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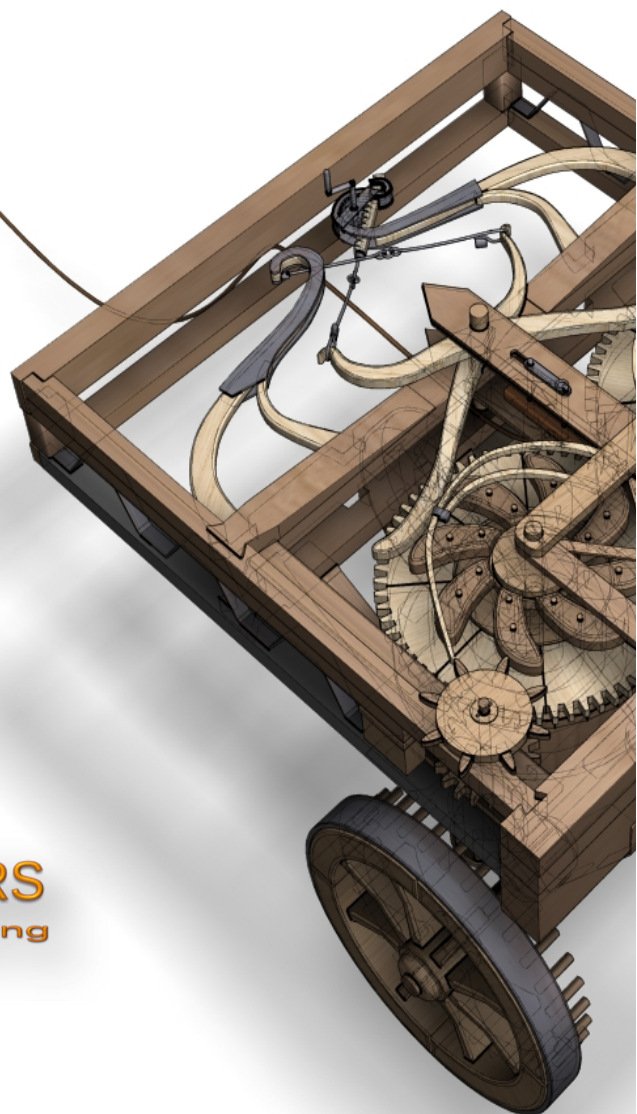
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The Impact of Inflation, Exchange Rate toward Unemployment and Poverty in Indonesia. Case Study of Small and Medium Enterprises at the Tourists' Area of Lombok

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Abstract:

The purpose of the study is to determine the impact of inflation and the weakening of the rupiah exchange rate against US\$ toward the level of poverty and unemployment as well as the development of small entrepreneurs. This study uses quantitative and qualitative research methods. The results are as follows: (1) There is significant effect of inflation rate, exchange rate, economic growth and average wages on poverty; (2) There is significant effect of the inflation rate and the average wage on poverty in urban areas; (3) There is significant effect of inflation rate, exchange rate, economic growth and average wages on poverty in rural areas; (4) There is significant effect of inflation rate, exchange rate and unemployment on unemployment assuming fixed wage; (5) There is no significant effect of inflation rate and exchange rate on unemployment with no fixed wage assumption. The findings of qualitative analysis are as the following: (1) The welfare of both business owners and artisans in small industry are not overly influenced by the impact of inflation and the weakening of rupiah against the US dollar; (2) Strategies to overcome the impact of inflation and exchange rate adopted by small and medium enterprise, include (a) Efforts to reduce the size of goods (b) reducing the quality of the product (c) reduce business profits and (d) cost efficiency of production; (3) Current marketing system, includes: (a) Waiting for domestic and foreign tourists who visit with tour guides (b) Marketing and selling in designated market established by the government (c) Participation in exhibition (d) Digital marketing through website.

Keywords: inflation; exchange rate; unemployment; poverty; regression; SME

JEL Classification: A12; J64; Z31

Introduction

The economic development of regions in Indonesia must be carried out with the spirit of improving the welfare of the population. Several measures that distinguish developed from developing countries are number of unemployment and poor population. One of the factors increasing unemployment and poverty is the magnitude of inflation and exchange rate of the country's currency against the US dollar. Inflation plays an important role in determining the economic condition, and should receive serious attention from various parties, especially monetary

authorities responsible for controlling inflation. Inflation affects economic decisions such as pricing and wages, consumption, investment. Hence, because of these decisions, inflation is directly or indirectly affecting the economy. When people perceive that inflation is high, it will affect the overall economy. Therefore it is necessary to know how inflation influence the growth of Indonesian economy which ultimately will have an impact on unemployment and poverty. Furthermore, the effects of inflation cannot be observed directly. One way to determine the inflation is through a survey, by directly asking the respondents about the effect of inflation. Based on this, a survey of various community groups such as businesses, households and financial market participants are often done to see the effect of inflation on the economy, in this study case Lombok. The weakening of rupiah against US dollar will also have direct impact on a region's economy. This research will investigate the impact of economic variables that is currently happening in the country of Indonesia on unemployment and poverty. The impact of inflation and the weakening of rupiah against US dollar will be seen from one of the dominant sectors in Indonesia that affect the Indonesian economy, the sector is the Small and Medium Enterprises sector that still dominate the market by 99%. Thus empowering Small and Medium Enterprises is actually very strategic, because of its great potential in stimulating economic activities. It is also become the foundation of many people to improve their welfare. The number of Small and Medium Enterprises in 2007 reached 49.84 million units, that is 99.99% of the number of national business operators. Their role in the national economy is indeed their contribution to provide employment opportunities and to the Gross Domestic Product (GDP). The Small and Medium Enterprise has been promoted and used as the main agenda of economic development of Indonesia. The Small and Medium Enterprises sector has proven to be resilient. In fact, when the 1998 economic crisis hit Indonesia, only Small and Medium Enterprises survived the collapse of the economy, while the larger sector were actually uprooted by the crisis. Mudradjad Kuncoro in *Bisnis Indonesia* on October 21, 2008 suggests that the Small and Medium Enterprises proved stable to the crisis and is able to survive because of these reasons: (1) they do not have foreign debt; (2) most do not borrow to banks because they are considered unbankable; (3) they use of local inputs; (4) most are export-oriented. During 1997-2006, the number of Small and Medium Enterprises reached 99% of all business units in Indonesia the Small and Medium Enterprises contribution to gross domestic product reached 54% - 57%. The contribution of the Small and Medium Enterprises to employment is about 96%. As many as 91% of the Small and Medium Enterprises conduct export activities through third party exporters/middlemen. Only 8.8% were in direct contact with buyers/importers overseas.

Compared with ten major commodities, namely (1) oil and gas, (2) palm oil (3) processed rubber (4) clothing (5) electrical appliance (6) textile (7) paper and paper products (8) processed food (9) wood (10) chemicals; tourism contributes as the 6th biggest foreign exchange earners in 2006, fifth in 2007 and fourth in 2008 and also in 2015.

Lombok, as one of important tourists' destinations in Indonesia has beautiful beaches, beautiful natural scenery, great local food, and local products that are well-known and very attractive to overseas or domestic tourists, namely pottery, woven and pearl jewelry. Lombok is blessed with favorable geographical conditions, fertile soil and abundant water reserves. Lombok Regency encompasses an area of 1053.92 km², to the north bordering with North Lombok regency, and to the south bordering with Indian Ocean, a population of 613,161 inhabitants. Average population density is 468 inhabitants / km². The number of people working in the industrial sector is 34,447 people, 99% of them belong to Small and Medium Enterprises. The regency consists of 10 districts, 88 villages and 634 hamlets. Among the local commodities, there are 1286 small and medium pottery industry, 1158 wood craft industry and wooden furniture, 1556 small and medium webbing industry, 127 seaweed industry, as well as the weaving and pearl industry. Lombok Regency has a work force of 263,570 people and unemployed of 13,551 people. This work force is expected to support the business activities in the families or households and supply the needs of tourists visiting the region.

Research objectives

1. To evaluate the impact of inflation and a weakening currency against unemployment and poverty.
2. To Analyze the influence of inflation, exchange rate against unemployment and poverty

1. Literature review

Tourism is one industry that is able to provide rapid economic growth in terms of employment, income, living rates, and in turn on other production sectors in the host countries.

According to Law No. 9 1990 on Tourism, travel is an activity trip or part of these activities that are carried out voluntarily and temporarily to enjoy an object or a tourist attraction. Tourists are people doing travel activities. Tourism is everything related to travel, including the exploitation of objects and tourist attractions as well as related efforts in the field. Tourism business is activity aimed at providing services.

Spillane (1987) in Badruddin (2001) defines tourism as traveling from one place to another, temporary, done individually or in groups, in an effort to seek a balance or harmony or happiness with the environment in the social, cultural, nature and science.

The types of tourism, according to Spillane (1987) in Badruddin (2001) includes among others: (1) Tourism to enjoy the trip (pleasure tourism), (2) Tourism for recreation (recreation sites), (3) Tourism for culture (cultural tourism), (4) Tourism for sport (sport tourism), (5) Tourism for trade (business tourism), (6) Tourism for the convention (MICE tourism).

Tourist demand effect on all sectors of the economy include individuals (people), small and medium enterprises, Tourist demand can also be affected by tourism demand in the previous year as an alternative to visiting other places constrained by the limited information about the destination area. It is often assumed that the more information about the tourist destination, the more tourists will visit it.

The impact of increased information can be viewed by entering the variable lag in tourism demand equation as independent variables. This is consistent with the hypothesis that most tourists will revisit the area never visited before. The total population of a country is also one variable that affects the number of tourists visiting other countries. Increased population means more and more people will travel.

Two problems being faced by many developing countries around the world including Indonesia is the problem of unemployment and poverty. Unemployment and poverty are two things that are related to one another. People who are unemployed are usually very poor. People who are poor are generally caused because they have no income due to unemployment or do not have a job. Unemployment itself occurs when the accretion of new labor is greater than the employment growth that could be provided annually either the private sector or the government. Definition of unemployment according to J. Simanjuntak, is labor force that does not work at all or work less than two days during the week prior to enumeration and is trying to get a job. Definition of unemployment is technically are all in reference to a specific time, the age of the labor force that does not work, both in terms of wages or working independently, then look for a job, in the sense of having activities that are active in looking for work.

Saunders (2002) states that unemployment is a matter that is not good for the economy, society and also for the unemployed themselves. Unemployment will be the cost for the economy because overall goods and services that can be produced is reduced. The World Bank defines poverty is the inability of a person reaches a minimum living standard. According to BPS (2007) poverty is determined by the population's inability to meet the basic needs of minimum 2100 kcal food per person per day and to meet minimum basic non food needs such as shelter, clothing, schools, transportation and household goods and other basic individual needs.

According to Encyclopedia (2014), inflation is a process of rising prices in general and persistent (continue) with regard to market mechanisms that can be caused by various factors, among others, private consumption increased, excess liquidity in the market which triggers consumption or even speculation, to include also due to the lack of launch distribution of goods. In other words, inflation is also a process of decline in currency values continuously. Inflation is the process of an event, not the high-low price levels. That is, when price level is considered high, it is not necessarily indicate inflation. Inflation is an indicator to see the rate of change, and is considered to occur if the price increase takes place continuously and the interplay of influences. The term inflation is also used to mean an increase in money supply which is sometimes seen as the cause of rising prices. There are many ways to measure the rate of inflation, the two most commonly used are the CPI and the GDP Deflator.

Definition of foreign exchange rate according to Sadono Sukirno (2000, 397), is: "The price or value of one currency expressed in the size of the currency of another country". It can also be defined as "the amount of domestic money needed to acquire one unit of foreign currency".

From the above definition, it can be concluded is the value of the exchange rate is the price of the rupiah currency against the other currencies. When we discuss about the exchange rate, then there are at least two types of currencies compared.

2. Previous studies

Adi Laksono (2008) conducted a study on the economic impact of tourism on the economy of Indonesia, research shows that the variable GDP and exchange rate give impact to Indonesian economy due to the abundance of foreign tourists entering Indonesia which is the foreign exchange earnings for the country. Lurent (2007) econometric model called tourist demand in France resulted in that there is a positive relationship between the tourist expenditure to GDP and a negative relationship between spending tourists with relative prices.

Chialy Yap (2010) entitled econometric analysis of domestic tourist demand in Australian with the results Tourist domestic consumption amounted to 737% of the services and goods produced Australia but foreign tourist amounted to only 23.6%. From this it is concluded that the domestic tourists are important for all sectors of the Australian economy.

Son and Kakwani (2004) conducted a study on the relationship between economic growth and poverty using the elasticity of poverty. The results showed that economic growth showed poor people have a greater impact in reducing poverty.

Sinaga's study (2006) with the title "If there is an increase in fuel, what strategy of the Small and Medium Industry" finds that if fuel prices rise, the Small and Medium Industry generally do a reduction in labor costs as an indicator of production which resulted in modest production volumes. But most the Small and Medium Industry do not take to raise the selling price, namely by using the strategy of reducing the size of the goods, reducing product quality, reduce profits isaha and cost efficiency of production.

Afiah's research (2009) entitled "The role of entrepreneurial Small and Medium Industry In strengthening Indonesia a Facing the Global Financial Crisis" is aimed at identifying contribution of Small and Medium Industry in general to the economy and development of Indonesia. And how the role of entrepreneurship in increasing competitiveness and operational quality of Small and Medium Industry in the face of global financial crisis. The method used descriptive method and qualitative approach literature study. The results showed that the Small and Medium Industry sector has contributed to the economic development of Indonesia. There are several factors that become a challenge in the development of Small and Medium Industry.

3. Methodology

This study will use the approach of quantitative and qualitative research methods, to answer how the impact of inflation and the weakening of the rupiah against poverty and unemployment among Lombok Regency's small and medium tourism enterprises. The qualitative methods focus on understanding the impact of inflation and the weakening of the rupiah against the village poverty and unemployment as well as the development of small and medium industry's products needed for foreign and domestic tourists. While the quantitative methods used to test the mathematical effect between the independent variables of inflation, the exchange rate of rupiah against unemployment and poverty:

- location of the study in the tourist area of Lombok;
- the subject of the study, using purposive sampling, informants are identified from the poor group and entrepreneurs who provide products to tourists;
- data Collection, for quantitative methods using secondary data from Central Statistical Agency and other related institutions from 1988-2014, while qualitative method using participatory observation with informants and conduct in-depth interviews with informants with provided notebook and tape recorder;
- the validity and reliability of the data was used for the quantitative data and which qualitative method used triangulation;

- data analysis, quantitative method using multiple regression statistical methods and qualitative methods. For data processing used the computer program SPSS, NVivo.

Qualitative Research Method was done by collecting data using by interviews to get some information from the respondents as the owners or the managers of small and medium enterprises. The information is to understand business activities undertaken by small and medium enterprises, namely human resources, finance, marketing, production, promotion. The collecting data includes the impact of exchange rate and inflation on unemployment and poverty among staff.

Quantitative Methods used multiple regression analysis to test the effect between the independent variables and the dependent variable. The dependent variable is the amount of Unemployment and Poverty in Indonesia whereas the independent variables affect the dependent variable include inflation, exchange rate, economic growth and wage.

Multiple regression equations as follows:

Unemployment = f (inflation, exchange rate, economic growth, wage)

Poverty = f (inflation, exchange rate, economic growth, wage)

Common forms:

$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$

$Z = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$

where: Y = Number of Poverty, Z = Number of Unemployment, X1 = Inflation, X2 = Exchange Rate Rupiah; X3 = Economic Growth, X4 = Wage, b_0, b_1, b_2, b_3 as regression coefficient.

4. Result discussion

Poverty Analysis

The relationship between the amount of poverty by inflation, exchange rate, economic growth and wages.

Tabel 1. Multiple regression output the poverty by total, rural and urban area

	Unstandradized Coefficients		Standardized Coefficients	t	Sig.
	B	Std Error	Beta		
Constant	3.540	1.695		2.089	0.490
X1	0.542	0.060	0.783	8.969	0.000
X2	0.001	0.000	0.436	2.584	0.017
X3	-3.76E-6	0.000	-0.305	-3.013	0.006
X4	-0.219	0.118	-0.146	-1.854	0.077
Dependent Variable : Y Total Poverty					
Constant	19.587	1.102		3.839	0.001
X1	-0.464	0.182	-0.789	-2.550	0.018
X2	0.000	0.001	-0.344	-0.602	0.553
X3	-4.49E-7	0.000	-0.041	-0.119	0.506
X4	0.612	0.356	0.455	1.721	0.000
Dependent Variable : Y1 Rural Poverty					
Constant	-3.428	1.692		-2.026	0.055
X1	0.463	0.060	1.724	7.509	0.000
X2	-0.001	0.000	-0.838	-2.542	0.019
X3	-3.82E-6	0.000	0.605	3.070	0.006
X4	0.215	0.118	0.279	1.823	0.082
Dependent Variable : Y2 Urban Poverty					

The regression equation using the factors affecting total poverty as an independent variable inflation rate, exchange rate, economic growth and average wages showed determination coefficient of 96.8%, meaning that the independent variables are able to explain the diversity of the dependent variable. Results of estimation of poverty showed significantly affected by inflation, exchange rate, economic growth and the average wage by probability-value respectively 0.00, 0.017, 0.006 and 0.077 all grades probability is smaller than an alpha value of 0.05. While the simultaneous testing also showed a significant influence to the probability-value of 0.000.

Total regression equation rural poverty using factors affecting as independent variable inflation, exchange rate, economic growth and average wages showed determination coefficient 63.5%, meaning that the independent variables are able to explain the diversity of the dependent variable. Estimation results indicate the number of rural poverty was significantly affected by inflation and average wage by probability-value respectively 0.018 and 0.099 probability value is less than the alpha value of 0.05. While the exchange-value variables and economic growth have no effect toward poverty urban areas with probability-value equal to the value of 0.553 and 0.906 that the value is greater than 0.05. While the simultaneous testing also showed a significant influence to the value probability-value of 0.000.

Total regression equation poverty urban areas using factors affecting as independent variable inflation, exchange rate, economic growth and average wages showed determination coefficient of 87.8%, meaning that the independent variables are able to explain the diversity of the dependent variable. Results of estimation of poverty rural areas showed significantly affected by inflation, exchange rate, economic growth by probability-value respectively by 0.00, 0.019, and 0.006 the value of probability is smaller than the value of alpha of 0.05, Only and the average wage is not significant at probability value 0.08. While the simultaneous testing also showed a significant influence to the probability-value of 0.000.

Unemployment Analysis

The relationship between the amounts of poverty by inflation, exchange rate, economic growth, assuming other variables *ceteris paribus*

Tabel 2. Multiple regression output the unemployment

	Unstandradized coefficients		Standardized coefficients	t	Sig.
	B	Std Error	Beta		
Constant	1988.985	3.067		648.437	0.000
X1	-0.110	0.109	-0.095	-1.003	0.327
X2	0.001	0.000	0.290	1.569	0.131
X3	1.056E-5	0.000	0.515	4.671	0.000
X4	0.850	0.214	0.340	3.972	0.001
Dependent: Z Total Unemployment					

The Unemployment regression equation using the factors affecting the independent variable as inflation rate, exchange rate, economic growth and average wages showed determination coefficient of 96.2%, meaning that the independent variables are able to explain the diversity of the dependent variable. Results of estimation of poverty showed urban areas significantly affected by the economic growth and the average wage by probability-value of each of 0.000 and 0.001 the value of probability is smaller than an alpha value of 0.05. While variable inflation and the exchange rate has no effect toward poverty urban areas with probability-value equal to the value of 0.327 and 0.131 that the value is greater than 0.05. While the simultaneous testing also showed a significant influence to the probability-value of 0.000.

Qualitative analysis

Characteristic of entrepreneurs and Craftsmen

In general, entrepreneurs come from Lombok area because this job is passed on from their families. Subordinates or labor usually come from relatives and neighbors who has adequate education to be able to work in the business.

Labor

Expertise in making pottery and weavings in general is a usually passed down. People studied or were taught from childhood to adulthood. Pottery-making skills were obtained in this village for generations. Older craftsmen teach younger people on how to make potteries. As a result, young parents in the village *Banyumulek* have pottery making skills.

In the case of hand-woven textile, variation in pattern is required, the more unique or interesting pattern displayed is expected to encourage tourists to buy it. For workers who assist in a gallery just requires expertise in explaining the motives and the quality of the product. Number of labor varies from 5 to 20 people whose job it is to serve buyers. While production workers are generally working at home, their products will be in place in a large gallery to be marketed.

Marketing

Marketing strategy includes:

1. Waiting for domestic and foreign tourists who visit with tour guides
2. Marketing and selling in designated market established by the government
3. Participation in exhibition
4. Digital marketing through website.

Product development

Product development strategy is started with innovations in technology and design, and also how to create products that can be packaged as a souvenir. Thus, every tourist both domestic and foreign countries will be interested to buy souvenirs from the art shop there.

Additional income

At least thousands of young women and housewives are individual makers of woven fabrics. The profit they receive is not high. One weaver argues, when compared with farming, profit from the weave is not large. The income could only cover some basic needs or as extra income.

Capital

There are variations in how capital is gain, some get it as inheritance and after a few years manage to get business loan from national and regional banks or or cooperatives. The amount of loans differ according to the size of business. Loan size ranges from IDR 10 million to IDR 200 million.

Revenue

The amount of income depends on the type of product and the number of items produce within a month. A weave artisans earn Rp 50,000 per day, or about Rp 1,500,000, - per month including meals. But owners of the production house who put the weaving in a gallery will gain between 10-25% per unit. Large gallery which generally accommodate products also take set a profit margin of 10-25% per unit.

The impact of inflation

Changes in the business environment cannot possibly be resisted by individuals in small and medium enterprises, however for the industry to survive several steps have been taken by these small and medium enterprises.

To cover the cost of production, should be done by raising the selling price of products / services. However, today amid intense market competition and feel a decrease in purchasing power, the strategy to raise the selling price of products / services are not necessarily going to get a positive response from the market, especially if the product is not a primary requirement.

Therefore, for small enterprise the strategy is reduce the size of the goods, reducing product quality, reduce business profits and reduce their costs of production.

Impact of weakening exchange rate

The findings of the study focused on three aspects,

- the impact on the cost structure of production (production cost structure). The cost structure will be directly affected by exchange rate fluctuations through the input components are sourced from imports.
- impact of the structure of business performance (business performance).
- the impact on market structure and capital. During periods of rising fuel prices which lacks the weakening of the exchange rate, there has been a shift in the structure of capital markets and the weaving subsector

In general, small businesses are not experiencing the shock with the increase in fuel or rupiah. However, the output is reduced, but still be able to provide the demand of buyers.

The relationship of tourism sector with other sectors

The main priority of the government is to strengthen the linkage between agriculture and tourism. Within the tourism economy, all sectors are supposedly interrelated and mutually support one another. If hotels occupancies are low, traditional markets which sell farmers' produce will also be quiet. Food production is closely connected with the agricultural sector. Likewise the raw material used by weaving craftsmen also depend on cotton crops in the area of Lombok.

One of the main agricultural products are tobacco, so there are some farmers switching over from cotton to tobacco products that it affects the supply of raw materials needed for weaving business in Lombok. In general, the tourism sector will impact positively to the following sectors:

- provision of hotel, food and beverage, transportation, entertainment;
- cotton farmers, fibers made of bark and banana, fibers made of pineapple and palm. The issue of cotton growers switching to tobacco have to have the attention of government to prevent the scarcity of weaving material;
- the materials for making gold and silver thread;
- other materials used in the weaving process.

Total regression equation poverty rural areas using factors affecting as independent variable inflation, exchange rate, economic growth and average wages showed determination coefficient of 87.8%, meaning that the independent variables are able to explain the diversity of the dependent variable.

Results of estimation of poverty rural areas showed significantly affected by inflation, exchange rate, economic growth and the average wage by probability-value respectively by 0:00, 0019, 0006 and 0082 all of the value of probability is smaller than the value of alpha of 0:05. While the simultaneous testing also showed a significant influence to the probability-value of 0.000. While the simultaneous testing also showed a significant influence to the probability-value of 0.000.

Conclusion

Quantitative analysis:

- There is significant effect of inflation rate, exchange rate, economic growth and average wages on poverty;
- There is significant effect of the inflation rate and the average wage on poverty in urban areas;
- There is significant effect of inflation rate, exchange rate, economic growth and average wages on poverty in rural areas;
- There is significant effect of inflation rate, exchange rate and unemployment on unemployment assuming fixed wage;
- There is no significant effect of inflation rate and exchange rate on unemployment with no fixed wage assumption.

Qualitative analysis

- The welfare of both business owners and artisans in small industry are not overly influenced by the impact of inflation and the weakening of rupiah against the US dollar;
- Strategies to overcome the impact of inflation and exchange rate adopted by small and medium enterprise, include (a) Efforts to reduce the size of goods (b) reducing the quality of the product (c) reduce business profits and (d) cost efficiency of production;
- Current marketing system, includes: (a) Waiting for domestic and foreign tourists who visit with tour guides (b) Marketing and selling in designated market established by the government (c) Participation in exhibition (d) Digital marketing through website.
- Constraints faced by the Small and Medium Industry:
 - a. Small and narrow roads leading to the gallery;
 - b. Lack of clean water supplies;
 - c. Lack of electricity supply;
 - d. Weak Internet facilities (such as wifi or cable).
- Linkages to other sectors. Good backward and forward linkages will will be a positive influence:
 - a. Provision of quality hotel, food and beverage, transportation, entertainment, to ensure tourists' needs are fulfilled;
 - b. The farmers of cotton, bark and banana fibers, pineapple and palm leaf fibers;
 - c. The material of gold and silver thread;
 - d. Other materials such as egg shells, glue.

Recommendation

To overcome poverty and unemployment in Indonesia due to inflation and the weakening of the rupiah, it is recommended that:

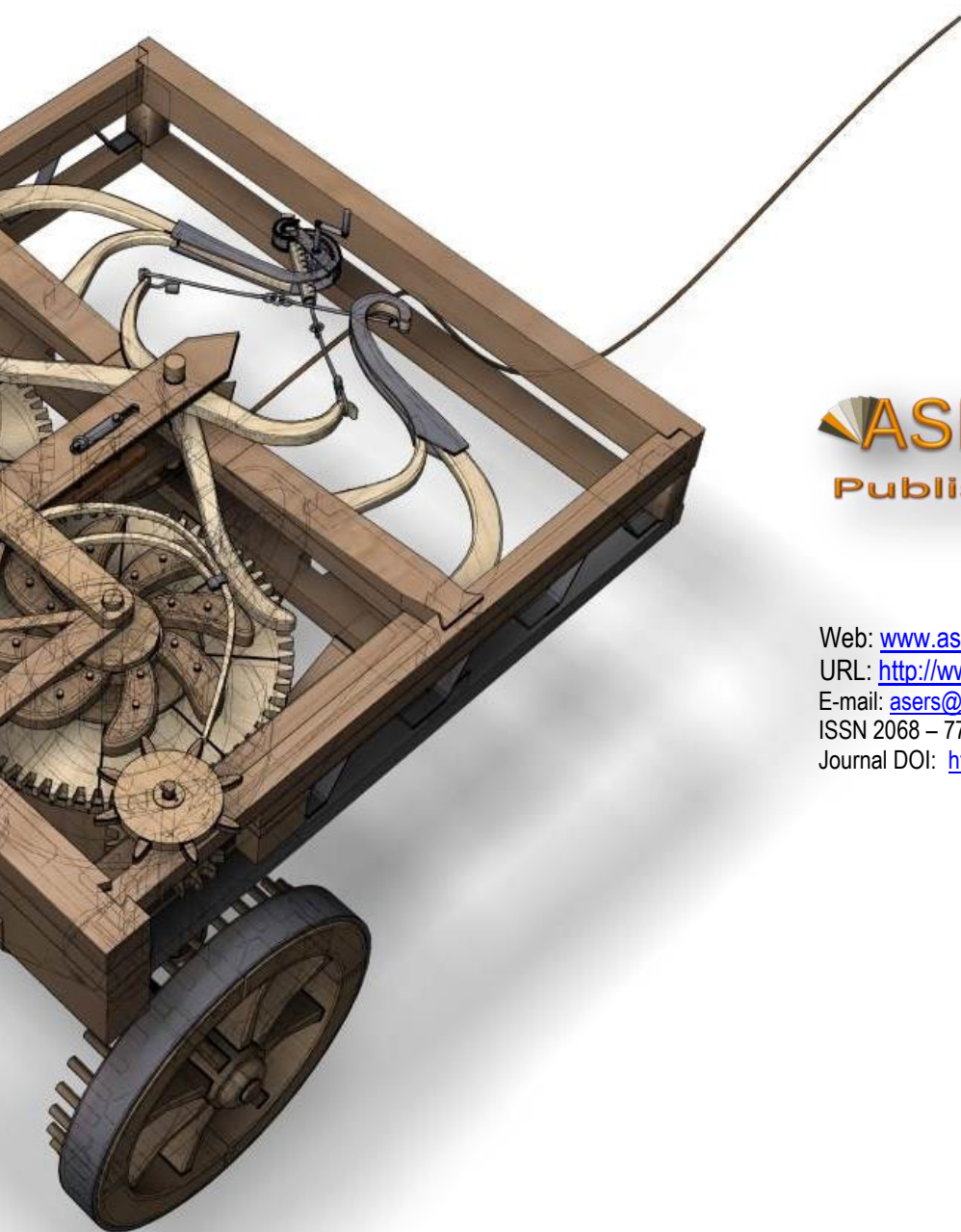
- serious attention should be given for the development of small and medium enterprise in Indonesia;
- provide special incentives to the small and medium enterprises by providing loan capital with low interest;
- increasing the number of foreign and domestic tourists arrivals through;
- the creation of the new entrepreneurs for small industries through business management training.

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