# Empowerment of the Processing Industry During the Covid-19 Pandemic and its Effect on Local Income in Banten Province

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**Abstract:** Banten is one of the provinces that provides the largest contribution to the national GDP. It was recorded that in 2020, Banten Province contributed Rp. 626 trillion or 4.05% of the National GDP. The manufacturing sector is the largest contributor to the GRDP structure of Banten Province, reaching 31% with the largest contribution from the chemical industry, footwear industry, and basic metal, iron and steel industries. The processing industry sector is endeavored to continue to contribute to both the handling of Covid-19 and the recovery of the national economy. With the contribution of the manufacturing industry which is so large and supported by the significant investment value from PMA and PMDN, it is hoped that regional revenues from the manufacturing sector can also be distributed to improve the welfare of the people of Banten. The research method used in this study is regression with the Ordinary Least Square approach. The population is all data on research variables from 2000 since the formation of Banten Province until 2020 which relates to all variables to be studied, while the sample of this study amounted to 40 (forty) from 2012-2021 using quarterly data. The results of the study indicate that the empowerment of the processing industry has a positive and significant effect on the local revenue of Banten Province.

**Keywords:** empowerment, processing industry, local revenue.

## A.  INTRODUCTION

The processing industry is one of the sectors that has played an important role in supporting national economic growth. However, the C ovid-19 pandemic has a significant impact on the activities of the processing industry in Indonesia.  At least there are several challenges that are being felt by industry players in the country due to the impact of the Covid -19 pandemic. First, they experienced contract and payment delays. There are some sectors that cannot divert production, such as the garment industry which ends up producing PPE and masks.  The second challenge is the increase in the price of raw materials and auxiliaries. This has an impact on supply and demand. The problem is that prices also cannot be controlled because all countries that  supply raw materials and helpers experience the same obstacles.  The next obstacle is related to exchange rate turmoil. As a result of health protocols, of course, the industry is also experiencing problems with the decline in the utility of its production. Due to physical distancing, employees are also reduced, until some are temporarily lay-off so that the production utility also decreases sharply.  The fifth challenge, employee reduction. Then, the difficulty of logistics transportation. Then, the increase in shipping costs and the last is operational restrictions in regional regulations(Akbar & Cahyani, 2020)

This condition is expected to be a momentum to evaluate various domestic policies so that they effectively encourage the resilience and growth of the national industry. Several instruments that can

be implemented in efforts to secure and save national industries affected by the surge in imports in the midst of the current Covid-19 pandemic, including through trade remedies in the form of implementing safeguards and anti-dumping. These policies are allowed and have been in accordance with the rules of the World Trade Organization (WTO), considering that the general import duty tariff is no longer effective to become an instrument of industrial security because Indonesia has been actively involved in various free trade cooperation. (Budiyanti, 2016)

A number of processing sectors are currently starting to carry out business transformation, especially leading to the implementation of industry 4.0. This is driven by efforts to increase productivity more efficiently, especially in the midst of the adaptation phase of new habits due to the impact of the Covid-19 pandemic. Transformation performance is now very important to promote economic growth and competitiveness of a country. Based on data from the Ministry of Industry, the productivity of the domestic processing industry began to improve, after being hit hard by the Covid-19 pandemic. As of September 2020, the utilization of the processing sector reached 55.3% or an increase of 15-25% from the previous figure of 30-40% at the beginning of the Covid-19 pandemic(Direktorat Statistik Industri, 2021).

The shift towards efficient and effective digitization will connect the company with domestic and international markets through an integrated supply chain network. Theinternet has changed the way of doing business today, including in the industrial sector. Industry 4.0 is driving increasing automation trends, such as through the Internet of Things (IoT), machine-to-machine and human-to-machine interfaces, artificial intelligence, digitization in processing, and other advanced technologies. The new paradigm shift in the field of processing today is the result of the use of the internet that allows communication between machines to each other and humans in real-time. Therefore, now the industry in Indonesia is increasingly familiar with smart products and smart services. (Kemenperin, 2021)

Similarly, with the impact of the Covid-19 pandemic in Banten Province, out of 16,000 companies, there are 800 companies that have gone out of business or went bankrupt due to the Covid-19 pandemic. Of the 16 thousand, already bankrupt about 800 are capital-intensive companies. These capital-intensive industries are mostly shoe factories that have many employees. They already have difficulty exporting and have difficulty selling their products. A total of 74 factories in Banten Province closed during the Covid-19 pandemic. Social restrictions and tightening in the export and import sector of raw materials and production products are the causes of the industry going out of business. The companies that were most affected and even closed in Banten were companies in the shoe and garment industry sector. However, this also happens to companies in other sectors such as chemistry and so on. As a result there were 106 industries that requested the suspension of the 2021 UMP hike. This demand cannot be separated from the Covid-19 problem which has an impact on production. In total approved there are 104, it is engaged in the garment, footwear and similar industries (Suputra, 2021)

According to Bank Indonesia Data, the processing industry in Banten Province is still growing 0.37 percent despite the Covid-19 pandemic, so it needs to be encouraged because for Banten the processing industry contributes greatly. To stimulate economic recovery, the Banten provincial government needs to pay attention to macro indicators by encouraging household consumption through social assistance policies (Bansos) and other stimuli, including policies that encourage non-cash transactions and digitalization that accelerate regional revenues(Herawati, 2022)

Before the pandemic, the development of the processing industry in Banten province, especially export-oriented industries and those that absorb a lot of labor, played a considerable role in the formation of added value and contribution to the Gross Regional Domestic Product (GRDP). Banten industrially in 2014 is still held by the processing industry sector as the leading economic sector, this

sector contributes a lot to Banten Province. As quoted from the BKPMPT of Banten Province, this sector is the largest of the 17 economic sectors. The total value of Gross Regional Domestic Product (GRDP) on the basis of Banten's prevailing price in 2014 was 432,763.96 billion rupiah of which 148,148.69 billion rupiah (34.23 percent) was sourced from the processing industry sector ((Kementerian Perindustrian Republik Indonesia, 2018) With such a large contribution of the processing industry and supported by the significant investment value derived from PMA and PMDN, it is hoped that regional revenues from the processing industry sector can also be distributed to improve the welfare of the people of Banten. The increasing public need for public services has encouraged local governments to increase government spending, especially spending. immediately. To compensate. the government seeks to increase regional revenues by paying attention to the growth of Regional Native Income (PAD). Local original income (PAD) is revenue obtained from the regional tax sector, regional levies, the results of regionally owned companies, the results of the management of segregated regional wealth, and other legitimate local original income(Budiarto, 2017)

The sources of PAD are the proceeds of local taxes. regional levy proceeds. The results of regionally owned enterprises and the results of regional wealth management are separated. and others legitimate PAD. PAD must be managed by local governments to suit local needs and priorities so that in an effort to extract their sources of income the government does not distort the economy. Regional autonomy in the form of fiscal decentralization that gives flexibility to local governments to manage their regional finances must be utilized in the context of providing better services, not by increasing tax charges that can slow down the pace of economic growth (Heriston Sianturi & Anastasya Astrid Eka Putri, 2018)

During the Covid-19 pandemic, the optimization of Regional Original Income from the regional tax sector, especially PKB and BBNKB, continues to be carried out through regional tax intensification activities, including by issuing Banten Governor Regulation Number 12 of 2020 and Number 60 of 2020 concerning the Elimination of Administrative Sanctions or Annual Motor Vehicle Tax Fines, Duty on Reversal of Motor Vehicle Names Mutations Entering from Outside the Region,  Mutation within the region and the elimination of progressive tariffs.  This is aimed at keeping Local Revenue (PAD) in good condition and will further improve community tax compliance. Then providing convenience in the service of paying annual motor vehicle tax through e-samsat in the payment channel, by simply showing the original STNK without having to show an ID card, this convenience throughout Indonesia for the first time has only been implemented in Banten Province, the jurisdiction of the Banten Regional Police(Ishak, 2021)

The non-achievement of this revenue realization was mainly due to regional original income, including the receipt of Motor Vehicle Name Return Duty (BBNKB) which was very dominated by the receipt of the first BBNKB handover (new vehicles), while in 2020 with the Covid-19 Pandemic had an impact on reducing people's purchasing power towards the purchase of new motor vehicles in the Banten Province area. Furthermore, cigarette tax revenue did not reach the target due to the non-distribution of cigarette tax revenue sharing for the fourth quarter revenue period (October and November 2020) from the Ministry of Finance of the Republic of Indonesia due to the lack of completeness of the requirements for the cigarette tax revenue sharing report for the third quarter of 2020 to the Regency/City Government(Asmara & Suci, 2019)

## B.  RESEARCH METHODS

The method used in this study is explanatory research. explanatory research according to (Umar, 2014) is research that proves the existence of causation and relationships that influence or are influenced by two or more variables studied. The purpose  of explanatory research is to test hypotheses and test the influence of independent variables on dependent variables (Metode penelitian kuantitatif, kualitatif,dan R&D, 2016)

This study took 1 4 (fourteen) months, from March 2021 to April 2022. The place or object of research data is carried out in the banten province.

In this study, what is meant by population is all data on research variables from 2000 since the formation of Banten Province until 2021 which is related to all variables to be studied.

Meanwhile, the sample used in this study is research variable data from 2012 to 2021 with the number of samples used in this study is 40 (forty) samples, namely triwuan data / quarter 2012 - 2021 which is related to the empowerment of the processing industry and regional original income.

The data analysis technique used in this study is regression analysis with the Ordinary Least Square (OLS) approach. This regression analysis aims to obtain a comprehensive picture of the relationship between independent variables and dependent variables both partially and simultaneously.

In this study, the research data used were natural logarithm transformations or in Ln. Data transformation is an effort made with the main objective of converting the measurement scale of the original data into other forms so that the data can meet the assumptions underlying the analysis of variety. The selection of this equation model is based on the use of a natural logarithm (Ln) model which has the advantage, which is to equalize units and minimize the possibility of heterochedasticity due to transformations that place a scale for variable measurement, and the slope coefficient of $\beta_i$ directly can show the elasticity of Y to Xi i.e. the percentage change in Y due to the percentage change in Xi.

## C. RESEARCH RESULTS AND DISCUSSION

### Stasioner Test

Stationary Test data at the Level level of all variables is not yet stationary, so it needs to be retested at some degree of each stationary variable. The following are the results of the integration degree test
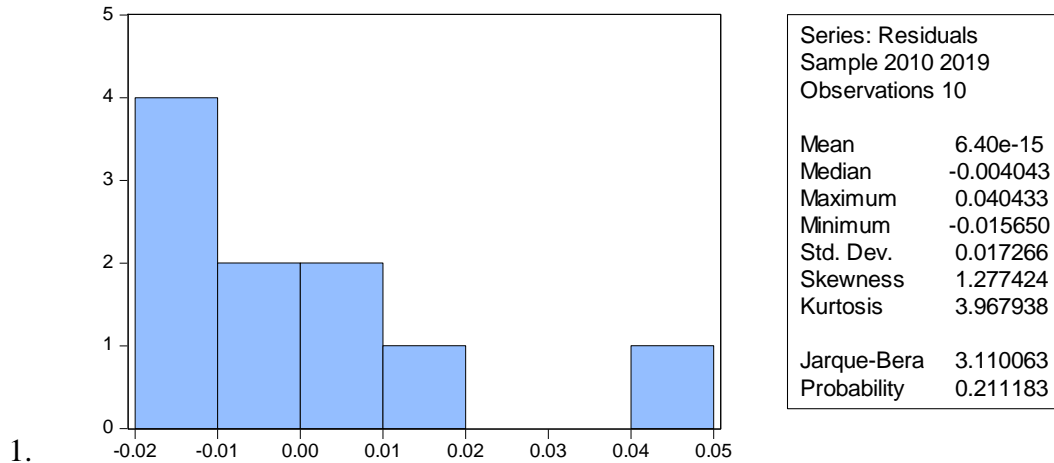
**Table 1. Stationary Test Results**

| Research Variables | t-Statistics ADF | Significance | Information |
|---|---|---|---|
| Local Revenue (PAD) | -4,038061 | 0,0033 | Stationary |
| Pemb. Processing Industry | -3,872446 | 0,0057 | Stationary |
| | | | |

**Source : Estimation Results Using Eviews 10**

In Table 1. shows the results of the ADF statistical test on the first difference which shows that the null hypothesis is rejected, in other words, the data on all variables after being lowered once the data is stationary. With a probability value smaller than 0.05. This means that all of these variables no longer contain unit root problems and have stationary data conditions at the first difference level or degree of integration one.

## Test Classical Assumptions

Here are the results of the normality test using the Jarque Bera method



| | |
|---|---|
| Series: Residuals | |
| Sample 2010 2019 | |
| Observations 10 | |
| | |
| Mean | 6.40e-15 |
| Median | -0.004043 |
| Maximum | 0.040433 |
| Minimum | -0.015650 |
| Std. Dev. | 0.017266 |
| Skewness | 1.277424 |
| Kurtosis | 3.967938 |
| | |
| Jarque-Bera | 3.110063 |
| Probability | 0.211183 |

**Source : Data processed Eviews 10**

**Figure 1. Normality Test Results**

Based on the results of the Jarque Bera histogram test  in Figure 1.  where the probability value equation model is 0.211183.  Thus it can be concluded that the probability of such regression interference is normally distributed because the probability value of  Jarque Bera is greater than 0.05.

The following are the results of the heteroskedasticity test are as follows using the White method:

**Table 2. Heteroskedasticity Test Results**

| Heteroskedasticity Test: White | | | |
|---|---|---|---|
| F-statistic | 0.171163 | Prob. F(1,8) | 0.6899 |
| Obs*R-squared | 0.209472 | **Prob. Chi-Square(1)** | **0.6472** |
| Scaled explained SS | 0.198944 | Prob. Chi-Square(1) | 0.6556 |

**Source : Data processed Eviews 10**

Based on the test results from Table 2 where the Chi-squared Probability value of  0.6472 is greater than 0.05.   Thus it can be concluded that the regression model is free of symptoms of heteroskedasticity.

Here are the results of the autocorrelation test using the Langrange-Multiplier method:

**Table 3. Autocorrelation Test Results**

| Breusch-Godfrey Serial Correlation LM Test: | | | |
|---|---|---|---|
| F-statistic | 1.095831 | Prob. F(2,6) | 0.3930 |
| Obs*R-squared | 2.675479 | **Prob. Chi-Square(2)** | **0.2624** |

**Source : Data processed Eviews 10**

Based on the test results from Table 3 where the Chi-squared Probability value of  0.2624 is greater than 0.05.  Thus it can be concluded that the regression model is free from autocorrelation problems.

**Regression Test**

Model Equations :

$$Y = bo + b\ Ln\_X + \varepsilon_t$$

Where:

Y = Local Revenue

will = Constant

X = Processing Industry Empowerment

B = Regression Coefficient of free variables

$\varepsilon t$ = Epsillon ( Other factors outside the model)

**Table 4. Regression Test Results**

| Dependent Variable: **Ln_PAD** | | | | |
|---|---|---|---|---|
| Method: Least Squares | | | | |
| Date: 01/06/22   Time: 19:43 | | | | |
| Sample: 2012Q1 2021Q4 | | | | |
| Included observations: 40 | | | | |
| **Variable** | **Coefficient** | **Std. Error** | **t-Statistic** | **Prob.** |
| C | 16.43155 | 1.070103 | 15.35511 | 0.0000 |
| **Ln_Ind Processing** | 1.685703 | 0.056895 | 29.62826 | **0.0000** |
| **R-squared** | **0.858508** | Mean dependent var | | 13.27184 |
| Adjusted R-squared | 0.857416 | S.D. dependent var | | 0.358801 |
| S.E. of regression | 0.074042 | Akaike info criterion | | 0.319664 |
| Sum squared resid | 0.208324 | Schwarz criterion | | 0.235220 |
| Log likelihood | 48.39328 | Hannan-Quinn criter. | | 0.289132 |
| F-statistic | 877.8340 | Durbin-Watson stat | | 1.669442 |
| Prob(F-statistic) | 0.000000 | | | |

**Source : Process data with Eviews 10**

The calculation results in Table 4 can be described as follows:

Local Revenue   =   16.43155 + 1.685703  $\hat{Y}$

 The interpretation of the regression equation is as follows:

1. Constant Value = 16.43155 means that statistically if all ceteris paribus variables have a constant value, then the value of Regional Original Income is 16.43155 percent

2. Koefisen Regression value b = 1.685703, meaning that the elasticity value of the processing industry's empowerment to the original regional income is E = 1.685703.  The value of E > 1 indicates that the increase in  the empowerment of the processing industry is elastic to the original

income of the region.  This elasticity (E) > 1 indicates a condition that increases return to scale (the result of a greater increase).

Based on the results from Table 4, it can be concluded that the effect of the empowerment of the processing industry on Regional  Original Income based on the calculation results obtained by a simple linear regression table, statistically shows significant results at a probability value of  empowerment of the processing industry is smaller = than α (0.0000 ≤ 0.05), then it can be concluded that the variable the empowerment of the processing industry has a significant and positive effect on the Regional Original Income of Banten Province.

The magnitude of the influence of the empowerment of the processing industry on the Regional Original Income is indicated by the  value of R- Squared = 0.858508, meaning that the magnitude of the influence of the empowerment of  the processing industry on the Regional Original Income of Banten Province is 85.85 percent  , the remaining 14.15 percent is influenced by other factors outside the model studied.

Based on the results of statistical calculations using the multiple linear regression method, it shows that the empowerment of the processing industry has a significant and positive effect on Regional Original Income (PAD) in Banten Province. The interpretation in the language of economics of positive understanding gives the meaning that the increase and empowerment of the processing industry is also followed by an increase in Regional Native Income (PAD).  Meanwhile, a significant understanding means that the hypothesis of empowering the processing industry convincingly and meaningfully can be proven to affect Regional Native Income (PAD). The level of significance is expressed in numbers that indicate the probability or risk of error to the tests carried out where in this study the figure of 5 percent or 0.05 is used.  The results of the t-test / partial test resulted in a significance level of 0.0000 or less than 0.005 which means that  the empowerment of the processing industry  has a significant effect on Regional Native Income (PAD).

According to G. Kartasapoetra (2014) "Industry is an economic activity that processes raw materials, raw materials, semi-finished goods or finished goods into high-value goods. Another definition states industry is as a place to produce finished goods through the process of cultivating in large quantities so that the goods can be obtained at the lowest possible price but with the highest possible quality.

Meanwhile, local original income is revenue obtained from the local tax sector, regional levies, the results of regionally owned companies, the results of the management of segregated regional wealth, and other legitimate local original income (Mardiasmo, 2011: 1).

Thus, the relationship between industry and regional income is very close where the results of the industry produce products that have the potential to contribute in the form of a number of taxes to local governments.

The results of this study are supported by data and empirical facts that show that the processing industry sector is still the main contributor to Banten's economic growth. This projection is not an optimistic scenario because it considers global economic conditions. The performance of the processing industry, which is mostly export-oriented, is suspected to have not been able to move aggressively because it is still dependent on imported raw materials.  A number of regions in Banten are indeed more dependent on the processing industry, for example Cilegon, and Tangerang Raya. In addition, the trade sector, as the economic backbone of Banten after the processing industry, is expected to show positive performance due to the increasing demand for the processing industry in the coming years.  Banten Province as one of the provinces that was formed a year before the existence of regional autonomy so that it is expected to be better able to innovate and explore the natural resources contained in its territory. Gradually dependence on the center can be eliminated along with the addition

of PAD. PAD's contribution has a role in the plan to improve regional capabilities in terms of finance so that it does not always have to rely on the central government.   Local Revenue (PAD) is a representation of the revenue generated by the area. Tangerang City and South Tangerang City are included in the 10 cities with the largest APBD in Indonesia. And the city of Cilegon is also one of the 10 cities with the highest per capita income in Indonesia.

## D.   Conclusion

Based on the results of the research and discussion analysis, the conclusion of this study is the empowerment of the processing industry during the Covid-19 pandemic  with the efforts made by the provincial government from the investment sector, banking financing and large and medium industries recorded to contribute the most to the original regional income of Banten Province compared to other sectors.

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