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MALINDO**



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**TRANSFORMATION MALAYSIA INDONESIA RELATION :
TOWARD ASEAN COMMUNITY**

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25 JANUARI 2013**



**FAKULTAS EKONOMI
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**PROCEEDING
INTERNATIONAL CONFERENCE AND
CALL FOR PAPER**

**TRANSFORMATION MALAYSIA
INDONESIA RELATION : TOWARD ASEAN COMMUNITY**

UCAPAN TERIMA KASIH KEPADA

REVIEWER CALL FOR PAPER

PADA SEMINAR INTERNASIONAL TRANSFORMATION MALAYSIA

INDONESIA RELATION : TOWARD ASEAN COMMUNITY

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KATA PENGANTAR

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REVIEWER CALL FOR PAPER

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SAMBUTAN KATA PENGANTAR EKONOMI UPN VETERAN YOGYAKARTA

KATA PENGANTAR

Hubungan Indonesia dan Malaysia telah berlangsung selama 40 tahun. Hubungan kedua negara tersebut mengalami pasang surut, berbalikan dengan keadaan selama masa Indonesia dan Malaysia sebelum merdeka. Sebelum terbentuk menjadi negara berdaulat, Indonesia dan Malaysia pernah memiliki keinginan untuk membentuk *the Greater Malay* atau *the Greater Indonesia*. Namun, keinginan tersebut tidak pernah terwujud karena berbagai faktor yang berkembang dalam *setting* sejarah pada masa setelah Perang Dunia I dan Perang Dunia II. Kenyataan bahwa Indonesia dan Malaysia merupakan saudara serumpun ternyata tidak dapat menjadi faktor yang signifikan dalam menciptakan hubungan bilateral yang konstruktif. Memanasnya hubungan Indonesia dan Malaysia sepertinya menjadi ritual tahunan dan dapat dikatakan dengan istilah "hangat-hangat tahi ayam".

Keberadaan Komunitas Sosial dan Kultural ASEAN (ASEAN Social and Cultural Community, ASCC) dapat menjadi wadah yang tepat untuk proses pengakuan dan mediasi budaya sesama anggota ASEAN. Pengakuan dimulai dari identifikasi dan telaah yang mendalam atas klaim yang muncul, dan memberikan penilaian mengenai relevansi dan substansinya.

Pusat Studi Malindo (PSM) dirancang dan didirikan oleh empat Universitas di Malaysia dan Indonesia, yaitu Universiti Sains Malaysia, dan Universiti Utara Malaysia, Universitas Pembangunan Nasional (UPN) "Veteran" Yogyakarta, dan Universitas Jember.

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Melalui Pusat Studi Malindo dapat mengambil peran aktif sebagai penghubung. Sebagai forum ilmiah, Malindo memegang peran penting yang dapat membantu peningkatan hubungan antara Indonesia dengan Malaysia. Sebagai sebuah lembaga akademik, Malindo dapat menempatkan diri sebagai *inner circle* yang netral.

Pusat Studi Malindo diresmikan pada tanggal 25 Januari 2013 yang bertempat di UPN "Veteran" Yogyakarta, Indonesia. Peresmian Pusat Studi Malindo diisi dengan *Seminar Internasional*. Tema yang diangkat adalah "*Transformation Malaysia Indonesia Relation: Toward ASEAN Community 2015*".

Dalam Seminar Internasional ini Panitia telah menerima 23 artikel dari berbagai Perguruan Tinggi di Indonesia, Malaysia, dan Sweden. Setelah melalui beberapa *review*, maka artikel yang dipresentasikan sebanyak 15 artikel. Akhir kata, kami ucapkan terimakasih yang sebesar-besarnya kepada semua pihak yang tidak dapat kami sebutkan satu persatu yang telah membantu dan memberikan kontribusi dalam proses dan pelaksanaan peresmian Pusat Studi Malindo, Seminar Internasional dan dalam penyusunan prosiding ini. Terimakasih.

Yogyakarta, 25 Januari 2013

Chairman

ttd.

Dr. Sabihaini, SE., M.Si

SAMBUTAN DEKAN FAKULTAS EKONOMI UPN "VETERAN" YOGYAKARTA

Assalamu'alaikum Warahmatullahi Wabarakatuh

Yang Saya Hormati

- Delegasi Dari University Sains Malaysia
- Delegasi Dari University Utara Malaysia
- Delegasi Dari Linkoping University Sweden
- Bapak Rektor UPN "Veteran" Yogyakarta
- Bapak/Ibu Wakil Rektor di lingkungan UPN "Veteran" Yogyakarta
- Bapak/Ibu Dekan di lingkungan UPN "Veteran" Yogyakarta
- Bapak/Ibu Ketua Jurusan di lingkungan UPN "Veteran" Yogyakarta
- Bapak/Ibu dan Saudara peserta seminar yang berbahagia

Pertama-tama, marilah kita memanjatkan puji dan syukur kehadiran Allah SWT (Tuhan) Yang Maha Kuasa yang telah memberikan rahmat, kesehatan, keselamatan dan karunia-Nya kepada kita semua, sehingga pada hari ini kita dapat mengikuti Seminar Internasional dan pembukaan Pusat Studi Malindo (PSM) yang diselenggarakan oleh Fakultas Ekonomi UPN "Veteran" Yogyakarta dengan tema **"Transformation Malaysia Indonesia Relation: Toward ASEAN Community 2015"**

Kedua, saya ucapkan terimakasih kepada para pembicara, para Delegasi dari Malaysia, Sweden maupun dari Jember serta peserta seminar yang telah meluangkan waktu untuk datang ditempat ini dalam acara Seminar Internasional yang diselenggarakan oleh panitia dari Pusat Studi Malindo (PSM). Ketiga, saya ucapkan terimakasih kepada para panitia dan semua pihak yang tidak bisa saya sebutkan satu persatu yang telah bersusah payah dan membantu untuk menyiapkan dan bekerja keras sehingga Seminar Internasional ini dapat terselenggara dengan baik.

Bapak.Ibu, Saudarapeserta seminar yang berbahagia,

Indonesia dan Malaysia merupakan saudara serumpun dan sahabat, namun dalam hubungan bilateral kadang kurang harmonis dan banyak persepsi, hal ini disebabkan oleh beberapa faktor diantaranya kurangnya komunikasi yang baik, sehingga menimbulkan persepsi-persepsi yang tidak nyaman.Oleh karena itu pada kesempatan yang baik ini, kita sebagai salah satu bagian yang ada di dunia pendidikan mencoba untuk mengumunkasikan lewat seminar internasional dan membetuk Pusat Studi Malindo (PSM).

Bapak, Ibu, Saudara peserta seminar yang saya banggakan,

Pusat Studi Malindo (PSM) adalah sebuah lembaga Independen, non profit, sosial dan non partisan yang berbasis pada komunikasi akademik dan dengan fokus kegiatan pada pengembangan kajian kebijakan, ekonomi, sosial dan budaya melalui penguatan gagasan dan Ide-Ide, sikap kritis serta tindakan nyata yang memberikan dampak dan sumbangan terhadap kemajuan perkembangan kita bersama. Melalui Pusat Studi Malindo (PSM) ini pula diharapkan dapat menjembatani kekurangharmonisan antara kita semua, baik komunikasi maupun informasi bagi pihak-pihak yang berkompeten.

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para pemateri, delegasi dan peserta Seminar Internasional serta semua pihak, dan apabila dalam pelaksanaan ini ada kekurangannya, saya mohon maaf yang sebesar-besarnya.

Wabillahi taufik wal hidayah

Wassalamu'alaikum Warahmatullahi Wabarakatuh.

Yogyakarta, Januari 2013
Dekan Fakultas Ekonomi

Drs. Sujatmika, M.Si.

Peran seminar menjadi tolak ukur utama bagi para peserta dalam menilai keberhasilan suatu kegiatan yang telah memberikan manfaat, keefektifan, kebermanfaatan dan kebermanfaatan bagi para peserta yang telah mengikuti seminar internasional dan memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional.

Kedua, para peserta seminar internasional juga dapat memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional dan memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional.

Ketiga, para peserta seminar internasional juga dapat memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional dan memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional.

Keempat, para peserta seminar internasional juga dapat memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional dan memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional.

Kelima, para peserta seminar internasional juga dapat memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional dan memberikan manfaat bagi para peserta yang telah mengikuti seminar internasional.

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THE IMPACT OF REGIONAL ECONOMIC DEVELOPMENT ON LABOR ABSORPTIVE CAPACITY AND THE
PATTERN OF ECONOMIC STRUCTURE TRANSFORMATION OF BALI PROVINCE 1985-2010
(AN APPROACH TO CHENERY'S MODEL)

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ABSTRACT

This research attempts the following aspects: 1) the impact of regional economic growth on labor absorption in each economic sector, and 2) the pattern of economic structure transformation of Bali Province.

The data used in this research is a panel data consisting of data from 9 regencies in Bali Province within 1985 – 2010, analysed using the panel data regression model.

This research results are in the following findings: 1) The regional economic growth of Bali Province has a negative impact on the absorption of labor in the sectors of agriculture, mining and excavation, LGa (electricity, gas and water supply), transportation and communication; as well as positive impact on the absorption of labor in the sectors of industry, construction, commerce, hotel and restaurant, financial service and rentals, and other service; 2) The transformation pattern of the economic structure of Bali Province can be observed from its contribution to GDP: $P - T$ without going through S , meaning that it goes through from the primary sector the tertiary sector without going through the secondary sector. Six regencies (Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan) have the same pattern with Bali Province, i.e. $P - T$. On the other hand, three municipalities (Badung, Gianyar, and Denpasar) follow $T - T$ pattern, due to the establishment of those municipalities as a center of tourism development in Bali with icons such as Kuta, Jimbaran, Sanur, Nusa Dua, Legian, and Ubud. Meanwhile, from the view point on the absorption of labor of each economic sector, the transformation of the economic structure of Bali Province follows $P - T$ and six regencies (Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan) follow $P - P$ pattern, while that of Badung regency and Denpasar Municipality follow $T - T$ pattern, and that of Gianyar regency follows $P - S$ pattern.

Keywords: economic growth and transformations of economic structure.

1. INTRODUCTION

1.1 Background

One of social welfare indicators can be measured from the level of per capita income. Therefore the increase in per capita income has always been a top priority in any state policy. To achieve high per capita income, the economy has to keep growing. The impact of the reflected in per capita income rise is the transformation of the economic structure. As manifested in the increasingly important of secondary and tertiary sectors and the lesser important role of the primary sectors; either in national production, employment or foreign trade. Chenery (1960), Hagen (1975), Kuznet and Baldwin (1986), found that when the per capita income has increased, which reflects the economic growth, the primary sector will play a less important role in providing employment, where as the secondary and tertiary sectors play and increasingly important one.

On the other hand Chenery and Taylor (1968), Chenery and Syrquin (1975), noted that when the income is low, the agriculture (primary) sectors becomes the only sector that plays important role; both as the greatest contributor to GDP and as the provider of the largest employment. However, with the increasing per capita income, the role of the primary sector will steadily decline and replaced by that of the secondary sector, particularly the manufacturing sector. When the per capita income in a developed country is high, the tertiary sector will play an important role in its economy, especially the in developing countries.

The economic of Bali province has different characteristics from those of countries observed in the study the mechanishm of economic growth for the region.

1.2 Problem Formulation

- (1) What impact the economic growth has on labour absorption in each economic sector in the economy of Bali province?
- (2) How do patterns of structure transformations take forms Bali's economy?

1.3 Research Objectives

- (1) To analyse the effect of regional economic growth on labour absorption capacity of each economics sector in the economy of Bali province
- (2) To analyse and study the patterns of structure transformation of Bali's economy.

2. LITERATURE REVIEW

2.1 The Concepts of Economic Development and Growth

In the early economic development of a country, its economic development planning strategy is bay and large more oriented to issues of growth. This is because the major problem facing developing countries is the lack of capital, which is caused by their low percapita income. Therefore, development efforts of developing countries put more emphasis on increasing per capita income. This is due to the fact that if the per capita income is low, the domestic saving will be low as well, and this will, in turn, impede investment, which is an important factor in the efforts to increase revenue and to develop a country. On the other hand, developing countries were also faced the relatively high population growth in other to increase their per capita income.

However, the assumption of an emphasis on the issue of economic development turned out to generate in significant impact on the economic development countries. This statement is based on experience of many Third World countries in 1950s and 1960s, during which their economic growth rates are high, but were unable to improve the lives of their majority population.

Economic development is inseparable from economic growth. The former promotes the latter, and the latter paves the way for the former. However, the term growth is different from development. Economic growth can be interpreted as an increase in output, while economic development expressed not only increase in output, but also increase in types of output produced in addition to changes in production technology and institution as well as distribution. Economic growth includes not only enlarging input factors that will lead to an increase in output, but the increased input factors are also followed by a greater production efficiency or increased productivity (Kindleberger, 1977).

Economic development is not merely economic matter; other factors such as politic, culture, and technology advancement, education and so forth give meaning as to what it is, and therefore it as a multidimensional meaning. For that reason, economics have begun to create a new paradigm in economic development.

Todaro (2006) defined economic development as multidimensional processes that include a variety of fundamental changes in social structure, social attitudes, and national institutions, in addition to pursuing economic growth acceleration, overcoming inequality, and alleviating poverty. In essence, therefore, the development should reflect the total change in a society or social adjustment without ignoring the overall diversity of the basic needs and desires of individuals and social groups in it to move forward to a better living condition, both materially and spiritually.

Based on the meaning of development as noted above, there are three important elements in economic development: first, economic development describes a process of continuous change; second, it indicates a successful effort to increase per capita income; and third, the increase in per capita income continues for an extended period of time.

The term economic growth is used to illustrate or measure the achievement of economic development of a country. Economic growth reflects the existence of the physical production of goods and services taking place in country, such as an increasing number of industrial productions of goods, infrastructures, schools, service sector, and capital good production. Economic growth represents a long-term increase in the ability of a country to provide an increasing number of goods to its population; this ability is increasing along with the advances in technology and the necessary institutional and ideological adjustment (Sirojusilam, 2003).

Todaro (2006) maintained that there are three components of economic growth:

- (a) Capital accumulation would be obtained if a current portion of earned is saved and reinvested in order to increase future output and income. The factories, machinery, equipment, and new raw materials will increase the physical capital stock of a country (i.e., the total real net worth of all physical productive capital goods) and allows an increase in the level of output to achieve. Such a direct productive investment was driven by investment in what is known as the social and economy infrastructures such as roads, bridges, airports, ports, electricity, communications, sanitation and so on, which facilitate and integrate economic activities. Similarly, investment in human resources (HR) can improve the quality of workers and, accordingly, have the same or even stronger effect on the production along with the increasing number of people. All of those phenomena and many others are forms of investment intended to accumulate capital. Capital accumulation can also increase new resources (such as by clearing uncultivated land) or improve the quality of existing resources (e.g., irrigation); but the important feature is that the investment involves less trade-off between present and future consumption, which means sacrificing the current consumption to gain more in the future.
- (b) Population and labor force growth. Population growth, in turn associated with the increase in the labor force, is traditionally regarded as a positive factor in stimulating economic growth. If the labor force is available in a greater number, it means more productive workers are available as well, and large populations will increase the potential size of the domestic market.
- (c) Technological progresses. There are three basic classification of technological progress: neutral technological progress, labor-saving technological progress, and capital-saving technological progress. Neutral technological progress occurred when higher output is achieved with equal quantity and combination of input factors. Labor-saving technological progress, as the term suggests, is made by the use of labor in lesser numbers. The examples are computers, internet, and tractors. Capital-saving technological progress is a relatively rare phenomenon. This is mainly due to the fact that almost all technological researches and science are intended to save manual tasks, especially those applied in technologically advanced countries. Meanwhile, the developing countries that have to deal with a large number of unemployment tend to adopt labor-intensive (capital-saving) development policies because of relatively lower wages.

2.2 Economic Growth and Economic Structural Change

In the process of economic development, increased production represents one of its main features, in addition, development process include changes in the composition of production; in allocation of production resources among sectors of economic activity; in distribution of wealth and income among the various classes of economic actors; and in the institutional framework of social life as a whole. Thus, economic development is a process of transformation that, during its course, is marked by changes in the economic structure: the change in the basis of economic activity and in the economic structure of the peoples concerned (Djoyohadikusumo, 1994).

The development process, seen as a structural change, is characterized by multidimensional changes: changes in an economic constellation from a stagnant condition to a balanced one with a dynamic force in its development. Multidimensional changes include changes in balanced conditions at an early stage (stagnant) inherent in the foundation of economic activity and the economic arrangement of the concerned society. Structural changes are related to change in the structure and composition of the national products; in productive employment; in the imbalance between sectors, between regions, between social groups; and in the poverty and the gap between low- and high income groups.

Changes in fundamental characteristics of an economic structure are related to the increased income. Kuznet (1986), through his empirical study, proof that increased income will lead to the in national product composition (shift among sectoral contributions); in productive employment (from primary sector to secondary and tertiary ones); and in trading pattern (from primary commodity to secondary and tertiary ones).

Chenery (1960) showed the quantitative relationship of income per capita, the contribution percentage of various economic sectors, industries in the manufacturing sub-sector and the national production. He stressed, in his analysis of developments in the manufacturing sub-sector to changes, on the economic structure in the development process. According to Chenery, the economic growth rate and the role a sector plays in generating national production depends on the income level and the number of population of a country.

Other sides that Chenery has analysed are factors that make the roles of various industries in the economic different from their normal roles in a certain level of economic development. Generally speaking, each state plays a different role in the industry of manufacturing sub-sector, which is higher or lower than their normal pattern. Such situation was caused by the following factors: (a) extent of the market, (b) distribution of income, (c) natural resources, and (d) other factors differences in various countries such as in climate, government policy, and socio-cultures.

Economic growth is usually accompanied by demand shift from primary to secondary, and finally, to tertiary sector. In such a relationship, the economic growths that can be measured through increased in per capita income followed by three universal processes are (1) shift in demand of goods and services, (2) increased work specialization, either between sectors or between business units, and (3) changes in comparative revenues to produce goods and service.

One of the fundamental changes can be found in production structure or GDP composition by sector or sub-sector of production. Chenery and Syrquin (1975), in their study on changes in the economic structure, explained that there is declining trend in agricultural production in national output. At lower income level, industrial and service sector's contribution has increased in proportion to the relative decline of the agricultural sector contribution. At the middle and high income levels, the contribution of the service sector is relatively close to constant. This is due to the inelasticity of demand for agricultural products.

Interesting fact from the research from US\$ 100 to US\$ 1000 has led to the following allocation processes:

- a. Structure of domestic demand change takes the form of decreased household consumption from 72 to 61.7 percent and decreased food consumption contribution from 39.2 to 17.5 percent of GDP.
- b. The structure of production has shifted, in which the contribution of the agricultural sector decreased from 45.2 to 13.8 percent of GDP, while the industrial sector's contribution increased from 14.9 to 34.7 percent to GDP, and the contribution of the service sector increased from 33.8 to 41.3 percent of GDP.
- c. Trade structure changes take the form of increased exports of industrial goods and services from 1.9 to 9.7 percent and from 3.1 to 5.7 percent respectively. Raw material export declined from 13.2 to 9.6 percent. The increase in total exports provides opportunities for increased imports from 21.8 to 26.7 percent.

2.2.1. Structural Change Models

Change in economic structure can be relatively from the percentage of value added (% of GDP) for the primary, secondary and tertiary sector. Sector contribution to GDP is an indicator to assess changes in the economic structure. In addition, the indicator of sector contribution are also used to determine the stage of industrialization of a country/region. Change in such economic structure are shown by comparing the contribution of the agricultural sector (primary) with those of industry and service sectors. The contribution can be calculated as follows:

Where: SC = sector contribution; SVA value added of I sector at current price or constant price. Estimates at current price and constant price are intended to differentiate the value of goods and services that are still affected by the rising prices and the actual value following the impact of inflation (price increase). Changes in economic structure based on constant prices are in fact show that during economic growth, there is a difference in the growth rate of real production of each sector.

Lewis (1954), proposed a model of structure change in two sector economy. This model implicitly requires that the demand for labor from the agricultural sector from the rural areas with low level of productivity levels for the modern industrial sector in urban areas with high levels of productivity (Todaro, 2006). Assumptions the Lewis model are: (a) the level of the labor turnover and the creation of job opportunities in the urban sector are proportional to the urban capital accumulation rate. The faster the capital accumulation rate, the higher the growth rate in the modern sector and the faster of new job creation, (b) labor surplus exists in the rural sector, while the jobs are available in urban sector, and (c) the growth of the modern sector and the expansion of employment opportunities will continue with a constant real wage in rural areas until the rural surplus of labor is absorbed by the urban industrial sector.

According to the development model proposed by Lewis, underdeveloped economy consists of two sectors: (1) the traditional sector, namely the over populated rural subsistence sector marked with marginal labor productivity that equals zero, and this is a situation that allows Lewis to define the conditions of labor surplus as a fact if most of the workforce is drawn from the agricultural sector, it will not deprive the sector of output, and (2) the modern urban industrial sector with high level of productivity that become the destination of labor transferred gradually from the subsistence sector. The model is primarily concerned with the process of labor transfer, output growth as well as increased employment in the modern sector. Labor transfer and employment growth made possible by the expansion of output in the modern sector. The expansion rate is determined by the level of investment in industry and overall capital accumulation in the modern sector. Increased investment

itself made possible by the excess profits of the modern sector from the difference between wages, assuming that capitalists engaged in the modern sector are willing to reinvest their profits. Lastly, the wages rate in the urban industrial sector is assumed to be constant. Based on a specific premise, the amount of wage is specified as above the average level of wages in subsistent traditional agricultural sector. (Lewis assumes that wage level in urban areas should be minimally 30 percent higher than that of rural urban areas, the rural labor supply curve is considered perfectly elastic.

Kuznets (1966) model on economic structure in the development process described not only the changes in the percentage of population working in various sectors in economic development, but also in the composition of the various sectors of the national product in such processes. Changes in economic structure, according to Kuznets, means that: (1) the production in agricultural sectoral has grown slower than that of national production, whilst (2) the growth rate of the industrial sector is faster than that of national production, and (2) no change in the roles of the service sectors in the national production means that the level of development of the service sector is equal to the growth rate of national production.

Kuznets noted that the changes in the economic structure, as describes above, were caused by: (1) human nature in consumption activities that follow the law of Engel, that the income from agricultural products is inelastic in nature, while the income from industrial goods is elastic in nature, (2) rapid changes in technology, (3) the comparative advantage of the industrial goods has made the industrial sector played an increasingly important role in national production.

Table 2.1 Kuznets Research on Economic Structural Changes in Thirteen Countries (1801 – 1963)

Development Phase	Percentage of GNP		
	Agriculture	Industry	Services
Initial	50 - 60	20 - 30	20
Final	10 - 20	40 - 50	40

Source: S. Kuznets, *Modern Economic of Growth*, Yale University Press, 1966.

2.3. *Tri Hita Karana*as Balinese Cultural Concept

Balinese culture upholds the values of balance and harmony in the relationship between man and God (*parhyangan*), in human relation (*pawongan*), human relationship with surrounding natural environment (*palemahan*) as reflected in the ideology of *Tri Hita Karana* (THK). Lexically, *Tri Hita Karana* means three causes of prosperity and happiness. *Tri* means three; *Hit* means life, prosperous, happy, and sustainable; *Karana* means the cause. Thus, *Tri Hita Karana* denotes three causes of well-being and happiness derived from the harmonious relationship between: (1) humans and God, (2) humans and their fellow being, and (3) humans and their surrounding neighbourhood. Harmonious means that there is unison in doing good things and in clear thinking, as reflected in the words spoken and the actions taken.

The harmony is a virtue that should exist in every individual and manifested in the form of appreciation of or tolerance for others. Harmony between humans and the natural environment is as valuable as the other two harmonies. Happiness and peace will soon disappear as humans natural environment disturbed.

Tri Hita Karana put the teachings of harmony between two things: *Bhuwanaagung* (the macrocosm) and *Bhuwana alit* (the microcosm). From the perspective of *bhuwanaagung*, human is *bhuwana alit*, part of the former with similar constituent elements ; soul/spirit (*atma*), physic (*angga*), and energy (*prana*). Those three life elements constitute what we call *Tri Hita Karana*.

Happiness and harmony (*hita*) manifest when the three causes (*TriHita Karana*) existed; soul/spirit, physic, and energy. The loss of one of them will eliminate the happiness and the body without the soul is nothing but unhappy living-dead. The soul without a body is a shadow that can do nothing.

Traditionally, Bali indigenous village is a place for a whole, intact social life that is based on the ideology of THK that consists of three elements: *kahyangantiga* (village temples); *karma desa* (villagers); and *karangdesa*(village territory). From the Balinese perspective, the concept of territory has the sense of a regional unity in which community members jointly perform ceremonies and social activities organized in accordance with the village tradition and culture. Village as an integral administrative territory is loosely referred to as 'dinas / kelurahan /perbekelan'. There are two forms of organizations in a village territory: *dinas* and *desaadat*. The village social structure is a system that binds the members of community together as regulated by village *awig-awig* (written regulations), customs and beliefs (Dwijendra, 2003)

3. RESEARCH CONCEPTUAL FRAMEWORK

When the economy is growing, there will be a shift in the role each economic sector; the roles of agricultural sector will decrease, whereas those of industry and services sectors will increase. Meanwhile, the economic structure transformation is influenced by the level of per capita income (Y), population (N).

Therefore, on that basis, the research conceptual framework can be formulated as follows:

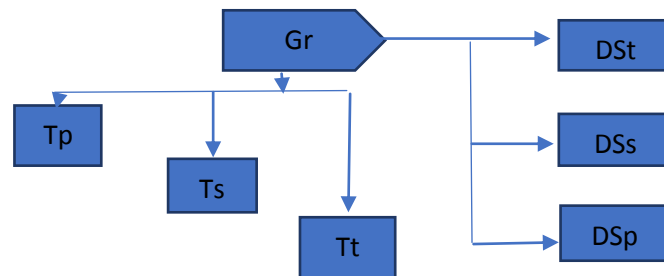


Figure 3.1. Research Conceptual Framework

T_p	= Primary sector contribution to GRDP
T_s	= Secondary sector contribution to GRDP
T_t	= Tertiary sector contribution to GRDP
DS_p	= Labor absorptive capacity of the primary sector
DS_s	= Labor absorptive capacity of the secondary sector
DS_t	= Labor absorptive capacity of the tertiary sector
G_r	= Economic growth

Hypotheses

- (1) Regional economic growth of Bali province has a positive and significant impact on increasing absorptive capacity of secondary and tertiary sectors, and negative impact on labour absorptive capacity of the primary sector.
- (2) The pattern of economic structural transformation of Bali Province took place from the primary sector (P) directly to the tertiary sector (T).

4. RESEARCH METHOD

This study focuses on the impact of regional economic growth on the labor absorptive capacity of each economic sector and the pattern of structural transformation of the economy of Bali province over the period 1985 to 2010. The province was chosen as the object of study because its characteristics are different from those of other regions in Indonesia, as it is a centre of culture-based tourism development.

The current research employed a quantitative approach to analyze the impact of the transformation of the economic structure on the labor absorptive capacity of each economic sector and the pattern of structural transformation of the economy of Bali province during the 1985-2010 period.

The data in this study is entirely of the secondary ones; gross regional domestic product (GRDP) over the period of 1985 to 2010, at constant prices in 2000 obtained from the Central Bureau of Statistic (CBS) of Bali province. There are several benefits of using panel data. First, it is a combination of two time series and cross-section data thereby provides more data that will generate higher degree of freedom. Second, incorporating information from the time series and cross-section data make it possible to address the problem when the omitted variable arises.

In general, the use of panel data will generate different intercept and slope coefficients in each regency/city and each time period. Therefore, estimation of panel data regression will heavily depend on the assumptions we make about the intercept, slope coefficient and disturbance. There are several possibilities for this: (1) it is assumed that the intercept and slope are fixed over time and individuals (regency/city) and that the difference between intercept and slope is explained by the disturbance variable, (2) it is assumed that the slope is fixed while the intercepts are differ between individuals, (3) it is assumed that the slope is fixed while the intercepts are different both over time and between individuals, (4) the intercept and the slope is assumed to vary between individuals, and (5) the intercept and the slope is assumed to vary over time and between individuals.

There are several methods commonly used for the Estimation of Panel Data Regression model. The two most commonly used are Random Effects and Fixed Effects models.

Based on the predetermined variables, the specifications of the model in this study are as follow:

$$(1) DS_{it} = \alpha_0 + \alpha_1 Gr_{it} + \mu_{it}$$

where:

i = regency/city (1,2, ..., 9)

t = year (1985, 1986, ..., 2010)

DS_{it} = labor absorptive capacity in each economic sector of regency/city

Gr_{it} = regional economic growth in each regency/city in Bali province

μ_{it} = error term

$$(2) T_{it} = \theta_0 + \theta_1 \ln Y + \theta_2 \ln (Y)^2 + N$$

where:

T_{it} = contribution of each economic sector

Y = per capita income

N = mid-year population

θ_1 = elasticity coefficient

5. RESULTS

5.1. The Impact of Regional Economic Growth on Labor Absorptive Capacity of Each Economic Sector

The results of panel data regression calculation between regional economic growth and labor absorptive capacity of each economic sector are shown in Table 5.1.

Table 5.1. The Impact of Regional Economic Growth on Labor Absorptive Capacity of Each Economic Sector

Variables	Coefficient	T-value	t-prob
Agricultural sector	-0.095	-7.307	0.000
Mining & Quarrying sector	-0.169	-4.016	0.000
Industrial sector	0.040	4.389	0.000
LGA sector	-0.065	-1.703	0.089
Contruction sector	0.003	3.191	0.031
Trade, Hotal& Restaurant sectors	0.079	9.281	0.000
Transportation & Communication sector	-0.003	-0.135	0.847
Financial Service & Rental sector	0.051	2.537	0.023
Other Service sectors	0.053	3.684	0.000

Source: Data processing results

1. Agricultural Sector

The regression coefficient of the agricultural sector is marked negative (-0,095). This means that when economy of Bali province is experiencing growth which led to the transformation of economic structure, it will be followed by a decline in the role of the sector as an employment provider. This finding is supported by similar findings I all regencies/cities in the province of Bali, as shown Table column (2).

The finding is in line with that of Kuznets' (1968) who analysed the change in role of the economic sector in providing employment opportunities. Based on his research data, the percentage of labor force in different sectors in the process of economic development can be concluded as follows: the role of agricultural sector as an employment provider is declining in all observed countries. Suh decline is huge in some countries. At the beginning of the observation period in some countries, the role of agriculture in providing employment exceeds two-thirds of the work force, while at the end, in most countries, its role constitutes less than 20 percent. This means that the decrease in percentage of labor force in agriculture sector ranges from 20 to 50 percentage point. Chenery & Syrquin (1975) suggested that in relation to changes in production factors, there has been a shift of labor from agriculture to industry and service sectors. Fisher (1930) and Hagen (1975) noted that if income increases, which led to the transformation of the economic structure, there would be a decline in the role of the agricultural sector (primary) as an employment provider, whereas the role of the secondary sector runs in the opposite direction. Meanwhile, the role of tertiary sector is also increased, but such an increase is not as large as that of the secondary one.

Kuznets and Balwin (1986) conducted their study in developing countries regarding the proportion of the workforce looking for jobs in the different sectors in the economic development

process. Their findings account for the shift of labor from agriculture to industry and service sectors occurred when the economy of a country is growing, due to rising incomes of the people. Clark (in SadonoSukirno, 1985) noted that the higher the per capita income of a country, the smaller the role of agriculture in providing employment opportunities. On the other hand, the industrial sector plays and increasingly important role in accommodating labor workers.

Lewis (1954) and Renis-Fei (1964) stated that, in addition to the excess supply labor in rural areas, the difference in the level of wages between rural agricultural sector and that of urban industrial sector will lead the displacement (migration) of labor from the former to the latter.

Table 5.2. Labor Absorptive Capacity of Each Economic Sector in 1985-2010 (%)

Reg./City	Agriculture		Mining & Quarrying		Industry		LGA	
	1985	2010	1985	2010	1985	2010	1985	2010
Denpasar	6.51	1.89	0.25	0.03	8.52	12.51	0.73	0.77
Badung	32.00	13.00	1.00	0.00	7.00	11.00	0.10	1.00
Bangli	47.69	48.02	0.05	0.04	12.77	12.89	0.33	0.33
Buleleng	57.88	46.68	0.79	0.05	5.12	7.13	0.07	0.25
Gianyar	50.60	19.60	2.50	0.20	23.80	34.00	0.10	0.10
Jembrana	46.75	41.11	0.18	0.31	13.45	14.72	0.10	0.13
Karangasem	47.88	48.12	0.06	0.06	9.76	12.69	2.11	2.36
Klungkung	56.13	41.09	1.42	1.90	16.19	12.36	0.24	0.37
Tabanan	45.85	39.88	0.18	0.30	14.03	15.71	0.09	0.14

Table 5.2. continued

Contruction		PHR		Transportation & Communications		Financial service		Others service	
1985	2010	1985	2010	1985	2010	1985	2010	1985	2010
6.72	7.09	35.51	41.68	6.70	7.77	4.39	5.36	30.67	26.20
7.00	11.0	24.00	41.00	4.00	6.00	2.01	4.01	24.00	13.00
2.86	3.01	13.53	17.99	6.07	6.85	10.28	12.19	4.42	15.67
2.24	3.12	14.11	23.48	1.72	3.72	0.20	0.98	17.87	11.59
5.90	7.20	9.30	21.80	3.60	3.90	1.10	1.50	5.10	13.90
7.92	8.96	18.41	20.02	2.89	3.13	1.63	1.61	8.67	9.99
2.54	2.34	11.34	17.41	5.64	5.76	2.62	2.81	11.05	16.28
2.96	4.22	12.96	19.29	1.48	3.20	0.41	1.33	7.46	16.24
7.92	8.15	18.47	20.39	2.91	3.34	1.56	1.68	9.00	9.90

Source: CBS of Bali Province (data processed, 2011)

Notes on Gianyar: Transformation has occurred in Gianyar regency as evidenced by the declining role of agriculture in contributing to GRDP from 40.2 to 17.3 percent -taken over by the role of the tertiary sector that increased from 41.4 to 57.9 percent- and the declining role of agriculture as employment provider from 50.6 to 19.6 percent. However, it is interesting to observe the largest provider of employment in the district turned out to be the creative industry sector with 34 percent of absorptive capacity. In fact, the agricultural and PHR sectors absorb only 19.6 and 21.8 percent, respectively. As noted above, to generate creative industry products, certain level of education is not required; all we need is people with certain talents. Gianyar regency is known as the resource of talented artists. Especially those capable of producing artistic crafts that constitute the products of creative industry. When the tourism sector is growing fast, the level of demand creative industry

products increased rapidly as well. In the Singakerta village, it is not only the adults who generate creative industry products; elementary school children can also make crafts that are similar to a certain degree. As a result, many of the labor force initially working in agriculture sector turned to artworks as their profession. Hence, it is not surprising that the creative sector become the biggest provider of employment in the regency.

Badung and Denpasar are two areas that from the beginning are intended to become the center of tourism development in Bali, it is, therefore, not surprising that in both regions the agricultural sector is no longer the predominant employment provider.

Notes on Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan: While transformation process has occurred in these regencies, as indicated by the declining roles of their agricultural sectors in contributing to GRDP (during the research period) and replaced by the increasing role of tertiary sector, the agricultural sector remained a dominant employment provider in 2010. This indicates that the transformation process in those regencies took place disproportionately. Ideally, when the role of the tertiary sector took over that of agricultural sector in the contribution to GDRP, this should be followed proportionally by its role in providing employment.

2. Mining and Quarrying Sector

Bali province is classified as area with no major mineral. Minerals that exist in this area only those categorized as C mineral in the form of sand, which are generally comes from the volcanic eruption of Mount Agung in Karangasem regency and Mount Batur in Bangli and Buleleng district border.

With only C minerals at its disposal, it is not surprising that the role of this sector in providing employment was also very small.

3. Industrial Sector

While the coefficient regression is indicated in positive, industrial sector play insignificant role as the employment provider in this province, with exception of Gianyar. The reason is that the industrial sector in Bali constitutes the tourism-supporting industry (creative industry), not the manufacturing industry. Therefore, only regencies with potential workers talented in artistic crafts that reap the greatest benefit of the progress in tourism sector, such as Gianyar.

4. Electricity, Gas and Water Supply (LGA) Sector

This sector has regression coefficient indicated as negative and not significant. It is thought to be caused by inappropriate development of the manufacturing industry and the still dominant role of agriculture in six regencies/cities.

5. Construction Sector

This sector has a regression coefficient in positive, which means that the progress of tourism in Bali is followed by proportional development of construction sector, and the labor absorptive capacity is increasing accordingly. Table 5.2. indicated that this sector is capable of providing significant employment.

6. Trade, Hotels, and Restaurants Sector

As the major component of tourism sector, it is reasonable that PHR has a regression coefficient in positive. In addition, PHR plays significant role in providing employment. In fact, in Denpasar city and Badung regency, this sector absorbs labor force by 40 percent or higher, as shown in Table 5.2.

Noted on rapid development of tourism sector in Badung regency and Denpasar city: The rapid development of the tourism sector in both areas in recent years has caused significant negative

effects. They are: (1) traffic jam along the road to the tourism resorts, especially Kuta and Denpasar city. The traffic jam has long been complained not only by the visitors, but also by the business people in those areas; (2) deterioration of the city's public spaces due to the lack compliance with the urban spatial plan and thus giving rise to the slum areas; (3) reduced number of rain water catchment areas due to the rapid growth in concrete building construction; (4) degradation of Balinese culture associated with the loss of Balinese structure that, as it is feared, will damage the surrounding natural environment; and (5) the worsening condition of polluted air and water.

7. Transport and Communication Sector

For this not-so-wide area, transportation is considered as playing insignificant role in providing employment, because places are easily accessible by private vehicles, especially motorcycles. In addition, due to the reason mentioned previously, and to relatively safer condition, motor vehicle leasing sub-sector has better opportunity to grow than that of transportation. Meanwhile, the less developed communication sector constitutes the consequence of the concentrated workers work as farmers (especially in the six regencies).

8. Financial Services and Rental Sector

This sector has a positive regression coefficient. This indicates that when the tourism sector is growing rapidly in Bali, banking and other financial services -such as money changer, motor vehicle rental, and water sports equipment rental- will follow, and the employment provided will be significant.

9. Other Services Sector

Regression coefficient for other service sectors is also positive. This means that the transformation of economic structure as the impact of tourism development will be followed by increased capacity of these sectors as the employment provider, as we can see in Table 5.2.

5.2. Patterns of Economic Structural Transformation of Bali Province

The pattern structural transformation of a country / region can be seen from three approaches: (a) its contribution to GDP (GRDP), (b) its contribution to labor absorption, and (c) its contribution to exports.

In the meantime, in order to determine the pattern of economic structural transformation of Bali province analysis can be conducted using the Chenery's model as follows.

$$Ts = \alpha_0 + \beta_1 \ln Y + \beta_2 \ln (Y)^2 + N$$

where:

Ts = contribution of certain sector to GRDP of Bali province

Y = changes in per capita income (US \$100, US \$200, US \$300, US \$400, US \$500, US \$800, US \$1000)

N = Bali province mid-year population (in thousand)

From the analysis using Chenery's model, assuming N variable *ceteris paribus*, the pattern of the economic STRUCTURE TRANSFORMATION OF Bali is as follows:

If seen its contribution to GRDP, the economic structure transformation patterns are as follows:

1. Bali province has the pattern $P - T$, without necessarily going through the Secondary.
2. Six regencies, namely Bangli, Buleleng, Jembrana, Karangasem, Klungkung, and Tabanan, are also patterned as $P - T$.

3. Badung, Gianyar, and Denpasar city have the patterns T – T.

In general, the causes of patterns P – T that found in Bali province and six other regencies are inseparable from Bali provincial government policies that make culture-based tourism sector as a leading sector, resulting in the characteristic of economic structure that will lead to the basis of the tertiary sector.

Meanwhile, the transformation of the patterns T – T in the three regencies/cities is due to the fact that the three areas have been the centers for the tourism development in Bali thus far. The rapid development of Bali's tourism sector has led to the rapid development in its derivative sectors -such as hotels and restaurants, shopping centers, office centers, bank and money changers, vehicle rental, restaurant, rental housing, telecommunication development, and other services- thus causing the dominant role of the tertiary sector in the three regions.

From the perspective of contribution of each economic sector to the labor absorptive capacity of regencies/cities in Bali province, the economic structure transformation in this province can be differentiated into the three:

1. Patterns of Economic Structure Transformation of P – T.

Patterns of economic structure transformation such as this (P – T) were found in six regencies: Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan. It is similar to the pattern of economic structure transformation in Bali province in which also patterned as P – T. Thus, the patterns of transformation in the six regencies/cities are different from those of Chenery and Syrquin with patterns P – S – T.

2. Patterns of Economic Structure Transformation of T – T.

Badung regency and Denpasar city have the T – T patterns of economic structure transformation, which means that both at the beginning and at the end of research period the tertiary sector (T) is consistently constituted the major contributor to GRDP in the two regencies/cities. Therefore, in both regions the patterns of economic structural transformation are different to that of the Chenery and Syrquin's pattern.

3. Patterns of Economic Structural Transformation of P – S.

The pattern is found in Gianyar regency. When viewed from the pattern, i.e. the transformation of the economic structure as seen from labor absorptive capacity, the transformation that occurs in Gianyar regency had similar pattern to that found in Chenery and Syrquin. The difference lies in the developing industrial sector. While the developing industrial sector in Chenery and Syrquin is the manufacturing industry, the one developing in Gianyar regency is creative industry which constitutes the backbone of employment provider that take over the agricultural sector.

6. CONCLUSION AND SUGGESTION

6.1 Conclusion

- (1) Relationship exists between economic growth and economic structure transformation in Bali province. When the economy of Bali grows, as reflected in the increased GRDP, the role of the primary sector in Bali's economy declined from 45.81 to 18.95 percent in 1985 and 2010, respectively. On the contrary, the roles of secondary and tertiary sectors have increased from 12.6 and 44.10 in 1985 to 16.14 and 64.92 in 2010, respectively. It is supported by the results of the panel data regression calculation that showed a negative and significant signs for the

primary sector, and positive and significant sign for the secondary and tertiary sectors. There are different findings from those of Chenery and Syrquin:

- a. The growing industrial sector in this research is the creative industry, particularly the one that produces artworks that cannot be mass produced because they are generally hand-made. Therefore, the increasing the role of the industrial sector in this study (from 12.6 to 16.14 percent) is not as fast as those of industrial (manufacturing) sector in Chenery and Syrquin that increased from 14.9 to 34.7 percent.
 - b. Chenery and Syrquin findings indicated the declining role of the primary sector which was replaced by the increasing role of the secondary sector, while the tertiary sector grows relatively insignificant. Thus, the current study found that the role of the tertiary sector has replaced the role of the primary sector, while the role of secondary sector increased less significantly (only about 4 percentage points). The role primary sector fell from 45.81 to 18.94 percent, and was replaced by the role of the tertiary sector that increased from 44.1 to 64.92 percent.
- (2) The process of economic structure transformation indicated by the decline in the role of the primary sector is negatively and significantly affected by the variable of per capita GRDP, population, the ratio of investment to GRDP, government spending, the cost of the ceremony, and the differences in the characteristic of the economic structure of the regencies/cities. Meanwhile, the increasing role of secondary and tertiary sectors that reflects the economic structure transformation is positively and significantly influenced by the variable of per capita GRDP, population the ratio of investment to GRDP, government spending, the cost of the ceremony, and the differences in the characteristic of the economic structure of the regencies/cities.
 - (3) Regional economic growth in Bali province has a negative impact on the labor absorptive capacity of the sectors of agriculture, mining and quarrying, LGA, transportation, and positive impact on labor absorptive capacity of the sectors of industry, construction, trading, hotel, and restaurant, financial services and rentals. And other services.
 - (4) Although the role of the primary sector in contributing to GRDP has declined in all regencies/cities in the province of Bali, and its role has been taken over by the tertiary sector, the role of agricultural sector as the provider of employment remains very dominant in six regencies/cities in this area: Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan. This shows that in the six districts of the economic structure transformation occurred disproportionately. The consequence of such transformation is the increasingly impoverished workers in the agricultural sector (farmers) in six regencies/cities.
 - (5) When viewed form of the roles of each economic in GRDP, the economic structure transformation in Bali province has the pattern of P – T without necessarily going through S. Similar patterns can be found in six regencies/cities in this area: Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan. While in the other three regencies/cities, which are Denpasar, Badung and Gianyar, the pattern is T – T, which means that both at the time income per capita amounted to US \$100 and US \$1,000 the tertiary sector remains to be the dominant contributor to GRDP in three regions.

Meanwhile if we viewed from the labor absorptive capacity of each economic sector, the economic structure transformation in Bali province has the pattern of P – T without necessarily going through S. Similar pattern was found in the six regencies: Bangli, Buleleng, Jembrana, Karangasem, Klungkung and Tabanan. As for Denpasar city and Badung regency, the pattern is T – T, and that of Gianyar regency is P – S.

6.2 Suggestion

- (1) To reduce the process of impoverishment in six regencies (Jembrana, Buleleng, Bangli, Karangasem, Klungkung and Tabanan), increased promotion and development of the potentials of the six regencies/cities were necessary.

Jembrana regency has the potential that need to be developed and promoted, they are: (a) the planned F1 and MotoGP circuit construction, (b) Pulosari reservoir planned to be developed for the water tourism, fishing and freshwater fish farming, (c) West Bali National Park to be managed for natural attractions and recently attract more and more interest.

The potentials of Buleleng regency, such as Buyan lake and Tamblingan lake, with their beautiful Panorama and cool air, can be promoted as featured attractions. Kol. Wisnu airfield located in Gerokgak sub-district, can be developed into an international airport as an alternative to Ngurah Rai airport which was already too difficult for its runway to be extended.

Bangli, with topography similar to that of Batu Malang regency, has egrotourism potential to be developed.

Tabanan, with its terraced paddy fields potentials, can also be developed as a kind of natural attractions like those in Ubud and the surrounding areas.

As for Klungkung and Karangasem regencies, they have many big temples and ancient temples, and these have the potential to be developed as spiritual tourism resorts.

- (2) The infrastructure condition need to be improved, especially the access to the villages that are projected to be developed for the purpose of rural tourism.

6.3 Implication

An important finding of the study was when the local government make the tourism a leading sector of the economy, they cannot depend solely on the beautiful panoramic view as the basis growth. In fact, the most important thing to do is to make local wisdom as the main attraction. For example, Bali has a unique local wisdom, the *tri hitakarana* ideology. This culture needs to be packaged in such a way as to produce a ritual ceremony with various artistic elements, which turn can invite tourist to come to this region.

Other example concerning the local wisdom that can be the driving force of growth is what we can find in Gianyar regency. The regency has its own uniqueness in that many of its community members are highly talented in artworks. The scattering of artist villages proves this. Take Celuk and Singapadu village, for example; they have silver and gold artworks known internationally. Panestanan, Pengosekan, Singakerta, and Sukawati are known as Bali's painting villages. BatuBulan villages is known for its stone carving, Peliatan for its concrete sculpture, PuriUbud for its dances, and other villages for their wooden sculptures. In short, this area is known for its richness in art products.

In addition to the above mentioned villages, Tegalalng sub-district located in north Ubud has experienced a rapid growth for the last few years. In this sub-district, we can find the world's longest art shops, beside the terraced paddy fields known worldwide. It is the local wisdom such as this that represents the major attraction for tourist, especially those from overseas, to come to Gianyar regency.

The two examples above show the importance of presenting the local wisdom found in each region as the primary commodity to drive the economic growth, especially in the era of decentralization as it is today. As it is known recently, local wisdom once passed down by our ancestors began to gradually forgotten by our generation. The younger generation is now interested more in new cultures (those of outside) aired on television almost every day.

For regions with natural resources like Bali, it is important to explore while at the same time develop the local wisdom as the main driving force economic growth. There remain a lot of local wisdoms to be developed as major tourism products,

The interesting things that happened as a result of such a rapid development of tourism in Badung and Denpasar are the traffic jams that a lot of tourists are complaining about, especially in Kuta and surrounding areas. Hence, it is necessary to manage the neighborhoods and office building block as Udayana campus buildings, which do not seem appropriate to be built around the tourist attraction resorts, as they were proven to aggravate the traffic jam.

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