

## LOGICAL CONSISTENCY AND TOBACCO ECONOMIC DEVELOPMENT IN GRESIK REGENCY

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### Abstract

Tobacco has a different potential in economic development efforts in an area. This justification is based on the tobacco plant is one that has economic value added [4]. Therefore we need a logical strategy in creating a positive impact on regional economic development. This study aims to formulate a strategy in economic development efforts of tobacco in Gresik Regency. This study uses primary and secondary data. The analytical method used is descriptive analysis and Analytic Hierarchy Process (AHP). The results suggest that institutional and regulatory factors is a key strategy in the economic development of tobacco in Gresik Regency. The contribution of tobacco to the economy will provide a logical consistency in the development and cultivation of tobacco in the future.

Keywords: *logical; strategy; development; economics; tobacco.*

### Introduction

Justification for using of tobacco economic is a discourse in cultivation of tobacco as an advocate for the economy of a region [8]. This is demonstrated by the contribution in the realm of tobacco farmers' income, excise tax, employment, exports and imports amount and intensity of inter-regional trade in tobacco [4]. On the other hand, tobacco is one of the agricultural commodities that have strategic value of both the economic and social aspects [5]. In economic aspects of tobacco as a source of revenue through the acquisition of foreign exchange and customs, as well as a source of income for the community. While the social aspects of tobacco plants able to absorb the labor force large enough to support the welfare society. This condition provides a review of a current phenomenon that economic relations between the agricultural and industrial sectors. Tobacco not only becomes one of the agricultural commodities but also in the industrial sector, especially the cigarettes industry. Tobacco in this case has a high economic value when used optimally that will cause a multiplier effect on other sectors of the economy [4]. Among the inter- sector

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relationships in economy of tobacco gives important articulation as the challenges in the development benefits for the economy of tobacco in the region.

Logical consistency in breeding efforts and the economic use of tobacco raises the existence pro and contra of tobacco in the economic aspects and health and economic benefits distribution. First, the contradiction is based on the discourse of tobacco in the realm of economic development and efforts to reduce smoking in the discourse of health [3]. Contradictory conditions provides the policy dilemma of tobacco farming as a main ingredient of cigarettes, especially in developing countries [7]. Second, the justification is based on the value of benefits is absorbed by the economic actors concerned [6]. This suggests that tobacco is required to provide benefits to all economic actors and not just to one of the actors associated with current tobacco economy. This is in line with government efforts to cultivate tobacco Gresik regency which tend fluctuated production is viewed as a strategic commodity in economic region [1]. Furthermore, tobacco is positioned as a strategic commodity in addition to the agricultural sector cashew nuts, coconut, coffee, sugarcane, cotton, cotton, cloves, rubber, and cocoa. Therefore we need an effective and coherent strategy in creating a positive economic impact of tobacco in Gresik. This Study Aims To Formulate A Strategy In Economic Development Efforts Of Tobacco In Gresik.

### **Literature Review**

In the domain of tobacco economic there are some important instruments would be measured positive and negative impacts include the development of tobacco plants that are not processed tobacco, processed tobacco products, excise, and prices [7]. Unprocessed tobacco factors measured from the tobacco plantations area, the number of tobacco farmers, tobacco plant productivity, and the intensity of the tobacco trade between regions. Factors include the amount of processed tobacco cigarette factory workers, domestic cigarette production, cigarette imports, total exports of cigarettes, the tobacco plant, tobacco industry and market concentration. Tax factor are include tobacco tax rate changes, the excise tax rate comparisons with other countries, the quantity of taxable tobacco excise tax, excise tally, and local government of the tobacco processing industry revenue. Furthermore, factor prices include nominal and real price of cigarettes, local cigarette price changes, and comparison of domestic and international cigarette prices.

In formulation of strategy and economic development policies, there are two policies which tobacco becomes a contradictory strategy on the development of tobacco in

developing countries [3][6]. Strategy as a positive impact in the development of tobacco and cigarettes industry based on the potential ability of developing countries such as high population, large numbers of smokers, high population growth rates, pricing policies of cigarette smoking and low taxes, free markets in the field of promotion and no regulation of the non-smoking environment. Furthermore, Rachmat (2010) showed that tobacco policy development based on high economic value because it has the advantages of cultivated tobacco plants on the land and the climate is dry, tobacco produce farmers' income levels are relatively high, and the cultivation of tobacco is a pattern that became the culture of the informal institutions. Meanwhile, the policy due to the negative effects of tobacco and cigarettes made with tobacco usage monitoring, protection against people who do not smoke, give warning of the dangers of smoking, banning cigarette promotion, increase the cigarette excise tax rates, high store pricing, and restrictions on non-smoking area.

### **Research Methods**

This study has a research area in Gresik. This study uses data primary and secondary data. This study uses data collection techniques include observation activities and in-depth interviews. Observations made by observing the phenomenon in a systematic way to the topic being researched. Meanwhile, in dept interview is based on intensive interviews to achieve a certain goal. The analytical method used is descriptive analysis and Analytic Hierarchy Process (AHP). Sampling method used is the snowball method. Snowball method of sampling is a method to determine the characteristics of the initial sample, the development of the number of samples in a certain amount, and so on.

In Analytic Hierarchy Process (AHP) is used which has the objective hierarchy of tobacco economic strategy in Gresik. Economic strategy of the tobacco hierarchy in Gresik composed of two-level instrument. The first level is an important aspect in the development of the tobacco economy that includes economic, institutional, and regulatory and policy. Economic aspects (Economy) is performed by optimizing the strategy of economic instruments in creating a multiplier effect for the economy. Institutional aspects (Institutional) is a strategy that uses the instrument both informal and formal institutions in the sectors related to the economics of tobacco in the economy. Regulatory and policy aspects (regulation and policy) is a strategy that uses the legal instrument in creating a conducive climate for economic development in the area of tobacco.

On the second level, a specific instrument to support the economic development of tobacco in Gresik. The second level of the economic strategy drawn up for infrastructure, promotion of tobacco prices, the distribution of fertilizers, and seeds. Infrastructure is an economic strategy in building and repairing infrastructure supporting economic tobacco activity. Promotion is the promotion and support the introduction of processed tobacco and tobacco products from Gresik regency on the scope of local, regional, and national levels. Tobacco prices in an effort created tobacco price stability in the market to keep prices stable. Distribution of fertilizer is an effort in the economy to provide certainty and stability of the willingness of fertilizer for tobacco farming in Gresik regency. Seed is the seed supply assistance to tobacco farmers in developing agriculture so it can create a quality tobacco.

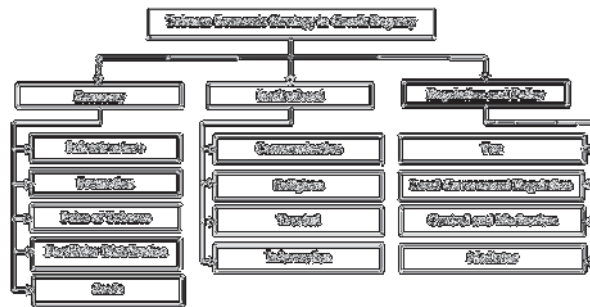


Figure 1. Hierarchy of Tobacco Economic Strategy in Gresik Regency

The second level on the communication strategy developed institutional, religious, faith, and market information. Communication is the strategy taken to strengthen the communication between farmers and between farmers and cigarette manufacturers in tobacco transaction activity in Gresik. Religious is a strategy that relies on the religious aspect in a relationship of cooperation in economic tobacco transaction. Increasing confidence in the strategy of trust between actors in the economy of tobacco so that the same positive benefit as a result of tobacco. Information is a strategy to take an active role in accessing information in a market that does not cause asymmetric information in relation to farmers and cigarette manufacturers.

On the second level of regulation and policy are prepared on the excise, local government regulation, and supervision mechanisms, and mediators. Excise is a strategy in the management of tobacco benefits tax in the development of economic activity and tobacco reduction of negative effects of tobacco as an economic compensation for tobacco. Government regulation is a strategy to develop local regulations in regulate the norms that

will provide a favorable climate for the performance of farmers and cigarette manufacturers in the economy. Supervision and the mechanism is a strategy by the government in controlling the flow mechanism of the tobacco economy of tobacco farmers to plant so that no agent was harmed in the tobacco economy. Mediator is the government's efforts to mediate the relationship between farmers and cigarette factory in Gresik.

## Result

Economic discourse tobacco essentially based on the ability and the contribution of tobacco to economy in an area. Therefore we need a basic strategy in tobacco development to return in Gresik. According to key informants, the dominant strategy for developing and creating a positive impact in the economy of tobacco products is on institutional strategy and policy and regulatory strategy. This is shown in the weights on the first level of economic development strategies of tobacco in Gresik regency on 35% of institutional strategy, regulatory strategy and policy of 35% and 30% of economic strategy. This condition indicates that the public has great expectations of the role of institutional and regulatory and policy in support of the development and cultivation of tobacco in increasing the economic impact of tobacco and minimize the negative impact caused.

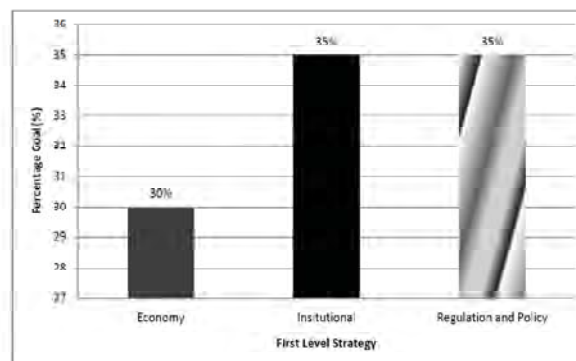


Figure 2. First Level Economic Strategy of Tobacco in Gresik regency

The using of the institutional infrastructure so a groove and the economy in current rules will be created and established tobacco among economic actors. It will provide an institutional rule in distribution of resources in an efficient, balanced, and sustainable (Williamson, 1985). With institutional strategy expected relationship between actors in the agricultural sector and the actors in the industry sector will be established in a harmonious and sustainable in the long run. It is intended by the existence of good and efficient institutional elements of bounded Rationality in the economic agents will lower the

tobacco so that hidden action will not occur because of information received by all economic actors in both agriculture and industry are not asymmetric. Therefore, the institutional strategy will create a positive impact in the economy through the current economic cycle and the relationship of tobacco in Gresik.

On the other hand, regulatory strategy and policy is also a key strategy in economic development of tobacco. Regulation and policy is seen as a basic guidance and reference behavior and preferences of economic actors in the current tobacco legally. Given the legal and regulatory policies and on the firm directly and indirectly will create harmony in the production and distribution activities of economic actors. On the other hand, lack of regulation and the right policies and effective it will be providing security to all economic actors in the development of tobacco in Gresik. Further, the regulations will provide an implication on the pattern of relationship arrangements between farmers and cigarette industry. This is due to farmers generally only acts as a very low economic actor benefit from the tobacco industry has cultivated while cigarettes have the potential to benefit the processing of tobacco from farmers (Fauziyah, 2010).

Table 1. Second Level Strategy Of Tobacco Economic In Gresik Regency

Second Level Strategy	Percentage (%)
Infrastructure	6.75
Promotion	5.75
Price of Tobacco	6.5
Fertilizer Distribution	5.75
Seeds	5.75
Communication	8.25
Religious	6.83
Trusted	6.67
Information	8.25
Tax	7.9
Local Government Regulation	7.57
Control and Mechanism	7.13
Mediator	7.4
Total	100

Furthermore, if the terms of each instrument specific strategies, communication strategies and information is the most dominant strategy in the economic development of the tobacco in Gresik. It is shown from the second level the weight of economic hierarchy strategy of tobacco on the information and communication factor of 8.5%. This

phenomenon shows the expectations community to the existence of institutions in the form of close communication between actors in agriculture and industry as well as access information widely in the market. Given a smooth communication without any interruption the economic multiplier effects of tobacco will be created continue through cooperative relationships between agriculture and industry sectors. Meanwhile, the utilization factor of the excise tax and the formulation of local regulations is also a supporting factor in the economic development strategy of the tobacco in Gresik. Discourse can be used to excise the utilization of facilities and develop agriculture and industry sectors. On the other hand, the tobacco tax could be allocated to social and health activities to compensate for the flow of economic tobacco activity. On the other hand, the formulation of local regulations will also gives a legal protection of the law over the entire sphere of economic activity in tobacco. Formulation of local regulations will have significant impact if the instrument is set according to the conditions and realities that are needed on the economic relations activity in the tobacco business in Gresik.

## **Conclusion**

The results show that institutional and regulatory factors is a key strategy in economic development of tobacco in Gresik. With the insistence on institutional aspects of the strategy to be established with good communication between farmers and tobacco processing industry. It is also supported by a strong religious relation and trust between actors in the economy of tobacco. Furthermore, economic actors can gain market information about the development of tobacco on an ongoing basis that will minimize the presence of hidden action by one economic agent from asymmetric information in the tobacco market. On the other hand, the role of government in implementing the regulations and policies will provide positive benefits in the economic development of tobacco in Gresik to distribute the tobacco excise precisely, the formulation of regulations and industry relations tobacco farmers, tobacco control to market mechanisms, as well as a mediator of the relationship between farmers if there is a tobacco problem in economic activity. In the end, the future contribution of tobacco to the economy provide a logical consistency in the development and cultivation of tobacco in the future.

## **Recommendations**

In economic development of tobacco, the economic actor such as tobacco farmers, tobacco industry and the government is more focused on aspects of the institutional and regulatory and policy aspects. Tobacco farmer and industry can create a harmonious institutional relations and mutually beneficial in the absence of information in the market access restrictions. Meanwhile, local governments identify and formulate regulations and policies that can support the development of the cultivation of tobacco to create a positive economic impact of tobacco in economy. Implementation of institutional strategy and policy and regulation will create a positive multiplier effect for other sectors in the economy and economy of tobacco will not end in only discourse.

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