

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Tourism is one sector of the economy with the potential to be developed to contribute to economic growth. Tourism can boost economic growth both directly and indirectly, by encouraging the growth of other sectors and by increasing domestic revenues and effective demand. Tourism is also one of the sectors with the most potential to bring in the foreign exchange and easiest to provide job opportunity. Tourism activities create demand, consumption, and investment, which in turn will lead to the production of goods and services. In other words, it was widely seen as a tourism that has multiple dimensions of the circuit a development process.

In the past, the central government controlled almost all the potential for fat income in the regions, both from natural resources and from the taxation sector. As a result, a lot of money flows to the center, but only a part of it is distributed to the regions. Since 1 January 2001, the Indonesian government officially declared the start of the implementation of Regional Autonomy in accordance with Law no. 22 of 1999 which was later revised by Law No. 25 of 1999 concerning regional governance. The old system of government and regional development which was highly centralized and dominated by the central government was starting to be abandoned. Meanwhile, local governments are given the authority and new financial sources to encourage the

development process in their respective regions which will further encourage the national development process.

According to Syarif (2000), regional autonomy is the delegation of more development management authority to local governments, especially in districts / cities. According to Law No.25 of 1999, regional autonomy is the authority of an autonomous region to regulate and manage the interests of the local community according to their own initiatives based on community aspirations in accordance with statutory regulations.

Regional autonomy includes Development Decentralization and Fiscal Decentralization. Autonomy in question is Regional Autonomy which means the authority of an autonomous region in regulating and managing the interests of the community in the local area according to its own policies based on community input and potential in accordance with statutory regulations. In terms of development decentralization, regional autonomy is carried out by granting greater authority to regions, especially districts / cities. Through fiscal decentralization, regional governments are given greater authority to manage financial expenditures in accordance with regional potential and needs. For this reason, the government provides a new financial allocation for regions called Balancing Funds which consists of three elements, namely: a share for the regions from the revenue from natural resource management, the General Allocation Fund (DAU), the Special Allocation Fund (DAK).

Referring to the normative definition in Law No. 32 of 2004, the elements of regional autonomy are the rights, authorities and obligations of the Autonomous Region. These three things are intended to regulate and manage for themselves what government decisions are made for in the interests of the people in the local area, in accordance with laws and regulations which explain that regions have the right to obtain financial sources, namely: there is funding that must be sourced from the government related to affairs the entrusted government, with this goal, the local government must have the ability to explore potential sources of Local Own-Source Revenue and the government should channeling the part of the revenue and / or share part of its tax revenue with the regional government.

Based on Law no. 33 of 2004 concerning Central and Regional Financial Balance which provides a great opportunity for regions to process natural resources owned by a region in order to contribute as much as possible and the best to increase the income of a region. Each regional government strives to make economic improvements for its own region, including increasing the yield of **Local Own-Source Revenue**.

Local Own-Source Revenue is a description in independence of an area in developing its area potential to obtain maximum and optimal revenue. On the other hand, the utilization of existing Local Own-Source Revenue resources must be maximized and the region must always be able to explore something new to find and develop the capacity of Local Own-Source Revenue resources so that an area is getting richer with its Local Own-Source Revenue resources, the region will have more and

more resources. revenue that is useful in regional development so that it provides a great opportunity for the region to obtain results from its natural resources in order to obtain optimal results. Sources of Local Own-Source Revenue originate from local taxes, regional retribution, proceeds from the management of separated regional assets, other legitimate local revenue.

One of the activities to increase regional income in West Sumatra, is by optimizing the capabilities and opportunities of Local Own-Source Revenue sources from the tourism sector. Tourism in West Sumatra has a very large opportunity to increase Local Own-Source Revenue and needs to be researched in order to achieve optimal Local Own-Source Revenue and increase regional economic growth. Tourism is important because West Sumatra has many tourist attractions that are able to attract tourists. This can be seen from the increasing number of domestic and foreign tourists who come every year to West Sumatra. In addition, West Sumatra has many hotels and restaurants that can be developed and can support the tourism aspect in providing facilities for tourists to stay and eat. It is hoped that the large number of tourists staying at the hotel and eating at this restaurant will increase revenue from the tax side.

West Sumatra has its own charm in tourism business activities for domestic and international tourists so that it often becomes a tourist destination. This tourism potential in West Sumatra must also be realized by the government so that the government endeavors to develop various tourist attractions in West Sumatra. The development of tourism in an area, especially in West Sumatra, generates economic benefits including foreign exchange for West Sumatra and the state. Tourism also

protects the physical and socio-cultural circles of the area, by visiting tourists in an area, more people will get to know the culture of that area and becoming a selling point.

The success of the development of the tourism sector in an area is positive because it will increase regional income, tourism as its main component and also pay attention to several factors that influence it. According to Spillane (1994), the positive impact of tourism on economic development has an impact on the provision of employment, sources of foreign exchange and distribution of development.

Although the tourism industry is not an industry that has a top priority in improving the regional economy, the tourism industry can be a very potential in improving the regional economic structure and can increase regional independence and competitiveness. It can be implemented by increasing the number of tourism supporting facilities such as lodging and services. The tourism trips offered, the number of visitors and the income from the tourism industry in West Sumatra can also be further increased, thus it is hoped that they will be able to provide a substantial contribution to the Local Own-Source Revenue of West Sumatra.

There are several studies that have similar cases in the past. But mostly those studies done in another method such as OLS method. In Lentari (2013), the study is using OLS method in span of 20 years. Another study that similar to this case is Huda (2009) and Austriana (2005). Both of those study also using OLS method. Some of these studies will be further explained. Furthermore, those studies don't have any result of short-term effect correlation between dependent and independent variables. The differences between this study and another study that already been done in the past is

the method that will be used and the short – term effect that is usually never been searched before.

This research model will be using ECM method in advanced. The reason for using this method is to find or identify the long-term and short-term equations between independent and dependent variables, which is never been done before in previous studies. Another reason is because the data is time series data. So, the ECM method can be used in this model. However, there is still a tendency that the long – term estimation results will be similar to with the previous studies.

In this context of long-run and short-run, there are several problems that is occurred while the government trying to implement the policies. For instance, if the government trying to build a tourist attraction based on the short run situation, the outcome will not be irrelevant. The government should not expect if the changes of regional revenue will increase in the short run by only investing the building or in the tourist attraction. However, in the long run those method will possibly be worked. In conclusion, this is the problem that government should overlook and fixed it by estimating the short – run and long – run model.

Based on the explanation that has been described above, the author will examine more deeply the role of the tourism sector as a sector that greatly affects Local Own-Source Revenue in West Sumatra. In addition, the author also examines the sectors that can affect Local Own-Source Revenue in West Sumatra. This research will be reviewed in a thesis entitled "**Investigating the Relationship Between Tourism Development and Local Own-Source Revenue in West Sumatra**".

## 1.2 Research Problem

One of the indicators used to see the level regional independence is through the Local Own-Source Revenue received in the area. West Sumatra has a great tourism potential which is great to be develop. This can be seen from the increasing number of tourists, hotels and another tourism aspect in West Sumatra over the last few years. The amount of retribution that acquired from the tourist attraction is quite substantial. However, this high potential is still underutilized to increase the Local Own-Source Revenue of West Sumatra.

## 1.3 Research Objectives

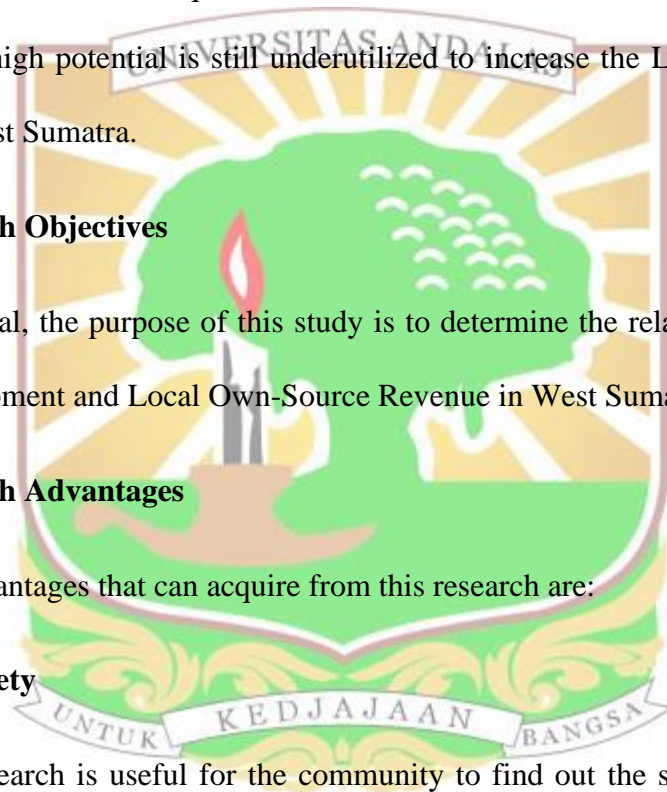
In general, the purpose of this study is to determine the relationship between tourism development and Local Own-Source Revenue in West Sumatra.

## 1.4 Research Advantages

The advantages that can acquire from this research are:

### 1) Society

This research is useful for the community to find out the steps that must be taken so that people are able to increase income with the current development of the tourism sector. For example: people around tourist sites can open businesses to increase their income. In addition, with the development of tourism, the community is expected to play an active role in preserving the environment and maintaining culture so that it still has high value in the eyes of tourists.



## 2) Investor and entrepreneur

For entrepreneurs, this research is useful as a reference for developing the business they run both in the tourism sector or for new entrepreneurs who will run a business in the tourism sector. For investors, this research is useful to see the great potential of tourism in West Sumatra, so that it can help the tourism development of an area through government and private investment.

## 3) Government

Through this research, the benefits for the government are as input for the government to further develop the tourism sector in West Sumatra which is useful for additional state revenue and increasing the country's foreign exchange reserves. Because with the increase in tourism potential, West Sumatra is very effective in assisting the government in solving the problem of unemployment because there are so many opportunities to open business fields that come from businesses that are run or that are being developed by entrepreneurs or individuals.

### 1.5 Limitation of the Study

There are a lot variables that affect the Local Own-Source Revenue in tourism sector. Therefore, this research will focus on the relationship between tourism development and Local Own-Source Revenue by looking the aspect of the number of tourists, Number of Tourist Attraction, and GRDP (Gross Regional Domestic Product) in tourism sector. Moreover, the research period is between 1988 – 2018.



## 1.6 Systematic of Writing

### Chapter 1: Introduction

Explaining about the background, research problem, research objectives, research advantages, limitation of the study and systematics writing.

### Chapter 2: Theoretical Framework and Literature Review

Theoretical Framework and Literature Review that includes literature study which is a research that already done before.

### Chapter 3: Research Methodology

Explaining about the source, data and what kind of method will be used in order to test the model from the data that already been gathered.

### Chapter 4: Result and Analysis

Explaining about the result, analysis and interpretation about the research after processing and calculating the data.

### Chapter 5: Conclusion and Suggestion

This chapter contains conclusions and suggestions obtained from the interpretation in the previous chapter.

