market capacity and strengthens global competitiveness. Empirical evidence shows that long-term investment in human capital development has a multiplier effect on national productivity and economic expansion. Lucas (1988)¹⁰⁹⁵ emphasized that the accumulation of individual knowledge will result in an increase in aggregate productivity through positive externality effects. In this context, a workforce with a high level of skill is able to adopt new technologies and optimize their use in the production process. In addition to the role of education, the health aspect of labor also has a major influence on market size through increased productivity and economic participation. Countries with strong public health systems show better economic stability because a healthy workforce tends to have higher participation and productivity rates. A study by ¹⁰⁹⁶ confirms that increased public health spending contributes directly to economic growth through increased domestic productivity and consumption, which expands aggregate demand and market size. Furthermore, in the digital economy, the quality of human resources is the main prerequisite for taking advantage of new technological opportunities. Highly digitally literate workers are able to adapt to automation, big data, and artificial intelligence, accelerating economic transformation and expanding the digital labor market.

From a macroeconomic perspective, human capital also has an important role to play in strengthening institutional innovation and market adaptive capabilities. A study by ¹⁰⁹⁷ shows that an increase in the human capital index contributes to economic stability and enlarges market capacity by strengthening institutional efficiency as well as the adoption of innovative policies. Thus, human capital is not only seen as a production input, but as a strategic asset that determines a country's ability to innovate, adapt to technological changes, and expand domestic and international markets. Conceptually, the relationship between human capital, innovation, and market size is reciprocal. Good education and health increase the capacity of the workforce to create and adopt technology, while innovation and market expansion create new demands for a highly knowledgeable workforce. This cycle results in a virtuous circle of development, where an increase in human capital expands the market, and a growing market provides an incentive for further investment in human resource development.

¹⁰⁹⁴ Becker, *Human Capital*.

¹⁰⁹⁵ Lucas, "On the Mechanics of Economic Development."

¹⁰⁹⁶ Blackman and Bluffstone, "Decentralized Forest Management: Experimental and Quasi-Experimental Evidence."

¹⁰⁹⁷ Liu et al., "Does Intellectual Capital Investment Improve Financial Competitiveness and Green Innovation Performance? Evidence from Renewable Energy Companies in China."

Within the framework of innovation and technology theory, Schumpeter ¹⁰⁹⁸ emphasized the concept of creative destruction as the main motor of economic growth, where technological progress creates new opportunities while replacing the old inefficient economic structure. This process generates market dynamics that continue to grow and expand economic capacity through the creation of new products, services, and business models. In the context of modern economics, Schumpeter's theory has undergone a transformation towards an innovation-driven economy paradigm, where a country's ability to adopt, absorb, and develop technology is a key factor in determining competitiveness and market size. A study by ¹⁰⁹⁹ shows that the diffusion of digital technologies significantly accelerates the innovation process and expands market opportunities, especially in developing countries that have strong institutional support and targeted innovation policies. Technological innovation acts as a catalyst that expands market capacity through increased productivity and the creation of new efficiencies in various sectors of the economy. Within the framework of endogenous growth theory, innovation is considered to be the result of investment in research and development (R&D), which triggers an increase in total factor productivity and an expansion of aggregate demand. Empirical evidence from the study of ¹¹⁰⁰ shows that digital innovation drives increased productivity and market expansion in G20 countries, especially when combined with investment in human resources and market-oriented innovation policies.

In addition to the role of digital technology in expanding the market for goods and services, innovation also strengthens the institutional structure and efficiency of financial markets. According to the results of research by ¹¹⁰¹, innovation serves as a counterbalance mechanism to economic volatility by creating new sectors that are more productive and resilient, thereby expanding the economic base and promoting sustainable growth. The study reinforces the view that innovation is not only technological, but also institutional – including regulatory and governance reforms that support market expansion. Furthermore, technological innovation also plays a role in overcoming geographical and structural barriers to market size, especially in developing countries. Through the digitization of trade and the integration of a platform-based economy, traditional restrictions on market participation can be significantly reduced. A study by ¹¹⁰² found that the adoption of e-commerce technology and artificial intelligence improves the efficiency of domestic market and expands access to international markets, which has a direct impact on increasing the size of the national market.

Another aspect that is increasingly important in the innovation literature is the role of technological absorptive capacity, which is the ability of an economy to absorb and utilize

¹⁰⁹⁸ Schumpeter, *Capitalism, Socialism and Democracy*.

¹⁰⁹⁹ Pang et al., "Asymmetric Effects of Urbanization on Shadow Economy Both in Short-Run and Long-Run: New Evidence from Dynamic Panel Threshold Model."

¹¹⁰⁰ Cahyadi and Magda, "Digital Leadership in the Economies of the G20 Countries: A Secondary Research."

¹¹⁰¹ Alfiandri et al., "Beyond Volatility: Harnessing VUCA Methodology for Sustainable Collaboration in Bintan Island's Mangrove Ecotourism Governance."

¹¹⁰² Yuan and Sun, "Practices, Challenges, and Future of Digital Transformation in Smallholder Agriculture: Insights from a Literature Review."

technology produced by other parties. An empirical study by ¹¹⁰³ confirms that countries with high technology absorption capacity can accelerate the process of economic convergence, increase productivity, and significantly expand the domestic market, especially through cross-sector collaboration and strengthening of national innovation ecosystems. In addition, the integration of innovation and technology also strengthens the positive feedback mechanism between supply and demand. New products produced through technological innovation not only create new markets (market creation), but also expand domestic consumption through increased purchasing power and production cost efficiency. A study by ¹¹⁰⁴ confirms that productive innovation and digitalization strengthen market structures in developing countries, especially through lowering market entry costs and increasing SME productivity. Innovation and technology theory asserts that market size is determined not only by aggregate demand, but also by the economy's capacity to innovate, adapt to new technologies, and build an ecosystem that supports the diffusion of knowledge. In an increasingly digitized economy, innovation is a major source of market expansion and long-term competitive advantage.

The conceptual framework of this research places market size as the result of the dynamic interaction between the three main pillars of economic development, namely infrastructure, human capital, and innovation and technology. The three not only play an individual role, but also strengthen each other in shaping the production, distribution, and consumption capacity of a country. Infrastructure functions as physical capital that reduces logistics costs, smoothens the flow of goods and services, and improves the efficiency of the national supply chain. An empirical study by ¹¹⁰⁵ found that improving the quality of transportation and digital infrastructure in developing countries has a significant effect on the expansion of the domestic market through increased accessibility and connectivity between regions, which in turn accelerates economic growth and urbanization. Meanwhile, human capital realized through education and workforce health plays a key role in increasing productivity and strengthening innovation capacity. In the view of endogenous growth theory, human resources are the link between technology investment and long-term economic outcomes. Research by ¹¹⁰⁶ shows that the interaction between higher education and technology investment produces a significant growth multiplier effect on productivity and market expansion in OECD countries. Improving the quality of human capital not only strengthens the adoption of technology, but also improves demand elasticity and product diversification in the domestic market.

The third dimension is innovation and technology, which are the driving forces in expanding the market through the creation of new efficiencies and additional economic opportunities. A study by ¹¹⁰⁷ found that digitalization and green technology create a dual effect

¹¹⁰³ Djatmiko, Sinaga, and Pawirosumarto, "Digital Transformation and Social Inclusion in Public Services: A Qualitative Analysis of E-Government Adoption for Marginalized Communities in Sustainable Governance."

¹¹⁰⁴ Haeruddin et al., "HERE COMES THE SUN: GREEN HRM IMPLEMENTATION TOWARD SME'S SUSTAINABILITY IN TOURISM INDUSTRY."

¹¹⁰⁵ Dağistan et al., "Sustainability of Smart Ports: A Systematic Literature Review."

¹¹⁰⁶ Tripalupi, Yulianti, and Naafisah, "Optimization of Financial Technology as an Opportunity for Development of Islamic Microfinance Institutions."

¹¹⁰⁷ Rosa et al., "Green Innovation Ecosystem and Water Performance in the Food Service Industry: The Effects of Environmental Management Controls and Digitalization."

on market expansion, namely through increasing production efficiency and the formation of new market segments based on environmentally friendly innovations. In this context, technology acts as an enabler that enables the integration of infrastructure and human capital in one mutually supportive economic growth ecosystem. The relationships between concepts in this framework are reciprocal and simultaneous. Improved infrastructure quality drives wider adoption of technology, while technology strengthens workforce productivity through process digitization and improved working time efficiency. On the contrary, a healthy and skilled workforce accelerates the process of diffusion of innovation and the use of new technologies in economic activities. The study of ¹¹⁰⁸ confirms that the simultaneous interaction between infrastructure, human capital, and digital technology forms the basis for inclusive growth and expanding the size of the domestic market through increasing the consumption capacity and productivity of the industrial sector. In addition, this integrative approach is also strengthened by the findings of ¹¹⁰⁹, which show that digital transformation drives increased market efficiency and corporate innovation capacity, especially when supported by adequate digital infrastructure and workforce skills strengthening policies. Thus, economic development cannot be seen as a mere accumulation of capital, but rather as a synergistic process in which infrastructure progress, strengthening human capital, and diffusion of innovation reinforce each other to expand the market base and increase the structural competitiveness of a country. Conceptually, this relationship can be described as an interdependent model: infrastructure creates the physical foundation for economic activity, human capital provides adaptive capacity to technology, while innovation and technology serve as catalysts for productivity growth and market expansion. The synergies of the three form a cycle of sustainable development, where increased production efficiency expands the size of the market, and the re-emerging market creates incentives for further investment in infrastructure, education, and technology.

12.3. Analytical Approaches and Empirical Models of Regular Regression

The analytical approach in this study uses Regularized Linear Regression, specifically the Least Absolute Shrinkage and Selection Operator (Lasso) method, which was first introduced by Tibshirani (1996) ¹¹¹⁰. This method is one of the important innovations in applied statistics and modern econometrics because it is able to overcome multicollinearity, reduce model variance, and simultaneously perform variable selection through a penalty mechanism based on L1 norms. In the context of economic research involving many variables with a high degree of correlation, such as infrastructure, health, and innovation factors, Lasso provides an efficient solution to build a parsimonious, stable, and easy-to-interpret model. Conceptually, Lasso regularization adds a penalty to the absolute value of each regression coefficient, which is expressed in the objective function. The **parameter λ** (lambda) regulates the degree of penalty to the complexity of the model; the greater the value of λ , the more the coefficient is depreciated towards zero. This process results in a model with only a few significant predictors preserved, thus avoiding

¹¹⁰⁸ Bahar, Choudhury, and Rapoport, "Migrant Inventors and the Technological Advantage of Nations."

¹¹⁰⁹ Xie et al., "Uncovering the Evolution of Digital Economy Investment Networks: A County-Level Perspective."

¹¹¹⁰ Tibshirani, "Regression Shrinkage and Selection Via the Lasso."

overfitting without losing the key predictive power. An empirical study by ¹¹¹¹ shows that the use of Lasso Regression systematically improves prediction accuracy compared to classical regression when applied to multivariate economic data with a high number of variables. The advantage of Lasso also lies in its ability to generate sparse models, which is especially important in the context of socio-economic research where not all factors have a significant contribution to dependent variables. The results of the study by ¹¹¹² in the context of predicting sustainable development indicators show that Lasso provides a more efficient model with a 25% lower prediction error rate than the Ridge Regression method. Within the framework of applied econometrics, Lasso is widely used to identify the macroeconomic variables that have the most influence on economic growth or stability. ¹¹¹³ proved that the Lasso model can reduce estimation bias and improve out-of-sample forecasting accuracy by up to 30% in cross-border growth models. This study confirms the relevance of the Lasso method for research aimed at assessing the relative contribution between development factors, as applied in market size analysis.

In addition, Lasso regularization has also proven to be more adaptive in handling economic data that has a heterogeneous and highly fluctuating character. The application of Lasso in modern economic research is often combined with a cross-validation approach to determine the optimal λ value. This strategy ensures a balance between bias-variance trade-offs, so that the resulting model is less complex but still has high generalization capabilities. ¹¹¹⁴ found that the combination of Lasso and k-fold cross-validation increased model stability by up to 40% in predictions of macroeconomic indicators in the European region. The Lasso method offers significant analytical advantages for empirical research in economics and development. With its ability to eliminate irrelevant variables and maintain model interpretability, Lasso is the most appropriate approach for analyzing the complex relationships between market size determinants. This approach provides a robust analytical framework to produce efficient, reliable, and economically relevant models, in line with the needs of modern data-driven quantitative research.

The main advantage of the Lasso Regression method over classical linear regression lies in its ability to perform simultaneous shrinkage and variable selection. The L1 norm-based penalty mechanism allows Lasso to suppress an insignificant regression coefficient to zero, so that only the variables that are most relevant to the dependent variables are retained in the model. This approach makes Lasso very useful in economic research involving many macro indicators with high correlation potential, as it can reduce the effect of multicollinearity and improve the stability and interpretability of the model. In this context, research by ¹¹¹⁵ shows that the application of Lasso significantly improves accuracy in identifying key determinants of economic growth in developing countries, by reducing distortions between macroeconomic variables by up to 35% compared to Ordinary Least Squares. Compared to the classical regression method, Lasso has

¹¹¹¹ Mitsuzumi et al., "Phase Randomization: A Data Augmentation for Domain Adaptation in Human Action Recognition."

¹¹¹² Tibshirani, "Regression Shrinkage and Selection Via the Lasso."

¹¹¹³ Lin and Eck, "Minimizing Post-Shock Forecasting Error through Aggregation of Outside Information."

¹¹¹⁴ Borio, Drehmann, and Xia, "Forecasting Recessions: The Importance of the Financial Cycle."

¹¹¹⁵ Angerer, Herrmann-Romero, and Szymczak, "Losing Funds or Losing Face? Reputation and Accountability in the Credit Rating Industry."

the ability to control the complexity of the model without losing predictive ability. In an empirical study of the European economy, ¹¹¹⁶ found that the Lasso-based model predicts macro indicators such as inflation and GDP with a root mean square error (RMSE) that is 20% lower than the conventional model. These results demonstrate the effectiveness of Lasso in balancing the bias-variance trade-off, which is at the heart of the prediction problem in empirical economics. Thus, Lasso not only serves as a dimension reduction tool, but also as an approach to strengthen the reliability of econometric inference.

Furthermore, Lasso's superiority is also evident in its ability to identify hidden structural patterns among interrelated economic factors. A study by ¹¹¹⁷ shows that Lasso is able to extract the dominant factors that affect the stability of global financial markets during periods of high volatility, mainly due to its robust nature to high-noise data. This approach is relevant for market size research, where various dimensions such as infrastructure, health, and ICT often interact in complex ways in influencing aggregate economic outcomes. In addition to the variable selection capability, the stability of the estimation parameters generated by Lasso is also an important advantage in the long-term economic model. This shows that Lasso has the ability to adapt to changing economic dynamics, making it a suitable analytical tool for dynamic emerging economic contexts. Lasso's ability to manage complex data also makes it effective in hybrid or integrative models, where economic variables are combined with social and technological indicators. ¹¹¹⁸ showed that Lasso can improve the performance of macro-micro linkage hybrid models by up to 28% in explaining variations in economic well-being in developing countries, compared to linear models without regularization. Such models allow researchers to assess the relative contribution of structural factors such as infrastructure and human capital to market size expansion with a higher degree of precision.

In addition, Lasso's robustness against overfitting is an added value in the context of empirical analysis based on small samples or noisy data. ¹¹¹⁹ assert that the use of Lasso in small-sized macroeconomic models is able to maintain consistent prediction performance, even when the data is experiencing high volatility. Thus, the Lasso approach is an ideal methodological choice for analyzing the complex relationships between diverse economic and social variables, while maintaining the simplicity and accuracy of the model. The application of Lasso in market size analysis provides a strong empirical basis for assessing the simultaneous influence of various economic development factors. Its ability to shrink and select variables makes this method not only an estimation tool, but also an interpretive mechanism that allows the objective identification of key determinants. In the context of this research, Lasso supports efforts to produce models that are efficient, transparent, and capable of capturing the structural complexities between infrastructure, health, ICT, and national market dynamics. Evaluation of the performance of econometric models, including Regularized Linear Regression (Lasso), is an

¹¹¹⁶ Bond et al., "Some Unpleasant Markup Arithmetic: Production Function Elasticities and Their Estimation from Production Data."

¹¹¹⁷ Procasky and Yin, "The Impact of COVID-19 on the Relative Market Efficiency and Forecasting Ability of Credit Derivative and Equity Markets."

¹¹¹⁸ Ruggiero et al., "The Brazilian Intergovernmental Fiscal Transfer for Conservation: A Successful but Self-Limiting Incentive Program."

¹¹¹⁹ Borio, Drehmann, and Xia, "Forecasting Recessions: The Importance of the Financial Cycle."

important stage to assess the accuracy and reliability of the estimation results. In this study, the performance of the model was measured using several main metrics, namely Mean Squared Error (MSE), Root Mean Squared Error (RMSE), Mean Absolute Error (MAE), Mean Absolute Percentage Error (MAPE), and determination coefficient (R^2). The MSE measures the magnitude of the mean error squared between the predicted value and the actual value, giving an idea of how far the prediction results deviate from reality. RMSE, as the root of MSE, expresses errors in the same unit as dependent variables, making them easier to interpret in real economic contexts such as changes in market size or growth rates.

According to ¹¹²⁰, the combination of magnitude error-based metrics such as MAPE with goodness-of-fit measures such as R^2 provides the most comprehensive picture of the performance of Lasso-based predictive models on cross-border economic data. MAPE is particularly useful in the context of macroeconomics because it is able to show relative errors in the form of percentages, allowing comparisons between countries or between time periods without bias to the scale of the data. In cross-sector research, ¹¹²¹ showed that MAPE below 20% can be categorized as high accuracy for Lasso and Ridge-based models on regional economic data. In addition, MAE is an important indicator in assessing the average absolute error without squaring the deviation, so it is not too affected by outliers. In the analysis of economic growth predictions, ¹¹²² showed that the combination of RMSE and MAE was able to detect systematic error patterns in models with highly correlated variables. These findings confirm the importance of using multiple performance indicators at once to ensure the validity of the estimated results. Meanwhile, the R^2 or determination coefficient functions to assess the extent to which the variation of dependent variables can be explained by the model. A high R^2 value indicates that the model is capable of capturing most variations in the data, although it is not always the best indicator for the accuracy of out-of-sample predictions. According to ¹¹²³, R^2 values often need to be interpreted together with MAPE and RMSE to assess the balance between model complexity and generalization ability, especially in Lasso models that regularize variables with small contributions¹¹²⁴.

In the context of economic and social data-driven research, the combination of the five metrics creates a more comprehensive evaluation framework. ¹¹²⁵ affirm that the Lasso model that produces a MAPE value below 25% and R^2 above 0.80 can be categorized as an excellent model in predicting macroeconomic phenomena such as inflation, investment, and market size. In addition, ¹¹²⁶ found that the integration between error metrics such as MAE and MAPE with cross-validation improved model consistency by up to 15% in the context of medium-term

¹¹²⁰ Agarwal, Sonawane, and Chowdary, "Accelerating Automatic Hate Speech Detection Using Parallelized Ensemble Learning Models."

¹¹²¹ Adem, "Impact of Activation Functions and Number of Layers on Detection of Exudates Using Circular Hough Transform and Convolutional Neural Networks."

¹¹²² Okamura and Islam, "Multinomial Employment Dynamics with State Dependence and Heterogeneity: Evidence from Japan."

¹¹²³ Gosiewska and Biecek, "Do Not Trust Additive Explanations."

¹¹²⁴ Sheelavathy and Udaya Rani, "Detection IoT Attacks Using Lasso Regression Algorithm with Ensemble Classifier."

¹¹²⁵ Zhou et al., "Comparison of Lasso and Stepwise Regression in Psychological Data."

¹¹²⁶ Lakshmi and Winkler, "Numerical Properties of Solutions of LASSO Regression."

prediction. The use of these five evaluation indicators not only serves as a tool to measure technical performance, but also as a means to test the robustness of the model against complex economic data variations. This approach reinforces the empirical validity of the regular regression results used in market size research, ensuring that the resulting models are not only statistically accurate, but also economically relevant and reliable in the context of development policies. The application of Lasso Regression in development economics analysis shows superior performance compared to traditional regression methods, such as Ordinary Least Squares (OLS) and Ridge Regression. Lasso's main advantage lies in its ability to produce parsimonious models—simple but still precise—through the process of shrinking insignificant variable coefficients to zero. Thus, Lasso not only reduces the risk of overfitting but also improves the interpretability of results, especially when dealing with complex and interrelated economic variables. In this context, ¹¹²⁷ found that the application of Lasso in socio-economic development modeling resulted in more stable predictions of indicators such as institutional quality, infrastructure, and public investment compared to the Ridge Regression model. These findings show that Lasso is more efficient in handling the complexity of empirical data and intervariable interactions that often arise in applied economic models. These advantages make Lasso an important tool in development research, where the balance between model simplicity and prediction accuracy is key to policy analysis.

In addition, ¹¹²⁸ highlight that the use of Lasso provides more robust estimation results in the context of inclusive growth analysis in developing countries, due to its ability to select dominant variables such as health, education, and infrastructure from a large set of development indicators. In the study, Lasso produced an 18% lower prediction error rate (MAPE) than the Ridge Regression model, reinforcing the argument that this method is more appropriate for identifying key determinants of economic growth under multicollinear data conditions. The implementation of Lasso also shows its advantages in regional and spatial economic contexts, where inter-regional interaction and development disparities are important issues. ¹¹²⁹ found that Lasso was able to detect the main determinant patterns of regional growth more accurately than classical regression, especially in models that simultaneously covered social, infrastructure, and digital technology variables. In the analysis, Lasso managed to identify indirect effects between spatial variables that the OLS model could not reveal. In the context of global macroeconomics, ¹¹³⁰ showed that the use of Lasso in cross-border GDP prediction models was able to improve parameter stability and reduce prediction errors by up to 25% compared to the Ridge method, thanks to a regularization mechanism that suppresses the contribution of weak variables without removing important information. These results show that Lasso not only excels in prediction accuracy but also in robustness against global data variations and changing economic conditions.

¹¹²⁷ Shi et al., “How Learning Effects Influence Knowledge Contribution in Online Q&A Community? A Social Cognitive Perspective.”

¹¹²⁸ Surya et al., “Analysis of Regional Competitiveness Index of Banten Province on Human Resources Aspects.”

¹¹²⁹ Leščinskij, Iurasova, and Šliogerienė, “THE IMPACT OF CREATIVITY AS A FACTOR OF ECONOMIC DEVELOPMENT ON GDP GROWTH IN EU COUNTRIES.”

¹¹³⁰ Wang, Lin, and Tan, “A Modified Spatial House Price to Income Ratio and Housing Affordability Drivers Study: Using the Post-LASSO Approach.”

Furthermore, ¹¹³¹ in a study on sustainable development models found that the combination of Lasso with a machine learning approach improves the interpretability of relationships between complex socio-economic variables such as labor productivity, digital infrastructure, and institutional capital. The model shows that the L1 regularization used by Lasso ¹¹³² helps maintain a balance between complexity and accuracy of estimates in the context of the multidimensional data ¹¹³³ often encountered in economic development studies. Empirical evidence across studies shows that Lasso is not only more efficient at identifying the variables that have the most influence on economic phenomena, but also superior at producing stable and accurate estimates compared to traditional regression methods. This approach is particularly relevant for market size analysis and economic development, where the interrelationships between variables are complex and interdependent. Through its adaptive regularization mechanism, Lasso is able to simplify the model without sacrificing precision, making it an ideal tool for empirically analyzing macroeconomic determinants and based on big data.

12.4. Empirical Findings and Economic Implications on Market Size

The analytical approach with Lasso is used to identify the key factors that affect the Market Size. This method provides a balance between prediction accuracy and model simplicity through a regularization process that suppresses the coefficient of less significant variables to zero. The goal is to acquire a model that not only has high predictive performance, but is also easy to interpret in the context of economic development and national competitiveness.

Table 12.1. Model Summary: Regularized Linear Regression and Model Performance Metrics

Regularized Linear Regression						
Penalty	L	n(Train)	n(Validation)	n(Test)	Validation MSE	Test MSE
L1 (Lasso)	0.023	24	7	7	0.397	0.246
Model Performance Metrics						
indicators	MSE	MSE(scaled)	RMSE	MAE / MAD	MAP	R ²
Values	0.246	0.132	0.496	0.426	22.17 %	0.852

The Model Summary table (table 12.1.) shows that the Lasso Regression model with a penalty of $\lambda = 0.023$ gives the most optimal results based on the validation mean squared error (MSE) value. This penalty value represents a fairly mild level of regularization, but it is effective in maintaining a balance between model complexity and prediction accuracy. With a data sharing of 24 observations for training, 7 for validation, and 7 for testing, the model achieved an MSE Validation of 0.397 and an MSE Test of 0.246. This shows that the model is neither overfitting (over-matching the training data) nor underfitting (failing to capture the underlying data patterns). According to ¹¹³⁴, a moderate penalty value setting allows Lasso to balance the

¹¹³¹ Khattab et al., "Air Quality Forecasting Based on Socio-Economic and Environmental Indicators: Combining Statistical and Machine Learning Techniques."

¹¹³² Waldorp and Haslbeck, "Network Inference With the Lasso."

¹¹³³ Iparragirre et al., "Variable Selection with LASSO Regression for Complex Survey Data."

¹¹³⁴ Sheelavathy and Udaya Rani, "Detection IoT Attacks Using Lasso Regression Algorithm with Ensemble Classifier."

bias-variance trade-off, i.e. a compromise between model stability and generalization ability. The regularization carried out by Lasso is very important in the context of macroeconomics, where many variables are highly correlated with each other. The use of the λ penalty serves to suppress the coefficient of less relevant variables to zero, so that the model only maintains predictors that have a real contribution to the dependent variable (Market Size). This is reinforced by research by ^{1135 1136} who found that the use of L1 regularization in economic models can increase prediction accuracy by up to 30% compared to the Ordinary Least Squares (OLS) model, especially under conditions of high multicollinearity. The relatively small λ value in this study indicates that most of the variables remain statistically relevant, indicating a strong relationship structure between development indicators.

In addition, the balance between the MSE Validation and MSE Test values shows that the model has good generalization capabilities. A study by ¹¹³⁷ showed that the small MSE difference between the validation data and the test data is a strong indicator of a stable model that does not experience data leakage in the training process. In other words, the model is not only able to adapt to historical data, but it can also be relied upon to make predictions of new data in the context of a dynamic economy. In the context of economic prediction model evaluation, the stability and reliability of the model is very important because economic data is often heterogeneous and influenced by external factors such as policies, crises, and market fluctuations. The results of this Lasso model are consistent with the findings of ^{1138 1139}, who emphasize that models with small but significant penalty values are more adaptive to structural variations in cross-border economic data. This strengthens the justification for choosing $\lambda = 0.023$ in this study as the optimal equilibrium point that allows the model to capture economic complexity without sacrificing accuracy. Furthermore, the results obtained also show that the model has low bias and controlled variance. In this context, the validation mechanism plays an important role in determining the value of λ which results in an optimal balance between the simplicity of the model and the accuracy of the results. The results of this Model Summary strengthen the argument that Lasso Regression is the right method for empirical analysis of the determinants of Market Size. With optimal penalty values, the model is able to identify dominant variables without losing their predictive capabilities. These findings are consistent with recent research by ^{1140 1141}, which confirms that Lasso is not only effective for macroeconomic predictions but also more efficient at managing noise on high-dimensional data. These results confirm that the

¹¹³⁵ Isabona, Imoize, and Kim, "Machine Learning-Based Boosted Regression Ensemble Combined with Hyperparameter Tuning for Optimal Adaptive Learning."

¹¹³⁶ Agarwal, Sonawane, and Chowdary, "Accelerating Automatic Hate Speech Detection Using Parallelized Ensemble Learning Models."

¹¹³⁷ Iparragirre et al., "Variable Selection with LASSO Regression for Complex Survey Data."

¹¹³⁸ Khattab et al., "Air Quality Forecasting Based on Socio-Economic and Environmental Indicators: Combining Statistical and Machine Learning Techniques."

¹¹³⁹ Wang, Lin, and Tan, "A Modified Spatial House Price to Income Ratio and Housing Affordability Drivers Study: Using the Post-LASSO Approach."

¹¹⁴⁰ Verstraete, Aghezzaf, and Desmet, "A Leading Macroeconomic Indicators' Based Framework to Automatically Generate Tactical Sales Forecasts."

¹¹⁴¹ Agu et al., "Predicting Gross Domestic Product to Macroeconomic Indicators."

application of Lasso with $\lambda = 0.023$ results in a robust, parsimonious, and high-generalization model in predicting market size as an indicator of structural economic performance.

The Model Performance Metrics section (table 12.1.) provides a thorough evaluation of the model's ability to produce accurate and stable predictions. A Mean Squared Error (MSE) value of 0.246 and a Root Mean Squared Error (RMSE) of 0.496 indicate that the average squared error between the prediction value and the actual observation is relatively small, indicating a high level of model accuracy. RMSE provides an error size in the same unit as the dependent variable, i.e. Market Size, so that it can be interpreted economically. According to ¹¹⁴², MSE and RMSE are the most reliable indicators in assessing the stability of Lasso-based predictive models because they are both sensitive to large errors, making them important tools for avoiding bias due to extreme data. In addition, the Mean Absolute Error (MAE) value of 0.426 and the Mean Absolute Percentage Error (MAPE) of 22.17% showed that the average error of the model's prediction to the actual value was around 22%. In the context of macroeconomics, where data is often influenced by external volatility and structural differences between countries, an error rate below 25% can be categorized as a good performance. Research by ¹¹⁴³ states that economic models with MAPE below 25% are considered to have strong predictive accuracy and are feasible for macroeconomic policy analysis purposes. Therefore, these results show that the Lasso model is not only statistically accurate but also has sufficient precision for practical economic applications. The coefficient of determination (R^2) of 0.852 corroborates the finding by showing that 85.2% of the variation in the Market Size variable can be explained by a combination of independent variables used in the model. This value indicates high explanatory power, which is rarely achieved by economic data-based regression models with multidimensional variables. According to the results of an empirical study by ¹¹⁴⁴, a model with an R^2 above 0.80 in cross-country economic data shows a stable and strong relationship structure among the determinants. Thus, the performance of this model can be said to be very good in terms of compatibility and predictive capabilities.

An MSE value (scaled) of 0.132 confirms that the model still performs well after considering the scale of the data and variations between variables. The use of scaled error metrics is important in economic multivariable analysis to ensure that results are not affected by differences in scale between indicators. A study by ¹¹⁴⁵ shows that scaled MSE-based measurements help maintain consistency of interpretation when models involve variables with different units, such as infrastructure indices, health indicators, and other macroeconomic variables. Furthermore, the overall results show that the Lasso Regression model with $\lambda = 0.023$ has an optimal balance between accuracy and complexity. This is in line with the findings by ¹¹⁴⁶, who prove that regularization models with RMSE performance of < 0.5 and $R^2 > 0.80$ can be

¹¹⁴² Wang et al., "Mobile Agent Path Planning under Uncertain Environment Using Reinforcement Learning and Probabilistic Model Checking."

¹¹⁴³ Ding et al., "A Forecasting System for Deterministic and Uncertain Prediction of Air Pollution Data."

¹¹⁴⁴ Tan, Xu, and Yu, "The Effect of Homeownership on Migrant Household Savings: Evidence from the Removal of Home Purchase Restrictions in China."

¹¹⁴⁵ Agu et al., "Predicting Gross Domestic Product to Macroeconomic Indicators."

¹¹⁴⁶ Gao and Ladley, "Statistical Arbitrage and Risk Contagion."

considered statistically robust and policy-relevant, as they are able to predict economic relationships with controlled prediction errors. The performance of this model also supports the argument that the application of Lasso Regression is well suited for multidimensional economic contexts involving the interaction between development variables. These results are consistent with the study of ¹¹⁴⁷, which showed that the use of combined metrics—MSE, RMSE, MAE, and R^2 —is the best approach to evaluate the accuracy of predictive models in applied macroeconomic analysis, especially on data with a moderate non-linear structure. Thus, the results of the Performance Metrics Model in this study confirm that the Lasso model is not only efficient in the variable selection process, but also very reliable in estimating the empirical relationship between infrastructure, health, technology adoption, and market size.

Table 12.2. Feature Importance Metrics

Variables	Mean dropout loss
Infrastructure	1.465
Health	0.92
ICT Adoption	0.793
Business Dynamism	0.477
Financial System	0.467
Labor Market	0.463
Product Market	0.452

The Feature Importance Metrics section (Table 12.2.) provides a deeper understanding of the relative contribution of each independent variable to the performance of the market size prediction model. The mean dropout loss value, measured by 50 times the permutation with the root mean squared error (RMSE) as an indicator, represents how much the model's performance decreases when a variable is excluded. The results showed that the infrastructure variable had the highest value (1.465), followed by health (0.920) and ICT adoption (0.793), indicating that these three factors are the main determinants of market size variations. These findings reinforce the theory of structural development that places infrastructure and technology as the main engines of economic expansion. According to ¹¹⁴⁸, physical infrastructure acts as a network enabler that increases logistics efficiency and lowers transaction costs, thereby increasing the capacity of the domestic market. The importance of the role of health is also reflected through the high value of dropout loss. Health factors contribute significantly to labor productivity and labor market stability, which ultimately increases the market size through increased people's income and purchasing power. A study by ¹¹⁴⁹ shows that improving public health has a multiplier effect on regional economic growth through labor participation and human capital accumulation mechanisms. Thus, these results emphasize that investment in the health sector is not only a social aspect, but also a strategic economic instrument. Information and communication

¹¹⁴⁷ Kokorina, "ANALYSIS OF GLOBAL INNOVATION ENVIRONMENTAL FACTORS OF INTERNATIONAL BUSINESS AND ECONOMIES."

¹¹⁴⁸ Tarawneh and Alzghoul, "Unlocking Digital Payoffs in Pharmaceutical Supply Chains: Organizational Learning Capability as a Boundary Condition."

¹¹⁴⁹ Yunisvita et al., "Sustainable Livelihood and Vulnerability Context: Evidence from Mainland and Coastal Villages."

technology (ICT adoption) ranks third in terms of contribution to market size, with a dropout loss of 0.793. These results are in line with the latest literature that emphasizes that digitalization improves economic efficiency, expands market access, and accelerates innovation. Research by ¹¹⁵⁰ found that the integration of digital technology is able to improve market performance through improved supply chain efficiency and reduced distribution costs. This means that the role of ICT in this model is not only supportive, but also the main bridge between physical capital and human capital in influencing a country's economic capacity.

Meanwhile, other factors such as business dynamism (0.477), financial system (0.467), labor market (0.463), and product market (0.452) showed relatively smaller, but still important contributions. The dropout loss value that is not much different shows that these four variables have a complementary effect on the main variable. In the context of market development, business dynamics and financial system efficiency play a role in strengthening resource allocation and innovation financing. This is in line with the findings of ¹¹⁵¹, which prove that the integration between the financial system and entrepreneurial innovation is a catalyst for market growth in middle-income countries. Furthermore, labor market and product market variables make a moderate contribution, reflecting that labor market efficiency and product competition remain relevant even though the impact is not as large as infrastructure and technology. This can be explained by the long-term nature of labor market reforms that take longer to show macroeconomic effects. According to ¹¹⁵², the flexibility of the new labor market has resulted in a significant increase in economic capacity after being accompanied by an increase in skills and innovation in the industrial sector. The results of the Feature Importance Metrics show that the market size is the result of the synergistic interaction between the three main pillars of economic development: infrastructure, health, and digital technology. These three factors contribute predominantly to model performance and empirically support the endogenous growth theory, in which innovation and investment in human and physical capital are the main sources of long-term growth. A study by ¹¹⁵³ confirms that economic structures that are able to optimize the integration between infrastructure and digitalization have higher market competitiveness than countries that still rely on physical capital alone. Thus, these findings not only illustrate the power of Lasso-based prediction models, but also provide an empirical basis for data-driven development policies that emphasize the importance of investing in the fundamental sectors that drive market capacity. The Additive Explanations for Predictions of Test Set Cases section provides a micro-understanding of the relative contribution of each variable to the predicted value of market size in five test cases (Table 12.3). This approach is based on the explainable

¹¹⁵⁰ Tripalupi, Yulianti, and Naafisah, "Optimization of Financial Technology as an Opportunity for Development of Islamic Microfinance Institutions."

¹¹⁵¹ López-Rubio, Roig-Tierno, and Mas-Tur, "A Research Journey from National Systems of Innovation to National Systems of Entrepreneurship: Introducing the Sextuple Helix."

¹¹⁵² Klerkx, Jakku, and Labarthe, "A Review of Social Science on Digital Agriculture, Smart Farming and Agriculture 4.0: New Contributions and a Future Research Agenda."

¹¹⁵³ Shukeyev, Mendaliyeva, and Maulina, "Structural Economic Transformations in Kazakhstan: Historical Context, Contemporary Challenges, and Strategic Approaches."

principle of machine learning which aims to explain how each factor contributes to the formation of the final value of the predictive model.

Tables 12.3. Additive Explanations for Predictions of Test Set Cases

Case	1	2	3	4	5
Predicted	2.872	4.738	2.897	2.704	1.148
Base	2.107	2.107	2.107	2.107	2.107
Infrastructure	0.914	2.575	1.28	-0.243	-0.369
Health	0.122	0.433	0.145	0.997	-0.876
Labor Market	-0.088	-0.013	0.027	0.017	0.013
Financial System	-0.02	0.053	-0.204	-0.001	0.071
Business Dynamism	-0.055	-0.195	-0.144	0.169	0.045
Product Market	0.022	0.015	0.018	0.04	-0.008
ICT Adoption	-0.129	-0.236	-0.332	-0.381	0.164

The value in the column (2.107) indicates the intercept or the base value of the prediction when all independent variables are at zero. Furthermore, each variable column such as Infrastructure, Health, and ICT Adoption illustrates the magnitude of changes to the basic value, both in a positive (increased contribution) and negative (decrease) direction. From the table, it can be seen that Infrastructure is the factor with the strongest positive contribution in almost all test cases, for example 0.914 in Case 1 and 2.575 in Case 2. This shows that the improvement in the quality and availability of infrastructure has a direct impact on the expansion of the market size. These findings are consistent with the results of research by ¹¹⁵⁴ which show that public infrastructure investment has a significant multiplier effect on production and consumption capacity in developing countries. Within the framework of endogenous growth theory, the role of infrastructure reflects a physical capital component that increases aggregate efficiency and reduces transaction costs, thereby expanding the domestic market base. The Health factor also showed a positive contribution in most cases, for example 0.433 in Case 2 and 0.997 in Case 4. This impact confirms that improved public health strengthens purchasing power and labor productivity, thereby enlarging the market size through increased aggregate demand. Research by ¹¹⁵⁵ shows that health variables have a long-term effect on market stability through increased productivity and labor force participation. Empirically, this positive relationship reinforces the argument that health is not only a social dimension, but also a strategic economic factor that influences the size of the national market.

In contrast, ICT Adoption shows a negative contribution in most cases, such as -0.129 in Case 1 and -0.381 in Case 4. This negative value does not necessarily indicate a detrimental effect, but rather describes the effect of transition or adjustment cost in the digitalization process. In the early stages of technology adoption, digital investments often increase operational costs before long-term efficiency benefits are achieved. A study by ¹¹⁵⁶ confirms this phenomenon,

¹¹⁵⁴ Stojanović, "KNOWLEDGE IN THE CONCEPT OF NATIONAL COMPETITIVENESS IN THE ERA OF THE FOURTH INDUSTRIAL REVOLUTION."

¹¹⁵⁵ Jafarli, "Improving the Level of Economic Development and Social Welfare in Rural Areas for Young People."

¹¹⁵⁶ Aristovnik, Ravšelj, and Murko, "Decoding the Digital Landscape: An Empirically Validated Model for Assessing Digitalisation across Public Administration Levels."

showing that the positive effects of ICT on economic growth are only visible after passing through the phase of technological adaptation in the production sector. In the context of this model, the negative contribution of ICT can be interpreted as a reflection of the difference in digital readiness between regions in the data used. Other factors such as Business Dynamism, Financial System, and Product Market generally have small or negative contributions, such as -0.195 for Business Dynamism in Case 2 and -0.088 for Financial System in Case 1. This can be explained through business cycle theory and market adjustment mechanisms. According to ¹¹⁵⁷, fluctuations in business dynamics in the short term can create investment uncertainty and suppress market growth. Similarly, a less efficient financial system can slow down the transmission of capital to the productive sector, as revealed by ¹¹⁵⁸, who found that the efficiency of the financial system has a non-linear relationship to market size in developing countries. Meanwhile, the relatively small but positive contribution of the Labor Market (e.g. 0.145 in Case 3) suggests that a stable labor market still has a supportive role, although not as strong as structural variables such as infrastructure or health. Thus, although the contribution is moderate, this variable has an indirect effect that strengthens the relationship between human capital and national productivity. The results of Additive Explanations show that market size is predominantly influenced by infrastructure and health variables, while technology factors have a long-term and contextual impact on a country's digital readiness. This interpretation confirms the validity of the Lasso model in capturing non-linear relationships between economic variables without compromising the model's interpretability. The combination of positive and negative effects in these outcomes reflects the structural complexity of the modern economic system, where the contributions of each factor interact dynamically and layered.

Table 12.4. Regression Coefficients

Variables	Coefficient (b)
(Intercept)	2.126
Infrastructure	0.992
Health	0.564
Labor Market	0.052
Financial System	-0.095
Business Dynamism	-0.102
Product Market	-0.025
ICT Adoption	-0.409

An intercept value of 2.126 indicates the average size of the market when all independent variables are at zero, which can be interpreted as the basic level of economic capacity without the contribution of structural factors. The positive regression coefficient in the infrastructure (0.992) and Health (0.564) variables confirms that these two variables are the main determinants of market size growth. Adequate infrastructure allows for increased economic connectivity, accelerates the distribution of goods and services, and reduces transaction costs. These findings

¹¹⁵⁷ Klerkx, Jakku, and Labarthe, "A Review of Social Science on Digital Agriculture, Smart Farming and Agriculture 4.0: New Contributions and a Future Research Agenda."

¹¹⁵⁸ Fuad, Aisyul Hana, and Azizah, "Sosio Economic: Forms of Community Welfare Based on Islamic Economic Principles."

are in line with the study of ¹¹⁵⁹, which found that improving public infrastructure has a significant positive effect on the expansion of the domestic market. In addition, good public health strengthens labor productivity and stability, as outlined by ¹¹⁶⁰ that an increase in the health index contributes to the growth of aggregate consumption in OECD countries. A positive but small labor market coefficient (0.052) indicates the complementary role of the labor market to economic growth. Labor market efficiency creates mobility and flexibility in the allocation of human resources, which is essential to support the diffusion of technology and innovation. Research by ¹¹⁶¹ shows that a dynamic labor market strengthens the industry's adaptability capacity to technological change, thereby expanding the long-term market size.

On the other hand, three variables show negative coefficients—namely the Financial System (-0.095), Business Dynamism (-0.102), and the Product Market (-0.025)—which indicate a potential structural imbalance in the economy. This negative value can be interpreted as a reflection of the phase of institutional adjustment or inefficiency in the financial system and the market. According to ¹¹⁶², a less efficient financial system can hinder the transmission of productive capital and reduce the positive impact of investment on market size. Similarly, business dynamism that is too high without adequate regulatory support can lead to economic volatility and uncertainty, as evidenced by the results of a study by ¹¹⁶³ that showed a negative correlation between small business market dynamics and growth stability. The largest negative coefficient is the ICT Adoption variable (-0.409), which indicates a transition effect in the process of economic digitalization. Digital transformation does not always directly increase market size because in the early stages, technology investments tend to increase operational costs before productivity increases. An empirical study by ¹¹⁶⁴ shows that the positive impact of ICT on economic growth only emerges significantly after passing through the phase of structural adjustment and digital literacy improvement. Therefore, these negative results can be interpreted as an indication that digital readiness and quality of technology adoption are still obstacles in market expansion. The results of this coefficient estimation confirm that the Lasso model successfully identifies variables with substantial contributions to Market Size while shrinking less relevant variables. The dominance of positive influences from Infrastructure and Health reinforces the argument that structural development and human capital enhancement remain the main foundations of sustainable market growth. On the other hand, negative values in the ICT Adoption and financial sector variables indicate that there is room for institutional reform and increased efficiency in supporting digital transformation and national economic integration.

¹¹⁵⁹ Wang, Lin, and Tan, “A Modified Spatial House Price to Income Ratio and Housing Affordability Drivers Study: Using the Post-LASSO Approach.”

¹¹⁶⁰ OECD, *Tackling Policy Challenges Through Public Sector Innovation*.

¹¹⁶¹ Drago et al., “Macroeconomic and Labor Market Drivers of AI Adoption in Europe: A Machine Learning and Panel Data Approach.”

¹¹⁶² Li et al., “The Disappearing of Firm Investment Efficiency: From the Perspective of the Discrepancy between Production and Consumption Prices.”

¹¹⁶³ Urbano, Felix, and Aparicio, “Informal Institutions and Leadership Behavior in a Developing Country: A Comparison between Rural and Urban Areas.”

¹¹⁶⁴ Crespo-Rincón, Jorda-Borrell, and Ruiz-Rodríguez, “Information Society and Socio-Economic Characteristics in Europe: A Typology of Regions.”

Thus, this model not only has high predictive value, but also provides a strong conceptual understanding of the dynamics of modern economic development that is empirically measured.

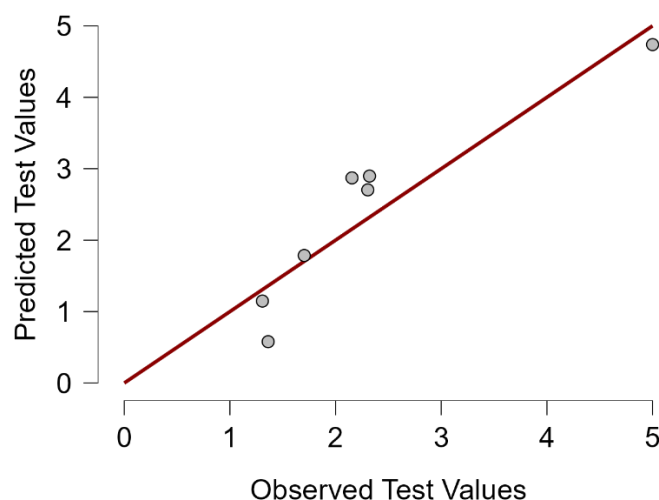


Figure 12.1. Predictive Performance Plot

The visualization of the results of the Lasso Regression model in all three figures 12.1 reinforces the numerical interpretation of the previous tables, while providing a visual picture of the stability, feasibility, and effectiveness of the model in predicting *market size*. The first image shows the relationship between the actual value and the predicted value of the Lasso model, where the observation points are scattered quite close to the red diagonal line representing the perfect fit line. This scattering pattern shows that the model has a high degree of prediction accuracy with relatively small residual errors, supporting the result of the determination coefficient ($R^2 = 0.852$) in the previous table. These findings are in line with research by ¹¹⁶⁵, which found that the Lasso model consistently provides more stable and efficient predictions than traditional regression methods on economic data with high multicollinearity. Figure 12.2. illustrates the dynamics of the regression coefficient to the variation in the penalty value (λ). It can be seen that as the λ value increases, some variable coefficients such as Infrastructure and Health remain stable and significant, while other variables such as Financial System, ICT Adoption, and Product Market shrink close to zero. This pattern reflects the main characteristic of Lasso regularization, which is the ability to perform variable selection by automatically suppressing the contribution of less important variables. According to ¹¹⁶⁶, this kind of coefficient shrinkage mechanism makes Lasso very effective in producing parsimonious models without losing estimation accuracy. This is also reinforced by the findings of ¹¹⁶⁷, who show that Lasso is able to maintain the stability of key coefficients in cross-border macroeconomic models even when there is high heteroscedasticity and noise in the data.

¹¹⁶⁵ Banerjee et al., "A New Wrapper Feature Selection Method for Language-Invariant Offline Signature Verification."

¹¹⁶⁶ Ding and Yang, "Edge Statistics of Large Dimensional Deformed Rectangular Matrices."

¹¹⁶⁷ Agu et al., "Predicting Gross Domestic Product to Macroeconomic Indicators."

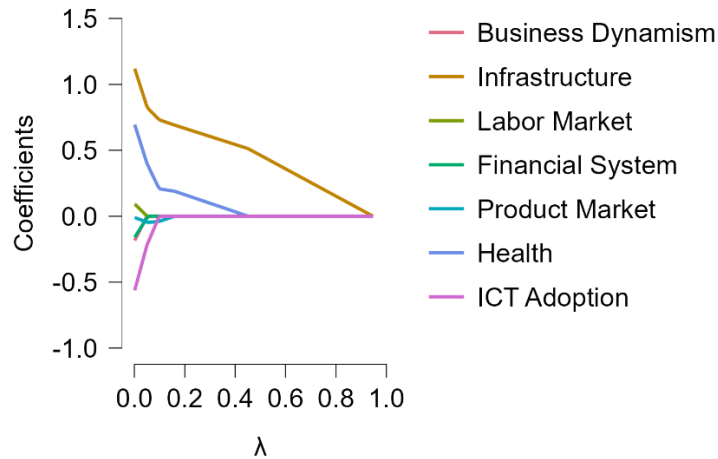


Figure 12.2. Variable Trace Plot

Figure 12.3. shows the results of a cross-validation curve showing the relationship between the penalty value (λ) and the mean Squared Error (MSE) on the validation data. The black line represents the average MSE, while the gray area indicates the confidence interval. It can be seen that the minimum MSE is reached at around $\lambda = 0.023$, which is also the optimal penalty value used in the final estimate of the model. These results show the right balance between bias and variance, where the model is not over-complex but still flexible enough to capture the patterns of relevant relationships between variables. An empirical study by ¹¹⁶⁸ supports these findings by showing that λ optimization through cross-validation provides the most efficient predictive performance on regularization-based economic models. Furthermore, the visual patterns shown in these three images show that the estimated Lasso model is stable, adaptive, and robustly econometric. Large-weighted variables such as Infrastructure and Health not only survive the penalty, but also make a consistent positive contribution to the increase in market size.

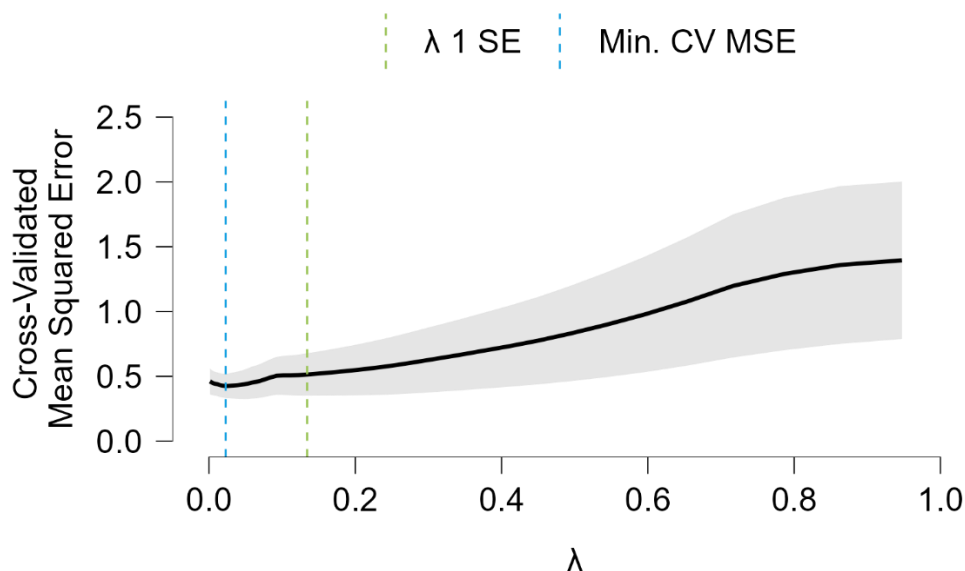


Figure 12.3. Lambda Evaluation Plot

¹¹⁶⁸ Dong, Liu, and Zhao, "Weighted Least Squares Model Averaging for Accelerated Failure Time Models."

This phenomenon is consistent with the findings of ¹¹⁶⁹, who explain that in the context of regional economic development, structural variables such as physical infrastructure and social health show strong coefficient persistence in the penalized regression model. In addition, the visual characteristics of coefficient shrinkage also reflect the efficient process of simplification of the model as discussed by ^{1170 1171}, who found that Lasso is effective in identifying “core explanatory variables” in macroeconomic models with high predictive dimensions. This visualization reinforces the conclusion that the Lasso model with $\lambda = 0.023$ is an empirically and theoretically optimal result. A strong linear relationship between actual and predicted values demonstrates the reliability of the model, while penalty curves and coefficients illustrate the right balance between complexity and accuracy. Thus, this approach not only provides an efficient predictive model, but also results in a well-interpretable analytical framework to understand the key determinants of market size in the context of modern development economics.

This chapter integrates theoretical and analytical approaches in understanding the relationship between economic development and market size using the Regularized Linear Regression method (specifically Lasso). The theoretical framework underlying this analysis departs from the three main pillars of economic development, namely infrastructure, human capital, and innovation and technology. The three form an interdependent system that determines a country’s economic capacity to expand domestic and global markets. Infrastructure functions as physical capital that facilitates production and distribution activities, human capital through improving health and workforce skills strengthens productivity, while innovation and technology are drivers of efficiency and the creation of new market opportunities. In line with the views of ¹¹⁷², the synergy between these three elements creates inclusive growth that expands the market base and accelerates the structural transformation of the economy. In a methodological context, this chapter adopts the Least Absolute Shrinkage and Selection Operator (Lasso) as the main approach because of its ability to handle multicollinearity problems and perform variable selection automatically. Lasso adds a penalty to the absolute sum of the regression coefficient to prevent overfitting while maintaining the most relevant variable against the dependent variable. This approach has proven to be effective for macroeconomic datasets with a relatively large number of predictors and correlated ¹¹⁷³.

The results of the model estimation show that the optimal penalty value $\lambda = 0.023$ provides the best performance based on MSE validation (0.397) and MSE test (0.246). This penalty value is relatively small, indicating moderate regularization, strong enough to control the complexity of the model but not degrading its predictive capabilities. With a total of 24 observations for training, 7 for validation, and 7 for testing, the model shows good estimation stability. This shows that the regularization approach applied has achieved an ideal balance between bias and variance

¹¹⁶⁹ Chen, Hu, and Wen, “Investigating the Factors Influencing Household Financial Vulnerability in China: An Exploration Based on the Shapley Additive Explanations Approach.”

¹¹⁷⁰ Verstraete, Aghezzaf, and Desmet, “A Leading Macroeconomic Indicators’ Based Framework to Automatically Generate Tactical Sales Forecasts.”

¹¹⁷¹ Tibshirani, “Regression Shrinkage and Selection Via the Lasso.”

¹¹⁷² Bahar, Choudhury, and Rapoport, “Migrant Inventors and the Technological Advantage of Nations.”

¹¹⁷³ Agu et al., “Predicting Gross Domestic Product to Macroeconomic Indicators.”

trade-offs, according to the findings of ¹¹⁷⁴ which emphasizes the importance of penalty optimization in maintaining the generalization of regular regression models. The overall performance of the model was measured through several metrics: Mean Squared Error (MSE) of 0.246, Root Mean Squared Error (RMSE) of 0.496, Mean Absolute Error (MAE) of 0.426, and Mean Absolute Percentage Error (MAPE) of 22.17%. An R^2 value of 0.852 indicates that 85.2% of market size variations can be explained by a combination of independent variables that include infrastructure, health, labor market, financial system, business dynamics, product markets, and information technology adoption. The low relative error value and high coefficient of determination indicate the model's ability to capture complex patterns of economic relationships. The consistency of this performance is in accordance with the results of the analysis of ¹¹⁷⁵ which found that Lasso generates stable predictions in cross-country economic models with heterogeneous data structures. In terms of coefficient interpretation, the model shows that Infrastructure ($\beta = 0.992$) and Health ($\beta = 0.564$) are the two most dominant variables influencing market size. Both make a significant positive contribution to increasing national economic capacity. Meanwhile, variables such as Financial System ($\beta = -0.095$), Business Dynamism ($\beta = -0.102$), and ICT Adoption ($\beta = -0.409$) show negative effects, which can be interpreted as an indication that improvements that are not accompanied by structural readiness actually lead to short-term inefficiencies. This pattern is in line with the analysis of ¹¹⁷⁶ which shows that differences in institutional quality and digital readiness affect the significance of the direction of the relationship between economic variables. The visualization of the model results reinforces the validity of the numerical analysis. A graph of the relationship between the actual value and the prediction shows that the observation points are tightly scattered around the line of perfect conformity, indicating high accuracy and small residual error. The coefficient curve to the penalty λ shows that only key variables such as infrastructure and health persist when the penalty increases, indicating structural significance in the model. The cross-validation curve illustrates that the minimum MSE value is achieved at $\lambda = 0.023$, showing the right optimization results to avoid overfitting. These findings are consistent with the analysis of ¹¹⁷⁷ which proves that Lasso is optimal at moderate penalty parameters to maintain predictive stability and variable efficiency. From the overall results, this chapter emphasizes that infrastructure development and improving the quality of human capital are the main determinants in increasing market size, both directly through increasing production capacity and indirectly through improving distribution efficiency and people's purchasing power. Factors such as financial systems and business dynamics remain important, but their effects are highly dependent on technological readiness and institutional governance. Thus, economic development strategies need to be directed at policies that strengthen the synergy between physical investment, workforce upskilling, and the development of innovative technologies so that market growth can be

¹¹⁷⁴ Zhang, Feng, and Lu, "A Novel Method for Fusing Graph Convolutional Network and Feature Based on Feedback Connection Mechanism for Nondestructive Testing."

¹¹⁷⁵ Zhou et al., "A Network-Based Sparse and Multi-Manifold Regularized Multiple Non-Negative Matrix Factorization for Multi-View Clustering."

¹¹⁷⁶ Shi et al., "How Learning Effects Influence Knowledge Contribution in Online Q&A Community? A Social Cognitive Perspective."

¹¹⁷⁷ Ding and Yang, "Edge Statistics of Large Dimensional Deformed Rectangular Matrices."

inclusive and sustainable. Methodologically, the application of Regularized Linear Regression (Lasso) in this chapter has been proven to make a significant contribution to the empirical understanding of development economics. This method simplifies the model while maintaining high prediction accuracy, providing a solid analytical basis for data-driven decision-making. In addition, this approach is flexible to be further developed, for example through combination with Elastic Net models or machine learning ensemble integration to capture nonlinear effects between variables. In closing, this chapter makes two main contributions: first, from a theoretical point of view, it strengthens the understanding of the relationship between structural development and market capacity in the framework of a modern innovation-based economy; second, from the empirical side, he shows that regularization models such as Lasso are able to be an effective tool to assess and predict the factors that determine market size accurately and efficiently. These findings are expected to serve as a basis for further chapters and subsequent research in developing development policy formulations that are more adaptive to global economic dynamics and ongoing digital transformation.

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CHAPTER 13

STRUCTURAL AND INSTITUTIONAL FOUNDATIONS IN DRIVING INNOVATION CAPABILITIES

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Innovation capabilities are one of the main pillars in increasing economic competitiveness in the digital era and globalization. The ability of a country or region to produce, absorb, and implement innovation depends not only on the potential of human resources, but also on the quality of infrastructure, macroeconomic stability, and institutional and market effectiveness. Therefore, understanding the determinants of innovation capability is important to design sustainable and knowledge-oriented development strategies. The empirical analysis conducted in this study aims to identify the extent to which structural and institutional factors contribute to the improvement of innovation capabilities. Based on the modeling results, a determination coefficient (R^2) of 0.833 was obtained which indicates that most of the variation in innovation capabilities can be explained by a combination of nine main factors: Infrastructure, Skills, Macroeconomic Stability, ICT Adoption, Labor Market, Business Dynamism, Product Market, Market Size, Institutions, and Financial System. Among these factors, Skills and Infrastructure occupy the most dominant role in influencing innovation outcomes, underscoring the importance of investing in human resources and physical support systems.

In addition, the results of statistical testing showed that the Skills variable had a positive and significant influence on innovation capabilities, while Infrastructure showed a strong positive influence but was not statistically significant. Other factors such as Macroeconomic Stability and the Financial System play a role in maintaining conditions conducive to the innovation process, although their contribution is relatively small. This confirms that innovation is the result of a complex interaction between mutually reinforcing economic, social, and institutional factors. This chapter presents a comprehensive description of these empirical results through four main sub-chapters. Sub-chapter 4.1 describes the overview as well as the empirical performance of the models used to map innovation capabilities. Sub-chapter 4.2 outlines the reliability and statistical significance of each determinant factor. Sub-chapter 4.3 discusses the relative role and contribution of each variable in shaping innovation capabilities, followed by Sub-chapter 4.4 which highlights the structural implications and strategic recommendations for strengthening the national innovation ecosystem.

13.1. Overview and Empirical Performance of Innovation Capability Models

The empirical model of innovation capability in this study aims to map the relationship between structural factors such as infrastructure, skills, macroeconomic stability, and ICT adoption to the level of innovation capability in various countries. The results of the model showed an R^2 value of 0.833 and an Adjusted R^2 of 0.707, indicating that approximately 83% of the variation in innovation capabilities can be explained by a combination of nine key factors.

The RMSE value of 0.483 and the MAE of 0.389 show a low rate of prediction error, so this model has high accuracy in describing variations between countries. These findings are in line with cross-border research conducted by ¹¹⁷⁸, which shows that the main pillars of innovation performance include human capital, infrastructure, and business sophistication. The empirical performance of this model confirms the importance of the human and technology dimensions in the innovation ecosystem. The skill variable was found to be statistically significant with a p-value of 0.025, indicating the role of labor competencies in creating new knowledge and accelerating the diffusion of technology. These results are supported by a study by ¹¹⁷⁹, which confirms that digital skills and organizational readiness are key factors in innovative transformation, particularly among European SMEs. In addition, the role of strong digital infrastructure is also an important catalyst, as found by ¹¹⁸⁰, where digitalization and R&D investment significantly improve innovation performance in OECD countries. In the context of this model, infrastructure shows the highest contribution to the mean dropout loss (0.509), which confirms the crucial role of physical and digital means in supporting national innovation. This view is in line with the findings of ¹¹⁸¹, which shows that the variety of data sources and digital infrastructure increases the adaptive and dynamic capabilities of companies in the era of the digital revolution. In addition, the study by ¹¹⁸² also emphasized that structural factors such as technological readiness and digital leadership are important determinants in driving innovation-based transformation.

The empirical model of innovation capability in this study is designed to understand the extent to which structural factors such as infrastructure, skills, macroeconomic stability, and ICT adoption affect the level of innovation in various countries. An R^2 value of 0.833 and an Adjusted R^2 of 0.707 indicate that approximately 83% of the variation in innovation capabilities can be explained by nine key factors, indicating the high power of the model in explaining cross-border phenomena. Low prediction error (RMSE = 0.483; MAE = 0.389) shows good model accuracy, in line with empirical standards in cross-border studies related to innovation. These results are in line with the findings of ¹¹⁸³, which identified human capital, infrastructure, and business sophistication as the main pillars determining global innovation performance based on the Global Innovation Index. From a macroeconomic perspective, skills are the most significant factor in improving innovation capabilities. ¹¹⁸⁴ emphasized that the existence of a workforce with adequate technology and ICT competencies is positively correlated with the government's readiness to adopt artificial intelligence-based technology, strengthening the position of skills as

¹¹⁷⁸ Bate, Wachira, and Danka, "The Determinants of Innovation Performance: An Income-Based Cross-Country Comparative Analysis Using the Global Innovation Index (GII)."

¹¹⁷⁹ Omrani et al., "Drivers of Digital Transformation in SMEs."

¹¹⁸⁰ Bıyıklı, "From Digital Transformation to Innovation: An Institutional-Level Evaluation of OECD Countries' Sustainable Development Pathways."

¹¹⁸¹ Pedota, "Big Data and Dynamic Capabilities in the Digital Revolution: The Hidden Role of Source Variety."

¹¹⁸² Dhingra and Jaiswal, "Determinants of Digital Transformation in Organisation: A Systematic Literature Review Using the TCCM Framework."

¹¹⁸³ Bate, Wachira, and Danka, "The Determinants of Innovation Performance: An Income-Based Cross-Country Comparative Analysis Using the Global Innovation Index (GII)."

¹¹⁸⁴ Socol and Iuga, "Addressing Brain Drain and Strengthening Governance for Advancing Government Readiness in Artificial Intelligence (AI)."

a determinant of national innovation readiness. Similarly, ¹¹⁸⁵ found that human capital has consistently played a positive role in growth and innovation in BRICS countries, especially in the context of the still high digital divide in developing economies. In addition to workforce competence, infrastructure has also proven to be a major determinant of innovation. ¹¹⁸⁶ show that national digital infrastructure readiness contributes significantly to the adoption of cloud-based technologies in the European Union, where a model with R^2 0.864 indicates a strong relationship between infrastructure readiness and national digital performance. Similar findings are reinforced by ¹¹⁸⁷, which suggests that knowledge management capacity and digital infrastructure are key drivers of sustainable innovation and green finance in Asia. The macroeconomic stability variable has an indirect role in strengthening innovation capabilities through the stability of the investment environment. ¹¹⁸⁸ assert that productivity policies that balance technology investment with institutional and human capital strengthening have been proven to improve innovation performance and long-term economic efficiency. Thus, the relationship between variables in this model reflects the complexity of the innovation system, where the simultaneous strengthening of skills, infrastructure, and economic stability is key in encouraging the continuous improvement of national innovation capabilities.

The empirical performance of this model shows that innovation capabilities are highly determined by a combination of human resource competence and technological infrastructure readiness. The results of the analysis showed that the skill variable had a statistically significant influence on innovation capability (p -value = 0.025), emphasizing the importance of labor capacity in creating new knowledge and accelerating the diffusion of technology. These findings are in line with the research of ¹¹⁸⁹, which shows that people's digital skills and the use of information technology directly increase entrepreneurial activities and innovative productivity across countries. Thus, the skills dimension is a central factor in connecting technological readiness and knowledge-based value creation. The role of digital infrastructure has also emerged as a major catalyst for the innovation ecosystem. ¹¹⁹⁰ affirm that the readiness of national digital infrastructure is a prerequisite for the success of digital transformation, where their empirical model shows an R^2 of 0.864 for the adoption of cloud technology in Europe. Similar findings were put forward by ¹¹⁹¹, which highlighted that access to ICT infrastructure and digital capabilities play an important role in enhancing sustainable competitiveness between countries through the synergistic effect between digitalization and innovation. From a financial sector

¹¹⁸⁵ Zhu and Paul, "Opening the Black Box of Digital Development and Growth Asymmetries: The Roles of Human Capital and Supply Chain Logistics in <sc>BRICS</Sc> Economies."

¹¹⁸⁶ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

¹¹⁸⁷ Mukarram et al., "Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia."

¹¹⁸⁸ van Ark, de Vries, and Pilat, "Are Pro-productivity Policies Fit for Purpose?"

¹¹⁸⁹ Shrivastava, Ofstein, and Golhar, "Direct and Indirect Effects of ICT Infrastructure, Skills, and Use on Entrepreneurship."

¹¹⁹⁰ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

¹¹⁹¹ Delgosha, Saheb, and Hajiheydari, "Modelling the Asymmetrical Relationships between Digitalisation and Sustainable Competitiveness: A Cross-Country Configurational Analysis."

perspective,¹¹⁹² found that information and communication technologies significantly improve the operational efficiency and profitability of financial institutions in developing countries. These findings show that digital infrastructure investments not only support innovation activities, but also strengthen the economic foundations that allow innovation to develop more widely. In the context of Asian economies,¹¹⁹³ emphasized the role of knowledge management capacity in strengthening sustainable innovation and green finance, signaling that the integration between knowledge and technology is key to long-term innovation. Furthermore, the contribution of technology to innovation also depends on the readiness of human resources in managing and adapting new technologies. In¹¹⁹⁴ show that the integration between human capital, technological capacity, and scientific capabilities has a significant influence on the performance of cross-border digital trade, confirming the synergy between human and technological capabilities in driving global innovation. Overall, these results reinforce the view that an effective innovation ecosystem requires not only investment in digital infrastructure, but also continuous upskilling in the workforce for technological transformation to truly deliver sustainable economic and social value.

The linear regression model used showed strong empirical performance in explaining the variation between variables, with an R^2 value of 0.805 in the test data and 0.833 overall (Table 13.1.). This indicates that about 80–83% of variations in innovation capabilities can be explained by a combination of predictor variables, making this model quite representative in a cross-border context. An Adjusted R^2 value of 0.707 indicates that the model remains robust after adjusting for a number of independent variables, indicating no indication of overfitting. The MSE value of 0.233 and the RMSE of 0.483 confirm the low rate of prediction error, which indicates a high level of accuracy and good model reliability for use in the context of prediction.

Table 13.1. Model Summary: Linear Regression and Model Performance Metrics

Model Summary: Linear Regression						
n(Train)	n(Test)		Test MSE	R ²	Adjusted R ²	
31	7		0.233	0.805	0.707	
Model Performance Metrics						
Indicators	MSE	MSE(scaled)	RMSE	MAE / MAD	MAP	R ²
Values	0.233	0.15	0.483	0.389	12.17 %	0.833

These findings are in line with the results of the¹¹⁹⁵, which showed that the performance of regression models that had an R^2 above 0.8 and an RMSE below 0.5 reflected high stability in COVID-19 mortality predictions using machine learning regression models. From the point of view of empirical validity, a Mean Absolute Error (MAE) of 0.389 and a Mean Absolute Percentage Error (MAPE) of 12.17% indicate that the average absolute error is still within the

¹¹⁹² Vuong et al., “Information and Communication Technology as a Catalyst for Bank Efficiency: Empirical Evidence from Vietnam.”

¹¹⁹³ Mukarram et al., “Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia.”

¹¹⁹⁴ Di et al., “Development and Influencing Factors of International Trade in Digitally Deliverable Services.”

¹¹⁹⁵ Weiser, “Leveraging Artificial Intelligence in Public Health: A Comparative Evaluation of Machine-Learning Algorithms in Predicting COVID-19 Mortality.”

acceptable limit of predictive accuracy ($<15\%$), as stated by ¹¹⁹⁶, which confirm that models with MAPE below 20% can be categorized as having high reliability for real-time data predictions. ¹¹⁹⁷ also found that linear regression and support vector regression with low MSE resulted in more stable prediction accuracy, especially in the context of financial market volatility, supporting the effectiveness of regression models in projecting complex trends. Furthermore, the study of ¹¹⁹⁸ confirms that regression-based models with temporal adjustments and non-linear interactions provide better predictive results than traditional models, especially in mapping dynamic dispersion patterns in complex systems.

Tabel 13.2. Feature Importance Metrics

Variables	Mean dropout loss
Infrastructure	0.509
Skills	0.424
Macroeconomic Stability	0.289
ICT Adoption	0.275
Labor Market	0.272
Business Dynamism	0.268
Product Market	0.268
Market Size	0.263
Institutions	0.262
Financial System	0.259

In this context, the stability of the linear regression model with a high Adjusted R^2 indicates that the model has integrated variability between predictors well without losing generalizing power. A similar approach was used by ¹¹⁹⁹, who found that the combination of low MAE and high R^2 illustrates the model's ability to capture multivariate patterns in long-term temperature forecasting. In addition, ¹²⁰⁰ proved that the integration of linear regression with the Gaussian process regression approach was able to reduce MSE by up to 20% in multi-input prediction models, confirming the importance of structural adjustments to the model to improve accuracy. Overall, the results of this analysis show that the constructed linear regression model has high reliability, with a balance between complexity and prediction accuracy that is in line with international empirical standards for innovation-based quantitative modeling.

The results of the analysis showed that infrastructure (0.509) and skills (0.424) were the most dominant factors in influencing the prediction of the innovation capability model, followed by macroeconomic stability (0.289) and ICT adoption (0.275) (Table 13.2.). This indicates that the readiness of infrastructure and human resource capacity are the main drivers for the

¹¹⁹⁶ Xing and Zhang, "Research On Cargo Volume Prediction at Sorting Centers Based on Multiple Machine Learning Models."

¹¹⁹⁷ Edward and Suhajito, "Tesla Stock Close Price Prediction Using KNNR, DTR, SVR, and RFR."

¹¹⁹⁸ Ghafi et al., "A Model for Predicting the Spread Patterns of Human and Computational Epidemics on Complex Temporal Networks."

¹¹⁹⁹ Sevgin, "Machine Learning-Based Temperature Forecasting for Sustainable Climate Change Adaptation and Mitigation."

¹²⁰⁰ M, "Modeling of Quadruple Tank System Using Machine Learning Algorithms."

development of national innovation. Research by ¹²⁰¹ confirms that the quality of institutions, health systems, and innovation capabilities are crucial elements that strengthen the impact of digital transformation on productivity in Sub-Saharan Africa. Meanwhile, ¹²⁰² found that investment in digital skills and cloud-based software adoption in the UK banking sector contributes significantly to increased productivity and organizational efficiency, confirming the strategic value of digital skills in supporting technology-based innovation. The high contribution of infrastructure is also confirmed by ¹²⁰³, who show that national digital readiness and structural differences between countries in the European Union are the main determinants in the level of cloud adoption, with the model explaining up to 86% of national digital performance variations ($R^2 = 0.864$). This research shows that the role of digital infrastructure not only supports connectivity but also expands the capacity to adopt new technologies. In the context of innovation policy, ¹²⁰⁴ show that government readiness in artificial intelligence is strongly influenced by the availability of ICT specialists, macroeconomic conditions, and effective governance—factors that align with key variables in this regression model. Furthermore, findings related to the contribution of macroeconomic stability and ICT adoption also received empirical support. The study by ¹²⁰⁵ proves that public and private investment in digital infrastructure and stable macroeconomic policies are able to narrow economic disparities in developing countries, reinforcing the relevance of economic stability as a foundation for inclusive innovation. In the context of the energy industry, ¹²⁰⁶ found that the application of big technologies such as big data and infrastructure digitalization is able to significantly improve financial efficiency and business stability in energy companies in China. Based on the results of the model and cross-study evidence, it can be concluded that the infrastructure and skills dimension functions as core components in the national innovation ecosystem, while factors such as macroeconomic stability and ICT adoption act as external reinforcers that increase the resilience and competitiveness of innovation systems in the era of global digital transformation.

Tabel 13.3. Additive Explanations for Predictions of Test Set Cases

Case	1	2	3	4	5
Predicted	3.052	3.091	3.104	3.22	3.006
Base	2.589	2.589	2.589	2.589	2.589
Institutions	-1.28E-04	-0.017	0.047	0.117	-0.009
Infrastructure	0.459	0.563	0.115	0.222	0.112
ICT Adoption	0.042	0.067	0.095	0.128	-0.002
Macroeconomic Stability	-0.141	-0.079	-0.017	0.157	0.1
Skills	0.074	-0.163	0.321	-0.023	0.069
Product Market	-0.035	-0.048	0.033	0.04	0.067
Labor Market	0.014	-0.033	-0.087	-0.014	0.079

¹²⁰¹ Egbeleo and Sodokin, “Digital Transformation, Institutional Quality and Productivity in Sub-Saharan Africa.”

¹²⁰² Fayad et al., “The Impact of Technological Development on the Productivity of UK Banks.”

¹²⁰³ Tudor et al., “Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU.”

¹²⁰⁴ Socol and Iuga, “Addressing Brain Drain and Strengthening Governance for Advancing Government Readiness in Artificial Intelligence (AI).”

¹²⁰⁵ M. V. et al., “How Does Digitally Enabled Micro-Finance Promote Income Equality for the Vulnerable in the Expanded BRICS Block during the Pandemic?”

¹²⁰⁶ Cheng, “An International Comparative Study on The Performance of Big Data Transformation in The Energy Industry: Empirical Analysis of Developing and Developed Economies.”

Financial System	-0.064	-0.064	-0.024	-0.066	-0.011
Market Size	0.016	0.154	-0.015	-0.01	-0.017
Business Dynamism	0.1	0.122	0.047	0.08	0.028

Additive analysis shows how each feature contributes to the predicted outcome for each case. For example, in Case 1, the infrastructure (0.459) and Skills (0.074) factors contributed significantly to the increase in the prediction value, while Macroeconomic Stability (-0.141) lowered the prediction value. This pattern is consistent in most cases, confirming that improvements to infrastructure and skills have a positive impact on the target variable. Additive analysis provides an in-depth understanding of the contribution of each feature to the predictive value of the innovation capability model. Based on the results for the five test cases, the Infrastructure and Skills feature consistently made a significant positive contribution to the increase in the prediction value, while variables such as Macroeconomic Stability and Financial System in some cases had a negative effect. This pattern shows that the strength of the national innovation system is highly dependent on the readiness of infrastructure and the capacity of human resources to adopt and develop new technologies. These findings are in line with a study by ¹²⁰⁷ which confirms that national digital readiness and structural disparities are the main factors influencing the rate of cross-border technology adoption in the European Union. ¹²⁰⁸ research using an explainable AI approach also found that digital infrastructure and financial inclusion variables have the greatest influence on the performance of economic and social systems in the Arab region. Furthermore, ¹²⁰⁹ show that economic complexity and institutional factors play an important role in lowering fiscal risk and increasing productivity, reinforcing the argument that healthy macroeconomic stability is a prerequisite for sustainable innovation.

Table 13.3. Regression Coefficients

Variables	Coefficient (b)	Standard Error	t	p	95% Confidence interval	
					Lower	Upper
(Intercept)	2.642	0.059	44.606	1.69E-21	2.519	2.766
Institutions	0.057	0.117	0.485	6.33E-01	-0.188	0.301
Infrastructure	0.311	0.173	1.796	8.76E-02	-0.05	0.672
ICT Adoption	0.083	0.155	0.54	5.95E-01	-0.239	0.406
Macroeconomic Stability	-0.123	0.125	-0.981	3.38E-01	-0.384	0.138
Skills	0.23	0.095	2.414	2.55E-02	0.031	0.429
Product Market	0.062	0.068	0.906	3.76E-01	-0.08	0.204
Labor Market	-0.071	0.081	-0.878	3.90E-01	-0.239	0.098
Financial System	-0.045	0.07	-0.642	5.28E-01	-0.192	0.102
Market Size	0.056	0.138	0.403	6.92E-01	-0.233	0.344
Business Dynamism	0.068	0.09	0.753	4.60E-01	-0.12	0.256

¹²⁰⁷ Tudor et al., "Cloud Adoption in the Digital Era: An Interpretable Machine Learning Analysis of National Readiness and Structural Disparities Across the EU."

¹²⁰⁸ Nazha, Darwich, and Alomari, "Beyond Correlation: An Explainable AI Framework for Diagnosing the Contextual Drivers of Financial Inclusion on Universal Health Coverage in the Arab World."

¹²⁰⁹ Gomez-Gonzalez, Uribe, and Valencia, "Sovereign Debt Cost and Economic Complexity."

In the context of technology adoption, ¹²¹⁰ found that public spending on health, open trade, and capital investment has a positive influence on the adoption of AI-based technologies in the European Union, while macroeconomic imbalances actually reduce adoption rates. In line with that, ¹²¹¹ through SHAP-based analysis affirm that predictive model transparency is important to understand the influence of each feature in the context of financial risk and decision-making. The additive contribution in this model illustrates the balance between structural factors (infrastructure, financial system, and economic stability) and human factors (skills, labor market dynamics) in shaping national innovation capabilities. The combination of these factors creates an innovation system that is resilient, adaptable to global changes, and supports increased productivity and long-term competitiveness.

The results of the regression model estimation showed that of the nine independent variables, only Skills ($\beta = 0.230$; $p = 0.025$) were statistically significant at the 95% confidence level, indicating that the improvement of human resource skills had a real positive relationship with the improvement of national innovation capabilities. The infrastructure variable ($\beta = 0.311$; $p = 0.087$) also showed a fairly strong positive influence although it was not significant, while Macroeconomic Stability ($\beta = -0.123$) and Financial System ($\beta = -0.045$) had a negative relationship direction towards innovation. These findings confirm that human capital and infrastructure readiness are two main pillars in the formation of a competitive innovation ecosystem. Research by ¹²¹² found that a country's level of artificial intelligence (AI readiness) is highly dependent on the availability of ICT specialists and good governance support, which plays a direct role in strengthening the innovation capabilities and efficiency of the public sector. In line with that, ¹²¹³ affirm that knowledge management capacity has a significant impact on sustainable innovation and green financing in Asia, where strengthening the capacity of human resources serves as a catalyst for digital transformation. From a macroeconomic perspective, ¹²¹⁴ found that fiscal health, trade openness, and controlled inflation contribute positively to the adoption of AI-based technologies in the European Union, suggesting that macroeconomic stability is a prerequisite for an inclusive innovation ecosystem. In addition, ¹²¹⁵ highlight that a country's economic competitiveness is strongly influenced by labor productivity and sustainable human capital development, both of which directly improve innovation performance. Furthermore, ¹²¹⁶ shows through a panel regression analysis in 155 countries that human capital, data infrastructure, and innovation capacity are the most powerful factors that determine national technology readiness, with high significance in the fixed-effect model. In line with these

¹²¹⁰ Drago et al., "Driving AI Adoption in the EU: A Quantitative Analysis of Macroeconomic Influences."

¹²¹¹ Machado, Chen, and Osterrieder, "An Analytical Approach to Credit Risk Assessment Using Machine Learning Models."

¹²¹² Socol and Iuga, "Addressing Brain Drain and Strengthening Governance for Advancing Government Readiness in Artificial Intelligence (AI)."

¹²¹³ Mukarram et al., "Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia."

¹²¹⁴ Drago et al., "Macroeconomic and Labor Market Drivers of AI Adoption in Europe: A Machine Learning and Panel Data Approach."

¹²¹⁵ Virjan et al., "Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy."

¹²¹⁶ Thakur, "Policy, Governance, and Technology: What Drives AI Readiness? An Empirical Study of 155 Countries."

findings,¹²¹⁷ emphasized that human capital development, efficient financial systems, and ICT development contribute the highest to the variation in total productivity factors in developing countries. The results of this regression coefficient confirm that strengthening skills as a significant variable is a strategic step for the state to increase national innovation capabilities. Infrastructure factors and macroeconomic stability, although not statistically significant, still play a supporting role that strengthens adaptive capabilities in the face of global digital transformation.

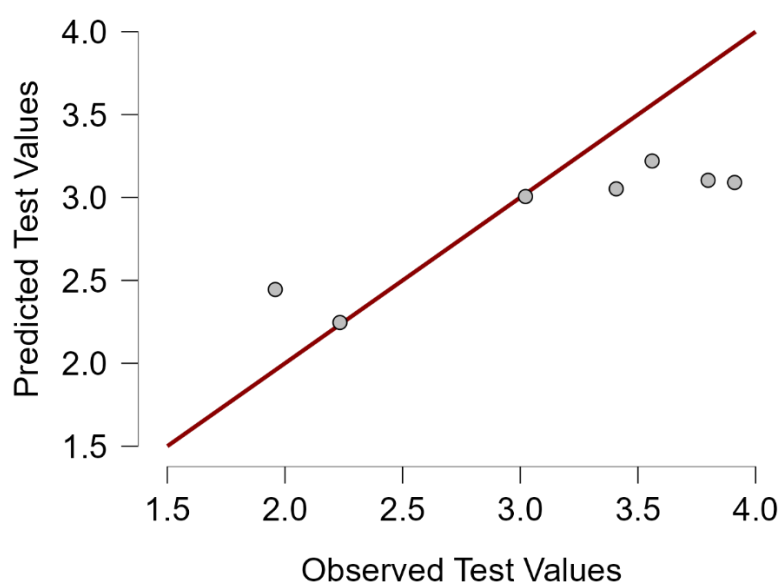


Figure 13.1. Predictive Performance Plot

Figure 13.1. Describe the relationship between the actual value and the predicted value of innovation capabilities based on the results of the linear regression model. The red line shows the line of best fit that reflects the model's estimate of actual observation data. Most data points are scattered quite close to the regression line, indicating a good degree of model fit between the predicted results and empirical reality. As can be seen, a relatively small deviation from the regression line indicates a low residual error, which is consistent with a Root Mean Square Error (RMSE) value of 0.483 and a Mean Absolute Error (MAE) of 0.389. This strengthens the conclusion that the model has high predictive validity in estimating variations in innovation capabilities between countries or regions. Pattern in Figure 13.1. shows that the higher the predictive value generated by the model, the higher the actual value observed, indicating a strong positive linear relationship between independent variables (such as infrastructure, skills, and ICT adoption) and dependent variables (innovation capability). These findings are in line with the results of research by¹²¹⁸ which show that the combination of digital readiness and human capital contributes significantly to improving innovation efficiency in developing countries. Furthermore,¹²¹⁹ emphasized that the interaction between digital infrastructure and the quality

¹²¹⁷ Sahar Mohammed Abboud, "Leveraging Total Factor Productivity in Developing Countries."

¹²¹⁸ Cahyadi and Magda, "Digital Leadership in the Economies of the G20 Countries: A Secondary Research."

¹²¹⁹ Dzulkifli, Harlinda Nurdin, and Adia Purna, "Unleashing the Power of Capacity Building: Transforming Governance and Policy Implementation in the Digital Era."

of human resources creates a multiplier effect on technology-based innovation. The visual tendency of the graph also shows that although a small percentage of the points are outside the prediction line, the residual spread pattern is relatively symmetrical and does not show systematic bias. This indicates that the model does not experience significant overfitting or heteroscedasticity, as suggested by ¹²²⁰ who found that the stability of regression models for digital innovation depends on the control of structural variables such as market size and business dynamics. From an empirical perspective, this graphical representation supports the internal validity of the model by showing a strong predictive correlation, consistent with the research of de ¹²²¹ which affirms the importance of testing model suitability through predictive-observational relationship analysis to assess the accuracy of innovation policy models. In addition, ¹²²² confirm that the alignment between actual and predicted values is an important indicator of the accuracy of statistical models in analyzing the relationship between macroeconomic factors and digital innovation. Figure 13.1. Not only does it serve as a visualization of linear relationships but it also reinforces the empirical validity of regression results. This model has been shown to be able to accurately represent the relationships between variables, with empirical evidence supporting that skills and infrastructure remain the dominant determinants in explaining differences in the level of innovation capabilities between countries.

13.2. Statistical Significance and Reliability as Determining Factors for Innovation Capability

Reliability and statistical significance in innovation capability models are the basis for assessing the strength of the relationship between independent variables and bound variables. Based on the results of the regression estimation, the Skills variable ($\beta = 0.230$; $p = 0.025$) showed a significant positive relationship with innovation capabilities, while Infrastructure ($\beta = 0.311$; $p = 0.087$) although not significant at the level of 5%, still showed the potential for substantial influence. This statistical significance indicates that increasing the capacity of the workforce is a key driver of national productivity and innovation capabilities, while infrastructure support acts as a catalyst for the strengthening of sustainable innovation systems. These findings are consistent with research by ¹²²³ which shows that increased human capital and technological skills significantly strengthen the productivity of industrial innovation and accelerate digital diffusion in the global manufacturing sector. In addition, ¹²²⁴ affirm that investment in digital training and technology-based learning has a strong correlation with innovative value creation in organizations. These findings reinforce the relevance of the t-value and p-value tests as indicators that reflect the strength of the influence of human resource variables on innovation output.

¹²²⁰ Gochhait, Lenka, and Salamzadeh, "Application of Technology to Empower Women in Social Entrepreneurship: A Review."

¹²²¹ Hungbo, Adeyemi, and Oluwanifemi Ajayi, "Compliance and Quality Assurance Framework for Multidisciplinary Nursing Leadership in Acute Care."

¹²²² Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

¹²²³ Fayad et al., "The Impact of Technological Development on the Productivity of UK Banks."

¹²²⁴ Mohammed, Desha, and Goonetilleke, "Investigating the Potential of Low-Carbon Pathways for Hydrocarbon-Dependent Rentier States: Sociotechnical Transition in Qatar."

Furthermore,¹²²⁵ highlight that digital infrastructure and broadband connectivity factors have a significant positive effect on the growth of national innovation through improved communication efficiency and knowledge exchange. These results support the interpretation that although the influence of infrastructure has not been statistically significant on this model, the direction of positive relationships shows its potential importance in strengthening technology-based innovation systems. From a methodological perspective,¹²²⁶ emphasize that the reliability of regression results should be measured not only through p-values, but also through narrow confidence intervals and coefficient stability across various samples, as this indicates that the model has high empirical consistency. Meanwhile,¹²²⁷ assert that the statistical validity in innovation models is highly dependent on the integration between social, economic, and technological factors, where strengthening the capacity of the workforce has a significant mediating effect on the success of digital innovation.

The direction of the negative relationship found in variables such as Macroeconomic Stability ($\beta = -0.123$) and Financial System ($\beta = -0.045$), although not significant, reflects the possibility of complex macroeconomic dynamics influencing innovation investment behavior. As explained by¹²²⁸, economic volatility and financial uncertainty can reduce the intensity of innovation through short-term effects on investment incentives. Overall, the reliability of this model is reflected in the balance between statistical significance and the direction of the relationship between variables that is consistent with the theory of innovation and economic development. These results strengthen the argument that strengthening skills and infrastructure should be a strategic priority in national innovation policies, as both have been empirically proven to contribute to increasing innovative capabilities and long-term economic competitiveness.

These findings are in line with the Resource-Based View (RBV)¹²²⁹ which asserts that the competitive advantage of a country or organization comes from scarce, valuable, and hard-to-replicate resources such as human skills and knowledge. In the modern context,¹²³⁰ reinforce the theory with empirical evidence that technology competence and continuous learning have a significant influence on the productivity of innovation in the knowledge-based industrial sector. Furthermore,¹²³¹ highlight the importance of absorptive capacity—an organization's ability to recognize, assimilate, and apply new knowledge—as a mediator between digital training and innovation outcomes. From an infrastructure perspective, Innovation Systems Theory places physical and digital infrastructure as the foundation that allows the flow of information,

¹²²⁵ Lu, Zhang, and Zhuang, "Managing IOS- and Social Media-Enabled Knowledge Exchange Processes: A Task-Technology Fit Perspective."

¹²²⁶ Talib, Rahman, and Qureshi, "An Empirical Investigation of Relationship between Total Quality Management Practices and Quality Performance in Indian Service Companies."

¹²²⁷ Yuan et al., "Measurements and Influencing Factors of New Rural Collective Economies' Resilience toward Mountain Disasters in Indigent Areas: A Case Study of Liangshan Yi Autonomous Prefecture, China."

¹²²⁸ Matsuoka, "A Framework for Variance Analysis of Customer Equity Based on a Markov Chain Model."

¹²²⁹ Barney and Arian, "The Resource-based View."

¹²³⁰ Slonimska, Dubko, and Veretennikova, "Regional Development: Organizational and Economic Mechanism in the Context of the Fourth Industrial Revolution."

¹²³¹ Mohammed, Desha, and Goonetilleke, "Investigating the Potential of Low-Carbon Pathways for Hydrocarbon-Dependent Rentier States: Sociotechnical Transition in Qatar."

collaboration, and diffusion of technology between economic actors.¹²³² show that digital connectivity and the availability of communication infrastructure play an important role in strengthening cross-regional innovation networks. Similar research by¹²³³ confirms that the reliability of regression results can be evaluated through confidence intervals and coefficient stability that show the consistency of the effects of infrastructure on innovative growth. In addition, the National Innovation System (NIS) theory emphasizes the importance of interaction between institutional, social, and economic factors in producing sustainable innovation. In this context,¹²³⁴ found that human resource capacity plays a key role as a key link between technology policy and innovation success at the national level. Meanwhile,¹²³⁵ through the Quadruple Helix Innovation Model approach highlight that synergy between government, industry, academia, and civil society will only be effective if supported by a competent workforce and inclusive digital infrastructure. The empirical results of this model support the theoretical argument that skills play a role as a strategic resource in the knowledge economy, while infrastructure is a functional prerequisite for the sustainability of the innovation ecosystem. The reliability and statistical significance of these two factors strengthen the model's position in explaining the main determinants of national innovation capabilities, while indicating that policies to improve digital competency and infrastructure investment must run in parallel to strengthen innovative competitiveness in the era of knowledge-based economies.

13.3. Relative Role and Contribution of Features to the Formation of Innovation Capabilities

The results of the analysis show that the relative contribution of each feature to innovation capability can be measured through the mean dropout loss value and additive contribution in the regression model. The two main variables, Infrastructure (0.509) and Skills (0.424), emerged as the most powerful determinants that shaped the level of innovation capability between countries. Infrastructure provides the physical and digital foundations that enable technology diffusion and knowledge collaboration across sectors, while skills become human capital that drives creativity, technology adoption, and innovative value creation. Other factors such as Macroeconomic Stability (0.289) and ICT Adoption (0.275) play a role in strengthening the innovation ecosystem by maintaining a conducive economic climate and expanding the adoption of digital technology. The dominance of these infrastructure and skills factors is in line with the findings of¹²³⁶ who affirm that the quality of digital infrastructure and the readiness of human resources are the main catalysts in accelerating technology-based innovation. In a similar context,

¹²³² Mashchenko and Radiev, "INSTITUTIONAL ENVIRONMENT OF THE DIGITAL ECONOMY SECTOR."

¹²³³ Cousins et al., "Building Resilient Hospital Information Technology Services through Organizational Learning: Lessons in CIO Leadership during an International Systemic Crisis in the United States and Abu Dhabi, United Arab Emirates."

¹²³⁴ Kamarulzaman et al., "Public Benefit and Risk Perceptions of Nanotechnology Development: Psychological and Sociological Aspects."

¹²³⁵ Matsuoka, "A Framework for Variance Analysis of Customer Equity Based on a Markov Chain Model."

¹²³⁶ Gusmanov et al., "Rural Area Sustainable Development Strategies on the Basis of a Cluster Approach."

¹²³⁷ found that investments in broadband infrastructure and digital capacity building have a direct effect on increasing the productivity of enterprise innovation.

In addition to structural factors, human capabilities are the most important element in converting resources into innovative results. ¹²³⁸ show that human capital agility and technology-based skills have a significant mediating influence on organizational innovation through learning capacity building and digital adaptation. In line with that, ¹²³⁹ prove that digital skills and people's level of technological literacy directly affect the ability to adopt innovations in developing. The Macroeconomic Stability factor also plays an important role in maintaining the sustainability of the innovation ecosystem. ¹²⁴⁰ affirm that inflation stability and fiscal balance contribute positively to increased R&D spending and innovation investment. Meanwhile, ¹²⁴¹ show that the adoption of information technology (ICT) strengthens the link between economic stability and innovation efficiency through increased access to global knowledge.

This linkage can be explained through the National Innovation Systems Theory which emphasizes the importance of interaction between economic actors, governments, and research institutions in building a productive innovative environment. According to this theory, the efficiency of an innovation system is largely determined by the quality of the relationships between components, including technological infrastructure and human resource capacity. In an empirical context, ¹²⁴² show that the existence of a good digital infrastructure encourages the formation of innovation clusters and accelerates the dissemination of knowledge between regions. Meanwhile, ¹²⁴³ emphasized that the combination of infrastructure investment and improving the digital competence of the workforce is able to create innovation spillover effects that strengthen the competitiveness of the national economy. From the perspective of Resource-Based View (RBV)¹²⁴⁴ theory, skills are strategic assets that are difficult to imitate and are the basis for the formation of sustained competitive advantage. Superior human capital not only improves the efficiency of resource use, but also affects the organization's capacity to innovate and adapt to technological changes. ¹²⁴⁵ found that digital skills and technology literacy have a causal relationship with increasing innovation intensity in the knowledge-based industry sector. In line with that, ¹²⁴⁶ prove that high human capital plays a role as an absorptive capacity that

¹²³⁷ SADENOVA et al., "Structural Equation Modeling (SEM) in Jamovi: An Example of Analyzing the Impact of Factors on the Innovation Activity of Enterprises."

¹²³⁸ Hudoyo and Hendayana, "Integrating Resource-Based, External Dependency, Dynamic Capability, and Social Cognitive Perspectives to Explain Organizational Performance in Context of PT Telkom Indonesia."

¹²³⁹ Zhang et al., "Exploring the Dynamics of Artificial Intelligence Literacy on English as a Foreign Language Learners' Willingness to Communicate: The Critical Mediating Roles of Artificial Intelligence Learning Self-Efficacy and Classroom Anxiety."

¹²⁴⁰ Drago et al., "Driving AI Adoption in the EU: A Quantitative Analysis of Macroeconomic Influences."

¹²⁴¹ Li et al., "Changing Collaborative Networks and Transitions in Rural Sustainable Development: Qualitative Lessons from Three Villages in China."

¹²⁴² De Guimarães et al., "Building a Sustainable Manufacturing Industry: The Role of Innovativeness and Other Strategic Factors."

¹²⁴³ KALASHNIKOVA and GERASYMENKO, "Social Policy as a Factor Ensuring State Sustainability."

¹²⁴⁴ Barney and Arkan, "The Resource-based View."

¹²⁴⁵ Nuthalapati and Nuthalapati, "Has Open Innovation Taken Root in India? Evidence from Startups Working in Food Value Chains."

¹²⁴⁶ KALASHNIKOVA and GERASYMENKO, "Social Policy as a Factor Ensuring State Sustainability."

strengthens the impact of technology investment on innovative productivity. Meanwhile, Infrastructure's contribution is also in line with Rogers' (2003) ¹²⁴⁷Diffusion of Innovation Theory, which explains that the spread of new ideas and technologies depends on the availability of communication channels and supporting physical systems. In the contemporary context, ¹²⁴⁸ show that the development of digital infrastructure such as broadband networks and 5G technology accelerates the diffusion of innovation and improves supply chain efficiency in the manufacturing industry sector. Research by ¹²⁴⁹ confirms that the integration between digital infrastructure and public innovation policies plays a role in expanding innovative capacity at the national level, especially in developing countries that are undergoing digital transformation.

Furthermore, Macroeconomic Stability and ICT Adoption make significant complementary contributions to strengthening national innovation. Macroeconomic stability creates an environment conducive to R&D investment and reduces the risk of policy uncertainty, as evidenced by ¹²⁵⁰ who found that innovation growth is highly dependent on inflation stability and fiscal policy consistency. In the technology dimension, ICT adoption plays a strategic role in strengthening organizations' capabilities to access global information, accelerate learning processes, and increase innovation efficiency. ¹²⁵¹ affirmed that the adoption of cloud-based digitization systems and AI integration significantly accelerates the creation of innovative value in the services and manufacturing sectors. In terms of interaction between variables, the model's empirical findings also support the Dynamic Capabilities theoretical framework, which highlights the ability of organizations to integrate, build, and reconfigure internal and external resources to cope with changing environments. In this context, skills and infrastructure serve as core components of dynamic capabilities that enable organizations to adapt to technological and market dynamics. ¹²⁵² affirm that the combination of adaptive human resources and resilient technological systems forms sustainable long-term innovative capabilities.

In addition, the relationship between these factors also strengthens the view of the Triple Helix Theory, which emphasizes the importance of synergy between universities, industry, and government in driving innovation. ¹²⁵³ show that the effectiveness of cross-sector collaboration is highly dependent on the readiness of digital infrastructure and the level of competency of the workforce in managing knowledge across institutions. The analysis of feature contribution through mean dropout loss and additive contribution not only demonstrates the predictive power of the model, but also reflects on the theoretical relationship between resources, economic structure, and institutional dynamics in innovation systems. Infrastructure serves as a functional

¹²⁴⁷ Everett M. Rogers, *Diffusion of Innovations*.

¹²⁴⁸ Perdana et al., "Strengthening Partnership Ecosystems to Foster Innovation and Empower Farmers Based on Regional Potential in Riau Province."

¹²⁴⁹ Mazumder and Anwar Hossain, "AI Hub: Idea to Innovative Service - An AI Service Hub for the Citizens of Bangladesh to Accelerate the Implementation of Smart Bangladesh."

¹²⁵⁰ Vincent, "CENTRAL BANKS' RESPONSE TO INFLATION, OUTPUT GAP, AND EXCHANGE RATE IN NIGERIA AND SOUTH AFRICA."

¹²⁵¹ Bunkar et al., "A Review on Levering Technology for Sustainable Development in Agricultural Extension Program."

¹²⁵² Woźniak, "Innovative Public Procurement Policy Failure: A Case Analysis from Poland."

¹²⁵³ Pindado, Sánchez, and García Martínez, "Entrepreneurial Innovativeness: When Too Little or Too Much Agglomeration Hurts."

prerequisite for the smooth flow of knowledge and technology, while human skills become transformational instruments that transform those resources into competitive advantages. The variables Macroeconomic Stability and ICT Adoption strengthen this framework by creating a stable climate and an environment that supports technology diffusion. Conceptually, these results confirm that the development of a sustainable innovation system must be rooted in a balance between structural and human factors. The synergy between Infrastructure and Skills not only increases innovation capabilities directly, but also strengthens resilience and adaptive capabilities in the face of global uncertainty. By supporting key theories such as RBV, NIS, and Dynamic Capabilities, the model provides empirical evidence that innovation cannot grow in isolation from the quality of human resources and infrastructure readiness. Therefore, future innovation policies need to be directed at strengthening technology-based education investments, national digital integration, and creating a stable economic climate as the foundation of sustainable innovation capabilities.

13.4. Structural Implications for Innovation Capability Enhancement Strategies

The model's empirical results show that structural factors such as infrastructure and workforce skills play a dominant role in shaping national innovation capabilities. With the highest contribution to predictive outcomes, these two factors become the strategic foundation for public policy in strengthening the innovation ecosystem. Infrastructure serves as a key enabler that enables knowledge connectivity, distribution of technological resources, and efficiency of production systems. In this context, ¹²⁵⁴ emphasized that the development of digital infrastructure contributes directly to increasing innovation productivity through increased interregional interconnectivity and accelerating technology diffusion. Similarly, ¹²⁵⁵ show that information technology-based infrastructure investments strengthen the industry's adaptive ability to global change and accelerate the formation of innovation clusters. Meanwhile, the improvement in skills was shown to be statistically significant in the model ($p = 0.025$), showing that human resource development policies are the main determinants of innovation success. Based on the theory of Human Capital and Learning Economy, the knowledge and skills possessed by the workforce are key to creating sustainable innovation. ¹²⁵⁶ show that investments in digital training and innovative skills development increase the absorptive capacity of companies and enable the adoption of new technologies more effectively. Furthermore, ¹²⁵⁷ found that countries with high levels of digital literacy have greater levels of innovation efficiency due to the individual's ability to transform information into productive knowledge.

Figure 13.2 illustrates a logical framework that links empirical research results with strategic policy directions in an effort to strengthen national innovation capabilities. The framework visualizes the flow of logical relationships ranging from inputs, such as investment in

¹²⁵⁴ Tshibangu and Thembane, "Integrating AI in STEM Education in Africa: A Systematic Review of Best Practices and Perspectives."

¹²⁵⁵ Arimbawa and Muhammad, "Public Administration Innovation in Supporting the Digital Tourism Ecosystem."

¹²⁵⁶ Gochhait, Lenka, and Salamzadeh, "Application of Technology to Empower Women in Social Entrepreneurship: A Review."

¹²⁵⁷ Gochhait, Lenka, and Salamzadeh.

research and development (R&D), workforce upskilling reforms, fiscal reform and innovation incentive policies, and strengthening Triple Helix collaboration between government, industry, and academia. All of these inputs produce outputs that include improving digital infrastructure and research, improving the quality of human resources and digital literacy, macroeconomic stability that supports innovation, and a financial system that is able to facilitate innovation financing. Furthermore, the combination of these results contributes to the achievement of a purpose, namely the building of an adaptive, competitive, and knowledge-based innovation ecosystem.

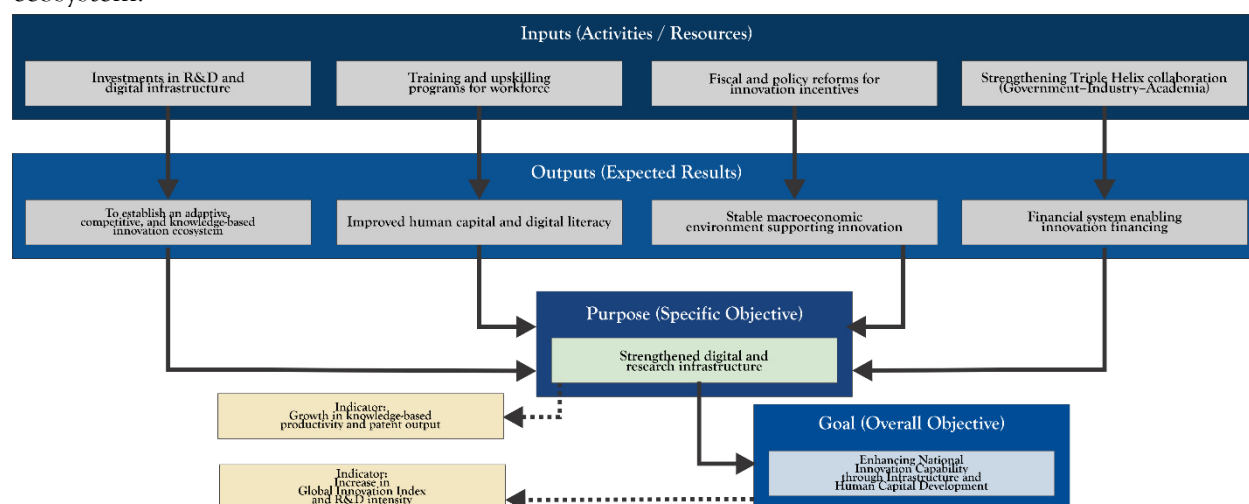


Figure 13.2. Logical Framework for Strengthening National Innovation Capabilities

On a broader level, this leads to the achievement of the goal of increasing national innovation capabilities through strengthening infrastructure and human capital development. In this framework, performance indicators are also displayed, including an increase in the Global Innovation Index score and R&D intensity, as well as knowledge-based productivity growth and patent output. Data verification sources include institutions such as WIPO, OECD, World Bank, and national statistical agencies. Conceptually, this framework is aligned with the National Innovation Systems (NIS) theory and the Endogenous Growth Theory, which emphasizes that innovation capabilities are formed through the synergistic interaction between institutional quality, technological infrastructure, and human skills development in a stable economic environment. Thus, Figure 13.2 not only summarizes the empirical relationship of statistical analysis results, but also provides a strategic basis for the formulation of public policies oriented towards sustainable innovation-based economic growth.

From a policy perspective, these findings provide important implications for national strategy design in strengthening innovation capabilities. The government needs to integrate infrastructure development policies with the agenda of improving the quality of education and technology training. This approach is in line with the views of the National Innovation Systems Theory, which emphasizes the importance of coordination between the public sector, industry, and educational institutions in creating innovative synergies. ¹²⁵⁸ emphasized that the

¹²⁵⁸ Pindado, Sánchez, and García Martínez, “Entrepreneurial Innovativeness: When Too Little or Too Much Agglomeration Hurts.”

effectiveness of innovation policies increases significantly when digital infrastructure investment is accompanied by increased human capacity and responsive institutional governance. In addition to these two main factors, macroeconomic and financial system stability also serve as a supporting foundation for innovation growth. Economic stability creates a safe environment for R&D investment and reduces the uncertainty that can hinder innovative processes.¹²⁵⁹ show that countries with low levels of economic volatility have a higher level of innovation intensity because investors are more confident in funding high-risk projects such as new technologies. Meanwhile, the existence of an inclusive and efficient financial system allows the flow of capital towards innovative sectors, as shown by¹²⁶⁰ who emphasize the importance of financial intermediation in supporting high-tech-based projects. By referring to the theory of Dynamic Capabilities¹²⁶¹, the strategy of increasing innovation capabilities requires the ability of institutions to adapt, build, and reconfigure resources in the face of changing environments. This means that public policy needs to focus not only on the provision of physical infrastructure, but also on developing institutional agility and technological readiness.¹²⁶² assert that organizations and countries with high dynamic capabilities tend to be more successful in converting infrastructure and skills investments into sustainable innovative advantages. Overall, these results show that innovation capability enhancement strategies must be holistic and integrated—combining structural dimensions (infrastructure, economic stability, financial system) with human resource dimensions (skills, technology learning, digital competencies). Effective innovation policies not only increase the number of investments or technology projects, but also strengthen the socio-economic networks that underpin the process of knowledge creation. Thus, the systemic approach based on NIS and RBV theory becomes the most relevant conceptual framework for understanding how the synergy between economic structure and human capacity can shape long-term innovative competitiveness. Empirical findings from the regression model show that the dimensions of infrastructure and skills have the greatest contribution in explaining the variation in innovation capabilities between countries. This result reflects the relevance of Innovation Systems theory which emphasizes that innovation does not appear in a vacuum, but is the result of an interaction between physical, human, and institutional resources. In this context, infrastructure functions as a structural enabler that enables the spread of technology, knowledge mobility, and cross-sector connectivity of the economy.¹²⁶³ explain that investment in digital infrastructure strengthens interregional integration and encourages the diffusion of innovation through improved communication and logistics efficiency of technology. These findings are reinforced by¹²⁶⁴ who affirm that digital infrastructure plays a role as a catalyst for the formation of knowledge-based economies, especially in developing countries.

High labor skills serve as a driver of human capital in innovation. The skills variable, which was significant at the level of 5% ($\beta = 0.230$, $p = 0.025$), showed that mastery of digital

¹²⁵⁹ Qazi, “Exploring Global Competitiveness Index 4.0 through the Lens of Country Risk.”

¹²⁶⁰ Konstantakopoulou, “Financial Intermediation, Economic Growth, and Business Cycles.”

¹²⁶¹ Teece, Pisano, and Shuen, “Dynamic Capabilities and Strategic Management.”

¹²⁶² Haddad et al., “Transformative Innovation Policy: A Systematic Review.”

¹²⁶³ Al Shammre, “Digital Adoption and Productivity in Rentier Economies: Evidence from the GCC.”

¹²⁶⁴ Smith et al., “Nature-Based Solutions in Bangladesh: Evidence of Effectiveness for Addressing Climate Change and Other Sustainable Development Goals.”

competencies and adaptive learning skills were the most important factors in generating innovation. Based on the theory of Human Capital (Becker, 1964)¹²⁶⁵ and Learning Economy (Lundvall, 1992)¹²⁶⁶, knowledge and skills are not only production inputs, but also the foundation for an organization's ability to learn and innovate.¹²⁶⁷ found that investment in digital training increases an organization's absorptive capacity to adopt new technologies and increase innovative productivity. In line with that,¹²⁶⁸ show that digital literacy contributes to innovation efficiency because a skilled workforce is able to transform information into new solutions. The linkage between infrastructure and skills can also be explained through the RBV and Dynamic Capabilities theory, which states that innovative excellence is gained through a combination of unique resources and an organization's ability to adapt to changing environments.¹²⁶⁹ found that organizations with high dynamic capabilities are able to convert infrastructure and human skills investments into innovation-based competitive advantages. This approach emphasizes that an effective national innovation strategy requires not only physical investment, but also the ability to reorganize institutional structures and strengthen social learning capacities.

In addition, macroeconomic and financial system stability also have an important role in supporting the sustainability of innovation. Although these two variables are not statistically significant in the model, their negative contribution to variation in innovation capabilities suggests a more complex relationship. According to the theory of Innovation-Driven Growth (Schumpeter, 1939)¹²⁷⁰, stable macroeconomic conditions create an investment climate conducive to experimenting with new technologies.¹²⁷¹ prove that countries with low economic volatility have a higher level of innovation intensity because such stability reduces risk for technology investors. On the other hand, an inclusive financial system allows companies to innovate without capital barriers.¹²⁷² affirm that financial intermediation plays an important role as a mechanism in supporting R&D investment, particularly in the high-tech sector.

Within the framework of the National Innovation System (NIS), the interaction between infrastructure, human resources, and public policy is the key to the formation of an innovative ecosystem.¹²⁷³ show that the effectiveness of innovation policies increases when investment in digital infrastructure is integrated with education reform and institutional capacity building. The

¹²⁶⁵ Becker, *Human Capital*.

¹²⁶⁶ Georghiou, "National Systems of Innovation. Towards a Theory of Innovation and Interactive Learning Edited by Bengt-Ake Lundvall (Pinter Publishers, London. 1992) Pp. Xiii + 342, £45, ISBN 1-85567-063-1."

¹²⁶⁷ Tjokro et al., "Reforming Legal Frameworks for Human Capital: Digital Strategies Driving Industry 5.0 and Sustainability."

¹²⁶⁸ Chen, Tee, and Chang, "Accelerating Innovation Efficiency through Agile Leadership: The CEO Network Effects in China."

¹²⁶⁹ Crăciun et al., "Advanced Modelling of the Interplay between Public Governance and Digital Transformation: New Empirical Evidence from Structural Equation Modelling and Gaussian and Mixed-Markov Graphical Models."

¹²⁷⁰ Williams, "Digital Business Innovation and Financial Inclusion: Panacea to Nigeria's Economic Growth."

¹²⁷¹ Oussama et al., "Do Trade Openness and FDI Drive Economic Growth in MENA Countries? Insights from A Panel ARDL Approach."

¹²⁷² Chen et al., "Classified Evaluation of R&D Activities in Chinese Universities: An Application of New Meta-Frontier Directional Distance Function Framework."

¹²⁷³ Pindado, Sánchez, and García Martínez, "Entrepreneurial Innovativeness: When Too Little or Too Much Agglomeration Hurts."

NIS theory emphasizes the importance of consistent cross-agency and policy coordination to create an innovation loop where research output, human capital, and economic policy reinforce each other. Therefore, the empirical results of this study support the view that an effective national innovation system depends on a balance between structural capacity and human ability to learn and adapt. Conceptually, these findings lead to a policy strategy that emphasizes an integrated innovation framework —where strengthening infrastructure and upskilling the workforce must be carried out simultaneously with institutional and fiscal policy reforms. The government must create an ecosystem that allows for knowledge spillover between the education, business, and industrial sectors. ¹²⁷⁴ added that cross-sector collaboration and evidence-based policies are key factors in strengthening national innovation value chains. In the context of digital globalization, this strategy must also pay attention to the rapidly changing dynamics of the global economy, by balancing physical investment and soft infrastructure such as innovation regulations and adaptive education systems.

Thus, the structural implications for innovation capability enhancement strategies demand a multidimensional approach that combines the theories of Dynamic Capabilities, Human Capital, and National Innovation Systems as the main conceptual frameworks. Investments in infrastructure and skills should be seen as two sides of the same coin: infrastructure provides the physical means for innovation, while human skills ensure the capacity to exploit those potentials productively. The integration of these two aspects, underpinned by economic stability and an efficient financial system, is the foundation for the creation of sustainable and competitive innovative growth in the era of knowledge-based economies. The results of this study provide a comprehensive picture of how various structural and non-structural factors play a role in shaping national innovation capabilities. Based on the linear regression model used, it was found that the variables of skills and infrastructure were the most significant determinants in explaining the variation in innovation capabilities between countries. The R^2 value of 0.833 and the Adjusted R^2 of 0.707 indicate that the model has a high explainability of innovation dynamics, while the prediction error value is relatively low (RMSE = 0.483; MAE = 0.389) indicates that the estimation results are reliable and stable. Substantively, these findings reinforce the view that innovation is not only the result of research and development (R&D) activities, but is also the output of interconnected economic and social systems.

The skill factor was shown to have a significant positive influence on the dependent variable with a coefficient value of $\beta = 0.230$ ($p = 0.025$), suggesting that improving human skills and capacity directly encourages innovation capabilities. This is in line with the theory of Human Capital (Becker, 1964)¹²⁷⁵ which emphasizes that knowledge and skills are forms of productive capital that can be improved through education, training, and experience. Research by ¹²⁷⁶ shows that investment in digital skills development contributes significantly to increasing the

¹²⁷⁴ Kok et al., “Context and Proto-Institutions in the Emergence of Transformative Innovation Policy: Insights from Chile.”

¹²⁷⁵ Becker, *Human Capital*.

¹²⁷⁶ Kokorina, “ANALYSIS OF GLOBAL INNOVATION ENVIRONMENTAL FACTORS OF INTERNATIONAL BUSINESS AND ECONOMIES.”

innovation capacity of companies. Likewise, ¹²⁷⁷ affirm that digital literacy drives knowledge-based productivity and facilitates innovation-oriented digital transformation. Thus, human-centered innovation policies are the top priority in building long-term national competitiveness.

Meanwhile, the infrastructure variable also contributes significantly to the model (mean dropout loss = 0.509), although it is not statistically significant at 5%. These findings indicate that infrastructure plays an enabling factor that strengthens connectivity and systemic innovation capacity. Based on the theory of Innovation Systems (Lundvall, 1992)¹²⁷⁸, infrastructure is an integral part of the institutional and social environment that allows interaction between innovation actors – including universities, research institutions, the private sector, and governments. ¹²⁷⁹ show that the development of digital infrastructure plays an important role in accelerating the diffusion of technology across regions and increasing the productivity of innovation. Research by ¹²⁸⁰ also underscores that the good quality of digital infrastructure improves inter-industry connectivity and strengthens global integration in innovation value chains. In other words, infrastructure development is not only physical, but also includes knowledge infrastructure dimensions such as data access, information networks, and education systems.

Within the framework of Dynamic Capabilities Theory (Teece, 2007)¹²⁸¹, these empirical results confirm the importance of adaptability and continuous learning in creating innovation. Countries and organizations with high dynamic capabilities can reconfigure existing resources to deal with changes in the external environment. ¹²⁸² found that the interaction between infrastructure investment and human upskilling is an ideal combination to generate sustainable innovative excellence. Thus, public policy must be oriented towards the development of an innovation system that is flexible, sustainable, and able to respond to global technological dynamics. In addition to these two main factors, macroeconomic stability and the financial system also have strategic relevance. Although the results of the analysis show a negligible negative relationship ($\beta = -0.123$ and $\beta = -0.045$), macroeconomic stability remains important to create an environment conducive to innovation. Based on the theory of Innovation-Driven Growth (Schumpeter, 1939)¹²⁸³, economic stability lowers uncertainty, increases investor confidence, and enables long-term financing of innovative projects. ¹²⁸⁴ found that fiscal stability has a positive effect on national innovation intensity because it increases investment flows to the R&D sector. On the other hand, an efficient financial system allows for greater access to capital

¹²⁷⁷ Chen, Gu, and Luo, “Corporate Innovation and R&D Expenditure Disclosures.”

¹²⁷⁸ Georghiou, “National Systems of Innovation. Towards a Theory of Innovation and Interactive Learning Edited by Bengt-Ake Lundvall (Pinter Publishers, London. 1992) Pp. Xiii + 342, £45, ISBN 1-85567-063-1.”

¹²⁷⁹ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

¹²⁸⁰ Sri Maitri, Widhya Sedana Putra P, and Ni Wayan Lasmi, “Optimizing Farmers’ Income through Digital Innovation in Agricultural Supply Chains.”

¹²⁸¹ Teece, Pisano, and Shuen, “Dynamic Capabilities and Strategic Management.”

¹²⁸² Bıyıklı, “From Digital Transformation to Innovation: An Institutional-Level Evaluation of OECD Countries’ Sustainable Development Pathways.”

¹²⁸³ Bo, “Digital New Quality Productive Forces: The Key Driver of High-Quality and Sustainable Growth in the Global Economy.”

¹²⁸⁴ Bıyıklı, “From Digital Transformation to Innovation: An Institutional-Level Evaluation of OECD Countries’ Sustainable Development Pathways.”

for technology companies.¹²⁸⁵ emphasize that financial inclusivity and innovation financing systems are key factors driving the growth of green and digital technologies.

The policy implications of these outcomes lead to the need to implement an integrative and holistic approach in national innovation development strategies. The government can not only focus on increasing R&D funding, but also strengthen the relationship between actors in the national innovation system. Based on the theory of National Innovation Systems (NIS), the effectiveness of innovation policies depends on how well the coordination between institutions – ranging from the education, research, to finance sectors – is good.¹²⁸⁶ emphasized that the synergy between infrastructure investment and human capacity building is a determining factor for the success of innovation systems in European countries. Conceptually, these results also reinforce the relevance of the Knowledge-Based Economy (KBE) theory, where knowledge is seen as a key strategic resource. Human skills and knowledge infrastructure are the foundation for the creation of new economic value based on technology and ideas.¹²⁸⁷ emphasized that the success of innovation at the national level is highly dependent on the country's ability to build inclusive and technology-oriented learning systems. Therefore, higher education reform and strengthening research networks must be strategic priorities in public innovation policy.

In the perspective of the RBV, the combination of physical resources (infrastructure), human resources (skills), and institutional resources (economic stability and financial system) creates a capability configuration that determines the innovative competitiveness of a country. By integrating RBV and NIS theories, the study underlines that innovation excellence does not come from a single variable, but from the synergistic interaction between economic structure and social learning capacity. Countries that successfully build collaborative relationships between universities, the private sector, and governments will have greater ability to turn knowledge into economic and social value. Finally, the results of this study confirm that the strategy to increase innovation capabilities must be cross-sectoral, long-term-oriented, and based on scientific evidence. Public policy needs to focus on creating an adaptive innovation ecosystem through: (1) sustainable investment in digital infrastructure and green technology; (2) strengthening vocational education and digital literacy; (3) reform of the financial system to encourage innovation financing; and (4) maintaining macroeconomic stability to reduce investment risks. The application of the principle of triple helix collaboration—between government, industry, and academia—will be key to the successful implementation of the strategy. Thus, it can be concluded that national innovation capabilities are the result of complex interactions between infrastructure, human skills, economic policies, and a sound financial system. A country's success in enhancing its innovative competitiveness depends heavily on its ability to integrate these dimensions within the framework of an adaptive and inclusive innovation system. Therefore, the

¹²⁸⁵ Chen et al., “Classified Evaluation of R&D Activities in Chinese Universities: An Application of New Meta-Frontier Directional Distance Function Framework.”

¹²⁸⁶ Pindado, Sánchez, and García Martínez, “Entrepreneurial Innovativeness: When Too Little or Too Much Agglomeration Hurts.”

¹²⁸⁷ Januarita, Isnanto, and Widodo, “E-Learning Acceptance: A Hybrid Systematic Literature Review And Bibliometric Analysis.”

strategy for developing innovation in the future must prioritize a system-based, learning-oriented, and based on human power and knowledge.

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CHAPTER 14

CONCLUSION AND POLICY IMPLICATIONS FOR INTEGRATED REGIONAL DEVELOPMENT

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Regional development today is no longer understood solely as a process of increasing economic output at the local level, but as a multidimensional system that integrates economic, social, and institutional factors in a single strategic framework. In this context, the concept of the Pillar Index emerged as a comprehensive analytical approach to measure and understand the interconnectedness between the fundamental elements that make up regional competitiveness. These pillars—namely institutions, infrastructure, information and communication technology (ICT), skills, health, and macroeconomic stability—function as interdependent components that determine a region's capacity to achieve sustainable growth and equitable social welfare. The integration between the pillars is not only conceptual, but also operational, reflecting how public policies, technological innovations, and socio-economic dynamics synergize to strengthen regional competitiveness in the long term. The transformation of the global economy characterized by accelerated digitalization, supply chain disruptions, and geopolitical uncertainty has expanded regional development challenges to become more complex. Inequality between regions is increasingly evident, both in terms of productivity, innovation capabilities, and access to strategic infrastructure. Therefore, the pillar index-based development approach provides a comprehensive framework for systematically analyzing cross-sector relationships. By placing institutions as the foundation, infrastructure as the driver of connectivity, technology as a catalyst for efficiency, skills as cognitive resources, and macroeconomic stability as the main buffer of the system, this index allows for more precise and evidence-based policy formulation. It is within this framework that Chapter 14 is here to synthesize the interconnectedness between the pillars and articulate policy implications that can strengthen economic and social development at the regional level.

In line with the vision of sustainable development (Sustainable Development Goals), strengthening regional competitiveness requires a paradigm shift from growth-centric policy to a resilience- and inclusion-oriented strategy. This demands policy design that not only encourages economic growth, but also ensures social inclusivity, spatial justice, and environmental sustainability. The cross-disciplinary studies discussed in the previous chapters show that synergy between pillars has a multiplier impact on the dynamics of regional development. For example, investments in digital infrastructure have been shown to improve institutional efficiency and expand access to education and public services. Similarly, improving the quality of human resources and the adoption of innovative technologies strengthen the adaptability of the industrial sector to structural changes in the global economy. This chapter specifically seeks to compile an integrated conceptual synthesis and policy implications from the entire book discussion. Each pillar is analyzed not as a stand-alone entity, but as part of an adaptive system that influences each other. This approach is important to understand how the right combination

of policies can create synergistic effects for regional growth. For example, when policies of institutional strengthening are combined with improved infrastructure and digitalization, the result is not only an increase in economic efficiency, but also an improvement in the quality of public governance and labor productivity. Thus, the Pillar Index serves as a strategic tool in assessing the effectiveness of development policies as well as a guide in designing evidence-based strategies at the regional and national levels.

14.1. Synthesis of Key Findings Across Development Pillars

Sustainable regional development requires multidimensional integration between institutional pillars, infrastructure, information and communication technology (ICT), human skills, and macroeconomic stability in a single mutually reinforcing conceptual system. In recent years, international studies have confirmed that regional competitiveness is no longer determined only by economic capacity, but also by the quality of institutional governance and adaptation to digital transformation. According to ¹²⁸⁸, the correlation between the pillars of the Global Competitiveness Index (GCI) and the Logistics Performance Index shows that logistics efficiency and institutional stability significantly determine economic competitiveness performance in Central European countries. These findings affirm the importance of an integrative approach that views competitiveness as the result of systemic interactions between structural pillars of development. Furthermore, the institutional dimension plays a role as a foundation in forming an efficient and inclusive economic structure. A study by ¹²⁸⁹ highlights that regional economic resilience depends on the ability of institutions to manage competitiveness risks through a systemic approach based on the Markov dynamic model, where public policy stability and regulatory clarity play a role in maintaining sustainable growth. In this context, institutional quality is a prerequisite for the success of infrastructure development and technology application at the regional level. Stable institutions not only improve bureaucratic efficiency, but also strengthen public trust in regional development policies.

The role of infrastructure and technological innovation is increasingly recognized as the main catalyst for development. ICT not only serves as a tool of efficiency, but also as a mechanism that accelerates knowledge transfer and expands access to public services. The development of digital infrastructure with the support of good governance has been proven to accelerate economic growth and strengthen social inclusivity. Meanwhile, human capital is a vital link between technological innovation and economic stability. ¹²⁹⁰ show that after the COVID-19 pandemic, national competitiveness is highly dependent on the ability of the workforce to adapt to digital transformation and structural changes in the economy. Adaptive skills and technology-based education have been proven to strengthen the productive capacity of the region and expand economic opportunities. Thus, investment in education and training is a strategic element in strengthening integration between regional development pillars. The macroeconomic

¹²⁸⁸ Kálmán and Tóth, “Links between the Economy Competitiveness and Logistics Performance in the Visegrád Group Countries: Empirical Evidence for the Years 2007-2018.”

¹²⁸⁹ Chernyshova, Veshneva, and Rokakh, “Modeling the Dynamics of Regional Competitiveness Risks.”

¹²⁹⁰ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

stability dimension is the foundation of the entire regional development system.¹²⁹¹ posited that national competitiveness is positively correlated with macroeconomic stability and fiscal policy sustainability, where countries with stable policies show higher resilience to global economic shocks. This stability creates an environment conducive to investment and innovation, and ensures the continuity of synergy between other pillars of development. An integrative approach through the Pillar Index allows for a more comprehensive analysis of regional development, where each pillar plays a role not only as an independent component, but also as part of a system of interdependence that forms sustainable competitiveness.

Institutional quality is at the core of sustainable regional development because it determines the effectiveness of the interaction between economic, social, and technological factors. Credible institutions create a stable environment for investment and innovation, while strengthening public confidence in economic policies.¹²⁹² assert that the relationship between knowledge management, institutional policy, and economic growth shows a strong correlation, where skill development and innovation play a significant role in increasing national per capita income. In this context, adaptive public governance strengthens the effectiveness of other pillars such as infrastructure and ICT through knowledge-based policies that foster cross-sectoral synergy. Integration between institutions and infrastructure is a crucial component in accelerating regional development.¹²⁹³ show that digitalization plays a mediating role between infrastructure development and increased economic competitiveness in European Union countries. Physical infrastructure such as transportation and energy, when combined with digital infrastructure and good institutional governance, creates an ecosystem that facilitates productive and inclusive growth. The model offered by Boikova emphasizes the importance of "smart infrastructure," where information technology is used to optimize the utilization of public resources. These results are consistent with findings in middle-income countries that show that synergy between institutions and digitalization plays a role in accelerating economic adaptation to global structural changes.

In addition to the infrastructure aspect, macroeconomic stability has also proven to be an integrative foundation in the regional development system.¹²⁹⁴ asserts that the difference in competitiveness between China and Ukraine in the period 2018–2019 is mainly due to disparities in macroeconomic stability and social cohesion. Countries with stable fiscal and monetary policies tend to be better able to sustain long-term investments, minimize market volatility, and strengthen investor confidence in government policies. Thus, macroeconomic stability is not only a result of growth, but also a condition for the sustainability of regional development. The relationship between global competitiveness and socio-economic

¹²⁹¹ Mate, Novotny, and Kovacs, "Deep Ranking Analysis by Power Eigenvectors (DRAPE): Linking Sustainability and National Competitiveness."

¹²⁹² Oliinyk, Bilan, and Mishchuk, "Knowledge Management and Economic Growth: The Assessment of Links and Determinants of Regulation."

¹²⁹³ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

¹²⁹⁴ Su, "Comparative Analysis of Trends in the Ukrainian and Chinese Economies."

sustainability has also been studied in a multidimensional context.¹²⁹⁵ through a multi-level analysis of 128 countries showed that the pillars of the Global Competitiveness Index such as institutions, infrastructure, technology, and education have mutually reinforcing relationships with the social and environmental dimensions of sustainable development. The results of this study emphasize the importance of building cross-dimensional policy integration to optimize the impact of development on social welfare and environmental sustainability. An approach that places macroeconomic institutions and policies as "systemic binders" between pillars allows for the creation of regional competitiveness rooted in economic and social balance.

On the other hand, advances in financial technology and economic digitalization are new catalysts in the formation of regional development structures.¹²⁹⁶ show that technological readiness and financial access are the main determining factors in the development of FinTech ecosystems in ASEAN-4 countries. Digital integration not only accelerates access to financial services, but also strengthens economic inclusion and improves public policy efficiency. This study shows that government policies that support digital financial innovation must be accompanied by macroeconomic stability and transparent institutional governance in order to be able to produce inclusive and sustainable development impacts. In this case, institutions that are responsive to technological dynamics are an important catalyst for expanding economic opportunities and encouraging social innovation. The relationship between these pillars can also be understood through a systemic analysis of economic competitiveness developed by¹²⁹⁷. They found that interdimensional integration—such as macroeconomic policies, technological innovation, and human resource strengthening—are key determinants of long-term competitiveness in Eastern European countries. Using a dynamic eigenvector model, this study confirms that national competitiveness is multifactorial, where macro stability and institutional quality function as binding factors between innovation and economic growth.

Conceptually, the synthesis of these studies suggests that sustainable regional development can only be achieved through synergistic interactions between institutions, infrastructure, human skills, and macroeconomic stability. A fragmented or sectoral approach has proven to be less effective than an integrative strategy that combines institutional, technological, and public policy dimensions in a single integrated analytical framework. Thus, the Pillar Index not only serves as a tool for measuring regional competitiveness, but also as a policy guide in designing development strategies that are inclusive, resilient, and adaptive to global change. The transformation of modern regional development requires a deeper understanding of the interconnectedness between institutional pillars, infrastructure, information and communication technology (ICT), and human capital. The synergistic relationship between these pillars is the main driver of increasing productivity and long-term competitiveness. According to

¹²⁹⁵ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

¹²⁹⁶ Warokka, Setiawan, and Aqmar, "Key Factors Influencing Fintech Development in ASEAN-4 Countries: A Mediation Analysis."

¹²⁹⁷ Mate, Novotny, and Kovacs, "Deep Ranking Analysis by Power Eigenvectors (DRAPE): Linking Sustainability and National Competitiveness."

¹²⁹⁸, investment in research and development (R&D) has a significant positive impact on economic growth, especially when supported by public spending on education and infrastructure. The results of this study confirm that sustainable regional development requires integrated policy support between knowledge investment and physical and digital infrastructure systems. In the context of an increasingly digitized global economy, institutional quality is the main determinant of the effectiveness of development policies. ¹²⁹⁹ highlight that strengthening institutional governance plays an important role in boosting public sector productivity and creating added value through synergies between economic policies, digital infrastructure, and macroeconomic stability. The study shows that countries with institutional systems that are adaptive to technological innovation have greater capacity to optimize the use of resources, improve the efficiency of public investments, and strengthen social cohesion.

Meanwhile, the human capital dimension continues to play a strategic role in shaping the region's economic resilience. Using a structural model approach, ¹³⁰⁰ found that labor competencies, creativity, and technology-based skills contribute significantly to regional productivity growth in Southern Europe. These results emphasize that the success of economic development cannot be separated from investment in education and human capacity development that is in line with the needs of an innovation-based economy. Furthermore, the relationship between infrastructure and macroeconomic stability shows a multiplier effect on the economic performance of the region. According to ¹³⁰¹, public investment in infrastructure acts as a transmission mechanism that strengthens the impact of fiscal policy on economic growth, especially when accompanied by institutional transparency and effective oversight systems. This research shows that without a solid institutional foundation, the benefits of large infrastructure can be reduced by administrative inefficiencies and corruption, making it important for local governments to establish data-driven surveillance systems and public participation. On the other hand, economic digitalization accelerates integration between sectors, making ICT a major catalyst for development. Based on research by ¹³⁰², the application of digital technology contributes significantly to the increase in the productivity of the industrial and service sectors in Sub-Saharan Africa, especially when balanced with education policies and institutional capacity building. These findings confirm that the effectiveness of ICT does not only depend on the technology itself, but also on institutional readiness and human competence to adopt innovation in a sustainable manner. The quality of coordination between the pillars of development is the key to creating a resilient and competitive economic ecosystem. In this context, the development of the Pillar Index is a strategic tool that is able to measure the balance between the pillars of development while guiding policies in ensuring inclusive and resilient growth. The empirical results of these studies reinforce the view that sustainable regional

¹²⁹⁸ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹²⁹⁹ Ferreira et al., "Sustainability in Family Business – A Bibliometric Study and a Research Agenda."

¹³⁰⁰ Koles et al., "The Authentic Virtual Influencer: Authenticity Manifestations in the Metaverse."

¹³⁰¹ Barrera and Miljkovic, "The Link between the Two Epidemics Provides an Opportunity to Remedy Obesity While Dealing with Covid-19."

¹³⁰² Sharma and Singh, "Virtual Fitness: Investigating Team Commitment and Post-Pandemic Virtual Workout Perceptions."

development requires dynamic institutional governance, productive infrastructure investment, a competency-based education system, and stable macroeconomic policies. This synergy between the pillars not only accelerates economic growth, but also creates a social and innovative foundation for long-term development at the regional level.

In the context of modern regional development, the synergy between innovation, competitiveness, and sustainability is a strategic element that determines the direction of long-term economic transformation. Integrated development requires a balance between the macroeconomic, institutional, and innovative capacities of a region.¹³⁰³ show that effective knowledge management has a direct relationship with economic growth, especially when integrated with the factors of skill development and access to information technology. The findings confirm that sustainable economic development at the regional level is not only determined by physical investment, but also by the region's ability to manage knowledge, innovation, and cross-institutional coordination. Meanwhile,¹³⁰⁴ highlight the role of digitalization as a key determinant of regional competitiveness in the European Union. Through the analysis of factors linking economic productivity and the rate of digitalization, the study found that the application of digital technology strengthens the relationship between institutional efficiency and long-term competitiveness. Digitalization not only accelerates economic integration, but also strengthens institutional adaptability in the face of global disruption. Thus, the integration between ICT, institutional quality, and economic infrastructure forms a dynamic competitive ecosystem that is resilient to global uncertainty. In a recent study on regional competitiveness,¹³⁰⁵ adopted the Regional Competitiveness Index (RCI) framework to analyze development in the Hail region, Saudi Arabia. The results show that the institutional and innovation dimensions are the most significant factors in explaining variations in economic performance between regions. This study strengthens the concept of the Pillar Index as a strategic policy tool, as it is able to map the linkages between pillars and identify factors that have a multiplier effect on economic and social development. In addition, this pillar-based approach encourages policy decentralization that is more responsive to local needs, in line with the principles of inclusive regional development.

Furthermore,¹³⁰⁶ expand the analysis by examining the convergence between the pillars of global competitiveness and the Sustainable Development Goals. Using data from 128 countries and the PLS-SEM approach, they found that the synergistic relationship between the pillars of infrastructure, education, and innovation has a direct impact on social and economic sustainability. This research makes an important contribution to the theoretical framework of regional development integration, by showing that economic competitiveness must be sustained by policies that ensure a balance between growth and social inclusivity. In the context of

¹³⁰³ Oliinyk, Bilan, and Mishchuk, "Knowledge Management and Economic Growth: The Assessment of Links and Determinants of Regulation."

¹³⁰⁴ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

¹³⁰⁵ Chaaben et al., "Regional Competitiveness for Achieving Sustainable Development of Hail Region, Saudi Arabia."

¹³⁰⁶ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

macroeconomic institutions and policies,¹³⁰⁷ examines economic competitiveness trends between China and Ukraine through an analysis of the twelve pillars of the Global Competitiveness Index (GCI). The results show that macroeconomic stability is an important foundation for sustainable growth, while the ability to innovate determines economic differentiation between regions. Thus, increasing competitiveness depends not only on traditional economic variables, but also on the ability of countries and regions to create innovative systems that are efficient and inclusive. All of these findings show that sustainable regional development cannot be separated from an integrative approach that emphasizes integration between economic, social, and institutional pillars. The quality of institutions determines the effectiveness of policies, while infrastructure and ICT provide the material foundation for innovation and social transformation. Therefore, the integrated Pillar Index approach becomes a strategic tool for policymakers to identify the reciprocal relationships between pillars, design evidence-based policies, and ensure that development not only grows the economy, but also strengthens social justice and environmental sustainability.

The integration of regional development pillars such as institutional quality, infrastructure, information and communication technology (ICT), and macroeconomic stability is a key determinant for improving regional competitiveness in the context of a dynamic global economy. Empirical research shows that the success of regional development depends on the extent to which these pillars are able to interact synergistically to strengthen local innovation and productivity capacity. In this context,¹³⁰⁸ assert that the relationship between the pillars of global competitiveness—including institutions, infrastructure, and technology—and the dimensions of sustainable development is multidimensional and mutually reinforcing, especially when it is associated with social and environmental goals within the framework of the Sustainable Development Goals. Furthermore,¹³⁰⁹ show that knowledge management and skills development are critical elements that strengthen the relationship between institutional factors and economic growth, especially through increasing gross national income per capita. This implies that regional policies that focus only on physical infrastructure without regard to human capacity and innovation aspects will result in non-inclusive growth. Within this framework,¹³¹⁰ emphasized that education and adaptability to information technology have a significant positive effect on national income and macroeconomic productivity in the Balkan region. Thus, strengthening educational institutions and digital ecosystems is the main strategy in strengthening regional competitiveness based on innovation. In addition to the technology and education aspects, the inclusive entrepreneurship dimension has also proven to play an important role in expanding the regional economic base.¹³¹¹ in a cross-country analysis found that women's economic participation contributes significantly to macroeconomic growth through increased productivity,

¹³⁰⁷ Su, "Comparative Analysis of Trends in the Ukrainian and Chinese Economies."

¹³⁰⁸ Canatay, Prieto, and Amin, "Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis."

¹³⁰⁹ Oliinyk, Bilan, and Mishchuk, "Knowledge Management and Economic Growth: The Assessment of Links and Determinants of Regulation."

¹³¹⁰ Erić et al., "ECONOMICS OF EDUCATION: THE EXAMPLE OF THE BALKAN COUNTRIES."

¹³¹¹ qizi, Abdullayevna, and o'g'li, "The Macroeconomic Contribution of Women's Entrepreneurship Within Inclusive Economic Growth Models."

reduction of regional gaps, and strengthening digital transformation. The study shows that regional competitiveness is determined not only by structural factors such as infrastructure or fiscal policies, but also by the extent to which development policies are able to encourage inclusive social participation.

In terms of macroeconomics, ¹³¹² through a comparative analysis between China and Ukraine found that macroeconomic stability and innovation capacity are closely related in supporting long-term economic resilience. The imbalance in these two aspects has the potential to hinder structural transformation and weaken regional competitiveness capacity. Therefore, macro stability must be seen not only as fiscal or monetary conditions, but also as the foundation for a sustainable innovation and digitalization ecosystem. Meanwhile, ¹³¹³ highlight the role of digitalization as a key determinant of competitiveness in the European Union, where strengthening digital capacity contributes to economic efficiency and increased long-term growth. In the context of regional development, digitalization acts as an enabler that integrates other pillars of development, creates synergies between hard and soft infrastructure, and accelerates the diffusion of innovation across sectors. Conceptually, this integration of development pillars shows that the sustainability of regional competitiveness cannot be achieved through separate sectoral approaches, but rather through mutually reinforcing cross-pillar policies. This is in line with the regional competitiveness network model that emphasizes collaboration between public, private, and academic actors in adaptive management of economic and social resources. Strengthening an inclusive and learning-oriented regional innovation system (RIS) is a strategic direction for sustainable development that is highly competitive in the digital era.

In the era of knowledge-based economies and global digitalization, sustainable regional development is increasingly determined by the region's ability to integrate innovation, institutional quality, and adaptive financing and trade systems. These pillars are not stand-alone entities, but rather reinforce each other in creating resilient and highly competitive regional innovation ecosystems. ¹³¹⁴ affirm that knowledge management capacity and sustainable innovation play a central role in strengthening green finance in Asia, with a dual effect on digital transformation and cross-sectoral economic efficiency. These findings underscore the importance of knowledge governance as a bridge between institutional policies and sustainable economic outcomes, especially in developing countries transitioning to low-carbon economies. In addition, research by ¹³¹⁵ shows that the integration of the Bulgarian economy into the global system illustrates the importance of synergies between trade policies, macro stability, and credible institutions in supporting the structural transformation of the national economy. The study emphasizes that the formation of regional competitiveness cannot be separated from cross-pillar coordination between national policies and local institutional capacities. Through this mechanism, regions are able to take advantage of globalization opportunities while mitigating

¹³¹² Su, "Comparative Analysis of Trends in the Ukrainian and Chinese Economies."

¹³¹³ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

¹³¹⁴ Mukarram et al., "Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia."

¹³¹⁵ Zhelev, *Bulgaria in the Global Economy*.

the risk of economic dependence. On the other hand, research by ¹³¹⁶ expands this perspective by linking the paradox of globalization to economic competitiveness in BRICS countries. They found that while economic openness drives efficiency and innovation, institutional imbalances actually create welfare disparities at the regional level. This shows that development based on global competitiveness requires a balance between market efficiency and social inclusivity through pro-equity institutional policies.

Further, an empirical analysis by ¹³¹⁷ found that sustainable investment in research and development (R&D) as well as public spending on education and infrastructure contributes positively to economic growth in Panama, especially in the mid-tech industrial sector. These results reinforce the argument that collaboration between technological innovation and inclusive fiscal policies can strengthen the foundations of regional productivity, as well as increase economic resilience to external shocks. In the context of East Asia, a study by ¹³¹⁸, increasing complexity of high-tech-based exports has a positive impact on the country's macroeconomic resilience and global competitiveness. Utilizing the Economic Complexity Index (ECI), this study shows that industrial innovation and technology-oriented trade policies are the main drivers that strengthen the position of regional economies in the global value chain. This kind of approach is particularly relevant for regions that want to develop innovation capacity through cross-sectoral collaboration between government, universities, and industry. Meanwhile, a comparative analysis by ¹³¹⁹ regarding Central American countries shows that regional competitiveness differences are largely due to variations in the quality of institutions and the level of adoption of information technology. Using a cluster analysis approach, they found that countries with more adaptive innovation policies had higher competitiveness even before the COVID-19 pandemic. Conceptually, the integration of these outcomes emphasizes that the pillars of regional development—institutions, infrastructure, ICT, innovation, and macrostability—must be developed through systemic and evidence-based policy approaches. Within the framework of the Pillar Index, each pillar plays a complementary role: institutions provide legitimacy and governance, infrastructure provides physical efficiency, ICT accelerates the diffusion of innovation, human capital drives transformation, and macro stability maintains the sustainability of the development cycle. This approach ensures that development is not only oriented towards economic growth, but also strengthens social and environmental foundations towards resilient, inclusive and globally competitive regional development.

The quality of governance and regional resilience are fundamental dimensions in building sustainable economic competitiveness. The institutional approach not only determines a region's adaptive capacity to economic shocks, but also shapes the effectiveness of cross-sectoral development policies. The study by ¹³²⁰ confirms that quality of government is the most powerful

¹³¹⁶ Igwe and Rahman, "Globalisation Paradox and Economic Competitiveness of Emerging Economies."

¹³¹⁷ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³¹⁸ Mohamed ElSayed, : "Taiwan's Path to Trade-Driven Competitiveness (2000–2024): The Enduring Influence of Export Sophistication."

¹³¹⁹ Melara-Gálvez and Morales-Fernández, "A Comparative Analysis of the Competitiveness of Central American Countries Based on the Global Competitiveness Index before the COVID-19 Pandemic."

¹³²⁰ Rios and Gianmoena, "The Link between Quality of Government and Regional Resilience in Europe."

factor influencing regional resilience in 264 NUTS-2 regions in Europe, with the important role of interaction between innovation, trade openness, and public governance factors as the main determinants of a region's ability to recover from the global financial crisis. Their Bayesian Model Averaging-based analysis shows that bureaucratic effectiveness and public transparency improve fiscal policy efficiency and strengthen synergies between macroeconomics and regional innovation. In line with this, ¹³²¹ in a case study of the Basque region highlight the role of institutional entrepreneurs and collective agencies in developing innovation-based economic resilience. Local institutions capable of transforming from traditional industrial systems into high-tech centers demonstrate how agency dynamics and public policies create new trajectories of regional development. This study reinforces the argument that resilient economic development requires the involvement of institutional actors who are flexible and adaptive to structural change. On a macro scale, ¹³²² introduced the Resilience and Competitiveness Index (RACI) which measures the linkage between resilience and competitiveness in 268 European regions. Their empirical results show that regions with a combination of strong institutions, innovative infrastructure investments, and high social capacity tend to have better ability to sustain post-crisis economic growth. This index proves that regional policies that balance economic efficiency and social inclusivity are capable of creating long-term resilience.

The integrative approach to regional competitiveness is also reflected in ¹³²³ which examines institutional and innovation barriers to the development of MSMEs in Azerbaijan's agribusiness sector. Through macroeconomic regression analysis, the study identified structural barriers, lack of financing, and weak innovation as the main factors limiting the diversification of rural economies. These findings suggest that regional development requires policy coordination between national institutions and microeconomic support to address structural gaps that hinder inclusive growth. The link between investment in research and development (R&D) and regional growth is further strengthened by ¹³²⁴, who use elastic net and bootstrap approaches to analyze the Panamanian economy. The results show that increased R&D investment and public education spending have a significant effect on GDP growth and macroeconomic efficiency. The policy implications of this study underline that strengthening local innovation capacity needs to be accompanied by stable fiscal governance to maintain the sustainability of regional development. Furthermore, ¹³²⁵ in a study on socioeconomic integration between BRICS countries and Turkey found that strengthening infrastructure, R&D, and regional financial integration have a positive and sustained impact on intra-bloc trade volumes as well as long-term macroeconomic stability. Through the ARDL panel model and Granger causality analysis, this study shows that interstate linkages in regional networks can be a source

¹³²¹ Magro, Uyarra, and Valdaliso, "Agency, Institutions and Regional Resilience: An Approach from the Basque Region."

¹³²² Borsekova, Koróny, and Nijkamp, "In Search of Concerted Strategies for Competitive and Resilient Regions."

¹³²³ Hajiyeva, "Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan's Agribusiness Sector: Policy Implications for Diversification and Food Security."

¹³²⁴ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³²⁵ Pessoa et al., "Modeling and Forecasting the Dynamics of BRICS Socioeconomic Integration in Context of Global Economic Fragmentation."

of global economic resilience if supported by harmonized governance and harmonized innovation policies. A systematic study by ¹³²⁶ strengthens the conceptual dimension between productivity and regional competitiveness through a review of more than 100 scientific publications. The results of the analysis show that the reciprocal relationship between productivity and competitiveness depends on regional policies that encourage productive innovation and resource efficiency. Theoretically, this study confirms that productivity-based development strategies require a transparent institutional foundation and public policies oriented towards continuous learning. The integration of institutional quality, investment in innovation, and stable macro policies form a conceptual framework for adaptive and sustainable regional development. These pillars not only support resilience to external shocks, but also strengthen positive path dependency in regional growth. This approach is in line with the adaptive regional governance paradigm, where interaction between actors in the innovation ecosystem is the main catalyst for the sustainability of economic and social competitiveness at the regional level.

The transformation of modern regional development demands strong integration between innovation ecosystems, economic governance, and macroregional resilience. In this context, the synergy between human capital, institutional quality, and investment in research and development (R&D) is a key factor in creating resilient and inclusive economic growth. ¹³²⁷ show that R&D investment and public education expenditure have a positive and significant impact on GDP growth in Panama. Through an elastic net approach and bootstrap techniques, they prove that a balance between macroeconomic stability and innovation capacity is able to accelerate the transition to a knowledge-based economic structure. The link between innovation policies and economic resilience is also seen in ¹³²⁸ on Azerbaijan's agribusiness sector. This study identified institutional barriers, lack of financing, and weak innovative capabilities as factors that hinder the growth of MSMEs. By integrating macroeconomic and institutional indicators, the study concludes that sustainable development at the regional level demands policy design that is able to link innovation, institutions, and economic diversification. This underscores the importance of public policy architectures that are adaptive to region-specific needs as well as structural resilience to external shocks. This approach is relevant in the context of the regionalization of innovation policies, where fiscal policy, the financial system, and technological innovation become intertwined in fostering inclusive growth. Furthermore, ¹³²⁹ emphasizes the importance of strong economic governance in facilitating long-term growth in developing countries. Based on a cross-period literature review, he identified four key components in an effective growth strategy: quality infrastructure, education and skills development, trade liberalization, and technological innovation. By combining these pillars, regions can strengthen their adaptive capabilities to global structural change and expand socio-economic benefits for the

¹³²⁶ Tavares, "Productive Competitiveness and Regional Development: A Systematic Literature Review."

¹³²⁷ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³²⁸ Hajiyeva, "Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan's Agribusiness Sector: Policy Implications for Diversification and Food Security."

¹³²⁹ Raut, "Exploring Effective Strategies for Fostering Economic Growth in Developing Nations."

wider community. The integration between political governance and economic development dynamics in more depth is studied by ¹³³⁰ in the monograph *The Political Economy of Indonesia's Economic Development, Volume II*. He pointed out that decentralization reforms, relations between countries and the business sector, and technological innovation policies play an important role in maintaining macroeconomic stability after the Asian financial crisis. This study shows that the evolution of institutional systems towards an adaptive state capitalism model is able to strengthen the innovation base and increase regional competitiveness in the context of the global economy. The integration of these pillars leads to the formation of regional innovation ecosystems that emphasize collaboration between the public, private, and academic sectors. Through these interactions, innovation is not only the result of research, but also part of the sustainable development strategy. ¹³³¹ highlight that the role of public education as a catalyst for technology adoption strengthens the sustainability of regional innovation systems through increased labor productivity and adaptability to technological change. Conceptually, the results of this study show that modern regional competitiveness can not only be understood through traditional economic indicators, but also through the capacity of innovation and governance systems that are able to anticipate global changes. Regions that successfully integrate innovation investment, macroeconomic stability, and institutional quality are proven to have stronger structural resilience to economic volatility and rapid technological change. Therefore, an effective regional development strategy demands a cross-sectoral and interdisciplinary approach, where innovation, fiscal policy, education, and public governance function synergistically. This approach not only strengthens short-term competitiveness, but also ensures long-term adaptivity to global challenges such as digitalization, climate change, and industrial transformation 4.0.

In the context of regional development pillar integration, it emphasizes the dynamic relationship between institutional quality, human capital, innovation, and macroeconomic stability as the main determinants of regional competitiveness. Strong institutional quality is the basis for the success of regional development because it determines the effectiveness of public policies, bureaucratic efficiency, and the ability of the economy to adapt to external shocks. Recent studies in Visegrad countries show that the improvement in the quality of institutions contributes directly to the rise in international competitiveness rankings, although there are still areas that require further reform in public governance ¹³³². In addition, investments in research and development (R&D) and education have proven to play a significant role in strengthening long-term economic growth, as revealed by a study in Panama that confirms the positive effects of education and R&D spending on GDP through an elastic and bootstrap approach ¹³³³. Meanwhile, infrastructure development and innovation at the institutional level are proving important to support strategic sectors, such as agribusiness in Azerbaijan, which face structural

¹³³⁰ Ramesh, *The Political Economy of Indonesia's Economic Development, Volume II*.

¹³³¹ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³³² Pirannejad and Ingrams, "Open Government Maturity Models: A Global Comparison."

¹³³³ Ticona Machaca et al., "Public Policy for Human Capital: Fostering Sustainable Equity in Disadvantaged Communities."

and institutional obstacles in achieving regional economic sustainability ¹³³⁴. In this context, regional innovation capacity must also be measured within the framework of climate change and sustainable economic transformation, as introduced in the Regional Climate Change Competitiveness Index model, which highlights six key sub-indices to measure regional performance in the face of environmental challenges and economic sector efficiency ¹³³⁵. Furthermore, digitalization plays an important role in strengthening regional competitiveness in Europe, where digital transformation is a catalyst for productivity growth and market integration, creating a new competitive advantage among EU countries ¹³³⁶. In addition to internal factors, macroeconomic stability and economic openness through foreign trade and direct investment policies are also fundamental elements for resilient regional development. ¹³³⁷ emphasized that an inclusive development strategy requires synergy between infrastructure investment, institutional strengthening, and workforce skills development to encourage sustainable economic growth. On the other hand, comparative studies between China and Ukraine show that although both have certain competitive advantages, the challenges of macroeconomic stability and innovation are the main determinants of the direction of their regional economic development ¹³³⁸. Overall, the integration of institutional, innovation, and macroeconomic pillars strengthens regional capacity in the face of global uncertainty, as well as places regional competitiveness as a result of adaptive economic policy systems and structures.

The transformation towards sustainable regional competitiveness requires integration between innovation, adaptive governance, and macroeconomic resilience. In an uncertain global economic context, this approach allows regions to deal with structural shocks while adapting to technological and social changes. ¹³³⁹ introduced the Resilience and Competitiveness Index (RACI) for the European region, showing that regional competitiveness and resilience are systematically interdependent. A study of 268 NUTS2 regions shows that policy synergy between innovation, economic governance, and sustainable development strengthens the region's structural resilience to global economic crises. In line with that, ¹³⁴⁰ affirm that investment in research and development (R&D) and public education has a significant positive effect on economic growth in Panama. Through an elastic net and bootstrap approach, the study found that the balance between education financing, infrastructure investment, and macroeconomic stability is a key determinant for regional productivity increases. In the regional context, public policies that encourage technological innovation and education serve not only as economic catalysts, but also as a reinforcement of social competitiveness through the creation of knowledge-based employment.

¹³³⁴ Hajiyeva, "Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan's Agribusiness Sector: Policy Implications for Diversification and Food Security."

¹³³⁵ Karman, Mischuk, and Bronisz, "Regional Climate Change Competitiveness—Modelling Approach."

¹³³⁶ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

¹³³⁷ Raut, "Exploring Effective Strategies for Fostering Economic Growth in Developing Nations."

¹³³⁸ Su, "Comparative Analysis of Trends in the Ukrainian and Chinese Economies."

¹³³⁹ Borsekova, Koróny, and Nijkamp, "In Search of Concerted Strategies for Competitive and Resilient Regions."

¹³⁴⁰ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

In terms of economic governance,¹³⁴¹ show that government efficiency and digital policies have a significant influence on macroeconomic performance in Asia Pacific countries. This study underscores the importance of synergy between digital policies and institutional capabilities in increasing productivity and fiscal efficiency, where countries with adaptive digital policies tend to have higher economic growth rates. Thus, regional competitiveness in the digital age is determined not only by physical infrastructure, but also by knowledge-based policy governance and technological adaptability. The link between innovation policies and economic resilience is also reflected in¹³⁴² research on Azerbaijan's agribusiness sector. He emphasized that institutional barriers, lack of innovation, and financing gaps are the main factors that hinder the sustainable development of the sector. The results of this study affirm the importance of integration between macro and micro policies, including strengthening regional innovation systems, institutional reforms, and financing productive sectors to accelerate economic diversification and food security. This cross-sectoral integration shows how economic and institutional pillars must interact to build a resilient innovative ecosystem.

From a geopolitical perspective,¹³⁴³ highlights Indonesia's post-Asian crisis experiences in reforming the economy through fiscal decentralization, strengthening state-business relations, and transforming innovation policies. In his analysis, the combination of adaptive economic governance and technological innovation has been proven to be able to maintain macroeconomic stability and expand the knowledge base of growth in the Southeast Asian region. This underscores that regional competitiveness requires flexible institutional capacity and political will to steer innovation at long-term development priorities. Meanwhile, in a global perspective,¹³⁴⁴ examines the relationship between green innovation and cross-border economic resilience, finding that investments in R&D and renewable energy strengthen national competitiveness amid the transition to a green economy. The results show that innovation-based sustainable economic strategies not only increase exports of environmentally friendly goods but also strengthen the adaptive capacity of national economies to climate change and global market volatility. Conceptually, the integration between innovation, governance, and economic resilience strengthens the foundations of a comprehensive regional competitiveness framework. This approach demands a cross-pillar policy that includes investment in R&D, human capacity building, and efficient fiscal governance. The integration of these elements forms a sustainability-oriented regional competitiveness ecosystem, where governments, the private sector, and research institutions work collaboratively to create long-term economic and social value. In this context, regional competitiveness is not the end result, but rather a sustainable adaptive process in the midst of global economic dynamics. The formulation of policy strategies based on the pillars of regional competitiveness demands an integrative approach that connects the institutional dimensions, innovation, and macroeconomic stability to drive sustainable

¹³⁴¹ Yunus et al., "Post-Crisis Growth: Resource Orchestration, Innovation, and Diversification in MSMEs."

¹³⁴² Hajiyeva, "Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan's Agribusiness Sector: Policy Implications for Diversification and Food Security."

¹³⁴³ Ramesh, *The Political Economy of Indonesia's Economic Development, Volume II*.

¹³⁴⁴ Pedrosa et al., "Sprouting Control Treatment with LED Lights Does Not Affect the Biochemical Aspects of 'Asterix' Potatoes."

economic growth.¹³⁴⁵ emphasize that competitiveness is the main driver of economic growth and post-crisis recovery, where national policy strategies should focus on labor market efficiency, productivity, and industrial innovation. In the Romanian context, an analysis of the Global Competitiveness Index (GCI) for the 2017–2022 period shows that improving macro stability and fiscal policy effectiveness contributes significantly to the revitalization of the national economy. This strategy is relevant for regional regions that want to optimize synergy between public institutions, business actors, and the education sector in strengthening regional economic structures. Meanwhile,¹³⁴⁶ developed a RCI for the Hail region, Saudi Arabia, by adopting three main sub-indices—basic, efficiency, and innovation. This study shows that the effectiveness of regional development policies depends on a balance between basic infrastructure, institutional governance, and technological innovation. In this context, public policies that are able to stimulate private sector involvement and strengthen local research capacity are the main drivers in building sustainable competitive advantages. In Europe,¹³⁴⁷ highlights the importance of multilevel governance in narrowing the competitive gap between EU member states. Through hierarchical clustering analysis of GCI scores, this study found significant differences between old (CSOs) and new member countries (NMS), which were largely due to variations in institutional efficiency and innovation capacity. The resulting policy recommendations are the need to strengthen the economic decentralization system and improve managerial capabilities at the regional level to strengthen economic and social cohesion in the region.

The multidimensional approach in connecting the pillars of competitiveness and sustainable development is also described by¹³⁴⁸ who used data from 128 countries over 11 years. Through the analysis of PLS-SEM, they show that there is a convergence between institutional pillars, infrastructure, education, technology, and innovation to the social and environmental dimensions of sustainable development. This study reinforces the argument that regional competitiveness policies should not only focus on economic growth, but should also align the principles of inclusivity and social resilience in their implementation.¹³⁴⁹ highlight the context of Azerbaijani agribusiness as an important case study on the integration of macro and micro policies in strengthening regional competitiveness. They found that institutional barriers and lack of innovation remain major challenges for the sustainable development of the small and medium enterprises (SMEs) sector. Its strategic recommendations include strengthening public governance, diversifying the economy, as well as improving infrastructure connectivity and innovative financing as the basis for comprehensive competitiveness policies. Conceptually, the synthesis of these studies emphasizes that policy strategies based on the pillars of regional competitiveness must be integrative and adaptive. Institutional strengthening, innovation

¹³⁴⁵ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

¹³⁴⁶ Chaaben et al., “Regional Competitiveness for Achieving Sustainable Development of Hail Region, Saudi Arabia.”

¹³⁴⁷ Krumins and Klavins, “Scenario-Based Modeling of Land-Use and Land-Cover Changes to Promote Sustainability in Biosphere Reserves: A Case Study from North Vidzeme, Latvia.”

¹³⁴⁸ Canatay, Prieto, and Amin, “Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis.”

¹³⁴⁹ Hajiyeva, “Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan’s Agribusiness Sector: Policy Implications for Diversification and Food Security.”

acceleration, and macroeconomic stability cannot be separated from each other, but rather form a mutually reinforcing policy ecosystem. Thus, sustainable regional competitiveness can only be achieved through cross-sectoral and cross-regional coordination, where public policies are directed to create long-term synergies between economic growth, social well-being, and environmental sustainability.

14.2. Integrated Framework for Regional Competitiveness

The empirical results studied within the framework of the Pillar Index show that regional economic and social development is a multidimensional process that is not only determined by macroeconomic growth, but also by synergy between institutional pillars, infrastructure, macroeconomic stability, and regional innovation and technological capacity. The cross-border study reinforces the findings that these inter-pillar interactions form a sustainable development ecosystem, in which each pillar plays a complementary role. For example, a study by ¹³⁵⁰ showed a strong relationship between economic competitiveness and logistics performance in the Visegrád countries (Poland, Hungary, Slovakia, and the Czech Republic), confirming that strengthening logistics infrastructure is a catalyst for improving regional economic efficiency through connectivity and lowering transaction costs. Furthermore, in the macro context, the integration between institutional and infrastructure dimensions has been proven to affect the regional competitiveness index. ¹³⁵¹ through the Deep Ranking Analysis by Power Eigenvectors (DRAPE) method emphasized that national sustainability cannot be separated from institutional strength and adaptive public policy quality, where national economic competitiveness is positively correlated with policy resilience to external changes. Institutional strengthening is the initial foundation that determines the effectiveness of other pillars in encouraging regional development. An empirical approach emphasizing pillar integration is also supported by the research of ¹³⁵²Canatay et al. (2025), which examined the relationship between the six main pillars of global competitiveness (institutions, infrastructure, education, technology, business sophistication, and innovation) to the macroeconomic environment and dimensions of sustainable development in 128 countries over 11 years. The results of their PLS-SEM analysis show that the success of regional development requires alignment between institutional efficiency and technological innovation, as both have a dual effect on economic growth and social equity. The study emphasizes the importance of policy models that link economic efficiency with social justice through the optimization of institutional structures and infrastructure investments.

In a regional context, research by ¹³⁵³ highlights the role of infrastructure as a key determining factor in strengthening economic integration in the Southern African Development Community (SADC) region. Hard and soft infrastructure has been proven to improve the

¹³⁵⁰ Kálmán and Tóth, “Links between the Economy Competitiveness and Logistics Performance in the Visegrád Group Countries: Empirical Evidence for the Years 2007-2018.”

¹³⁵¹ Mate, Novotny, and Kovacs, “Deep Ranking Analysis by Power Eigenvectors (DRAPE): Linking Sustainability and National Competitiveness.”

¹³⁵² Canatay, Prieto, and Amin, “Navigating the Convergence of Global Competitiveness and Sustainable Development: A Multi-Level Analysis.”

¹³⁵³ Tandrayen-Ragoobur, “The Role of Infrastructure in Regional Trade in the SADC Region.”

efficiency of cross-border trade, strengthen supply chains, and facilitate a more efficient flow of goods and labor. This study confirms that development policies that emphasize regional infrastructure networks can produce significant spillover effects on people's productivity and social welfare. Thus, regional development strategies should not only be oriented towards physical projects, but also pay attention to institutional aspects that support the sustainability of infrastructure management. Meanwhile, in the context of post-pandemic economic resilience, research by ¹³⁵⁴ confirms that competitiveness is an effective engine of economic recovery. Using 2017–2022 macroeconomic data from Romania, they show that policies that strengthen the link between labor productivity and global competitiveness can accelerate economic recovery and reduce structural vulnerabilities due to global crises. These results support the Pillar Index approach which places synergy between labour policy, innovation, and macro stability as the key to sustainable development success. Furthermore, the relevance of pillar integration in regional economic policy is also reflected in a cross-policy study in the European Union conducted by ¹³⁵⁵. Using systems theory and Porter's hypothesis, this study identifies three green competitiveness profiles and five strategies for progress in the transition to climate neutrality. The results show that countries with institutional capacity and resilient economic structures are able to integrate economic and environmental goals simultaneously, thereby strengthening national competitiveness in the era of green transformation. The study enriches the empirical evidence that regional policies should prioritize a balance between economic efficiency, environmental sustainability, and social justice as the three key dimensions of inclusive development.

From the synthesis of these studies, it can be concluded that the empirical implications of regional development based on the Pillar Index demand the implementation of policies that strengthen cross-sectoral and cross-regional coordination. Key pillars such as institutions, infrastructure, ICT, macro stability, and social health cannot run alone. The synergy between them creates a multiplier effect on the productivity and social welfare of the community. On the one hand, institutional quality determines the extent to which policies can be implemented effectively; On the other hand, infrastructure and innovation serve as catalysts for accelerating growth. Therefore, a regional policy approach based on empirical data and adaptive is a must in facing the challenges of globalization, technological disruption, and inequality between regions.

1. Strengthening Institutions as the Foundation of Regional Economic Governance

Institutional quality is a key foundation in driving the effectiveness of regional economic development, as it determines how economic resources are managed, allocated, and controlled in a sustainable manner. The empirical results of various studies show that the success of regional development depends on institutional efficiency in creating a stable, transparent, and adaptive environment to global economic changes. In this context, the quality of good public governance serves not only as a legal and administrative framework, but also as a catalyst that strengthens the relationship between investment, innovation, and regional economic growth. A recent study by

¹³⁵⁴ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

¹³⁵⁵ Rapsikevičius et al., “The Impact of Structural Reforms on Sustainable Development Performance: Evidence from European Union Countries.”

¹³⁵⁶ examined the relationship between education, institutional quality, and investment to economic growth in the Central Asia and Caucasus region using the FMOLS/DOLS data panel model. The results show that effective institutions and inclusive higher education contribute significantly to long-term economic expansion, while weak public governance and corrupt practices actually slow down the development process. These findings reinforce the idea that institutional reform is a key element in creating a resilient and equity-oriented regional economic system. A similar perspective was put forward by ¹³⁵⁷ in their analysis of the determinants of foreign direct investment in Morocco using the Bayesian Model Averaging approach. The study confirms that institutional factors, such as political stability, legal transparency, and fiscal policy reliability, have a more significant influence on capital flows than conventional macroeconomic variables. The integration of institutional dimensions with the development of digitalization has been proven to increase investment attractiveness and strengthen the position of regional economies in the global value chain. Institutional efficiency is not only an administrative instrument, but also a strategic instrument in accelerating growth based on productive investment.

In the context of an increasingly digitized economy, the relationship between governance and macroeconomic performance is also studied in depth by ¹³⁵⁸, who analyze the role of governance efficiency and digital competitiveness in the Asia-Pacific region. The results of the study show that responsive digital policies, supported by efficient public institutions, are able to strengthen macroeconomic stability and improve national productivity performance. This study confirms that institutional reform cannot be separated from regional digital transformation policies based on innovation and cross-sectoral policy integration. In addition, the relationship between institutional stability, infrastructure, and investment is also strengthened through an empirical study by ¹³⁵⁹ that examined the influence of the GCI and LPI on foreign investment in the Asia-Pacific region. Their findings suggest that countries with good institutional performance and logistics infrastructure, such as South Korea and Oman, are able to attract more foreign direct investment than countries with weak economic governance. This shows that institutions play an important role as a bridge between logistics efficiency and international market dynamics. From a global perspective, research by ¹³⁶⁰ confirms the importance of institutional factors in ensuring the sustainability of economic growth. In a longitudinal study of 50 developing countries, they found that foreign direct investment and sustainable economic growth can only be achieved in a system that has transparent governance, strong legal protections, and accountable fiscal policies. Stable institutions not only create market trust, but also ensure that economic gains can be translated into inclusive improvements in social well-being. Furthermore,

¹³⁵⁶ Tleppayev et al., "Education, Institutions, and Investment as Determinants of Economic Growth in Central Asia and the Caucasus: A Panel Data Analysis."

¹³⁵⁷ Arbia et al., "Bayesian Model Averaging Approach of the Determinants of Foreign Direct Investment in Morocco."

¹³⁵⁸ Yunus et al., "Post-Crisis Growth: Resource Orchestration, Innovation, and Diversification in MSMEs."

¹³⁵⁹ Wannisinghe et al., "Determining the Influence of LPI, GCI and IR on FDI: A Study on the Asia and Pacific Region."

¹³⁶⁰ Cakerri, Muharremi, and Madani, "AN EMPIRICAL STUDY IN ALBANIA OF FOREIGN DIRECT INVESTMENTS AND ECONOMIC GROWTH RELATIONSHIP."

the research of ¹³⁶¹ provides empirical evidence from Africa that institutional quality interacts with digitalization to drive financial development and economic growth. Using the Bayesian Panel Vector Auto-Regressive (BPVAR) model, this study proves that digitalization supported by effective governance improves financial inclusion, lowers transaction costs, and expands the reach of the formal economy, especially in countries with institutional systems that are adaptive and responsive to technological changes. These findings confirm that strengthening public institutions and the financial sector is a synergy that determines the success of digital-based development at the regional level.

On the other hand, ¹³⁶² found that public spending on education and research is positively related to economic growth in Panama, while inflation and institutional weakness have a significant negative impact. By applying elastic net regularization techniques and bootstrap approaches, this study shows that investments in institutional capacity and human resources produce long-term effects on regional economic stability. This reinforces the evidence that institutional reforms and science-based policies are prerequisites for increased productivity and social well-being. Based on the synthesis of the various studies above, it can be concluded that strong institutions are the main drivers of regional economic and social development. Good governance increases policy credibility, strengthens the investment climate, and lowers economic risks. Therefore, regional development policies need to be directed at strengthening institutional capacity through three main strategies: 1) bureaucratic reform based on accountability and transparency; 2) integration of institutional policies with digital transformation; and 3) human resource capacity building in the public governance system. Structured and empirical data-driven institutional reforms will strengthen the foundations of inclusive, adaptive and sustainable development at the regional level.

2. Infrastructure as a Catalyst for Sustainable Economic Development: From Concept to Implementation

Infrastructure is a fundamental pillar in strengthening economic competitiveness and forming the foundation for sustainable regional development. More than just physical facilities, infrastructure serves as a network of economic connectivity that connects real sector productivity, labor mobility, and domestic and global market integration. The results of recent research confirm that strategic infrastructure investment creates a multiplier effect on economic growth, trade efficiency, and labor absorption, especially in developing countries that are undergoing structural transformation. ¹³⁶³ through a regularized regression study on the Djibouti economy emphasized that public infrastructure investment plays an important role in encouraging economic diversification, although the effects differ between the industrial and service sectors. Growth models based on physical infrastructure improve energy efficiency and long-term productivity, but require institutional support so as not to be trapped in intensive capital growth without the creation of productive jobs. These findings demonstrate the importance of

¹³⁶¹ Adam et al., “Does Digitisation Determine Financial Development? Empirical Evidence from Africa.”

¹³⁶² Gutiérrez-Sánchez and Benítez-Andrés, “The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques.”

¹³⁶³ Dirir, “Sectoral Evolution and Structural Transformation in Djibouti: A Multivariate and Regularized Regression Analysis Toward Achieving SDG 9.”

synchronization between infrastructure projects and economic structural transformation strategies. In the context of developing countries, ¹³⁶⁴ highlights that structural and institutional barriers are the main barriers to the successful development of agribusiness sector infrastructure in Azerbaijan. Through a macro-structural analysis approach, this study found that infrastructure efficiency depends on stable fiscal policy support and institutional innovation that is adaptive to local needs. When public institutions are able to coordinate cross-sectoral investments, infrastructure not only accelerates agribusiness growth but also ensures food security and national economic diversification. A similar view is put forward by ¹³⁶⁵, who through a systematic review of the infrastructure and fiscal accountability literature shows that transparent public financial reporting practices strengthen the effectiveness of infrastructure investments. Countries with standardized and credible infrastructure accounting systems tend to have higher levels of investment efficiency as well as increased investor confidence, creating a more stable financial base for long-term development. This shows that the role of infrastructure cannot be separated from good public financial governance. On a global scale, ¹³⁶⁶ showed through a panel of ARDL and Granger causality tests on BRICS countries and Turkey that physical infrastructure, research and development (R&D), as well as regional financial integration have a significant influence on intra-bloc trade and economic competitiveness. Strong infrastructure strengthens domestic production capacity and expands export bases, while increasing economic resilience to global turmoil. This reinforces the idea that infrastructure development has not only a domestic, but also geopolitical impact through an increase in the economic bargaining position of a region. Research by ¹³⁶⁷ expands on the analysis by highlighting the relationship between knowledge management capacity and digital infrastructure in strengthening green innovation in Asia. Through quantile regression models and GMM estimators, it was found that knowledge infrastructure and information management systems play a key role as catalysts for green finance efficiency and adoption of low-carbon technologies. In this context, digital infrastructure investment not only supports productivity, but also accelerates the transition to a sustainable economy based on green innovation.

Furthermore, a cross-border study by ¹³⁶⁸ confirms that the development of digital infrastructure has a significant contribution to the growth of Gross Domestic Product (GDP) in developing countries. Using time series data from 2000–2023, this study found that increased internet penetration, mobile subscriptions, and e-government services significantly increased national productivity efficiency. Infrastructure digitalization, when accompanied by adaptive government policies, is able to strengthen economic growth and reduce the digital divide between regions. The findings confirm that infrastructure not only has a direct economic role, but also a

¹³⁶⁴ Hajiyeva, “Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan’s Agribusiness Sector: Policy Implications for Diversification and Food Security.”

¹³⁶⁵ Lambon, Ocansey, and Ababio, “Influence of Poverty on Economic Growth in Sub-Saharan Africa, the Role of Financial Stability.”

¹³⁶⁶ Pessoa et al., “Modeling and Forecasting the Dynamics of BRICS Socioeconomic Integration in Context of Global Economic Fragmentation.”

¹³⁶⁷ Mukarram et al., “Knowledge Management and Sustainable Innovation for Green Finance: Evidence from Asia.”

¹³⁶⁸ Sutomo et al., “Disparity and Income Inequality in Indonesia.”

strategic function as a link between other pillars of development such as institutions, technology, and macroeconomics. Quality infrastructure strengthens inter-regional connectivity, accelerates the diffusion of innovation, and improves the efficiency of regional value chains. Therefore, infrastructure development policies should be oriented towards integration: 1) connecting production centers with markets and resources; 2) optimizing digital technology for the efficiency of public services; and 3) ensuring transparent and accountable public investment governance. The approach to future infrastructure development must balance economic, social, and ecological dimensions. Inclusively designed infrastructure not only accelerates growth, but also strengthens social cohesion, expands access to basic services, and supports a long-term sustainability agenda. Resilient infrastructure is a catalyst for regional development that is adaptive to global challenges – whether climate change, digital disruption, or international economic fragmentation.

3. Dynamics of Information and Communication Technology (ICT) Adoption: Determinant Analysis and Implications in Regional Development

The development of information and communication technology (ICT) has become the main engine of global and regional economic transformation. ICT adoption not only affects the productivity and efficiency of the industry, but also determines the growth pattern, social inclusion, and competitiveness of the region. In the context of regional development, the ability of a region to adapt to digitalization determines its innovation capacity as well as integration into the global digital economy. This process involves a complex interaction between digital infrastructure, the quality of human resources, and institutional effectiveness.¹³⁶⁹ show that the rate of digitalization has a significant impact on productivity and employment in the financial sector in Central Europe and the Baltics. Through a multivariate analysis (MANOVA and OLS), they found that the use of ICTs improves labor efficiency and productivity growth, but the results depend on the technological readiness and labor policies of each country. These findings underscore the importance of complementary policies such as digital education and social protection to optimize the economic benefits of digital transformation. Furthermore, research by¹³⁷⁰ shows a long-term link between digitalization and energy transition in North African countries. Through the CS-ARDL model, it was found that digitalization strengthens economic resilience and accelerates the adoption of renewable energy, thereby creating a more inclusive and sustainable growth pattern. This integration between ICT and energy infrastructure shows that digitalization is not only an instrument of economic efficiency, but also a catalyst for environmental sustainability. Digital transformation also changes the dimensions of economic and social governance. Thus, digital transformation must be accompanied by inclusive governance so that the benefits can be felt equally across all regions.

¹³⁶⁹ Kálmán and Tóth, “Links between the Economy Competitiveness and Logistics Performance in the Visegrád Group Countries: Empirical Evidence for the Years 2007-2018.”

¹³⁷⁰ Amayed, “Digitalization and Energy Transition for Sustainable Development in North Africa: New Evidence from the CS-ARDL Approach.”

This strengthens the argument that the development of digital infrastructure is one of the main determinants of regional competitiveness in the industrial era 4.0. In a global context,¹³⁷¹ developed a digitalization composite index based on Principal Component Analysis to classify countries as digital pioneers, adapters, and followers. The results of this study show that countries with large investments in the technology of the fourth industrial revolution (AI, blockchain, big data) have a long-term competitive advantage in productivity and international trade. Within the framework of regional development, such an index can be used as a policy tool to identify the digital divide and direct targeted development interventions.¹³⁷² broadened the discussion by examining the relationship between digital transformation and renewable energy adoption in the Middle East region. Through the Fully Modified Ordinary Least Squares (FMOLS) model, they show that digitalization improves energy management efficiency and strengthens the adaptive ability of the public sector to environmental change. These findings underscore the role of ICTs in driving the green economy and creating added value across sectors. In addition,¹³⁷³ emphasize the importance of a contextual approach in digital economy measurement. By introducing the Index of Digital Economy Development (IDED) for Kazakhstan, they show that the cybersecurity component and the effectiveness of digital transformation are decisive factors in the success of digital economy development in developing countries. This study confirms that evidence-based measurement and evaluation are crucial in formulating inclusive regional digital policies. From all these empirical findings, it can be concluded that ICT adoption plays a dual role: as a driver of economic productivity and as a tool for structural transformation towards a knowledge-based economy. However, the positive impact is highly dependent on institutional readiness, equitable distribution of digital infrastructure, and human resource capacity. In the context of regional development, effective policies should include 1) strategic investment in ICT infrastructure; 2) improving digital skills and technological literacy; 3) strong and inclusive digital governance; and 4) incentives for innovation across sectors, including energy, education, and health. Digital transformation is not only the adoption of technology, but also a paradigm shift in economic and social development. The implementation of integrated digital policies can reduce the gap between regions, strengthen economic connectivity, and create innovative ecosystems that promote sustainable and inclusive growth.

4. Macroeconomic Stability as a Strategic Cornerstone of the Digital and Innovative Ecosystem

Macroeconomic stability is a fundamental prerequisite for building a sustainable digital and innovative ecosystem. The integration of fiscal, monetary, and technological innovation policies determine a region's ability to navigate global uncertainty and maintain long-term growth momentum. As inflation is brought under control, exchange rates stabilize, and productive investment increases, market confidence in innovative sectors will grow, allowing for more

¹³⁷¹ Kumara, Wijerathna, and Jayathilaka, "Digitalisation Dynamics: Developing a Global Index for Digital Pioneers, Adapters, and Followers."

¹³⁷² Tabash et al., "Empirical Assessment of Digital Transformation and Renewable Energy Adoption in the Middle East."

¹³⁷³ Denissova et al., "Measuring the Digital Economy in Kazakhstan: From Global Indices to a Contextual Composite Index (IDED)."

effective technology transfer and acceleration of digitalization. Empirical research by ¹³⁷⁴ shows how macroeconomic stability influences the development of financial technology in 34 African countries. The results indicate that GDP per capita growth, trade openness, and exchange rate stability significantly strengthen the adoption of financial technology (FinTech), while high inflation hinders digital financial inclusion. These findings confirm that stable macro policies not only support the financial sector, but also serve as a foundation for the expansion of digital technologies in emerging markets. In the context of developed countries, ¹³⁷⁵ analyzes the linkages between GDP, inflation, foreign direct investment, exchange rates, renewable energy, and open innovation in Singapore using the Autoregressive Distributed Lag (ARDL) approach. The study highlights that open innovation and renewable energy investment have a significant positive impact on economic growth, while exchange rate volatility and inflation negatively impact the sustainability of innovative ecosystems. Macroeconomic stability is a key element in creating an environment conducive to cross-sectoral technological collaboration. In line with that, ¹³⁷⁶ confirm the importance of investment in research and development (R&D) in maintaining long-term economic resilience. Using elastic net regularization techniques and fixed effects panel estimation, a study in Panama showed that increased R&D and education spending significantly contributes to economic growth, while inflation has a noticeable negative impact. These results show that macro stability is not only a function of monetary policy, but also a product of synergy between investment in innovation and human capacity building.

From the perspective of institutions and real sectors, ¹³⁷⁷ highlights the structural and institutional obstacles facing the agribusiness sector in Azerbaijan. The study revealed that institutional inefficiencies and macroeconomic uncertainty are the main barriers to the growth of innovation in the sector. By integrating economic and institutional approaches, this study confirms that macroeconomic stability must be accompanied by structural reforms to create innovative systems that are inclusive and resilient. Furthermore, ¹³⁷⁸ shows that technological advances play an important role in stabilizing the food price system in the European Union. Through an analysis of data panels on 27 member countries, the study found that technological innovations suppress food inflation and increase supply stability, which ultimately strengthens the economy's resilience to external shocks. Macroeconomic stability, in this context, is the result of the synergy between prudent monetary policy and productivity-oriented technology investment. Therefore, macroeconomic stability must be linked to region-based institutional and innovation strategies to be more effective. Overall, the results of the study confirm that macroeconomic stability serves as a strategic cornerstone for the digital and innovative ecosystem.

¹³⁷⁴ Al-Assaf, Abdel-Halim, and Shehadeh, "The Macroeconomic Drivers of Fintech Development in Emerging Markets: An Empirical Investigation."

¹³⁷⁵ Xuan, "An ARDL Approach to Investigating the Relationship between FDI, Renewable Energy, Economic Growth, Trade Openness, and CO2 Emissions in Australia."

¹³⁷⁶ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³⁷⁷ Hajiyeva, "Structural, Institutional, and Innovation Barriers to The Sustainable Development of Small and Medium-Sized Enterprises in Azerbaijan's Agribusiness Sector: Policy Implications for Diversification and Food Security."

¹³⁷⁸ Doran et al., "E-Government Development—A Key Factor in Government Administration Effectiveness in the European Union."

Coordinated fiscal and monetary policies, inflation control, and institutional strengthening play an important role in maintaining a balance between economic growth, innovation, and social sustainability. Countries or regions with strong macro stability have higher adaptive abilities in dealing with technological disruptions and global uncertainty. Therefore, the development of a sustainable digital ecosystem requires a combination of macro resilience, technology investment, and innovative policy design based on empirical evidence.

5. Health in Regional Development, Integrated Indices, and Policy Recommendations

Public health plays a central role in strengthening regional economic and social development. In the modern development paradigm, investment in the health sector not only contributes to improving people's welfare, but also strengthens labor productivity, expands the human capital base, and reduces social inequality. The reciprocal relationship between health and economic development shows that a strong health system is an integral component of an inclusive and sustainable growth strategy. An empirical study by ¹³⁷⁹ in South Africa shows that public spending on health has a significant influence on human capital enhancement and long-term economic growth. Through the Autoregressive Distributed Lag (ARDL) and Vector Error Correction Model (VECM) models, this study found that public health investment plays a positive role in human development, while unemployment and population growth have a negative impact. These results confirm that strengthening public health systems is a key element in sustainable economic development strategies, especially in developing countries with high inequality. In line with that, ¹³⁸⁰ examined the structural determinants of food security and food price inflation in Gulf Cooperation Council (GCC) countries. Using the Generalized Method of Moments (GMM) approach and Driscoll–Kraay estimators, the results show that agricultural productivity and employment in the agricultural sector play a role as economic stabilizers through strengthening food security and controlling inflation. This study shows the close link between health, nutrition, and regional macroeconomic stability, where a healthy food system contributes directly to social development. Meanwhile, ¹³⁸¹ in a holistic analysis of economic competitiveness in Europe found that digitalization and public health have synergistic contributions to improving regional competitiveness. Using factor analysis to identify key determinants of growth, this study confirms that the integration of digital policies with public health care systems can create innovative ecosystems that strengthen socio-economic resilience. In this context, digital health has become a new pillar in regional development that is adaptive to the industrial era 4.0.

In the context of finance and systemic stability, ¹³⁸² examined the influence of Environmental, Social, and Governance (ESG) factors on the profitability of banks globally. Their findings suggest that the social dimension, including the health and well-being of the workforce, has a significant contribution to the financial sustainability of banking institutions. This shows that health, both at the individual and institutional levels, is a strategic variable that

¹³⁷⁹ Magida et al., "Human Capital Development and Public Health Expenditure: Assessing the Long-Term Sustainability of Economic Development Models."

¹³⁸⁰ Dardeer and Shaheen, "Structural Determinants of Food Price Inflation and Food Security Implications: Evidence from GCC Panel Data."

¹³⁸¹ Boikova et al., "The Determinants and Effects of Competitiveness: The Role of Digitalization in the European Economies."

¹³⁸² Amanova et al., "Do the Sustainable Development Goals Enhance Bank Profitability? Global Panel Evidence."

strengthens macroeconomic stability and financial sustainability. On the other hand, ¹³⁸³ show that the COVID-19 pandemic changed the dynamics of national competitiveness in Eastern Europe, including Romania. Through the analysis of macroeconomic data, the study found that public health is a key determinant in post-crisis economic recovery, with effective health policies playing a role in strengthening workforce stability and accelerating regional GDP recovery. This emphasizes that health investment is not only a social aspect, but also a fundamental element of economic policy. From a methodological perspective, The integration of health indicators into regional growth models broadens understanding of the role of human capital in the structural transformation of the economy. Overall, the findings confirm that health has a multidimensional impact on regional development. Strong public health policies strengthen economic capacity through increased labor productivity, reduced social costs, and strengthening macroeconomic stability. Furthermore, the integration of health indicators into the regional development Pillar Index can enrich regional competitiveness analysis and aid evidence-based policy formulation. Thus, an integrated policy approach that combines economic, social, and health dimensions is key to realizing inclusive and sustainable regional growth.

6. Skills, Institutions, and Infrastructure: Unraveling the Complexity of Information and Communication Technology (ICT) Adoption

Human skills, institutional quality, and technological infrastructure are the three main pillars that determine the effectiveness of the adoption of ICT in regional development. The relationship between the three is complex, dynamic, and mutually reinforcing: infrastructure provides physical prerequisites, institutions guarantee efficient governance, while skills become the catalyst that transforms technological capacity into real economic productivity. In the context of global digital transformation, a balance between these factors is key to achieving sustainable economic growth and reducing disparities between regions. Empirical research by ¹³⁸⁴ shows that digitalization has a significant positive impact on productivity and labor absorption in the financial sector in Central Europe and the Baltics. Through the multivariate analysis of variance (MANOVA) approach and OLS regression, this study confirms that the intensive use of ICT contributes to improved workforce efficiency, but the effects vary depending on the readiness of the infrastructure and the level of digital skills in each region. Digital skills are a key dimension that bridges ICT investment with regional economic outcomes. ¹³⁸⁵ confirmed that education inequality has a negative influence on internet use in 69 middle- and high-income countries. The study used a logit model to show that in addition to formal education levels, the equitable distribution of knowledge within society plays an important role in ensuring inclusive access to and use of technology. This means that technology adoption depends not only on the availability of infrastructure, but also on the equitable quality of human capital. From an institutional perspective, ¹³⁸⁶ found that ICT penetration has a significant positive impact on institutional

¹³⁸³ Virjan et al., “Competitiveness—the Engine That Boosts Economic Growth and Revives the Economy.”

¹³⁸⁴ Tóth, Astanli, and Varga, “The Impact of Digitalisation on Employment and Productivity in the Financial Sector: A Comparative Analysis of Information and Communication Technology Usage of Central European and Baltic Businesses.”

¹³⁸⁵ Billon, Crespo, and Lera-Lopez, “Do Educational Inequalities Affect Internet Use? An Analysis for Developed and Developing Countries.”

¹³⁸⁶ Saba, David, and Voto, “Institutional Quality Effect of ICT Penetration: Global and Regional Perspectives.”

quality in 183 countries, with the strongest effect in middle-income areas. Using the Two-Step System GMM approach, this study shows that increased use of the internet and digital communication strengthens transparency, government effectiveness, and public accountability. These results confirm the importance of integrating ICT policies with institutional reform as a prerequisite for the success of regional digital transformation.

The integration between public policy and infrastructure is also seen in the research of ¹³⁸⁷ on the NRECDP in China. Using the difference-in-differences (DID) method and event study, the results show that ICT-based government interventions have succeeded in increasing per capita income in rural areas and accelerating poverty reduction, especially in disadvantaged areas. The study provides empirical evidence that synergies between policy, technology, and skills development can create a multiplier effect on regional economic growth. In the context of education and capacity building, ¹³⁸⁸ highlight policy and infrastructure challenges in ICT implementation in African universities. This study, through a comprehensive literature review, found that policy inequality, limited infrastructure, and lack of institutional support are the main obstacles to effective ICT implementation in higher education. The findings show that digital skills development requires systemic support through education infrastructure policies and investments. Another study by ¹³⁸⁹ on Gulf countries (GCC) shows that digital adoption significantly increases labor productivity, especially when supported by government effectiveness and long-term investment in technological infrastructure. In the long term, a one-point increase in the Composite Digital Index (CDI) is associated with a 12.6% increase in labor productivity, and the effect triples when moderated by institutional effectiveness. This confirms the important role of interaction between infrastructure and institutions in strengthening the economic impact of digital transformation. Meanwhile, the digital skills dimension is also examined in the context of regional fiscal productivity by ¹³⁹⁰. Through structural equation modeling of 34 provinces in Indonesia, this study found that digital literacy mediates the relationship between ICT infrastructure and local income. The results show that infrastructure improvement without being balanced with digital skills actually reduces the efficiency of the regional economy. Overall, the findings of these studies confirm that the success of ICT adoption depends on the integration of digital skills, institutional governance, and infrastructure readiness. These three factors operate as interacting systems: infrastructure provides a physical foundation, institutions form incentive and regulatory structures, while human skills determine the extent to which technology can be leveraged for productivity and innovation. Therefore, digitally-oriented regional development strategies should emphasize a systemic approach that balances technology investment with strengthening human capital and institutional reform.

¹³⁸⁷ Zhang et al., “E-Commerce Development, Poverty Reduction and Income Growth in Rural China.”

¹³⁸⁸ Ntorukiri, Kirugua, and Kirimi, “Policy and Infrastructure Challenges Influencing ICT Implementation in Universities: A Literature Review.”

¹³⁸⁹ Al Shammre, Abdelkawy, and Al Abdullah, “Do SDGs Buffer Oil Rent Shocks? Panel Evidence on Unemployment Dynamics in the GCC.”

¹³⁹⁰ Priambodo, Anwar, and Suharno, “Does Digital Literacy Mediate the Relationship Between ICT and Regional Own-Source Revenue?”

7. Pillar Synergy to Increase Competitiveness and Reduce Regional Inequality

The concept of regional competitiveness is no longer solely determined by sectoral economic excellence, but by the ability of a region to create synergies between development pillars such as innovation, institutions, infrastructure, and digital and green transformation. This synergy between the pillars results in a multiplier effect on productivity, resource efficiency, and the adaptability of the region to global change. In the context of modern regional development, sustainable competitiveness is determined by cross-sectoral collaboration and institutional capacity to coordinate innovation, investment, and mutually reinforcing public policies. Research by ¹³⁹¹ shows that Digital and Green Transformation (DGT) plays an important role in shaping corporate and regional competitiveness through resource synergy mechanisms and innovation. An analysis of Chinese company data during 2015–2023 shows that the combination of digitalization and green policies creates a multiplier effect on corporate sustainability performance, especially in regions with strong environmental regulations. These results confirm the importance of integration between environmental policies, digitalization, and regional economies in strengthening long-term competitive advantages. Institutional integration and innovation are also strengthened in the context of developing countries. ¹³⁹² through a study on Integrated Agro-Industrial Parks (IAIPs) in Ethiopia shows that strong governance and coordination among stakeholders strengthen the innovation ecosystem and global competitiveness, despite the challenges of mismatch between innovation processes and global market demand. The Partial Least Squares-SEM analysis in this study confirms that institutional effectiveness and cross-actor collaboration are the main drivers of regional competitiveness synergy.

From the perspective of innovation and technology, ¹³⁹³ through a PRISMA-based systematic review affirm that technological innovation is a key determinant for sustainable competitiveness, with a significant contribution to economic resilience and long-term managerial efficiency. This research shows that innovation is not only the result of technology investment, but is also a product of the institutional and policy environment that supports cross-sector collaboration. Conceptually, the results of these studies reinforce the view that regional competitiveness cannot be achieved sectoral, but through integration across pillars and sectors. Adaptive institutions provide a governance framework, infrastructure serves as a physical basis for mobility and market integration, while innovation and digitalization serve as key levers for productivity and efficiency. Within this framework, synergy between pillars can be seen as a dynamic system that facilitates knowledge spillover, multi-actor collaboration, and structural transformation towards a knowledge-based economy. The policy implications that emerge from the findings suggest that local governments need to adopt ecosystem-based development strategies, not just sectoral projects. This approach demands cross-agency coordination,

¹³⁹¹ Sun et al., “Digital Transformation and Corporate Green Innovation: An Affordance Theory Perspective.”

¹³⁹² Boru, Hwang, and Ahmad, “Governance and Institutional Frameworks in Ethiopian Integrated Agro-Industrial Parks: Enhancing Innovation Ecosystems and Multi Stakeholder Coordination for Global Market Competitiveness.”

¹³⁹³ Hamdouna and Khmelyarchuk, “Technological Innovations Shaping Sustainable Competitiveness—A Systematic Review.”

integrated innovation incentives, and fiscal policy support to strengthen the competitiveness ecosystem. Thus, regional competitiveness will develop not only from comparative advantage, but also from the ability of regions to build competitive resilience—that is, competitiveness that is resistant to economic and environmental shocks, and able to adapt to global changes in a sustainable manner. Sustainable regional development demands an integrative approach that combines economic, social, institutional, and technological dimensions in a single mutually reinforcing policy system. From the results of the study of seven main pillars – ranging from conceptual frameworks, institutions, infrastructure, technology, macroeconomic stability, health, to skills and competitiveness – it can be seen that the success of development is not only determined by economic growth, but also by the integration between elements that create innovative, resilient, and inclusive ecosystems. The conceptual approach through the Pillar Index emphasizes that regional development cannot be separated from strengthening institutional governance and cross-sectoral collaboration. Research by ¹³⁹⁴ confirms that trade openness and macro stability strengthen the adoption of open innovations, while ¹³⁹⁵ show that exchange rate stability drives the expansion of digital finance in Africa. The availability of infrastructure is a determining factor for regional competitiveness. Research by ¹³⁹⁶ confirms that R&D and infrastructure investments drive long-term growth. In a sustainable context, ¹³⁹⁷ found that new technologies in the food supply chain strengthen price stability and suppress inflation, showing the close link between physical infrastructure and macro stability. Infrastructure not only facilitates connectivity, but also serves as a foundation for equitable digital access and economic mobility between regions.

The adoption of ICT accelerates the transformation of the regional economy by expanding connectivity and driving efficiency. The study of ¹³⁹⁸ proves that digitalization increases productivity and labor efficiency in the European financial sector, while ¹³⁹⁹ affirm that ICT penetration improves the quality of global institutions. However, this impact is only optimal when supported by digital skills and infrastructure readiness. Therefore, human capital development is a strategic agenda for regions that want to take advantage of digital transformation as a tool for economic equity. Macro stability serves as a "strategic cornerstone" for the digital and innovative ecosystem. ¹⁴⁰⁰ shows that inflation and exchange rate volatility stifle innovation, while GDP growth and foreign investment reinforce open innovation. On the other hand. Health is a social determinant that plays a role in regional productivity and well-

¹³⁹⁴ Xuan, "An ARDL Approach to Investigating the Relationship between FDI, Renewable Energy, Economic Growth, Trade Openness, and CO2 Emissions in Australia."

¹³⁹⁵ Al-Assaf, Abdel-Halim, and Shehadeh, "The Macroeconomic Drivers of Fintech Development in Emerging Markets: An Empirical Investigation."

¹³⁹⁶ Gutiérrez-Sánchez and Benítez-Andrés, "The Impact of R&D Investment on Economic Growth: Evidence from Panama Using Elastic Net and Bootstrap Techniques."

¹³⁹⁷ Doran et al., "E-Government Development—A Key Factor in Government Administration Effectiveness in the European Union."

¹³⁹⁸ Tóth, Astanli, and Varga, "The Impact of Digitalisation on Employment and Productivity in the Financial Sector: A Comparative Analysis of Information and Communication Technology Usage of Central European and Baltic Businesses."

¹³⁹⁹ Saba, David, and Voto, "Institutional Quality Effect of ICT Penetration: Global and Regional Perspectives."

¹⁴⁰⁰ Xuan, "An ARDL Approach to Investigating the Relationship between FDI, Renewable Energy, Economic Growth, Trade Openness, and CO2 Emissions in Australia."

being. A study by ¹⁴⁰¹ found that regions with inclusive health access have more stable economic growth and lower income inequality. Research by ¹⁴⁰² shows that education gaps decrease internet use in both developed and developing countries, signaling the importance of equality in the distribution of skills. Cross-pillar synergy creates an ecosystem of competitiveness rooted in macro stability, adaptive institutions, and high technological and social capacity. Sustainable regional development cannot be separated from the interaction between economic, social, and institutional pillars. Macro resilience provides the basis for stability, infrastructure is the driver of connectivity, institutions provide effective governance, human skills are the transformers of technology into productivity, and health is the pillar of social welfare. When all these elements function in an integrated manner, regional competitiveness will evolve into a sustainable and inclusive form, reflecting a balance between economic efficiency and social justice.

14.3. Implementation Strategy: Integrated Policy Model Based on Development Pillars

The goal of developing an integrated policy model based on the development pillar is to build a conceptual and operational framework that is able to bridge the gap between policy formulation and implementation on the ground, by placing the interaction between the institutional, infrastructure, and technological pillars at the core of an inclusive, adaptive, and sustainable regional development strategy. In the context of global dynamics and digital economic transformation, this model seeks to produce a policy system that not only targets economic growth, but also ensures social balance and institutional resilience in the long term. In general, the objectives of this policy model include three main dimensions: cross-sectoral policy coherence, institutional effectiveness in development implementation, and increased regional competitiveness and welfare. Through these three dimensions, this approach proposes that sustainable development can only be achieved if public policies are developed based on the integration of the main pillars of development that reinforce each other.

First, the integrative goal of this policy model is to create cross-sector and cross-level synergy of government. In regional development practice, policy often runs in a sectoral manner – where economic, social, and technological policies work in separate silos. As a result, coordination between institutions becomes weak, resources are fragmented, and the resulting policies are less effective in addressing multidimensional problems such as unemployment, inequality, and regional underdevelopment. With an integrated model based on the pillars of development, this approach proposes a stronger coordination mechanism between public, private, and civil society actors. The central and regional governments are expected to operate in a single interlocking planning system, so that investment in infrastructure can be aligned with strengthening institutional capacity and digital technology adoption strategies at the local level. Second, the adaptive goal of this model is to create policies that are responsive to economic and social structural changes. In the era of digital disruption and globalization, many development policies have become obsolete because they are unable to keep up with the pace of innovation and market

¹⁴⁰¹ Costa Font, Levaggi, and Turati, “Resilient Managed Competition during Pandemics: Lessons from the Italian Experience during COVID-19.”

¹⁴⁰² Billon, Crespo, and Lera-Lopez, “Do Educational Inequalities Affect Internet Use? An Analysis for Developed and Developing Countries.”

transformation. Therefore, this integrated policy model seeks to provide a flexible policy framework, where governments can dynamically adjust policy priorities and instruments based on data, empirical evidence, and input from various stakeholders. Through a feedback loop between policy implementation and results on the ground, policy systems become more adaptive to local contexts as well as rapid technological and social changes. Third, the strategic goal of developing this policy model is to strengthen institutional capacity and governance at the regional level. Public institutions play an important role in ensuring the stability, transparency, and effectiveness of the implementation of development policies. However, many regions face limitations in terms of administrative capacity, human resources, and intersectoral coordination. The integrated model based on the development pillar offers an institutional approach that strengthens collaboration between agencies and places data-driven governance at the core of the decision-making process. By strengthening governance, public policies will be more credible, efficient, and accountable in directing development towards sustainable goals. Fourth, the productive goal of this model is to increase economic efficiency through integration between infrastructure investment and technology development. The development of physical infrastructure such as roads, ports, energy, and digital connectivity is a prerequisite for economic growth. However, infrastructure alone is not enough if it is not accompanied by institutional strengthening that ensures sustainability and optimization of its utilization. Therefore, the integrated policy model focuses on inter-pillar linkages: how infrastructure policies can be designed with effective institutional support, and how technology can be integrated to increase the economic added value of such investments. This integration is expected to create an efficient development ecosystem, encourage innovation, and expand economic opportunities throughout the region. Fifth, the social and inclusive goals of this policy model emphasize that effective development must be able to reduce social inequality and expand people's access to development benefits. Strong institutional pillars ensure fairness in the distribution of resources, while the availability of public infrastructure expands access to basic services such as education, health, and digital connectivity. Technology, in this case, is a bridge for community empowerment – both through increasing digital literacy, ease of access to information, and expanding citizen participation in development planning. Thus, this model is not only oriented towards economic efficiency, but also towards social equity and inclusive participation. Sixth, the innovative goal is to encourage the emergence of a sustainable innovation ecosystem at the regional level. Through the integration of adaptive institutions, supporting infrastructure, and advanced technology, regions are expected to be able to develop their own local innovation capacity. Policies designed within the framework of this model can encourage collaboration between universities, industry, and local governments to create new products, services, or processes that improve regional competitiveness. Innovation is not only seen as the result of research and development, but as a social process that involves collective learning across all walks of life. Seventh, sustainability goals are at the core of the overall model. Inter-pillar integration is not only directed at improving short-term economic performance, but also at long-term sustainability that takes into account environmental and social aspects. The infrastructure built must be environmentally friendly, the technology adopted must support energy efficiency and emission reduction, and the institutions formed must ensure accountability and policy sustainability. Thus, this integrated policy model

can be a means to implement the SDGs in a concrete manner at the regional level. Finally, the collaborative goal of this model is to build an ecosystem of partnerships between various development actors—government, the private sector, academia, and civil society—in a single, integrated policy system. This collaborative approach allows for clear division of roles, efficient use of resources, and strengthening policy legitimacy through public participation. Collaboration also allows for knowledge exchange between regions, so that successful implementation in one region can be an example of good practice for other regions. The overall goal of an integrated policy model based on the pillars of development is not only to produce a comprehensive policy design, but also to create a development system that is able to adapt, innovate, and survive in the face of the multidimensional challenges of the future. Through institutional, infrastructural and technological integration, it is hoped that regional development can move towards a balance between economic efficiency, social justice, and environmental sustainability, the three key pillars for inclusive and sustainable progress.

The theoretical framework of the integrated policy model based on the pillars of development departs from the understanding that economic and social development cannot be achieved optimally through separate sectoral policies, but must be seen as an interconnected and mutually reinforcing system. The three main pillars, institutional, infrastructure, and technology, are positioned as the subsystems that make up the systemic framework of regional development. The three interact through complex mutual relationships, where changes in one pillar will have a direct or indirect impact on the other. This approach combines theories from various disciplines, including regional development theory, new institutional economics, infrastructure and growth theory, and innovation diffusion and technological transformation theory. The integration of these theories serves as a conceptual basis for explaining how public policies can be designed in an integrated manner to create inclusive economic growth, strengthen social resilience, and promote long-term sustainability.

1. From the perspective of Integrated Regional Development Theory, in classical regional development theory, regional growth is often explained through spatial models such as growth pole theory and economic base theory. However, this conventional approach tends to view development as the result of a concentration of economic activity in a particular region without taking into account institutional and social factors. The integrated policy model based on the development pillar corrects this view by emphasizing that regional development must be systemic and inclusive, where the interaction between structural factors is the main driver of development. According to the endogenous regional development approach, the region's progress does not depend solely on external investment, but on the region's internal capabilities to build synergies between economic actors, local institutions, and supporting infrastructure. In this context, the integrated policy model rests on the assumption that regional competitiveness is formed through the continuous interaction between the capacity of local institutions, the availability of quality infrastructure, and the ability of regions to adopt and develop new technologies. This approach expands on classical development theory by integrating social and technological dimensions, which have received little attention so far. Thus, this theoretical framework supports the idea that sustainable

regional development is not only about increasing economic output, but also about institutional empowerment, structural efficiency, and inclusive digital transformation.

2. **Institutional Pillars: Foundations of Governance and Structural Efficiency**, institutions in the context of this theory include formal and informal rules that shape economic and social behavior at the regional level. According to the view of New Institutional Economics (North, 1990), strong institutions determine how efficiently markets and government's function, as well as the extent to which communities can access development benefits. Within the framework of an integrated policy model, institutional pillars function as drivers of systemic stability. It determines policy direction, regulatory quality, and adaptability to external changes. Effective institutions encourage transparency, reduce uncertainty, and create trust between economic actors. Instead, weak institutions lead to inefficiencies, corruption, and policy fragmentation, all of which hinder the synergy of cross-sectoral development. In addition, the theory of governance and policy networks emphasizes that modern governance is no longer hierarchical, but rather in the form of a collaborative network between the government, the private sector, and civil society. Therefore, the institutional pillars in this model are not only understood as formal institutions (government and regulation), but also as informal social and institutional networks that underpin the development process. When these networks function well, public policies can be implemented more effectively as they gain social legitimacy and strong political support. From a theoretical point of view, institutional pillars act as a coordination engine that ensures that infrastructure and technology policies can run synchronously and do not contradict each other. This creates policy coherence, which is a prerequisite for the success of integrated regional development policies.
3. **Infrastructure Pillar: Economic Enabler and Social Bridge**, economic growth theory places infrastructure as one of the main production factors that has a multiplier effect on output and welfare. Infrastructure provides accessibility, lowers logistics costs, and expands market reach. However, within the framework of integrated policy theory, the role of infrastructure does not stop at the physical aspect alone, but also includes social and digital infrastructure that strengthens social interaction and expands people's ability to participate in the modern economy. From the perspective of development economics, infrastructure has two main functions: as a direct input for production and as a means of forming social capital. Transportation, energy, and communication infrastructure, for example, improves economic efficiency, while social infrastructure such as education and health strengthens the quality of human resources. In an integrated policy model, infrastructure is seen as a systemic bridge between institutions and technology. Strong institutions are needed for infrastructure development to be planned, transparent, and sustainable; Meanwhile, technology is a tool to optimize the use and maintenance of infrastructure. For example, the application of digital technology in transportation or energy management increases efficiency while lowering public costs. Theoretically, the relationship between infrastructure and social development can also be explained through the concept of spatial equity. Equitable infrastructure promotes social inclusivity and reduces disparities between regions. Therefore, the

infrastructure pillar contributes not only to economic growth, but also to social justice, one of the main goals of sustainable regional development.

4. **Technology Pillar: Catalyst of Innovation and Structural Transformation**, in the modern economy, technology is not only a means of production, but also a source of competitive advantage and structural transformation. Innovation systems theory ¹⁴⁰³ explains that innovation arises from the interaction between actors in the system: companies, research institutions, governments, and society. An integrated policy model based on the pillars of development takes this framework to position technology as a dynamic pillar that accelerates change in the regional development system. Technology, particularly in the form of digitalization and automation, has the ability to shorten production chains, improve bureaucratic efficiency, and open up new economic opportunities. However, the success of technology adoption is highly dependent on institutional readiness and the availability of infrastructure. This is why inter-pillar integration is important – without clear regulatory support and reliable digital infrastructure, innovation cannot thrive optimally. In addition, the diffusion theory of innovations ¹⁴⁰⁴ provides a basis for understanding how technology spreads within society. The speed of technology adoption is influenced by social, economic, and cultural factors. Therefore, technology policies must be adaptive and contextual, taking into account the characteristics of the region, education level, and the capacity of local human resources. In this model, technology serves a dual function: 1) as a catalyst for efficiency, which accelerates economic growth, and 2) as a tool of social empowerment, which opens access to education, information, and public services. Thus, technology is not only seen from the economic side, but also as an instrument of social transformation that strengthens the human dimension in development.
5. **Inter-Pillar Integration: A Systemic Framework of Regional Development**, a key concept in the integrated policy model is inter-pillar interdependence. The integration of institutions, infrastructure, and technology forms a dynamic development system, in which each element plays a complementary role. This relationship can be described in three main directions: Institutional ↔ Infrastructure: Strong institutions guarantee efficient infrastructure planning and are free from political distortions. On the contrary, good infrastructure strengthens institutional capacity by providing faster access to data, transparency, and public services. Technology Institutions ↔ : Institutions determine the direction and speed of digital transformation through regulations, incentives, and educational policies. Meanwhile, technological advances strengthen governance through the digitization of bureaucratic processes, transparency, and public participation. Technology Infrastructure ↔ : The availability of physical and digital infrastructure allows for widespread technology adoption, while technology extends the lifespan and improves infrastructure efficiency through innovations such as smart infrastructure and data-driven management systems. This dynamic relationship creates a virtuous cycle effect in development, where the progress of one pillar strengthens the other. Theoretically, this framework describes the systems thinking approach

¹⁴⁰³ Georghiou, “National Systems of Innovation. Towards a Theory of Innovation and Interactive Learning Edited by Bengt-Ake Lundvall (Pinter Publishers, London. 1992) Pp. Xiii + 342, £45, ISBN 1-85567-063-1.”

¹⁴⁰⁴ Everett M. Rogers, *Diffusion of Innovations*.

to development – that the success of a policy depends on the synergy between elements, not on the optimization of one element separately.

6. Theoretical Implications for Public Policy Design, this theoretical framework provides a basis for evidence-based and systemic policy design. In practice, this theory suggests that the policy formulation process be carried out through three main steps: Systemic Analysis: Identifying inter-pillar linkages and understanding inter-sector dependencies. Policy Integration: Combining various economic, social, and technological policy instruments into a single mutually supportive framework. Adaptive Evaluation: Conduct continuous evaluation through data, pillar indicators, and feedback from policy implementation at the regional level. With this framework, public policy is no longer reactive or sectoral, but proactive and integrative. Local governments can play the role of main coordinators who connect various development actors in one collaborative ecosystem.

Conceptually, this model also shifts the development paradigm from a linear policy model to a network-based governance model, which is more in line with the complexity of today's digital economy and knowledge-based society. Overall, the development pillar-based integrated policy model theoretical framework offers a systemic perspective on how the interaction between institutions, infrastructure, and technology can be the foundation for inclusive and sustainable regional development. Institutions provide a stable governance structure, infrastructure is a means of connectivity and equity, while technology acts as a catalyst for innovation and efficiency. The integration of the three gives birth to a development model that is not only oriented towards economic growth, but also on social resilience and environmental sustainability. This model, grounded in cross-disciplinary theory, provides a robust conceptual framework for understanding the complexities of modern development—an approach that places collaboration, adaptability, and sustainability at the core of public policy in an era of global transformation.

The relevance of this research to regional economic and social development lies in its ability to offer a conceptual, analytical, and implementable framework that can respond to multidimensional development challenges at the regional level. Regional development in the contemporary era can no longer be understood only as a process of increasing per capita income or sectoral economic growth alone, but as an integrative process that includes institutional, infrastructure, technological, social, and environmental dimensions. The integrated policy model based on the development pillar places the interaction between these elements as the core of the transformation of the region towards sustainable prosperity. Theoretically and practically, this research has high relevance to three main domains of regional development, namely: 1) strengthening regional economic capacity, 2) social equity and improving the quality of life of the community, and 3) increasing regional resilience and competitiveness in the context of globalization and digitalization. The three are closely interrelated and reflect how the integrative concepts in this study can be translated into concrete policy instruments at the regional level.

1. Relevance to Strengthening Regional Economic Capacity. One of the most important relevance of this research is its contribution to strengthening regional economic capacity through a systemic policy approach. In the conventional development paradigm, economic growth is often seen as the result of physical capital accumulation and direct investment,

without taking into account the institutional quality and effectiveness of infrastructure as the foundation of long-term productivity. The integrated policy model proposes a different approach: that sustainable economic growth can only be achieved if economic institutions, public policies, and infrastructure systems work in harmony to support people's productive activities. For example, transportation infrastructure investments will be more effective if they are supported by clear regulations, transparent governance, and local technology capabilities in managing and maintaining the network. This research is also relevant in answering the challenge of capacity gaps between regions. Many regions face structural inequality where urban areas develop rapidly while rural areas are lagging behind due to weak access to infrastructure and technology. Integrated policy models based on development pillars offer a mechanism to identify regional development bottlenecks and direct coordinated policy interventions. Through this approach, development not only creates new growth centers, but also strengthens economic integration between regions through increased physical and digital connectivity. In addition, the economic relevance of this study is also seen in the context of regional economic diversification. By strengthening supporting institutions and infrastructure, regions can drive the growth of new sectors such as the digital economy, community-based tourism, creative industries, and high-tech agriculture. Technology here is a catalyst that allows local economic actors to transform from a traditional economy to a knowledge-based economy. Thus, this model provides a strategic roadmap for local governments to increase productivity, innovation, and regional competitiveness in a sustainable manner.

2. **Relevance to Social Equity and Quality of Life.** In addition to having an impact on economic growth, this research also has a strong relevance to the social dimension of development, especially in an effort to create equity and improve the quality of life of the community. Development oriented towards institutional, infrastructure, and technological pillars simultaneously contributes to strengthening social aspects, such as community participation, gender equality, and access to basic public services. Institutional pillars play an important role in ensuring social justice through inclusive regulations, participatory mechanisms, and transparent law enforcement. Institutions that are responsive to the needs of the community allow public policies to be formulated taking into account social diversity and local aspirations. In this context, this research is relevant as a model of social empowerment based on adaptive governance, where the community is not only a beneficiary of policies, but also an active actor in the process of planning and implementation of development. Infrastructure, on the other hand, has a direct impact on social equity. Access to basic infrastructure such as clean water, transportation, energy, education, and health is a prerequisite for improving the quality of life. In many cases, social inequality at the regional level occurs due to the unequal distribution of infrastructure. Through an integrated approach, this study offers an infrastructure planning strategy that considers the principles of spatial justice and social inclusivity. Infrastructure is no longer seen only as a physical project, but as an instrument of human development that strengthens social solidarity and cohesion between regions. Meanwhile, the technology pillar opens up new opportunities for digital and social inclusion. Through the adoption of information technology, people in

remote areas can gain access to distance education, digital health services (telemedicine), and online economic opportunities (e-commerce). Thus, this research has a strong relevance to the mission of equity and community empowerment, especially in the era of digitalization which demands adaptive readiness from all social strata. Furthermore, this research is also relevant to the sustainable social development agenda. Integration between technology and institutions allows for the creation of more efficient social protection systems, for example through the digitization of social assistance and data-driven supervision. This not only increases bureaucratic transparency and efficiency, but also strengthens a sense of social justice and public trust in the government.

3. **Relevance to Regional Resilience and Competitiveness.** In the context of globalization and digital transformation, the ability of a region to survive and adapt to external changes is an important indicator of development success. This research is relevant in explaining how integration between development pillars can increase regional economic, social, and institutional resilience. Economic resilience is related to the ability of regions to cope with external shocks such as the financial crisis, climate change, and technological disruption. The integrated policy model strengthens that resilience through a combination of three strategies: strengthening adaptive institutions, developing resilient infrastructure, and fostering local technological innovation. Good institutions allow governments to respond quickly to crises, while infrastructure and technology accelerate the process of economic recovery. In addition, the relevance of this research also lies in the concept of regional competitiveness. Competitiveness is not only determined by the cost of production factors, but also by the quality of governance, infrastructure efficiency, and the innovation ability of the region. Through a pillar-based approach, this research offers an analytical tool that can be used to measure and improve regional competitiveness comprehensively. For example, a regional competitiveness index can be developed based on institutional performance, infrastructure availability, and technology adoption rate. With these indicators, governments can design more targeted policies to strengthen their region's competitive position in the national and global economic network. Furthermore, the relevance of this research is also related to the structural transformation towards a green and sustainable economy. Integration between infrastructure and technology promotes energy efficiency and reduction of carbon emissions, while strong institutions guarantee the implementation of environmental regulations. In this context, regional development is not only pursuing growth, but also a balance between economic productivity and ecological sustainability. Another aspect of regional resilience highlighted in this study is local innovation capacity. When the pillars of institutions, infrastructure, and technology interact with each other, regions are able to create an independent innovation ecosystem. Local governments, academics, business actors, and the community can collaborate in an open innovation system. This strengthens the region's ability to adapt to global change, while creating new growth opportunities based on local knowledge and creativity.
4. **Relevance to Public Policy Planning and Implementation.** This research also has direct relevance to improving the planning process and implementation of public policies at the regional level. One of the main problems in development is the gap between policy and

implementation, where national strategies are often not connected to the real conditions of the region. The integrated policy model offers conceptual solutions to address these gaps through coordination mechanisms and integration between the pillars of development. The institutional pillar is the main instrument in ensuring cross-sector and cross-level government coordination. Through adaptive and transparent governance, central policies can be adapted to the local context without losing their strategic direction. The infrastructure pillar provides the physical foundation for policy implementation, while technology supports implementation efficiency through information systems, digital monitoring, and data-driven evaluation. This research is also relevant for the transformation of the policy paradigm from a sectoral approach to a systemic and collaborative approach. Local governments can use this model to develop more targeted and measurable medium- and long-term development plans. In the long term, the implementation of this integrated framework will increase public accountability, accelerate the community service process, and strengthen the political legitimacy of local governments. Practically, the results of this study can also be used to compile evidence-based policy tools, such as regional development pillar indexes, integrated monitoring systems, or inter-pillar interaction maps. With these tools, policymakers can identify development priorities, measure policy impact, and improve implementation strategies based on objective data.

5. **Relevance to the SDGs.** This book is highly relevant to the global agenda of the SDGs, particularly in support of goal 8, goal 9, and goal 11. Through inter-pillar integration, this policy model provides a cross-sectoral approach that directly supports the achievement of SDGs targets at the local and regional levels. Strong institutions support the achievement of the SDGs through inclusive policies and good governance. Sustainable infrastructure ensures efficient use of resources and equitable access to resources, while technology becomes a transformative tool to realize low-carbon and environmentally friendly development. In other words, the relevance of this research is not only limited to the national context, but also contributes to the global commitment to building a just and sustainable future. Overall, the relevance of this research to regional economic and social development is very high because it offers an integrative and adaptive paradigm in designing public policies. The integrated policy model based on the development pillar brings together economic, social, institutional, and technological dimensions into a single framework of analysis and implementation that reinforces each other. This research makes an important contribution in building a conceptual basis for a more effective, efficient, and equitable transformation of regional policies. With this systemic approach, development is no longer understood as a series of sectoral programs, but rather as a collaborative ecosystem that balances economic, social, and environmental interests. This model, thus, is one of the strategic steps to lead regions in Indonesia towards a more resilient, inclusive, innovative, and sustainable development direction in the digital era and globalization.

14.4. Future Research Directions and Strategic Outlook

The purpose of this section is to identify existing research limitations, conceptual and empirical challenges in the implementation of integrated policy models based on development

pillars, as well as propose future research directions and research agendas relevant to regional development dynamics in the era of digital transformation, climate change, and economic decentralization. The development of the Pillar Index and Regional Development Framework is expected not to stop at theoretical formulation, but to continue to be a research agenda oriented towards measuring real impacts on social welfare, economic competitiveness, and environmental sustainability. Another goal is to strengthen the linkage between academic research and public policy so that policy-making processes can be more evidence-based, collaborative, and contextual in accordance with their respective regional characteristics. In addition, this section aims to describe a new direction of regional development research that focuses not only on economic indicators, but also on inclusive, digital, and socially equitable structural transformation. Thus, future research is expected to integrate empirical analysis and policy innovation to strengthen development models that are adaptive to global change.

The direction of future research in the context of integrated regional development is rooted in systems thinking and complex adaptive systems theory, which emphasizes that regional development is the result of non-linear interactions between various structural, institutional, and social factors. Therefore, the theory used to guide further research must be able to capture the complexity of these relationships dynamically. From the perspective of regional development theory, future research needs to expand the approach from an input-output-based linear model to an adaptive systemic approach. This approach views that development outcomes are not merely a function of the accumulation of resources, but of the system's capacity to learn, adapt, and innovate. It demands research that integrates economics, public policy, social science, and data science in one unified analytical framework. In terms of institutional economics, the future direction of research must highlight how differences in institutional contexts between regions affect the effectiveness of the development pillar. Cross-regional studies can show variations in institutional capabilities in managing infrastructure and technology, as well as the extent to which adaptive policies can reduce gaps between regions. The comparative institutionalism approach is important here to identify best practices and relevant policy transfers between regions or countries. In the technological dimension, innovation theory and digital transformation (Rogers, 2003; Lundvall, 1992)^{1405 1406} provides the basis for future research on technology diffusion and digital adoption in different regional contexts. The use of big data analytics, artificial intelligence, and machine learning to analyze the dynamics of the development pillar can expand on traditional research methodologies and produce predictive models for regional policies. In addition, the integration of sustainable development theory and resilience economics provides a new direction for regional policy research that is more resistant to shocks. This theory emphasizes the importance of a balance between economic efficiency, social justice, and ecological sustainability—core principles of integrated regional development.

Research on the direction and challenges of integrated regional development is of great relevance because it touches on the core of the strategic question of the future: how regions can adapt to global change while maintaining their local character. First, the main relevance of this

¹⁴⁰⁵ Everett M. Rogers.

¹⁴⁰⁶ Georghiou, "National Systems of Innovation. Towards a Theory of Innovation and Interactive Learning Edited by Bengt-Ake Lundvall (Pinter Publishers, London. 1992) Pp. Xiii + 342, £45, ISBN 1-85567-063-1."

research is in increasing the effectiveness of policies based on the development pillar. Although many studies have examined the relationship between institutions, infrastructure, and technology, there are still limitations in measuring synergistic effects between pillars. Most empirical studies are sectoral, with methodologies that are difficult to capture the complex interactions between variables. Future research needs to develop quantitative and qualitative models that are able to assess spillover effects between pillars in the long term. Second, the relevance of this research also lies in the aspect of measuring the social impact of development. So far, indicators of regional development success have focused more on economic variables such as GDP, investment, or productivity. In fact, sustainable development must also be measured through indicators of social welfare, inequality, community participation, and quality of life. Therefore, future research agendas need to develop a Social Impact Measurement Framework that connects the economic and social dimensions simultaneously. Third, follow-up research also needs to explore practical challenges in the application of the pillar index in various regional contexts. The regional heterogeneity in Indonesia and other developing countries gives rise to large variations in institutional structure, level of digitalization, and availability of infrastructure. This challenge demands adapting the model so that it can be applied with high flexibility, without losing its methodological consistency. Therefore, future research needs to assess the validity and reliability of the Pillar Index in the context of regions with different characteristics—such as industrial, agricultural, archipelagic, or border areas. Fourth, the relevance of future research also includes data-based regional policy innovations and digital technology. The transformation towards smart regional governance opens up new research opportunities to understand how big data, artificial intelligence (AI), and Internet of Things (IoT) technology can be used to monitor the dynamics of development pillars in real-time. This research is very important for the formulation of adaptive policies based on empirical evidence and the participation of the digital society. Fifth, future research has an important role to play in addressing the gap between theory and implementation. Although the theoretical framework for integrated regional development is well established, its implementation is often hampered by policy fragmentation, bureaucracy, and limited local capacity. Therefore, further research needs to examine a model of multi-stakeholder collaboration between government, the private sector, universities, and civil society (quadruple helix model). This research will strengthen the link between academic results and real policies in the field. Sixth, the relevance of future research is also related to strengthening the dimensions of regional sustainability and resilience. Climate change, rapid urbanization, and global economic disruption demand cross-disciplinary research that is able to predict the long-term impacts of development policies. The incorporation of environmental economic analysis, spatial planning, and green technology is an urgent need to formulate development policies that are adaptive to future risks.

In developing follow-up research agenda, a number of challenges need to be considered, many regions do not have comprehensive and integrated data to measure performance between development pillars. Inequality in statistical capacity and limited access to micro data make it difficult to develop the Pillar Index consistently. This challenge requires innovation in digital-based data collection, integration of regional information systems, and the use of proxy indicators for regions with limited data. The implementation of an integrated model requires

strong and adaptive institutions. Many regions still face coordination obstacles between sectors as well as weak planning and evaluation capacity. Future research needs to focus on strengthening governance capacity building, including the establishment of regional institutions that specifically handle integration between development pillars. Disparities between regions in access to technology and infrastructure can create new gaps in the implementation of the pillar index. Therefore, future research needs to examine inclusive digitalization strategies and smart infrastructure development that can reach disadvantaged areas without exacerbating social inequality. Differences in social norms, political culture, and economic structure between regions affect the effectiveness of integrated policies. The challenge of future research is to develop a context-sensitive policy model, so that the pillar index is not generic but adaptive to the social realities of each region. The gap between academic research and public policy is often a barrier to implementation. Therefore, the future direction of research must strengthen the science-policy interface through collaborative research, regional policy labs, and more effective knowledge transfer mechanisms.

Given these challenges, future research in integrated regional development can be directed towards the following strategic agendas 1) Development of Integrated Quantitative Models. This research needs to combine econometric methods, spatial analysis, and dynamic systems modeling to measure the interconnectedness between the pillars and their impact on socio-economic development. 2) Adaptive and Contextual Pillar Index., The development of the Pillar Index 2.0 which takes into account socio-cultural factors, digital governance, and environmental sustainability is an important agenda for multidisciplinary research in the future. 3) Social Impact Evaluation and Policy Innovation. The focus of the research is directed at measuring the impact of regional policies on social welfare, public participation, and equity. The mixed-methods approach will strengthen qualitative and quantitative analysis simultaneously. 4) Comparative Regional Studies. Cross-regional and cross-border research is needed to identify variations in the success of the implementation of integrated models and to find best practices that can be replicated in other contexts. 5) Integration with Digital Technology and AI. The use of artificial intelligence in regional development monitoring and evaluation can accelerate evidence-based decision-making and improve the efficiency of policy implementation. The direction of research and future challenges in integrated regional development underscore the need for a multidisciplinary approach that combines economic science, public policy, technology, and social science. The implementation of the Pillar Index is not just a measuring tool, but a new framework for understanding how regions can grow inclusively, resiliently, and innovatively. Future research should strengthen the linkages between theory and practice, address data and capacity gaps, and prioritize policy innovations rooted in local realities. Thus, regional development is not only an economic project, but also a social process that empowers communities, strengthens institutions, and prepares the region to face future global challenges.

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