Can Home Industry Support Employment Provision in Kota Pari Village?

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ABSTRACT

The aim of this study was to assess the contribution of home industries in Kota Pari Village to employment generation. Home industries play a vital role in expanding job opportunities, providing essential economic services to the community, reducing unemployment, and enhancing people's well-being. This study utilized library research methods, gathering information from reference centers and scientific journals to directly access and analyze data. A more efficient industrial sector at the national level necessitates the presence of small companies within the manufacturing industry. The growth of home industries in rural areas can boost the local economy through diverse business activities and community skill development. The research findings indicate that prioritizing the industrial sector in the economic structure leads to a positive impact on poverty reduction. Additionally, focusing on creating more job opportunities is crucial for poverty alleviation. Moreover, facilitating the transition from agriculture to the industrial sector is essential. Lastly, managing population growth is also imperative in conjunction with these efforts.

Keywords: Home Industry, Employment Provision, Poverty, Economic Growth

1. INTRODUCTION

In today's fast-paced era, every individual is challenged to cultivate creativity and innovation in their work and endeavors. Intense competition characterizes the current business landscape, spanning from small-scale enterprises to large corporations. However, small businesses, particularly home industries, often face significant hurdles and higher failure rates due to their limited scale. The rapid advancements in technology and computer science have brought about profound changes, aimed at assisting humanity's growing needs. Computers play an increasingly vital role in various aspects of daily life, particularly in industrial and commercial domains. Within the realm of computer industry, there lies the potential to enhance integrity, optimize workforce utilization, and improve efficiency in production processes, thereby maximizing space and time utilization. Home industry, representing a small-scale entrepreneurial venture, is often favored by those with limited startup capital. A wide array of products, such as onion chips, yam chips, cakes, doughnuts, chocolates, hijabs, brooches, and more, can be produced within this sector. Given the escalating competition within the home industry sector, thorough research becomes imperative to evaluate its effectiveness in bolstering family economies (Blongkod & Rasjid, 2021).

In various facets such as the economy, society, culture, and technology, among others, there's a concerted effort to enhance people's well-being through initiatives like home industries. These are small-scale businesses operated from home, where raw or semi-processed materials are transformed into finished goods for household consumption. Integral to local economic development, home industries play a crucial role, particularly in rural regions (Yanti, 2022).

Kota Pari Village is one of the 12 villages in the Pantai Cermin Subdistrict, located 7.5 km west of the Pantai Cermin Subdistrict. Covering an area of 1000 hectares, Kota Pari Village is known for its mangrove forest ecosystem and is situated in the Pantai Cermin Subdistrict, which is abundant with coastal tourism sites. There is a hamlet called Kampung Polo (Hamlet XI) which, before becoming a tourist destination, was used for gathering seafood such as clams and mussels by fishermen from both within and outside Kota Pari Village. There are 11 hamlets in Kota Pari Village, some of which have potential business units that could thrive if developed and nurtured. The MSMEs include pandan weaving craftsmen, Kecepe Shrimp Home Industry, Palm Sugar Home Industry, and Mangrove Ecotourism in Wong Polo (Fadlan et al., 2021).
Efficient management of industrial sectors in a national economy often necessitates the presence of small-scale enterprises. The proliferation of home industries in rural areas augments village economies through diverse business activities and community skill development, contributing significantly to rural economic advancement. As elucidated above, there exists a close nexus between home industries and welfare. The establishment of home industries is anticipated to generate employment opportunities, thereby mitigating unemployment. Moreover, these enterprises positively impact the well-being of employees’ families, enabling them to meet their daily needs through gainful employment. Home industries constitute a segment of Small and Medium Enterprises (SMEs). Particularly in developing nations like Indonesia, SMEs serve as significant contributors to employment generation and income distribution. Additionally, they play a pivotal role in empowering and fostering economic growth within communities that face challenges accessing the formal sector (Harahap et al., 2023).

2. LITERATURE REVIEW

Home Industry

Industrialization typically serves as a linchpin for economic growth and long-term poverty alleviation. However, the manner in which industrialization unfolds significantly influences how the impoverished segments of society benefit from this growth. Policies aimed at fostering economic and industrial development with a pro-poor focus prioritize augmenting the economic gains accruing to the productive assets possessed by the poor, such as enhancing returns to unskilled labor. Conversely, policies that primarily elevate returns to capital and land often exacerbate inequality, unless they also address prevailing concentrations of physical and human capital and land ownership. The adoption of capital-intensive methods over labor-intensive ones and the utilization of skill-biased technologies tend to widen income disparities, particularly in regions with low educational attainment and concentrated human capital (Knivilä, 2007).

Moreover, the geographical placement of industrial facilities plays a pivotal role in overall poverty reduction and inequality. Given the propensity for enterprises to cluster in urban locales due to factors like access to skilled labor, superior infrastructure, larger markets, and technological spillovers, industrialization may exacerbate disparities between urban and rural areas. Encouraging the development of non-agricultural activities in rural regions, such as fostering small and medium-sized enterprises (SMEs), could help mitigate this disparity (Medaline et al., 2021).

A home industry typically operates on a small scale, often utilizing just one or two households as hubs for production, administration, and marketing simultaneously. Compared to larger corporations, home industries require less business capital and typically employ fewer workers (Muliawan, 2008). These enterprises typically adhere to more traditional business practices, lacking the clearly defined division of labor and accounting systems commonly found in modern companies (Hasanah et al., 2022). In accordance with Law No. 9 of 1995 concerning Small Businesses, a home industry or small-scale enterprise is defined as an industry with a maximum net worth of Rp 200 million, excluding the value of land and buildings. Annual sales typically do not exceed approximately Rp 4 billion within a year. It operates independently and is not a subsidiary of a larger business entity (Blongkod & Rasjid, 2021).

Home industries play a significant role in providing employment opportunities for several reasons:
1. Local Employment: They create jobs within the community, allowing people to work close to home without the need for long commutes.
2. Flexible Work: Home industries often offer flexible work arrangements, making it easier for individuals, especially caregivers and those with other responsibilities, to balance work and personal life.
3. Low Barrier to Entry: Starting a home-based business typically requires lower initial investment and overhead costs compared to traditional brick-and-mortar businesses, making entrepreneurship more accessible.
4. Utilization of Local Resources: Home industries often utilize local resources and skills, contributing to the development and sustainability of the local economy.
5. Diverse Job Opportunities: They offer a wide range of job opportunities, from manufacturing and crafts to services like consulting, tutoring, and freelance work, catering to different skills and interests.
6. Supporting Micro-Entrepreneurs: Home industries empower micro-entrepreneurs and individuals with creative skills or specialized knowledge to monetize their talents and generate income.
7. Contribution to Economic Growth: Cumulatively, home industries contribute significantly to economic growth by boosting employment rates, fostering entrepreneurship, and enhancing overall productivity.
8. Resilience: During economic downturns or crises, home industries can provide a buffer against job losses, as they are often more adaptable and resilient compared to larger businesses.

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This research employs a descriptive qualitative approach, utilizing the literature review method via library research. Information sources encompass field data pertinent to the topic and data obtained from websites as publication sources. According to Kurniawan (2014), the descriptive qualitative method is grounded in philosophy and aims to investigate scientific phenomena, with the researcher serving as the primary instrument. Sugiyono (2012) elaborates that this method is philosophical in nature and is applied within scientific contexts, where the researcher assumes a central role as the primary instrument. Qualitative data collection and analysis techniques are geared towards comprehending underlying meanings (Rangkuty et al., 2024).

4. RESULTS AND ANALYSIS

During the mid-1960s, Indonesia, despite being among the least industrialized large developing nations, grappled with widespread poverty and economic and political turmoil. However, a regime change in 1966 ushered in comprehensive reforms. Initially, these reforms focused on shifting from a closed, heavily regulated economy to one more aligned with market principles. This liberalization phase aimed to restore external stability, impose fiscal discipline, revitalize the banking sector, and introduce agricultural support programs, particularly to boost rice self-sufficiency. It also included measures to attract foreign investment, such as offering incentives and returning previously nationalized properties to foreign owners. State enterprises saw reduced preferential treatment, and new investment laws ensured equal incentives for both domestic and foreign investors. Export-import procedures were simplified, and a unified, fully convertible fixed exchange rate was adopted, facilitating exports and foreign investment. Price controls were largely lifted, and a balanced budget policy was enacted. The banking system was restructured, featuring the establishment of a national central bank, improved credit access, and the authorization of foreign bank branches and private domestic banks. These policies spurred broad-based industrial growth, although this liberal policy era was relatively short-lived. The 1970s saw Indonesia experience rapid income growth driven by increased oil production (Nasution et al., 2022).

Oil revenues enabled the government to finance capital-intensive investments and participate directly in production, reducing the dependency on external capital sources. Additionally, the open-door policy of the late 1960s and early 1970s attracted significant foreign investments. Consequently, Indonesia shifted back to a strategy where the public sector played a dominant role, focusing on import substitution and public financing. State-owned banks offered subsidized credits to preferred clients, while strategic, capital-intensive industries were under state ownership, accompanied by barriers to imports. State-owned enterprises, particularly in sectors like oil refining, fertilizers, cement, and basic metals, thrived. Export primarily comprised oil, gas, and products from the mining and quarrying sectors, with these products constituting 70% of Indonesian exports in 1980. However, with the end of the oil boom in the early 1980s, the model of industrialization reliant on oil revenues and import substitution became unsustainable. Consequently, the government shifted towards an export-oriented strategy, transitioning from a government-led to a more privately driven growth model. Deregulation measures were implemented to enhance the investment climate, including exemptions for export-oriented firms from import duties and relaxed investment controls. Financial sector reforms, initiated in the early 1980s and intensified by the late 1980s, further liberalized the banking sector, allowing for the establishment of new private banks, including foreign ones, and facilitating increased lending through enhanced deposit mobilization.

Rapid economic growth has played a crucial role in diminishing poverty levels in Indonesia. This growth has been underpinned by robust macroeconomic policies, support for agriculture, investment in both physical and human capital, and a progressively liberalized approach in the financial sector, trade, and foreign investment, as noted by Hofman et al. (2004). This swift expansion has largely relied on labor-intensive production methods, thereby generally benefiting the impoverished sections of society. Similar to the developmental trajectories observed in China, Taiwan, or South Korea, advancements and enhanced productivity in the agricultural sector have significantly contributed to poverty alleviation. The 1970s oil boom resulted in a substantial surge in export earnings, facilitating investments in infrastructure and public goods, which also had positive impacts on impoverished communities. Post the oil boom, the expansion of manufacturing exports emerged as the primary driver of economic growth. The private sector's manufacturing activities, particularly in labor-intensive sectors such as textiles, wood processing, and the food industry, have generated employment opportunities for the poor (Faried & Sembiring, 2020).

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Home Industry can Strengthen Economic Growth

Industrial progress has played a crucial role in driving economic advancement. The expansion of output has been linked to strategies such as boosting exports, enhancing trade openness, adopting economic liberalization, and fostering a better business environment across many nations. Nonetheless, certain countries have also employed import protection and selective government interventions. Given that poverty in numerous developing nations is primarily a rural issue, improving agricultural productivity is often seen as a pivotal step in reducing poverty during the early stages of economic growth. This has been evident in places like China and Indonesia. Countries that kick-started their economic transformations—similar to China's approach—with agricultural reforms or prioritized rural development initially tended to witness reduced inequality initially due to lower rural poverty. For instance, Korea and Taiwan, owing to land reforms from earlier decades, had relatively equitable income distribution as they entered rapid industrialization. In Indonesia, oil revenues were utilized to fund rural development.

As economies progress beyond their initial stages, industrial sector growth becomes crucial for sustained long-term growth and poverty alleviation. In the countries under scrutiny, the expansion of the manufacturing sector has created job opportunities outside agriculture. Additionally, since manufacturing in many of these nations initially relied heavily on unskilled labor, it has directly benefited the impoverished population. In certain cases, such as Korea, growth periods have demonstrably favored the poor, with them experiencing greater relative benefits compared to the non-poor. However, the impact of industrialization on poverty varies significantly among countries. For example, Mexico's manufacturing sector growth during the late 1980s and early 1990s predominantly benefited skilled workers over unskilled ones. Despite economic growth, some periods have seen increased inequality, even as absolute poverty decreased, as seen in China's recent economic trajectory.

The impact of industrial development on reducing poverty and inequality hinges on how industrialization unfolds. Industries that rely heavily on unskilled labor and/or utilize domestic resources and labor-intensive technologies can positively affect the incomes of impoverished individuals. For instance, in Taiwan's early industrialization phase, the demand for unskilled labor grew faster than that for skilled labor, leading to a reduction in both inequality and poverty. As industrialization progressed, there was a notable shift in Taiwan's export and manufacturing landscape, with a greater demand for skilled workers. However, Taiwan had already invested significantly in human capital by this point, softening the impact of this change on income distribution. South Korea has experienced a similar trajectory. In contrast, countries like Brazil and India have seen relatively capital-intensive manufacturing, resulting in fewer employment opportunities for the poor. Additionally, in India, while the service sector has been a significant driver of recent economic growth, dynamic service industries like software and back-office processing have not created many jobs for unskilled workers directly. Nevertheless, India has witnessed substantial poverty reduction over the past 15-20 years, largely due to its strong economic growth.

The location of industries can also influence how beneficial industrialization is for the poor. In China, industrial growth has significantly boosted per capita income, yet since most industrial development is concentrated in the eastern coastal regions, regional inequality has worsened, with limited poverty reduction in the interior. Nonetheless, as China has considerable labor mobility between regions, and remittances from migrant workers can help offset the uneven geographic impact on inequality. Similarly, geographic factors, including economic distances, partly explain why certain areas in Brazil, India, Indonesia, or Mexico lag behind in development compared to others within these countries. The decrease in manufacturing employment can be attributed to government policies that overlooked labor-intensive sectors like manufacturing, impacting the overall employment generation despite GDP growth. The uneven growth patterns across sectors highlight how economic growth drivers primarily focused on financial sectors, leading to a decline in job creation, particularly in labor-intensive sectors such as manufacturing (Mitra, 2022).

The starting conditions play a crucial role in determining whether substantial industrial progress occurs and if it drives economic growth while reducing poverty. Key prerequisites for sustainable economic and industrial advancement encompass political, social, and macroeconomic stability, effective institutions, and the rule of law, all of which are shaped significantly by government actions. In the absence of these foundational conditions, both domestic and foreign investments are likely to be limited, resulting in constrained and erratic growth. Such economic instability tends to disproportionately affect the impoverished, as seen in Mexico during the mid-1990s and Indonesia in the late 1990s. Conversely, countries like Korea and Taiwan have experienced more stable economic development.

Home Industry Creates Jobs

Economic growth leads to increased job availability, which in turn boosts the demand for labor, a crucial asset for the poor. This rise in employment has played a pivotal role in driving higher growth rates. The global economy has experienced substantial growth over the last decade, resulting in a significant portion of the global working-age population finding employment opportunities. However, youth unemployment remains
a significant challenge globally, especially in Africa. Youth unemployment rates are notably higher than the average, with young people representing 25% of the global working population but constituting 47% of the unemployed.

Despite these challenges, global employment has surged by more than 400 million since the early 1990s, primarily driven by China and India, with most new jobs emerging in developing nations. Real wages for low-skilled jobs have also risen alongside global GDP growth, indicating that even the poorest workers have benefitted from increased global trade and economic expansion. Concerns about declining wages due to increased global integration have not materialized, as foreign direct investment data suggests that companies are attracted to countries with higher labor standards. Various macroeconomic factors such as low inflation, export focus, and reduced labor taxes influence the level of employment generated by economic growth. Structural factors like the composition of the economy in terms of agriculture, manufacturing, and services also play a crucial role.

Although the link between growth and employment remains positive, its strength has slightly decreased since the early 2000s, leading to concerns about "jobless growth" in some regions. This trend may pose challenges for countries in the Middle East, South Asia, and sub-Saharan Africa, where job creation may not keep pace with their expanding workforces. Despite this weakening relationship, it might indicate a need for strategies focusing on higher growth rates in the future. Moreover, this trend could hide improvements in productivity that could eventually lead to the creation of even more job opportunities in the long run.

The correlation between economic growth and employment isn't just about creating more jobs; it also involves the nature of these jobs. Concerns have been raised about the informal freelance sector expanding alongside growth, in addition to growth in the formal sector. Traditionally, informal employment has been viewed as involuntary—where surplus workers make ends meet while waiting for better formal sector opportunities. While informal work is better than no work, it's often seen as a second-rate option compared to formal employment. However, recent findings suggest that informal work shouldn't be seen as a disadvantaged alternative to the formal sector but rather as a legitimate option that encourages entrepreneurial aspirations. It's likely that a combination of these perspectives is relevant in many developing countries (Department for International Development, 2008).

Some countries and regions have sizable informal sectors. For instance, in Latin America, the informal sector was the main job creator in the 1990s, accounting for 60% of new jobs through micro-enterprises, self-employed individuals, and domestic services. In Africa, if rural and agricultural sectors are included, the figure rises to around 90%. The informal sector's growth is primarily driven by excessively regulated labor markets and low development levels. Strategically deregulating labor markets can lower employment costs for formal sector businesses and increase formal employment. However, this might come at the expense of those already employed in the formal sector. Therefore, there's a trade-off between expanding formal employment and its associated benefits, and countries must carefully consider reforms in this aspect.

Based on testing outcomes, an increased share of agriculture and industry is linked to positive effects on poverty reduction, whereas a growing service sector tends to exacerbate poverty levels. A mere 1% rise in agriculture can decrease poverty by 0.33%, and a similar increase in industry can lead to a poverty reduction of approximately 0.34%. These findings align with previous studies on poverty in developing nations like China and Indonesia (Montavol and Ravallion, 2009; Suryahadi et al., 2008; Warr, 2009). This correlation becomes evident in real-world scenarios, such as Vietnam's pursuit of industrialization impacting poverty alleviation. The majority of impoverished individuals reside in informal rural and urban areas, underscoring the significant role of the agricultural sector in reducing poverty, as recognized in various studies on Vietnam. Conversely, the service sector's growth adversely affects poverty reduction, primarily because most of the poor are part of the informal labor force within this sector. Consequently, the contributions of the informal sector are not factored into the model due to unrecorded values, making it challenging for the poor to engage in the formal service sector that demands skilled labor.

Interestingly, this study notes that general economic growth no longer correlates with poverty reduction during the 2010–2016 period, a departure from some recent studies on Vietnam. This suggests that the government's sustained efforts in poverty reduction over time have yielded crucial outcomes. Traditional government approaches focusing on expenditure or income-based poverty may no longer suffice. Poor households predominantly exist in remote or mountainous areas or lack awareness of how to escape poverty. Hence, without innovative poverty reduction policies and methods, economic growth's impact on poverty will diminish, emphasizing the importance of enhancing poor households' awareness of escaping poverty. Consequently, while economic growth is vital, rapid growth does not necessarily translate into increased benefits for poor households.

One of the most impactful factors influencing poverty is the labor force proportion. For every 1% increase in this rate, poverty diminishes by approximately 7.6%. In Vietnam, the primary trend in job creation
for unskilled labor continues to be driven by expanding employment opportunities, making it a critical factor in poverty reduction. Following labor, urbanization is the next significant driver of rapid poverty alleviation. The swift urbanization, especially alongside agricultural growth, indicates a relative decline in the contribution of labor factors to agricultural expansion. Poverty reduction is more effective when impoverished individuals from the agricultural sector migrate to urban areas for employment, highlighting the positive impact of labor migration from agriculture to industry amid Vietnam's ongoing industrialization. A 1% rise in urbanization is associated with a poverty reduction of about 2.6%. Moreover, a 1% increase in the population tends to increase the poverty rate by around 0.74%, while a corresponding rise in the literacy rate reduces poverty by about 2.3%. Despite population growth exacerbating poverty from 2010 to 2016 in Vietnam, a focus on education could significantly alleviate poverty. The substantial impact of literacy on poverty underscores its importance, especially in the context of impoverished households lacking awareness of how to escape poverty or falling back into it. Consequently, in the long term, education aimed at enhancing individual awareness and social responsibility among poor households could be pivotal in poverty reduction efforts in Vietnam (Pham & Riedel, 2019).

5. CONCLUSION

Based on the empirical analysis presented earlier, several conclusions can be drawn regarding the correlation between the sectoral structure of growth and poverty alleviation (Pham & Riedel, 2019). Firstly, a shift towards a greater share of the industrial sector in the economic structure has a positive impact on reducing poverty. Agricultural development proves to be a more effective driver of poverty reduction compared to the service sector. Hence, there is a need to concentrate on enhancing the efficiency of the agricultural sector relative to the service sector.

Secondly, prioritizing the expansion of employment opportunities will significantly contribute to poverty reduction. Given Vietnam's growth model's continued emphasis on breadth, employment remains the most direct and effective strategy for reducing poverty. Thirdly, promoting the restructuring process from agriculture towards the industrial sector is crucial. This restructuring will expedite urbanization, which, coupled with rapid industrialization in agriculture, will lead to a tangible reduction in poverty. Lastly, alongside maintaining control over population growth, prioritizing education objectives for impoverished individuals is paramount in fostering a sense of agency and empowerment in poverty reduction efforts. This approach is deemed the most efficacious long-term strategy for achieving poverty reduction goals.

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