

## **CHAPTER I**

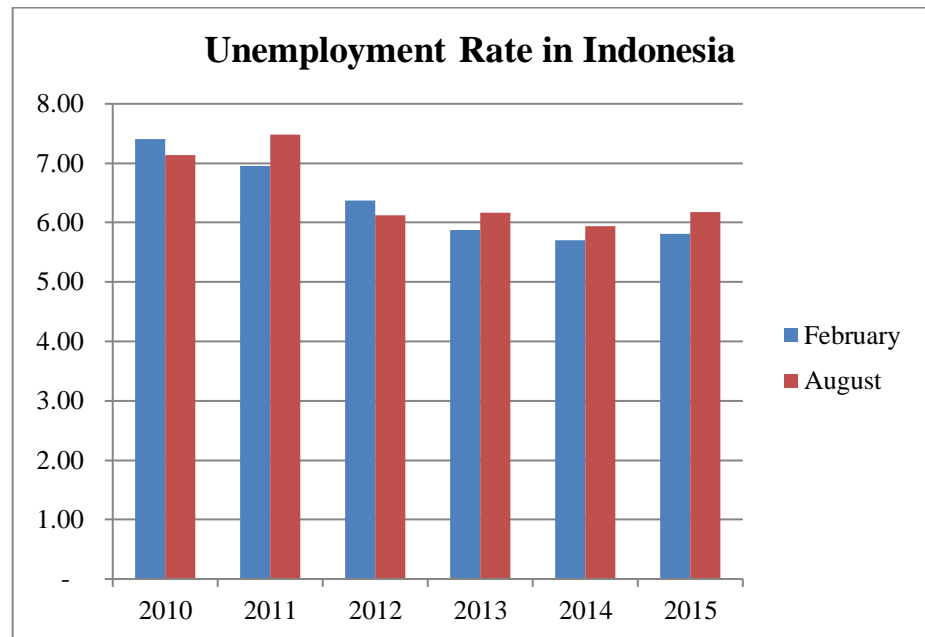
### **INTRODUCTION**

#### **1.1 BACKGROUND**

Indonesia is a unique country with the population of 261.1 million people living on its islands. With this huge amount of people on its massive 1.905 million kilometer squares islands, Indonesia provides many capital resources. These resources consist of natural resources and human resources. Tambunan (2015) stated that with a very strategic geographic, Indonesia is very rich of natural sources that make it possible to maximize the utilization in several sectors, such as; agriculture, forestry, fishery, mining, and energy. Those sectors can provide many jobs that most of Indonesian need. Based on Badan Pusat Statistik in Hamdani (2017), most of people in Indonesia work in agricultural sector with the percentage of 31.86% out of the total of employed people in February 2017. It is followed by trade with 23.37%, services with 16.82%, industry with 13.31%, construction with 5.75%, transportation with 4.57%, finance with 2.88%, mining with 1.1%, and electricity, gas, and water with 0.34%. Agriculture placed itself on the highest sector that absorbed more people on and it became the prominent supporter of the economy of the country today. This condition is supported by the beneficial natural condition of Indonesia. The land of Indonesia consists of 148 million ha of dry land and 40.20 million ha wet land with many variations of soil, weather, physiographic, fertile land, and elevation. With this condition, it

is possible for Indonesia to build on its agriculture (Mulyani, A., & Las, I., 2008).

With all the abundance of resources in the country, unemployment is still becoming a major problem for Indonesia. The picture of unemployment in Indonesia can be seen through Figure 1.1 that shows the unemployment rate in Indonesia from 2010 to 2015. Based on Byrne, D & Strobl, E (2001), unemployment rate is one of the indicators that are used to measure the condition of labor market and the economy's condition in general. According to Badan Pusat Statistik (n. d.), unemployed people can be defined in four kinds of conditions; people who do not have job and are actively looking for job, people who do not have job but are preparing to run a business, people who do not have job and are not actively looking for a job because they think that it is not possible to find a job, and people who have job but are not starting to work. Moreover, there are two conditions of unemployment rate; high rate of unemployment and low rate of unemployment. Ballantyne, A., Voss, D., D., & Jacobs, D (2014) mentioned that high rate of unemployment refers to the condition in which there are a large number of people who are willing to work but they do not have job and not engaged in any production process. Low rate of unemployment refers to the opposite situation.

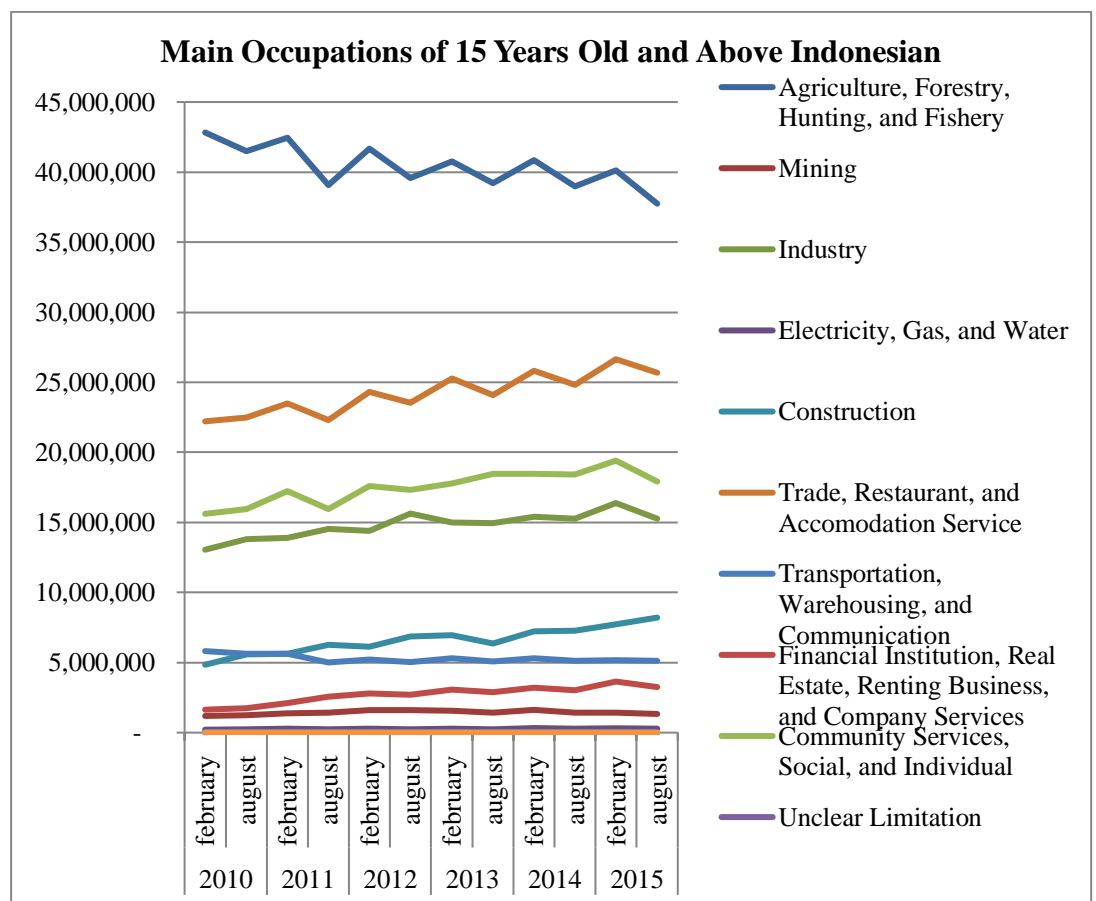


Source: Badan Pusat Statistik (n. d.)

Figure 1.1 Unemployment Rate in Indonesia (Observed in February and August 2010 - 2015)

Based on the figure above, the unemployment rate in Indonesia used to fluctuate every year. During 2010 to 2015 with the observation conducted every February and August, the decreasing of unemployment rate only happened in 2010 and 2012. Other than these two years, the rate of unemployment in Indonesia increased but not in a large number. This condition is related to the labor market in many sectors such as agriculture, industry, services, trade, and others. Every sector mentioned has important role in the unemployment rate in the country. One of the most important sectors that has a very strong role in both labor market and economy of the country is the agricultural sector. Vazquez, F., J., A., Lee, J., N., & Newhouse, D (2012) stated that the growth of agriculture has a strong and

positive impact on employment growth. They mentioned that when the growth of agriculture increases for 1 percent, it will cause 0.35 percent of additional employment growth. Agricultural sector is very important for Indonesia since it gives several beneficial impacts such as; significant contribution to economic growth, foreign exchange earnings, and food security (Corporate Private Sector Investment in Agriculture in Indonesia, n.d.).



Source: Badan Pusat Statistik (BPS), (n. d.)

Figure 1.2 Main Occupations of 15 Years Old and Above Indonesian

According to Figure 1.2, there are many sectors that becoming the sources of occupations for Indonesian aged 15 years old and above. In the

graph it shows that some fluctuations happened in particular sectors, and there are some increases and decreases in the others. However, agricultural sector is at the top of main occupation of Indonesian since 2010 until 2015. The highest number of people who work in the agricultural sector during these years is 42.825.807 in February 2010. It is then fluctuated every February and August when the observation conducted. Based on this statistics, we can see that even though the number of people who work in the agricultural sector tend to fluctuate, this sector remained the highest sector that absorb people in the country and that gives agricultural sector an important place in the labor market and the economy of Indonesia. According to Badan Pusat Statistik in Indonesia-Investment (n.d.), the agricultural sector put itself in the leading position in term of absorbing worker in the workforce, as shows in the Table 1.1.

Table 1.1 Employments per Sector in Indonesia from 2011 – 2016

<i>In million</i>	2011	2012	2013	2014	2015	2016'
Agriculture	42.5	39.9	39.2	39.0	37.8	38.3
Wholesale Trade, Retail Trade, Restaurants and Hotels	23.2	23.6	24.1	24.8	25.7	28.5
Community, Social and Personal Services	17.0	17.4	18.5	18.4	17.9	19.8
Manufacturing Industry	13.7	15.6	15.0	15.3	15.3	16.0

Source: Indonesia Investment (n. d.)

Agricultural sector in Indonesia is very important since this sector produces many things that are important for human well being, food. Even though agricultural sector is very close to the production of food, there are many things else that are not food that come from agricultural sector. One of the most massive agricultural products being produced and exported by our country is rubber. Rubber is one of the most important commodities that are mostly used to produce other products. Since it is very important for other production, the demand for this commodity tends to increase together with time. Rubber is really needed for many other productions, for instance tire production. The production of vehicles is always increasing in which will increase the demand for tire and rubber. The demand for rubber at the end will eventually affect the other things related to this commodity starts from the volume of production, the labor absorption, the price of rubber in domestic and international market, and many other things.



Source: Direktorat Jenderal Perkebunan (2016)

Figure 1.3 Indonesia's Rubber Production from 2010 - 2015

Figure 1.3 shows the fluctuation of Indonesia's rubber production in 2010 to 2015. As mentioned before, when the demand of other commodities such as tire increases, it will affect the demand for rubber as well. When the demand of rubber increases, the producers will try to meet the demand by increasing the production. Even though the production of rubber in 2010 – 2015 is fluctuated, the number of production can be said as high. A high production of rubber will affect many aspects surrounding the rubber industry; one of them is labor absorption. The fluctuation of labor absorption in agricultural sector in the previous page must be related to rubber plantation as well since rubber is included into the agricultural sector.

In this research, the writer is going to focus on the effect of several indicators in rubber plantation; production, minimum wage, area of

production, and number of rubber company (private companies and governmental companies) to the labor absorption and to find out whether rubber plantation affecting the fluctuation of labor absorption. There are several provinces that are known as the biggest rubber producers in Indonesia; North Sumatera, Riau, South Sumatera, Lampung, West Kalimantan, Central Kalimantan, South Kalimantan, and West Java and the writer is going to use these 10 provinces as the main subjects.

## 1.2 Formulation of the Problem

- a. What is the effect of rubber production on labor absorption?
- b. What is the effect of the size of rubber plantation on labor absorption?
- c. What is the effect of provincial minimum wage on labor absorption?
- d. What is the effect of the number of company on labor absorption?

## 1.3 Research Objective

- a. To analyze the effect of rubber production on labor absorption
- b. To analyze the effect of the size of rubber plantation on labor absorption
- c. To analyze the effect of provincial minimum wage on labor absorption
- d. To analyze the effect of the number of company on labor absorption



#### 1.4. Problem Limitation

The subjects in the research are not all the provinces in Indonesia that produce rubber. The writer will only take 10 provinces which are known as the top rubber producers in Indonesia as the subjects, they are; North Sumatera, Riau, South Sumatera, Lampung, West Kalimantan, Central Kalimantan, South Kalimantan, West Java, Aceh, and East Java. Even though there are some other provinces that are also considered as one of the top producers, some data are not provided that makes the writer cannot take them as the subjects of the research. Moreover, for the period, the writer observes the trend of each variable in 4 years period from 2012 to 2015. The result later will not represent the behavior of all the rubber producers in Indonesia since the writer limited the research to 10 provinces in 4 years.

#### 1.5 Research Contribution

This research, hopefully, will give advantages to some parties as follows:

##### a. For the Writer

For the researcher or the writer, this writing will be beneficial in term of additional knowledge of something that the writer only knows in textbook and social media. By writing about it and digging some more information about it, the knowledge of the writers can be added for good.

b. For the Academician

This writing in the future is expected to be one of the references for other academicians in writing or in doing research with the same topic.

c. For the Related Institution

For other related institution such as government and societies, hopefully this writing can be put as mirror of the condition of the society so that there will be some learning points that can be taken from here.