

ANALYSIS OF THE IMPACTS AND CAUSES OF THE INFORMAL ECONOMY ON THE ISLAND OF NUNUKAN

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Abstract

Nunukan Regency, North Kalimantan, the Informal Economy phenomenon is very complex. It is a community response to the economic and social challenges faced in border areas, and also presents challenges for the government. It is influenced by a variety of factors, such as limited capital and accessibility to resources from neighbouring countries, such as Malaysia. The Informal Economy is often a way of survival for local communities in border areas. The activities of the Informal Economy include smuggling of consumer goods, subsidized fuel oil, illegal cross-border trade, and even migrant workers. There is also illegal buying and selling of foreign currency. While these activities contribute to the livelihood of local communities, their impact on economic and social stability cannot be ignored. The informal economy can trigger various types of unfair business competition, lead to potential loss of tax revenue for the state, and also provide opportunities for illegal activities such as smuggling or even migrant workers. This research shows how the impacts and causes of the informal economy affect various aspects of life on Nunukan Island.

Keywords: Border economy, Causes, Illegal economy, Impact, Informal economy, Legal economy, Nunukan island

INTRODUCTION

Nunukan Island, as one of the strategic areas on the Indonesia-Malaysia border, has unique economic dynamics. Its geographical characteristics close to the borders of neighboring countries and its position as the main entrance for border trade activities create challenges as well as opportunities in local economic development. Informal economic activities in Nunukan Regency, are a complex and multifaceted phenomenon, this informal economic activity emerged as a form of response to limited resources and capital, as well as a survival strategy for the community. However, behind its role in supporting the lives of residents, this informal economy also leaves various challenges. These activities of the Informal Economy include a wide range of activities, such as trade in goods and services, which are not officially registered and often do not receive legal protection.

For people who lack capital and opportunities in the formal economy, the Informal Economy is a practical solution for the community. However, on the other hand, the existence of this economic activity is often considered to interfere with formal economic governance. Although the informal economy is considered a savior for communities in remote areas, there is uncertainty about the long-term impact on local economic growth, as well as the welfare of the community in the future. In addition, the informal economy has the potential to reduce state revenue through taxes and cause social problems, for example the lack of protection for informal workers.

The informal economy, including activities such as small trade, informal services, and odd jobs and even smuggling of goods and labor, is often the main choice of the community because of its ease of access without requiring permits or large capital. However, behind the convenience of this sector also presents serious challenges, including low labor protection, legal risks, and minimal contribution to low regional incomes. The phenomenon of the Informal Economy is influenced by various factors, such as low levels of education, limitations on formal employment opportunities, and high levels of urbanization. In addition, there is also economic pressure due to competition from foreign markets, for example, Malaysia which is more advanced, contributing to worsening this condition. As a result, the informal sector is not only the main support of the community's economy, but also poses a long-term risk to regional economic stability.

There is some literature that shows that the informal economy is often associated with job uncertainty and a lack of social protection. According to De Soto (1989), Informal Economy is the community's response to the inability of the formal system to provide jobs and economic opportunities. Alejandro Portes (2021) highlights that the informal economy often develops in response to injustices in access to formal economic opportunities. Thus, the Informal Economy is an alternative for people who are looking for ways to meet their living needs in the midst of existing limitations, especially in the formal system.

This study aims to analyze the impact and main causes of the informal economy on the island of Nunukan. By using a holistic approach, it is hoped that it can provide a broad and in-depth insight into this informal economy. So that with this, the local economy can develop sustainably without relying too much on the informal sector.

LITERATURE REVIEW

a. Informal Economy

Informal Economy is defined as economic activities governed by official laws and regulations, such as smuggling, illegal cross-border trade, as well as undocumented migrant workers. The informal economy on Nunukan Island, especially in the agricultural sector, plays an important role in people's lives. Informal activities, such as trading in agricultural products, often arise from a lack of access to formal markets and limited government support. There are various expert opinions about this Economic Informal such as, Keith Hart (1971) he was the pioneer of the term "informal sector" he defined the Informal Economy as part of the labor force that operates outside the organized labor market. Its activities include small businesses that are not officially registered and often do not have protection or support from the government. According to Hernando de Soto, the informal sector is not only the result of a surplus of labor, but also caused by the cost and complicated bureaucratic process in establishing a formal business. And also Mulyadi (2014) argued, Mulyadi emphasized that the informal sector makes a significant contribution to the absorption of labor in urban areas. He wrote that this sector is low-income.

Impact:

1. **Income Increase:** Informal activities provide a source of income for local farmers, even though they are not officially registered.
2. **Economic Uncertainty:** Involvement in the informal economy can cause uncertainty for farmers regarding product prices and demand.

Reason:

1. **Complicated Bureaucracy:** Difficult and expensive licensing processes encourage farmers to operate in the informal sector.
2. **Infrastructure Limitations:** Lack of adequate infrastructure to support the marketing of official agricultural products.

Strengthening policies and support for the formal sector is needed to improve farmers' welfare and reduce dependence on the informal economy.

RESEARCH METHOD

A. Case study and In-depth Interviews Conduct interviews with informal economy actors, local communities, and government officials to gain an understanding of the dynamics of the informal economy. This interview aims to determine the causes of the development of the informal economy and its impact on community welfare.

Overall, these case studies and in-depth interviews aim to provide a clearer picture of how the informal economy develops, the factors that influence it, and its impact on community welfare, as well as how government policy can play a role in supporting or managing this sector.

B. Limited Formal Employment opportunities One of the main causes of the development of the informal economy is the limited formal employment opportunities on Nunukan Island. This encourages people to look for alternatives through the informal sector. Field observations are a very effective method for obtaining contextual information about how the informal economic sector operates on Nunukan Island. Through direct observation, researchers can identify factors that influence the economy and contribute to the welfare of local communities. The results of these field observations can be used to formulate policy recommendations or more targeted actions to support the informal economic sector in the area.

RESULTS AND DISCUSSION

Based on the results of the research that has been conducted, Informal Economic activities show a very significant impact on society. Although unrecorded cross-border trade and illegal work can make a positive contribution by increasing income for local communities, this phenomenon also raises various complex problems. On the one hand, the informal sector provides economic opportunities for those who have difficulty accessing the formal labor market, but on the other hand, these activities often avoid government regulations. This results in serious challenges such as reduced potential state tax revenues and difficulties in law enforcement and protection of workers' rights. Therefore, it is important to balance the benefits of the Informal Economy with efforts to overcome its negative impacts through wise and inclusive policies.

A. Interviews

In Interviews business actors in the informal sectors in the informal sector, researchers found that the informal economy provides real direct benefits to the community, especially in terms of increasing income for those who have difficulty accessing jobs in the formal sector. For many individuals, this sector is an economic savior, offering opportunities to improve welfare and meet daily living needs. However, behind these benefits, there are a number of negative impacts that cannot be ignored, Informal Economic Activities often operate outside the boundaries of law and regulation, posing serious challenges such as tax evasion, lack of protection of workers' rights, and the potential for increased criminal activity. Therefore, although these activities can provide short-

term solutions, it is important to consider their long-term impacts on overall social and economic stability. The following are some of the negative things produced by Informal Economic activities.

B. Increasing Dependence on Illegal Practices

Some communities tend to increasingly rely on cross-border trade activities and other activities that are not regulated by the government. This dependence indirectly weakens the various law enforcement efforts that have been carried out by the government. By operating outside the legal framework, these practices create major challenges for authorities in enforcing regulations and maintaining order, as well as opening up opportunities for abuse and corruption.

C. Social Vulnerability

The existence of the Informal Economy also triggers social instability, such as unfair business competition and an increase in economic crime rates. In an environment where Informal Economy actors operate without clear regulations, there is a risk of unfair competition with formal businesses that comply with regulations. In addition, the lack of supervision can also encourage increased criminal activity, which ultimately threatens the security and welfare of society as a whole.

CONCLUSION

The informal economy on Nunukan Island has a significant role in the local economy, contributing to the provision of jobs, the distribution of goods and services, and the improvement of community welfare. However, the sector is also faced with various challenges, such as income uncertainty, lack of legal protection, and avoidance of tax obligations. To maximize the potential of the informal economy, efforts are needed to increase access to capital, provide skills training, and integrate the sector into the formal economic system. With these steps, the informal economy can contribute more optimally to economic growth and the welfare of the people of Nunukan Island.

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