

CHANGES IN ECONOMIC STRUCTURE OF EAST JAVA AND THE POLICY OF EAST JAVA PROVINCIAL GOVERNMENT

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Abstract

The decline in agricultural sector contribution to the GDP of East Java year period 2012-2014 evidence of a shift in the economic structure of East Java of the tradable sector / base in the non-tradable sector. Several previous studies mention their negative impact on the tradable sector shift in the non-tradable sector. Whereas, shifting the economic structure will increase poverty, unemployment and raising the Gini ratio. This study analyzes the policy taken by the Government of East Java Province, in anticipation of a shift in the economic structure, so not many have a negative impact on the increase in poverty and growing unemployment. This type of research is descriptive qualitative approach. The research data is secondary data as well as the results of previous research. Research explains some eastern Java provincial government policies that do them, First strengthening tradable sectors through policy development of Micro, Small and Medium Enterprises (SMEs). Second, the policy on the education sector through the development of vocational schools (SMK) Third, policies on finance sector. The conclusion of this study stated that the East Java Provincial Government policy succeeded in anticipating shifting economic structure so not much give a negative impact to the decline in poverty and unemployment.

Keywords: economic Structure, inequality, policy

INTRODUCTION

Development in Indonesia has succeeded in spurring high economic growth and one of economic growth also occurred in East Java province. Economic growth in eastern Java is marked by changes in economic structure. Changes in the structure of the economy are marked by the increase of non tradable sector (industry and services) in comparison with the tradable / base (agriculture) sector.

However, changes in the economic structure of eastern Java from the tradable sector (agriculture) to the non tradable sector (industry) are not accompanied by changes in the balanced labor structure [1]. This means that the rate of sectoral economic shift is relatively fast compared to the rate of labor shift, so Manning in [2] says that the turning point for economic turning-point is reached ahead of the turning-point turning point.

So the issues that are often debated are: (1) whether the GDP decline in food is proportional to the decline in the share of sectoral employment uptake, and (2) which industry is growing faster, agro-industry or manufacturing industry. If the transformation is less balanced then it is feared there will be process of impoverishment and exploitation of human resources in primary sector [3]. Starting from the background and problems above, this study aims to see the structural changes that occur in the economy of East Java and analyze the policies made by the East Java provincial government to overcome the consequences of changes in economic structure.

LITERATUR REVIEW

Theory Changes in economic structure

Changes in economic structure in the development process have long been recognized by economists. The higher per capita income of a country the role of the agricultural sector will decrease while the role of the industrial and service sectors will increase. Mulyana in [4] states that "broadly the stages are generally passed in the development of a country (region) starting from the stage before the development into a balanced stage".

Meanwhile Kuznetz and Chenery in [5] also conducted research on changes in the economic structure of a country. Kuznetz not only examines the change in the percentage of people working in various sectors but he also examines the changes in the contribution of various sectors to the national income. Furthermore Kuznetz also analyzed the changing role of various industrial sub-sectors in providing employment opportunities. Kuznetz argues that changes in economic structure are characterized by a decline in the ability of the agricultural sector to absorb labor while the industrial sector shows the opposite of an increase in employment.

Public Policy

[6] defines the policy as "is whatever the government wants to do or not to do". This definition contains two keywords, which are government actions to choose and not vote, either choose to do something or not do something. Furthermore, David Easton defines policy as a government authority to allocate values to society. A similar definition was given by Harold Lasswell and Abraham Kaplan who stated that public policy should contain

certain goals, values, and practices [6]. Of the three definitions can be concluded that the policy is an act of government that has a purpose, a particular practice, and contains values in society. In line with this, Steven A. Peterson [7] defines policy as "government action to address some problem". Through this definition can be interpreted that the policy can solve community problems (problem solver) when the policy contains elements of value in society.

A more detailed definition is given by Carl Friedrich in [8] which states that policy is an action that leads to goals proposed by a person, group or government in a particular environment, in the presence of certain constraints while seeking opportunities for achieve goals or achieve desired goals. In addition to reflecting a government action, Friedrich's definition indicates an interaction between the government and all components of society in a policy to raise public values and interests in policy formulation. For that, in the public policy-making cycle, requires policy analysis activities that can create knowledge about and in the process of policy-making [9].

Policy analysis activities, at least incorporating five commonly used procedures for solving public problems; definitions, predictions, prescriptions, descriptions and evaluations [10]. The definition (problem formulation) produces information about the conditions that cause policy problems; forecasting (prediction) provides information on the future consequences of implementing policy alternatives, including not doing something; recommendation (prescription), providing information about the relative value or usefulness of the future consequences of a problem solving; monitoring (description) produces information about current and past consequences of the application of policy alternatives; while the assessment, provides information on the value or usefulness of the consequences of solving or problem-solving.

METHODS

The research method used in this research is using descriptive qualitative method, where descriptive analysis is an analysis that aims to present the symptoms or events on a research object [11]. The analysis of this research is based on data from BPS and also previous research results. Data needed in this research is qualitative data and quantitative data. Data analysis Qualitative data is the source of a broad and well-defined description and contains an explanation of the processes occurring within the environment. With qualitative data we can follow and understand the flow of events chronologically, assessing causation in the minds of local people [12].

FINDINGS AND ARGUMENT

Changes in economic structure of East Java

The economic condition of East Java based on East Java BPS data has been slowing, which in 2014, East Java economic growth only grew 6.06 percent. Based on data series of East Java economic growth in 2012 until 2014, East Java economic growth continues to experience negative growth, as in Figure 1

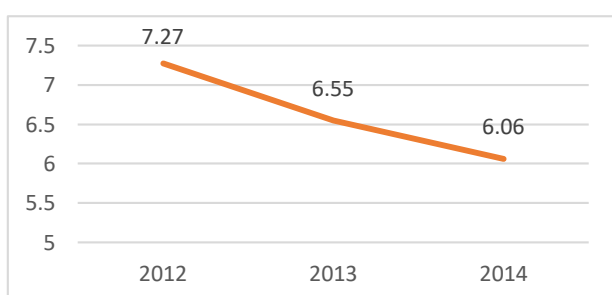


Figure 1. Economic Growth of East Java 2012-2014

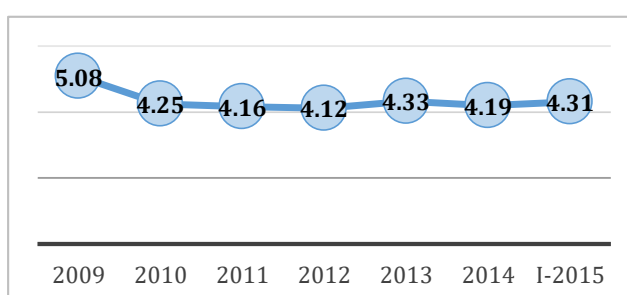


Figure 2. Fluctuations in the open unemployment rate of eastern Java

The same thing happened in the Open Unemployment Rate (TPT), which also climbed, from 4.02 percent in February 2014 to 4.31 percent in the same period in 2015. As East Java's economy grew, Open Unemployment Rate in East Java still experiencing fluctuations, especially when East Java's economy experienced negative growth. Figure 2 below shows the fluctuation of Open Unemployment Rate in East Java. In addition to the economic growth of eastern Java that continues to experience slowdown and also rising open unemployment rate, the contribution of the agricultural sector also decreased in GDP growth in 2007-2011 as shown in table 1 below

Table 1 Growth of Sectoral GDP Year 2007-2011 (percent)

Sectors	2007	2008	2009	2010*)	2011**)
(1)	(2)	(3)	(4)	(5)	(6)
1. Agriculture	3,14	3,12	3,92	2,23	2,53
2. Mining and Quarrying	10,35	9,31	6,92	9,18	6,08
3. Processing industry	4,77	4,36	2,80	4,32	6,06
4. Electricity, Gas & Water Supply	13,70	3,00	2,72	6,43	6,25
5. Construction	1,21	2,71	4,25	6,64	9,12
6. Trade, Hotel & Restaurant	8,39	8,07	5,58	10,67	9,81
7. Transportation & Communication	7,83	8,98	12,98	10,07	11,44
8. Finance, Leasing & Service	8,40	8,05	5,30	7,27	8,18
9. Services	5,77	6,32	5,76	4,34	5,08
PDRB	6,11	5,94	5,01	6,68	7,22

Source: BPS of East Java Province [13]

The table explains that the contribution of the agricultural sector to East Java GRDP continues to decline. In fact, other sectors such as processing industry, services continue to show positive growth. Based on these findings, it can be concluded that the economic structure of East Java has begun to shift from the base sector (primary) to non-base or secondary and tertiary sectors.

The shift of economic structure that did not immediately get response from East Java provincial government, has negative impact to various problems of benefit in East Java. Thus, in the economic conception, to achieve the maximum growth rate, the East Java government must pay attention through the Policy to overcome the negative impact of changes in economic structure.

East Java Provincial Government Policy

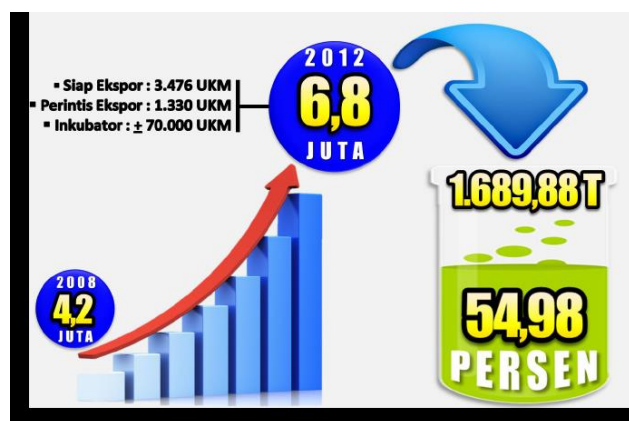
The development of agricultural sector contribution since 2008 which reached 16.55% continued to decline until the year 2015 reached 13.75%. While the processing industry in the same year experiencing the development of the year 2008 which reached 28.47% and in 2015 reached 29.27% [14]. This profile indicates that the productivity of the agricultural sector is declining in line with the decline of contribution with the still dominant agricultural labor strictures, while the processing industry sector is increasingly increasing. With these facts, it is necessary to have a proper strategy to look at the two sectors for mutual value added. Strategy is by strengthening the tradable sector (basis) through the development of Policy of micro, small and medium enterprises (MSMEs).

Development of Micro Small Medium Enterprise Policy (UMKM)

The agricultural sector has been a supporter of East Java GDP since 2008. The sector contributes 16.55% with the employment structure reaching 42.34% in 2011 and 2015 down but not significant and mash dominating East Java's labor force structure reaching 36, 54% [13]. With the contribution and labor structure, the financing sector in agriculture sector based on data from Bank Indonesia, the credit composition of agriculture sector of agricultural credit composition since 2011 is only 2.86% and until 2015 only reached 2.79%. This indicates that the economic support sector as well as food buffer is less favored by the government.

Micro Small Medium Enterprises (MSMEs), including the agricultural sector, since the economic crisis have survived. MSMEs survive because the raw material base is mostly from local raw materials that are relatively resistant to currency pressure. The contribution of SMEs East Java reached 54.98% which is a significant performance so that it can be interpreted that the SME segment become the main economic support of East Java. In addition to these facts, Data 2015 shows that MSME loans in commercial banks only reach 27.09% of the credit ceiling as a whole. Therefore, SMEs should get attention from East Java provincial government specifically on the financing sector so that MSMEs are not burdened with high cost of funds (cost of funds), which can make their products are not competitive in the market.

Data on MSMEs from the beginning of 2009 to 2014 have unfavorable data. From [13], the UMKM data used for planning in 2008 is economic census data in 2006 which is only "data of UMKM East Java amounted to 4.2 million. So the East Java provincial government at the end of 2010 in cooperation with East Java BPS to conduct a UMKM census completed in 2012.



Economic census data, 2006 (4.2 million) Result of census of UMKM by BPS Prov East Java with facilitation of APBD East Java Budget Year 2011 & 2012 (by name by address)

Figure 3. Development of Micro Small Medium Enterprises data 2006-2012

The development of MSMEs is still on the stage of increasing production efficiency as a foundation to strengthen the linkage with large enterprise development. The linkage between MSMEs and large enterprises will benefit each other when MSMEs and large entrepreneurs have a high level of production efficiency. However, in general the level of efficiency of UMKM production is still low so the East Java Provincial Government takes a strategy to improve the production capability of UMKM through: (i) Improving the Quality of Human Resources (ii) Facilitation of capital, (iii) Marketing.

The policy of East Java Provincial Government to improve the quality of Human Resources for new entrepreneurs and / or increase the production of UMKM is implemented through two policies, namely: (i) Building Business Incubator and (ii) Standardization of Human Resource skill. The business incubator development is in line with Laurence Hewick of Canadian Business Incubator (2006) who argues that incubator is a workspace to support potential businesses through: guidance, training, professional networking, assistance to get financial support until they succeed and survive in a competitive environment. The mechanism of business incubator implementation begins with the recruitment of prospective entrepreneurs of potential SMEs to be selected to become an incubator participant. Once elected they will get training, technical guidance, mentoring, comparative studies. With demikina, through this business incubator, it is expected that the quality of human resources of UMKM will increase their ability and skill so that they have the courage / competitiveness.

Education sector policy through mini Vocational High School (SMK) Development

Efforts to improve the quality of Human Resources through Standardization of Human Resource skills with the development of Vocational High School (SMK) or called the Workplace Training Center (BLK) with an international standard. The establishment of mini Vocational School aims to provide skills for youth / santri students after they graduate from boarding school with areas of expertise including: (i) Technology and Engineering (ii) Information and Communication Technology (iii) Health (iv) Agribusiness & Agrotechnology (v) Business & Management (vi) Tourism (vii) Art & crafts (viii) visual arts and performances.

Through SMK Mini, they hope that they are not only smart in the knowledge of religion but also ready to develop the business or enter the workforce that demands the mastery of skills according to the field of keahlian. From 2014 until 2015, SMK has been built with the potential of providing auxiliary employment for 15,300 trained workers facilitated from East Java Provincial APBD. While in 2016 is planned to be built again 100 SMK mini. So the total potential of providing new employment to 24,300 workers. Supporting actions in order to improve standardization such as sending human resources to Germany (the country with the highest product standardization), cooperation with Osaka for the development of Mobio Higashi Oshaka model in 2014, as well as with Western Australia for international standard vocational education as well as with United States to standart education Community College [14].

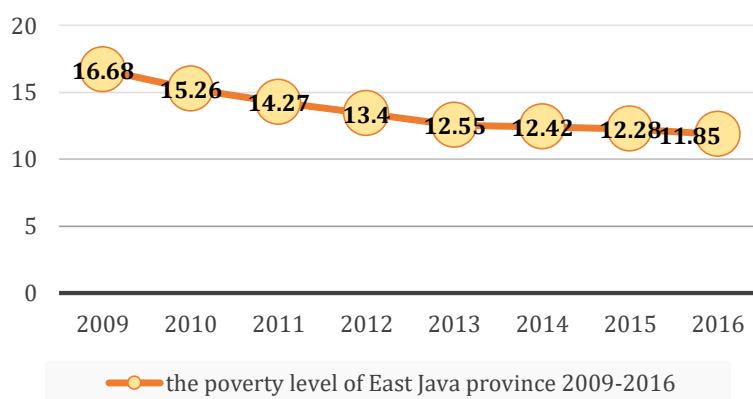
Fiscal Strategy

The results of cooperation research between the Ministry of Cooperatives and Micro Small Medium Enterprises (KUMKM) and BPS [13] shows that the problems faced by MSMEs in increasing the business capacity and production are capital. In this study, it is described that only 17.50% of SMEs are applying for loans to the Bank to increase their capital and the remaining 82.50% borrow from non-bank institutions such as Savings and Loans Cooperative (KSP), Individuals, families and others. The main reasons proposed by SMEs not to borrow capital to the Bank are (i) difficult procedure (30.30%) (ii) No interest (25.34%) (iii) no collateral (19.28%) (iv) (14.33%).

An important factor in the financing system is the efficiency of financing sources. Source of financing can come from government and non government. Source of financing from the government has many limitations, this is indicated from the small ratio of government budget to the formation of GRDP. Given the fiscal limitations, the strategies undertaken by the Government of East Java is to divide three main targets:

1. Facilitation, aimed at big economic segment through guarantee of East Java Provincial Government by giving facilitation in business development such as business meeting and economic diplomacy both inside and outside country, guarantee of easy to invest with guarantee of physical availability, energy, land procurement, condition conducive labor and easy licensing.
2. Stimulation, more aimed at the SME segment is the provision of assistance in the productive sector either in the form of infrastructure assistance and primary production facilities to improve efficiency and added value productive sectors so as to increase production competitiveness. Stimulation is also provided in the form of development of financing schemes through the Banking System.
3. Intervention, This strategy is aimed at weak economic groups such as very poor households that are empowering and a small part of the assistance. This program was implemented since 2010 with the initials of JALINKESRA program. Also in 2015, in JALINMATRA design (2014-2019). The focus of the JALINMATRA program on the theme of feminization of poverty is not only targeting poverty alleviation but also gender empowerment.

The impact of the East Java Provincial Government Policy intervention successfully anticipated the shift of the economic structure so that it did not have much negative impact on the poverty rate in East Java. Based on data from East Java BPS East Java [13] poverty level in 2009-2016 continues to decline.



Source: BPS East Java 2017 [13]

Figure 4. The poverty level of East Java province 2009-2016

CONCLUSION

Conclusion should include (1) There has been a shift in Economic Structure in Indonesia during the year 2012-2014 from tradable sector (Agriculture) to Non Tradable sector (industry). This is based on the contribution of the agricultural sector to East Java GRDP continues to decline when other sectors such as manufacturing and service industries continue to grow. (2) The impact of unequal structural changes causes the Open Unemployment Rate (TPT), based on BPS [13], which also climbed, from 4.02 percent in February 2014 to 4.31 percent in the same period of 2015. (3) The government of East Java has adopted a policy strategy to overcome the negative impacts of changes in economic structure such as: Development of Micro Small Medium Enterprise (SME) Policy, Mini Vocational High School (SMK) Development and Fiscal Strategy. (4) East Java Provincial Government Policy has succeeded in anticipating the shift of economic structure so that there is not much negative impact to the decreasing of poverty level in East Java

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