

# The Practices of Regional Autonomy in Central Java, Indonesia and Its Implication on Economic Competitiveness

Etty Puji Lestari and Muhamad Kholis

**Abstract**—The study aims to analyze the potential for the business sector and the leading commodity in Central Java Province to improve the economic competitiveness. There are two methods used to see the structure of the economy of Central Java namely Location Quotient (LQ) and SWOT Analysis. The results show that trade, hotels and restaurants is a dominant sector in Central Java. These results indicate the success of Central Java in managing the trade, hotels and restaurants. Central Java also has tourism potential to improve the competitiveness of its economy. The most importantly, simplifying the bureaucracy to attract investors needs to provide employment opportunities to increase income per capita.

**Index Terms**—Economic competitiveness, regional autonomy, Central Java.

## I. INTRODUCTION

Implementation of regional autonomy has an opportunity and challenge for the Central Java Provincial Government to be more independent, especially in formulating policies on the of natural resources management and financial management. This policy necessary to stabilize the structure of the regional economy and the improvement on local independence in carrying out its economic development. Formulation of policies, programs and development activities in the region also need to consider the objectives of national development.

The economic development in Central Java showed more encouraging performance marked by rising 5.13 percent economic growth of 2004 to 5.61 percent in 2008 (see Table 1) [1]. This results indicated the ability of local governments to intensify to support of natural resources and human development. Support the potential to be developed to accelerate development in this area at the same time strengthening the structure of the regional economy. In 2009 this growth decreased to reach 5,14 percent. The decline in growth is not separated from the shock that hit the world economy in 2008.

Central Java has the potential to attract foreign investors. Therefore, local governments need to prepare the supporting infrastructures. Give the high demand and limited funds owned by the local government allocation of development

funds need to be carried out effectively and efficiently as well as efficient. Central Java province also had some problems with building its economy. One of them is the problem of gaps between the management sector.

TABLE I: GROWTH RATE OF GDP AT CURRENT PRICES CENTRAL JAVA PROVINCE

Year	Central Java	Indonesia
2004	5.13	4.26
2005	5.35	5.37
2006	5.33	5.19
2007	5.59	5.67
2008	5.61	5.74
2009	5.14	4.77
2010	5.84	6.14
2011	6.03	6.35
2012	6.34	6.28
2013	5.81	5.90
2014	5.42	5.21

Source : BPS, 2015

The economy in the province of Central Java is mainly contributed to the manufacturing sector, trade, hotel and restaurant and agricultural sectors. While the contribution to other sectors such as the financial services sector and is still relatively small. Though both sectors potential to be developed. This condition reflects not maximal sector development baseds on actual skills and expertise have contributed greatly to improving the economy.

Some of these issues should receive attention to the local government. Therefore, various strategies and policies need to be formulated to solve these problems. Success in solving the various problems that occur in the development process will improve the performance and independence of local governments [2]. Improving people's welfare and independence of the region in the implementation of development needed to achieve local autonomy. Utilization of natural resources needs to be did in an optimal and prudent so as to have an important role in improving the welfare of local communities.

## II. METODOLOGY

The study used two methods, Location Quotient (LQ) and SWOT analysis (Strength, Weaknesses, Opportunities, Threats) for analysis the competitiveness. Data was gaining

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from the Central Bureau of Statistics, Bank Indonesia, Central Java Provincial Government, and also supported by a study in the library. The range of periods used in this study is 2010 to 2012.

A. Location Quotient (LQ)

A location-quotient analysis is used to compare level of employment between two geographic areas in order to gauge the concentration of a particular good or service. This method assumes that a region is self sufficient if its rate of employment is proportional to the state's rate of employment for that industry. If the region's rate of employment is lower than the state's rate, the region is said to be producing less of that product and is therefore forced to import some of these products. If a region's rate of employment is greater than the state's rate, then the region is exporting some of its products. Any industry found to be exporting products is said to be basic (verses non-basic) and is considered highly valuable for economic development. This economic base analysis has some limitations, one of which is that it assumes that the pattern of demand is uniform state-wide. This may not always be the case, however, since factors such as climate, local tradition, or custom can exert an influence on the demand for a specific product [3].

Location quotient analysis are common economic development assessment tools used to identify industries and employment sectors that are growing, transforming, emerging or declining. The use of location quotient analysis is also useful in helping guide and structure economic development policy, pertaining to workforce and business development efforts, at the local, regional, state, and national levels [5].

LQ analysis techniques also have a development philosophy adopted is a trickledown effect means for the efficiency of local government will allocate funds of the sector strong in the hope that a strong sector that will transmit growth in sectors that are less powerful [4][7]. If the government is not convinced that the philosophy of the trickle downs effect is running, then it is non-sector basis should be preferred. Location quotients technique used to determine the base sector there is several kinds, among others:

- 1) Location quotients based on employment by sector using the following formula [5]:

$$LQ = \frac{X_{ij}}{X_j} : \frac{Y_i}{Y}$$

where LQ = index location quotients;  $X_{ij}$  = number of people working in the sector  $i$  in province  $j$ ;  $x_j$  = Number of total employment in the province  $j$ ;  $Y_i$  = number of workers in sector  $i$  in country or other benchmark regions and  $Y$  = total number of labor in countries or regions other references.

- 2) Location quotients on the basis of GDP by the formula:

$$LQGDP = \frac{X_{ij}}{X_j} : \frac{Y_i}{Y}$$

where LQ = index location quotients;  $X_{ij}$  = Value GDP sector  $i$  in province  $j$ ;  $x_j$  = Value of total provincial GDP  $j$ ;  $Y_i$  = value  $i$  in the state sector GDP or other reference regions, and  $Y$  = the total GDP countries or regions other references.

Interpretation location quotients based on employment and GDP are:

- If  $LQ > 1$  then said to be a sector basis sector
- If  $LQ = 1$  then said to approach the sector as a sector basis.
- Some researchers to categorize its sector  $LQ = 1$  are a sector basis
- If  $LQ < 1$  then the sector is not a sector basis

3) Location quotients on commodities basic.

Quotients of this type are not used to determine the base sector but is usually used to determine whether the commodity which is the result of an area is a leading commodity or not. The formula used is :

$$LQ_{com} = \frac{X_{ij}}{X_j} : \frac{Y_i}{Y}$$

where LQ = index location quotients;  $X_{ij}$  = value of commodity  $i$  output in a sector/sub- sector in the province  $j$ ;  $x_j$  = total production value of all commodities in a sector/sub-sector and province  $j$ ;  $Y_i$  = value of commodity  $i$  output in a sector/sub sector in countries or regions other references. Meaning good location quotients based on the production value of a commodity is:

- If  $LQ > 1$  then the commodity is a leading commodity areas
- If  $LQ = 1$  then said to be a leading commodity commodity approach as a region.
- Its commodity  $LQ = 1$  categorized as a commodity
- If  $LQ < 1$  then the commodity is not the leading commodity

This study uses the second approach is based on GDP LQ because it reflects the performance of sectoral areas .

B. SWOT Analysis

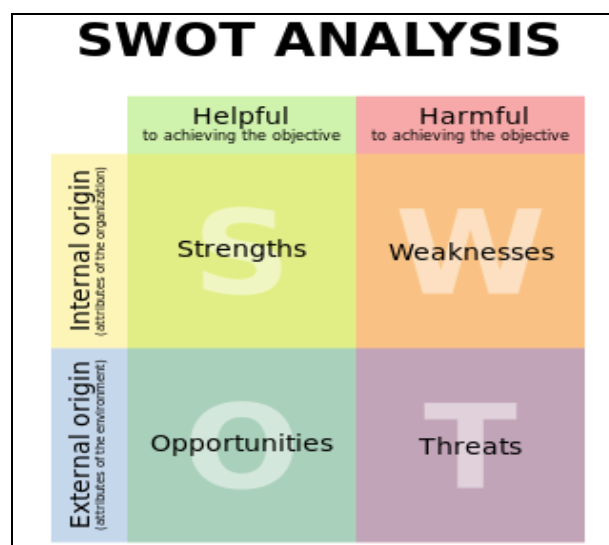


Fig. 1. SWOT analysis.

Source: [http://en.wikipedia.org/wiki/SWOT\\_analysis](http://en.wikipedia.org/wiki/SWOT_analysis)

SWOT (Strengths, Weaknesses, Opportunities, Threats) is usually used to evaluate the opportunities and challenges in the business environment or the internal environment [6]. SWOT can also be used to see the condition of the economy of a region. To make it easier to do a SWOT analysis SWOT matrix is needed so that it can be formulated various strategies required of each element. SWOT matrix can be seen in Fig. 1.

Basically alternative strategy adopted should be directed at efforts to use the strengths and weaknesses, take advantage of economic opportunities and to anticipate threats. From the SWOT matrix will be obtained four groups of strategies, namely SO strategies, WO strategy, strategy ST, and WT strategies. Through the SWOT strategy matrix, then do position, to measure the position of Central Java is concerned with the economy. Given the internal and external aspects of the economy of Central Java Province, the weighting is done from the most influential to the least influential.

### III. RESULT AND DISCUSSION

#### A. Results of LQ Analysis

LQ calculation results indicate that there is at least four sectors in the province of Central Java which has a value of  $LQ > 1$  include agriculture, manufacturing, electricity and water sector and trade, hotel and restaurant. This indicates that almost half of the sectors in Central Java can be a sector basis of regional economic growth. During the period 2010-2012, the economy sector in Central Java province shows the performance advantages of commodities that can be consistently maintained. These results cannot be separated from the fact that the districts that enter into sub-districts of Central Java is the key that actually deliver the greatest added value to the economy of Central Java.

TABLE II: THE CALCULATION RESULT OF LQ

No.	BUSINESS SECTOR	LQ2010	LQ2011	LQ2012
1	Agriculture	1,2755	1,2964	1,2978
2	Mining and Quarrying	0,0867	0,0718	0,0800
3	Manufacturing	1,3255	1,3666	1,3717
4	Electricity and Water	1,3186	1,3391	1,2846
5	Building	0,5953	0,5888	0,5737
6	Trade, Hotels and Restaurants	1,4299	1,4310	1,4597
7	Transportation and Communications	0,9014	0,8837	0,8888
8	Finance, Real Estate and Business Services	0,4943	0,4918	0,4947
9	Services	1,0235	1,0028	0,9893

The value of  $LQ > 1$  in the four sectors also indicated that the production output of Central Java in surplus or produce the required output exceeds the proportion of provincial output and contribute to economic growth in Indonesia. Therefore, these sectors may become a base sector or sectors key to the development of other sectors. Sector 's main base of the province is trade, hotels and restaurants with an average value of 1.44  $LQ$ . The calculation is presented in Table II.

The calculations indicate that the trade, hotel and restaurant sector has the potential to become the basis for  $LQ$

values greater than 1, with a breakdown for the year 2010 amounted to 1,429, in 2011 was 1,431 and for the year 2012 amounted to 1,284. These results indicate the success of Central Java province in the hotel trade and services sectors. The high potential for this sub-sector is mainly contributed to trade, hotels and restaurants are more lively.

Central Java, there are also a lot of very interesting sights both natural attractions and tourist culture. One of the seven wonders of the world located in the province of Central Java is Borobudur Temple. Borobudur temple is located at Borobudur, Magelang, Central Java. Borobudur is still used as a place of religious pilgrimages; each year Buddhist who come from all over Indonesia and abroad gather at Borobudur to commemorate Waisak Trisuci. Table III shows the number of tourists in Central Java.

TABLE III: NUMBER OF TOURISTS TO TOURISM IN CENTRAL JAVA

Regency	Domestic Travelers	Foreign Tourists
Banjarnegara	35448	0
Banyumas	556001	2230
Batang	45135	4
Bloro	56166	200
Boyolali	52685	0
Brebes	47736	15
Cilacap	126204	1664
Demak	36971	0
Grobogan	82922	86
Jepara	54174	2144
Karanganyar	296869	2092
Kebumen	94373	78
Kendal	88888	0
Klaten	88847	143
Kudus	122286	713
Magelang	33684	29239
Pati	130972	31
Pekalongan	18866	0
Pemalang	26091	0
Purbalingga	26605	3
Purworejo	47717	37
Rembang	41146	85
Semarang	867077	216
Sragen	41443	0
Sukoharjo	82855	51
Tegal	69465	0
Temanggung	64073	0
Wonogiri	30204	6
Wonosobo	104441	10409
Magelang municipality	95294	370
Pekalongan municipality	109059	146
Salatiga municipality	74285	506
Semarang municipality	1067050	18512
Surakarta municipality	948334	9127
Tegal municipality	180745	233

The existence of a number of these tourist areas provide space for the business to develop trading activities, build hotels and restaurants and various businesses supporting tourism. The number of hotels being built in Central Java also experienced a significant increase. Another sector that has the potential to be developed is the manufacturing sector that has a value of 1.325  $LQ$  calculations in 2010, 1.366 in 2011 and 1372 in 2012. Performance of this sector is supported by the ability of the province of Central Java in the produce industry to manage small, medium and large industrial. SME

development commodity in Central Java also is an attraction to visit. Basically divided into three main sectors namely industry, agriculture, and tourism. This development is generally based commodity clusters.

The development of infrastructure in the province of Central Java is sufficient, it can be seen from the potential for existing infrastructure in Central Java position in fourth place after Jakarta, East Kalimantan and East Java. Central Java Provincial Government continues even accelerate the development of Central Java with a primary focus on infrastructure development. Provision of infrastructure, particularly roads does have a positive correlation to the

overall economy of Central Java. Development of regional and local road infrastructure will be a significant driver in improving economic activity and income.

*B. Results of SWOT Analysis*

Central Java province actually has the potential to improve the competitiveness of its economy. Some studies indicate the many opportunities in the Central Java to explore all the strength they have in order to increase per capita income. Table IV explain the SWOT analysis for Central Java Province.

TABLE IV: SWOT ANALYSIS FOR CENTRAL JAVA

	<p><b>STRENGTH (S)</b></p> <ul style="list-style-type: none"> <li>▪ Have a productive sector basis</li> <li>▪ Sub-sector industry has the potential</li> <li>▪ HR and employment of trained</li> <li>▪ Have a high tourist potential</li> <li>▪ Has a strategic location because it was the middle of Java island</li> </ul>	<p><b>WEAKNESS (W)</b></p> <ul style="list-style-type: none"> <li>▪ The lack of exploration of the tourism sector</li> <li>▪ Infrastructure to the tourist attractions is still lacking</li> <li>▪ Investment still needs to be improved</li> <li>▪ income percapita is still low</li> <li>▪ Bureaucracy that takes a long time</li> <li>▪ Relatively few jobs of labor migration</li> </ul>
<p><b>OPPORTUNITIES (O)</b></p> <ul style="list-style-type: none"> <li>▪ Potential revenues from the tourism sector high</li> <li>▪ Potential regional economy increased</li> <li>▪ Many young workers</li> <li>▪ The increases in the average per capita income</li> <li>▪ Increased exports of handicrafts</li> <li>▪ There are many jobs that can be extracted</li> </ul>	<p><b>STRATEGI SO</b></p> <ul style="list-style-type: none"> <li>▪ Developed infrastructure especially to the tourist area</li> <li>▪ Improve the local economy</li> <li>▪ Aggressively increase the per capita income of the area</li> <li>▪ The development of small and medium industries such as batik, handicraft carving</li> </ul>	<p><b>STRATEGI WO</b></p> <ul style="list-style-type: none"> <li>▪ Improving infrastructure especially to tourists sites</li> <li>▪ Providing incentives to create jobs to reduce unemployment</li> <li>▪ Need simplification of bureaucracy to attract investors, especially the tourism sector such as hotel construction</li> </ul>
<p><b>THREATS (T)</b></p> <ul style="list-style-type: none"> <li>▪ Tourism potential for other areas more attractive</li> <li>▪ Many jobs of other areas so as to encourage the migration of skilled labor</li> <li>▪ Labor costs of other areas of higher</li> </ul>	<p><b>STRATEGI ST</b></p> <ul style="list-style-type: none"> <li>▪ Increasing tourism potential for the area by building adequate infrastructure</li> <li>▪ Informal sub-sector should be encouraged and fostered by the government continue with the provision of soft loans and coaching skills</li> </ul>	<p><b>STRATEGI WT</b></p> <ul style="list-style-type: none"> <li>▪ Need job creation in rural to reducing urbanization</li> <li>▪ Simplification of bureaucracy to attract investors so as to provide employment opportunities</li> </ul>

From SWOT analysis show that Central Java has a high tourism potential to be managed by the local government. The tourist areas require serious treatment to be developed if it is supported by adequate infrastructure networks, ease of access to get there, where hotels and restaurants that support. Data statistics show that there is a lot of labor at a young age. Thus, to avoid the explosion of urbanization in the rural sector, the area should be developed. Government should provide training to develop the agricultural sector. For example, the development of agriculture through agro-industrial or development of organic agriculture. If the current price of chemical fertilizer is very high then the farmers could process organic waste into fertilizer and livestock manure. Thus litter of animals and plants have two benefits include reducing the volume of waste and cost efficiency because the farmer does not to need chemical fertilizers counts for their agricultural products.

Another thing that is not less important is the increase in agricultural exports. Central Java is known to have excellence in crafts. The number of industries in Jepara carving should be developed. Jepara has many craftsmen that make furniture quality is very good. Craftsman should continue to be fostered to keep improving the quality of its production to be exported to the country. Therefore, standards must be a premium product to increase its price.

IV. CONCLUSION

From the results of the calculations, it can be concluded that the four sectors in the province of Central Java which has a value of  $LQ > 1$  include agriculture, manufacturing, electricity and water sector and trade, hotel and restaurant. These conditions indicates that almost half of the sectors in Central Java can be a sector basis of regional economic growth. During the period 2010-2012, the economy sector in Central Java province shows the performance advantages of commodities that can be consistently maintained.

These results cannot be separated from the fact that the districts that enter into sub-districts of Central Java is the key that actually deliver the greatest added value to the economy of Central Java. Central Java also has potential that could be developed as carving industry in Jepara. The pattern intensive and integrated in this industry is believed to be able to maintain product quality carving thus opening the potential for export at competitive prices.

The government should create a conducive climate that makes advanced industrial areas and its products have good quality. There are several strategies to improve regional advantage. The first, gives convenience of investors in investing in Central Java by simple bureaucracy. Second, build infrastructure, especially roads and bridges. Infrastructure considered capable of improving local

economies, reduce urbanization and expansion of industrial areas. The last, to educate the public about the importance of the creative industries to win the global competition.

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