

# CHAPTER I

## INTRODUCTION

### 1.1. Background

Sidoarjo Regency is one of the districts that has a strategic role in the economy of East Java Province. Its location directly adjacent to the city of Surabaya makes Sidoarjo Regency the main buffer area for regional economic growth. These geographical conditions are supported by the availability of relatively adequate transportation infrastructure, such as road networks, port access, and proximity to airports, thus encouraging the development of economic activities, especially in the secondary and tertiary sectors. The strategic position of Sidoarjo Regency as a buffer area in Surabaya not only has implications for the increasing flow of goods and services, but also makes this area the main location for the development of industrial and trade activities that serve the needs of the regional and national markets. This condition strengthens the character of Sidoarjo Regency as an area with a non-primary economic base that is highly dependent on the performance of the processing industry sector and the large trade and retail sectors.

Based on data from the Central Statistics Agency (BPS) of Sidoarjo Regency for the period 2010–2024, the regional economic structure shows a stable trend with the dominance of the processing industry sector (BPS Sidoarjo Regency, 2024). These two sectors make a significant and stable contribution to the economy in Sidoarjo Regency. The processing industry sector is the strongest sector, especially in processing production and the large trade and retail sectors also contribute Exports and imports in economic growth that almost half of regional economic

activity relies on industrial activities. This dominance reflects that Sidoarjo Regency has developed as an area with an industrial economic base, where the process of processing raw materials into semi-finished goods and finished goods provides significant added value for the region. The high contribution of the processing industry sector also shows the structural dependence of the Sidoarjo Regency economy on this sector. This dependence, on the one hand, is the main force in driving regional economic growth, but on the other hand, it has the potential to cause vulnerability if the industrial sector slows down due to external and internal factors (Todaro & Smith, 2022). Therefore, the management and development of the processing industry sector needs to be carried out in a planned and sustainable manner so that it remains able to be a driving force for regional economic growth.

The processing industry sector in Sidoarjo Regency consists of several main subsectors that dominate regional economic activities. The food and beverage industry subsector is the fastest-growing subsector, including the fishery product processing industry, processed food, and packaged beverages (BPS Sidoarjo Regency, 2024). In addition, there are sub-sectors of the footwear and textile industry that are export-oriented and domestic market, the sub-sector of the metal industry and metal goods that support construction and manufacturing needs, as well as the chemical industry and rubber and plastic goods. Based on data from BPS Sidoarjo Regency, the food and beverage industry subsector is one of the largest contributors to the processing industry sector, both in terms of added value and labor absorption. In the initial observation period, namely 2010–2013, the development of the processing industry sector in Sidoarjo Regency showed a relatively stable growth trend. In this period, the increasing number of

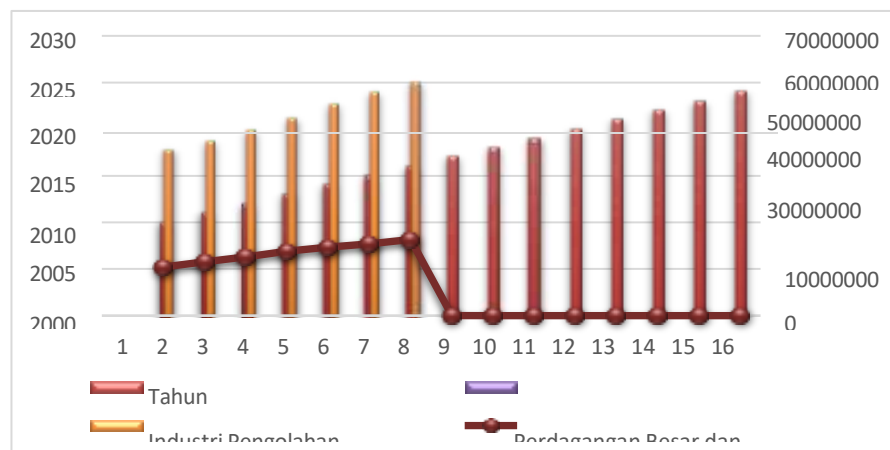
manufacturing companies, both large-scale and small and medium-sized industries, is the main factor driving the growth of the industrial sector.

The sub-sectors of the food and beverage industry, fishery product processing industry, footwear industry, and metal and metal goods industry are examples of sub-sectors that are growing and contributing greatly to the creation of added value and labor absorption. The existence of industrial estates in the Waru, Park, and Krian areas further strengthens the role of the processing industry sector as the driving force of the regional economy. The concentration of processing industry activities in certain sub-districts shows that the development of the industrial sector in Sidoarjo Regency has a strong regional dimension. Regions that have access to infrastructure and proximity to distribution networks tend to grow faster than other regions. This condition indicates that the development of the processing industry sector needs to pay attention to spatial aspects so that economic growth is not only concentrated in certain areas.

Entering the 2014-2019 period, the processing industry sector in Sidoarjo Regency showed an increasingly noticeable strengthening. Based on GDP data on the basis of prevailing prices, the contribution of the processing industry sector remains at the highest position compared to other sectors. Increasing production capacity, new investment, and the development of the processing industry based on local resources are factors that encourage an increase in the added value of this sector (Kuncoro, 2023). In this period, the linkage between the processing industry sector and the large trade and retail sectors was getting stronger. Processing industry products need an efficient distribution system to reach regional and national markets, thereby encouraging the development of trade activities as part of the

industrial value chain. An example of developments in this period can be seen from the increasing processed food and packaged beverage processing industry that is oriented towards the regional and national market, as well as the seafood processing industry that takes advantage of the potential of the coastal area of Sidoarjo Regency. Visually, the development of the contribution of the processing industry sector to the economic growth of Sidoarjo Regency during the period 2010–2024 can be seen in the Figure 1.1.

**Figure 1.1 Graph of the Processing Industry Sector and the Wholesale and Retail Trade Sector on Economic Growth measured by the GDP of Sidoarjo Regency in 2010–2024 in (billion)**



Source: BPS Kabupaten Sidoarjo (processed)

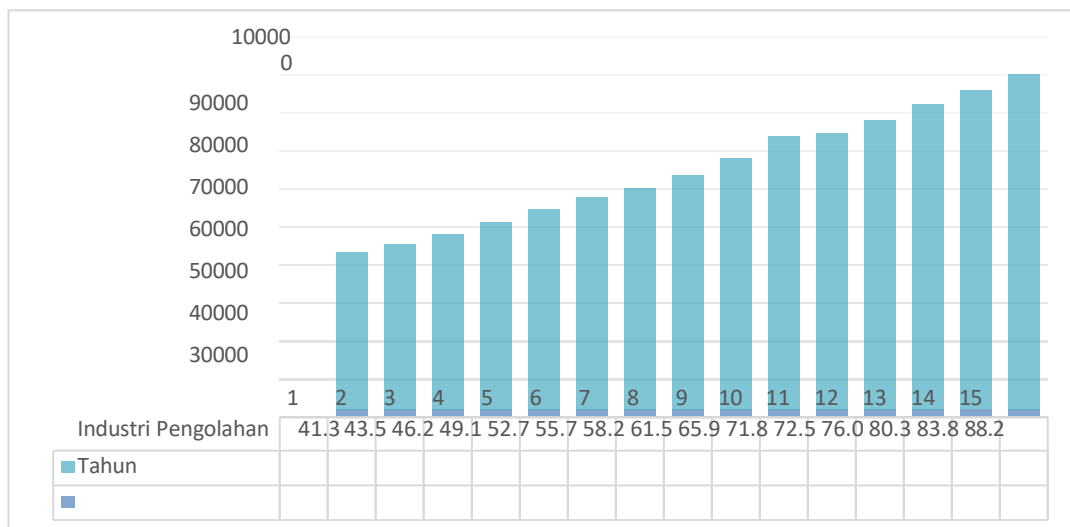
However, in the 2020–2021 period, the processing industry sector experienced a slowdown due to the Covid-19 pandemic (Sudjatmoko, 2023). Restrictions on production activities, supply chain disruptions, and declining market demand have a direct impact on the performance of the industrial sector. Despite the slowdown, the processing industry sector is still able to maintain a large contribution to the GDP of Sidoarjo Regency. This shows that the processing industry sector has a relatively high level of resilience compared to other sectors, so it remains the main leading sector in the regional economic structure. This condition shows a relatively good

level of resilience of the industrial sector, but at the same time emphasizes the importance of development strategies that are able to increase the competitiveness and adaptability of the industrial sector in the future

In the economic recovery period of 2022–2024, the processing industry sector again showed an improvement trend. Economic Growth Data shows that the contribution of this sector is stable again and tends to increase along with the recovery of production and distribution activities. Local governments play a role in encouraging the recovery of the industrial sector through the development of industrial estates, ease of business licensing, and support for small and medium industries. Assuming, the sustainability of the development of the processing industry sector in Sidoarjo Regency is greatly influenced by the availability of infrastructure, the quality of human resources, and the industry's ability to adapt to technological developments and market competition.

Based on data from BPS Sidoarjo Regency, the large trade and retail sector is also one of the sectors with a large number of business units and workforce. The development of this sector is inseparable from the role of Sidoarjo Regency as a areas of distribution of goods and services, as well as increasing economic activity and public consumption. In the period 2010–2013, the development of the large trade and retail sector was marked by an increase in the distribution of goods produced by the processing industry and the fulfillment of people's consumption needs. Large trade serves as a link between producers and regional markets, while retail trade serves the needs of household consumption. This condition shows that there is a strong linkage between the trade sector and the processing industry sector in the economic structure of Sidoarjo.

**Figure 1.2 Graph of the Processing Industry Sector to Economic Growth measured by the GDP of Sidoarjo Regency in 2010–2024 in (billion)**

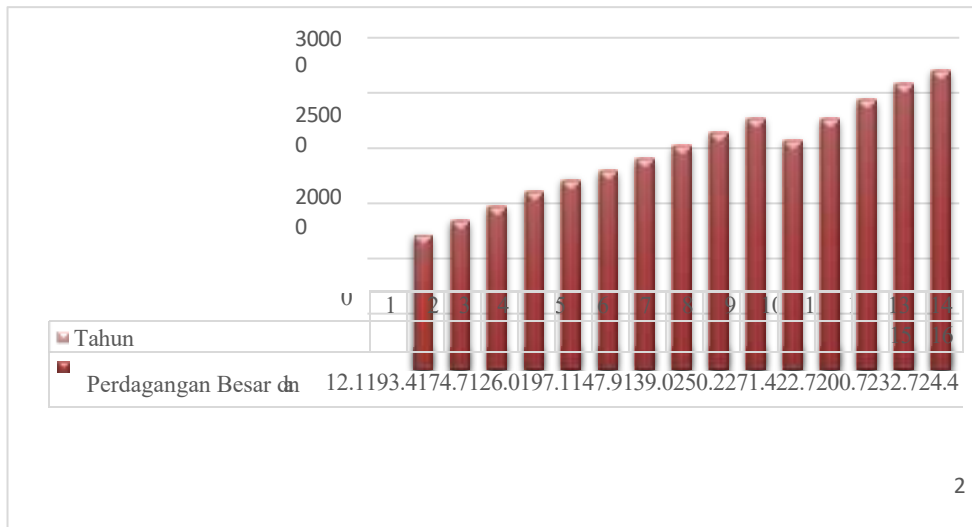


Source: BPS Sidoarjo Regency (processed)

The Covid-19 pandemic in the 2020–2021 period had a significant impact on the large trade and retail sectors, especially retail trade which is highly dependent on people's mobility. A decrease in purchasing power and restrictions on social activities led to a decline in trading activity. However, the trade sector shows adaptability through the use of digital technology and online-based trade (Purnomo, 2024; Sahrul et al., 2023). Many MSME actors are starting to use digital platforms as an alternative in maintaining their business activities.

Entering the 2022–2024 period, this sector has again shown an increase in performance in line with improving economic conditions and increasing trade activities post-pandemic. The development of the processing industry sector and the large and retail trade sector is closely related to the economic growth of Sidoarjo Regency (BPS East Java Province, 2023).

**Figure 1.3 Graph of the Wholesale and Retail Trade Sector to Economic Growth as measured by the GDP of Sidoarjo Regency in 2010–2024 in (billion)**



Source: BPS Sidoarjo Regency (processed)

The decline in economic growth in the 2020-2021 period reflects the direct impact of the Covid-19 pandemic on leading sectors, especially the processing industry and large and retail trade sectors. The slowdown in production and distribution activities has led to a contraction in regional economic growth. However, the recovery of economic growth in the 2022-2024 period shows that the two leading sectors have relatively fast resilience and recovery capabilities. Overall, during the 2010–2024 period, the processing industry sector and the large trade and retail sector are the two main leading sectors that consistently have an influence on the economic growth of Sidoarjo Regency. However, the position of this research arises due to the absence of an analysis that comparatively dissects the differences in the influence of Production, Investment, and Labor Value on the two leading sectors in one integrated analysis framework.

Although these two sectors are the largest contributors, there is statistical uncertainty as to which sector has elasticity the highest growth of these input variables at the local level. The first conceptual discrepancy was found in the

influence of the variable Production Value on regional economic growth. In general, an increase in production output is assumed to drive economic growth in a linear manner, but data shows that the Processing Industry Sector in Sidoarjo contributes almost 50% to GDP, while the Trade Sector contributes steadily in the range of 15–18% (BPS Sidoarjo Regency, 2024).

This raises fundamental questions about whether production efficiency in the industrial sector based on raw material processing has the same economic leverage as the production value in the trade sector which is more dependent on the distribution chain and public consumption. There has been no study in Sidoarjo Regency that specifically uses the Multiple Linear Regression method to compare the coefficients of the production value of these two sectors to identify which sector is actually more responsive as the main engine of real growth in the long term (Arsyad, 2022). Furthermore, in the Investment variable, there is an inconsistency regarding the responsiveness of GDP to capital flows in the two sectors. Although the flow of investment to

Sidoarjo Regency continues to increase both in industrial areas and modern trade centers, the investment characteristics are very contrasting. Investments in the industrial sector are often capital-intensive with long periods of return and high risk of depreciation, while investments in the trade sector tend to be more flexible, have faster capital turnover, and are highly sensitive to domestic consumption dynamics. There is a gap in empirical evidence on which sectors provide the most optimal growth multiplier effect for the regions when given the same investment stimulus. A comparative analysis in this study is needed to dissect the significance of these investments separately but equally in order to see their real contribution to regional

economic stability (Sukirno, 2023).

In addition, there are sharp differences in the characteristics of the labor variable in transforming labor absorption into economic output. The processing and trading industry sectors are the largest employers in Sidoarjo, but with contrasting productivity patterns. The industrial sector today faces the challenges of automation and mechanization that demand high technical qualifications. Statistically, it has the potential to reduce the elasticity of labor absorption to economic growth. On the other hand, the trade sector remains the foundation for labor-intensive labor absorption with lower barriers to entry. There has been no quantitative analysis that has sharply proven whether labor absorption in the trade sector statistically has a more pronounced contribution to GDP stability than the industrial sector (Todaro & Smith, 2020).

The novelty of this study is emphasized by the incorporation of the Multiple Linear Regression method to see the partial and simultaneous influences, which is then followed by a Comparative Analysis for the observation period 2010–2024. This approach allows researchers to capture economic anomalies, including differences in the resilience level and speed of recovery of the two sectors post-COVID-19 pandemic that have fundamentally changed operational structures (Sumantri et al., 2023).

## **1.2. Problem Formulation**

Based on the background and research guidelines, the formulation of the problem in this study is formulated as follows:

1. Is there an influence of the production value of the processing industry sector as well as the large trade and retail sector on the Economic Growth of Sidoarjo Regency?
2. Is there an influence of investment in the processing industry sector as well as the large and retail trade sector on the Economic Growth of Sidoarjo Regency?
3. Is there an influence of the labor of the processing industry sector as well as the large trade and retail sector on the Economic Growth of Sidoarjo Regency?

## **1.3. Research Objectives**

The objectives of this research are as follows:

1. To analyze the effect of the production value of the processing industry sector as well as the large trade and retail sectors on the Economic Growth of Sidoarjo Regency.
2. To analyze the influence of investment in the processing industry sector as well as the large trade and retail sectors on the economic growth of Sidoarjo Regency.
3. To analyze the influence of the labor force of the processing industry sector as well as the large trade and retail sector on the Economic Growth of Sidoarjo Regency.

#### **1.4. Research Benefits**

1. For Theoretical Purposes

This research is expected to contribute to the development of knowledge in the field of development economics and regional economics, especially related to economic growth theory and superior sector theory. By emphasizing the analysis of the differences in the performance of the processing industry sector and the large trade and retail sectors.

2. For Academic Purposes

For academics, this research is expected to be a reference in the preparation of scientific papers, both theses, theses, and advanced research related to leading sectors and regional economic growth. This research is also expected to enrich academic discourse regarding the difference in performance between the two sectors.

3. Benefits for Further Researchers

For future researchers, this research is expected to be a source of reference and the basis for the development of further research related to leading sectors and regional economic growth. Regional.

#### **1.5. Scope of Research**

To maintain the focus and depth of the analysis, this study is limited in scope as follows:

1. The scope of the region, namely this research is focused on Sidoarjo Regency as the object of study.
2. The scope of the economic sector, namely the processing industry sector

and the large trade and retail sector as the leading sectors analyzed.

3. The scope of the research variables, namely the independent variables of production value in the processing industry sector (X1) and the large and retail trade sector, the investment value of the processing industry sector as well as the large and retail trade sector (X2), the value of labor in the processing industry sector and the large and retail trade sector (X3) and the dependent variables of Economic Growth in the processing industry sector and large and retail trade (Y) which are measured using the GDP value indicator.
4. The scope of the analysis method, namely this study uses a quantitative approach method with multiple and comparative linear regression analysis methods.
5. The scope of research data, namely secondary data sourced from the Central Statistics Agency.
6. The scope of the discussion, namely this study only discusses the differences in the influence of leading sectors on economic growth and does not examine other macroeconomic factors.