

CHAPTER I

INTRODUCTION

1.1 Background

Economic development is a process of rising per capita income and total income that consider the existence of the population and is accompanied by fundamental changes in the economic structure of a country and the equalization distribution of income for the population of a country (Tarmidi, 1992). The economic development cannot be separated from economic growth because economic development encourages the economic growth, and vice versa, economic growth facilitate the process of economic development. Economics development is an important pillar for the process of development in all sectors, the success of the economic development of a nation greatly help the success in other field such as law, politics, agriculture, and other. A society who is successful in economic development is marked with high per-capita income of community countries.

The state and society will be able to more freely in carrying out various activities in the other various fields with high per-capita income of the people. The economic development of a region or a country basically is the interaction of various groups, among others: human resources, natural resources, capital, technology and others. Therefore, economic development cannot be separated from the human role in managing them. Human labor (input of development),

is also a consumer of development outcomes themselves (Arsyad in Tindaon, 2010).

Indonesia is undergoing a change from an economy dominated by the agricultural sector towards an economy with a greater share of the activities in industrial sector and services. The industrial sector is one sector that plays an important role and gives a significant contribution in national development. Lewis in Todaro & Smith (2006) said that in the economic growth and development of a country can be done by increasing growth in sectors of the industry.

The role of the industrial sector in National economic development can be traced from the respective subsector contribution towards national economic growth rate or to the gross domestic product. In some countries who pertained to the developing countries, the role of the industrial sector was more dominant compared to the agricultural sector. The industrial sector holds a key role as the engine of development because it has some advantages over other sectors. It is because the value of the embedded capital capitalization is very large, the ability to absorb a large labor force, as well as the capability of creating value added from each input or raw material that is processed.

In developing countries, the role of the industrial sector also shows higher contribution. The higher contribution from the industrial sector has caused structure changes of the economy of the country from agricultural sector to industrial sector. The role of the industrial sector in economic development in many countries was very important because the industrial

sector has some advantages in terms of accelerating development. Excellences of the industrial sector contribute to the absorption of labor and are capable in creating higher value added on a variety of commodities produced.

Table 1.1
The Distribution of GDP in Indonesia (2009-2013)

No.	Sectors	2009	2010	2011	2012	2013
1	Agriculture	15.29	15.29	14.71	14.5	14.43
2	Mining and Minerals	10.56	11.16	11.82	11.8	11.24
3	Manufacture Industry	26.36	24.8	24.34	23.97	23.7
4	Electric, Gas and Water	0.83	0.76	0.75	0.76	0.77
5	Construction	9.9	10.25	10.16	10.26	9.99
6	Trade, Hotel, and Restaurant	13.38	13.9	13.8	13.96	14.33
7	Transportation and Communication	6.31	6.56	6.62	6.67	7.01
8	Financial Institution	7.23	7.24	7.21	7.27	7.52
9	Other	10.24	10.24	10.58	10.81	11.02
	Total	100	100	100	100	100

Source: BPS

The table 1.1 has shown that manufacture industry has given big contribution of gross domestic product in Indonesia although the performance of manufacturing industry decrease over the years. As example in 2009, manufacturing industry contributed around 26.36% on GDP of Indonesia and was the first rank among other sectors followed by agriculture sector 15.26% and trade sector that were around 13.38%. From the data it can be concluded that manufacture industry is an important sector in contributing to the development of economy in Indonesia.

Indonesia is the fourth most populous country in the world after China, India and the United States. Around two million labor force of Indonesia which annually jumped into search employment, is a very big challenge for government to create and stimulate the creation of new employment land so that the job market can absorb the job seekers each year. The agricultural sector remained at the top position in terms of labor population.

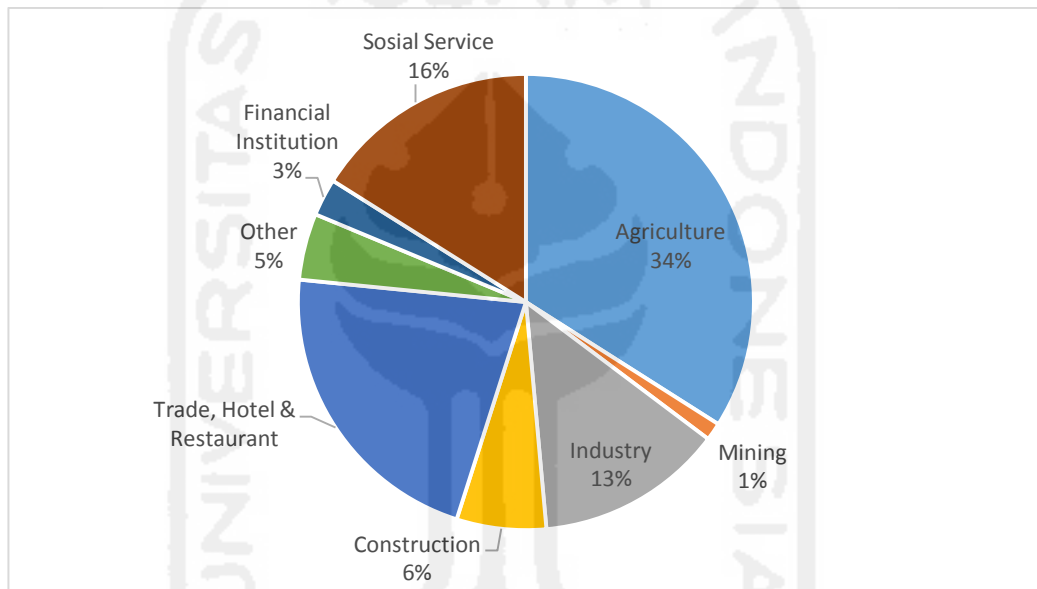


Figure 1.1 Population 15 Years to Top Who Worked by Main Sector 2014

Figure 1.1 shows the percentage of the population aged 15 years and over who worked in 2014. Based on worker population, the industrial sector is in the fourth rank after agricultural sector, trade, and social service sector. The main dominant jobs is agricultural sector with a percentage by 34 per cent. The second employment is in trade and restaurant with a percentage of 10 per cent, then it is followed by social service by 16 per cent and industrial sector with the percentage of 13 percent.

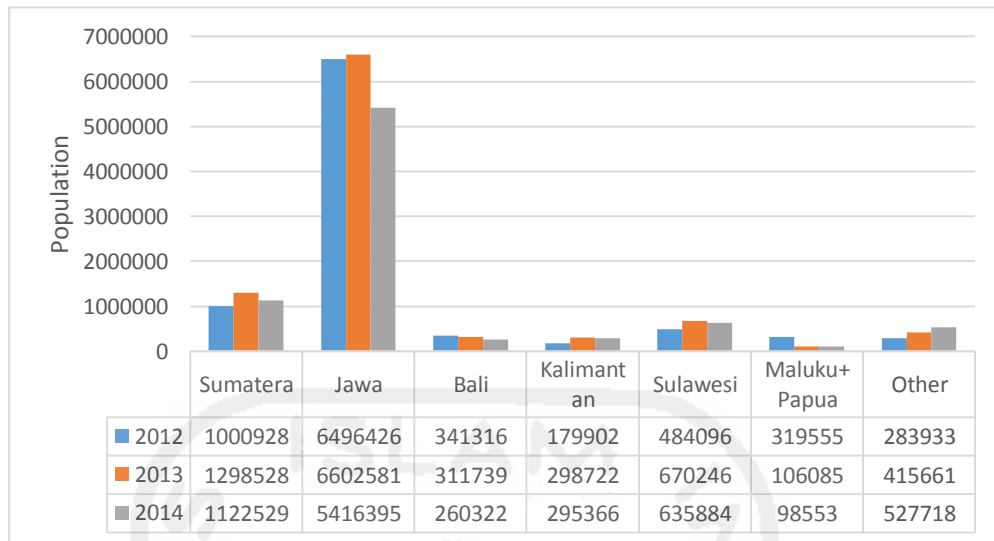


Figure 1.2 Worker Population in Industrial Sector 2012-2014

Based on figure 1.2, the majority of the workers in industrial sector was on Java Island. Java became the first rank in the number of labor in industrial sector by 6,496,426 in 2012 which is caused by to the existence of an industry that is largely built on Java. It is followed by Sumatera which only had a total workforce by 1,000,928 in 2012. From figure 1.2 it can be explained that the existence of the industry spread unevenly over the province in Indonesia as the industry only focused on Java but the number of labor decreases over year to year.

Manufacturing industry is a significant sector that absorbs labor in Indonesia. The magnitude of labor absorption due to the high demand for labor in industries. A large work force in Indonesia is formed by a large number of population, while the demand for labor by the company is limited. The issue of employment can be influenced by many factors interacting with patterns that are not always easy to understand. To illustrate the problem of labor in the future is not easy, because it cannot be merely seen from the

number of labor in the past, but it should also consider the production prospects in the future. It is because the amount of production in the future could affecting the number of labor demand by company. The number of unemployment and lack of demand of labor in Indonesia could pose new problems that will affect the lives and economy of a country. For this, the researcher wants to find out the factors that affect demand for labor especially in the industrial sector.

Satrio (2010) argued that the increased investment will improve employment opportunities so that the unemployment rate will decrease. The increasing investment in an industry would also increase employment because an increase in investment will increase the number of companies that exist in the industry and will ultimately increase the amount of output produced, thus it will increase employment opportunities. Indirect investment has influence on the demand for labor in the industrial sector.

Increasing demand of employers toward labor depending on the value added of society demand towards goods that is produced is called derived demand. If consumer demand will increase the results of production, the company will increase the production of goods which are of course the company will need additional workers, so the demand for labor will increase (Simanjuntak, 1985).

Other factors that give impact to labor demand is wage. Wage is as retribution that must be paid by a single company or agency to employees or workers (Badan Pusat Statistik) [BPS], 2017. The level of wages will affect

demand or supply of labor. The government has made regulations on waging (minimum wages) for employees or workers in order to meet the minimum necessities of life, but many worker in Indonesia still have a low prosperity.

Capital expenditure also can affect demand for labor in Indonesia. Capital expenditure is the government spending that is the purchase or procurement of capital goods, which will increase the production capacity of the economy to increase Gross Domestic Regional Product (GDRP). Besides increasing the GDRP, capital expenditure also increase the use of labor in the region because of the high rate of open unemployment rate in Indonesia (Sumanto & Effendie, 2015). Fiscal policy is a government policy related to the budget of expenditure and the receipts of the government. According to Mankiw (2007) when inflation happens, usually fiscal policy will be released to reduce government spending and increasing taxes. Otherwise, once unemployment is serious then the government tried to increase spending and reduce taxes.

From opinions and research that have been revealed, there are several factors that can affect industry toward labor demand, among others are, wage, technology, productivity, quality of the workforce, capital facilities, and factors affecting demand such as changes in the market demand results will be produced.

1.2 Problem Formulation

The factors that cause the demand of labor are the level of wages, productivity, technology, capital, and labor quality (Afrida, 2003). Factors that influence the demand for labor that are used in this research are investment, minimum wages and gross domestic regional product (GDRP), money supply and government spending.

Therefore, based on the background above, the researcher raise some issues, they are:

1. Does investment has influence toward demand for labor in Indonesia?
2. Does minimum wage has influence toward demand for labor in the industrial sector?
3. Does the GDRP has influence toward demand for labor in the industrial sector?
4. Does money supply has influence toward demand of labor in industrial sector?
5. Does government spending has influence toward demand of labor in industrial sector?

1.3 Research Objective

Based on the problems formulation written above, this research aims to:

1. Analyze the influence of investments toward the demand for labor in Indonesia
2. Analyze the influence of minimum wage toward the demand for labor in Indonesia

3. Analyze the influence of GDRP toward the demand for labor in Indonesia
4. Analyze the impact of money supply in Indonesia toward demand of labor in industrial sector
5. Analyze the influence of government spending toward labor demand of industrial sector in Indonesia.

1.4 Research Contributions

Benefit from this research:

1. For the researcher, this research will provide knowledge and a deep understanding of the factors that affect the demand for labor in the industrial sector.
2. For the future researcher, it is expected that this research could be an alternative reference for further research related to the problem of labor in industrial sector.
3. For government, this research will provide suggestion to the government associated with the development and absorption of labor in industrial sectors in order to take the right policy in the future.

1.5 Systematics of Writing

To simplify and clarify the writing of this thesis, the researcher uses systematics of writing so that it is more focused. It will be divided into five chapters, they are:

CHAPTER I: INTRODUCTION

This chapter contains background of the study, problem identification, problem formulation, problem limitation, research objectives, research contributions, and systematic of writing.

CHAPTER II: LITERATURE REVIEW AND THEORITICAL FRAMEWORK

This chapter describes study of the results of research ever done in the same field as well as load the foundation of theory used to approach the issues that will be examined.

CHAPTER III: RESEARCH METHOD

This chapter elaborates the method of analysis used in the study and data source that are used.

CHAPTER IV: DATA ANALYSIS & DISCUSSIONS

This chapter contains the findings result from the research data have been obtained previously and analysis in order to find out the influence of the respective data obtained.

CHAPTER V: CONCLUSIONS & RECOMMENDATIONS

This chapter is the concluding chapter which contains the conclusions and recommendations from the analysis results of the data in the previous chapters.