

# Impact of Public Spending Efficiency on Surabaya's Economic Development

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## ABSTRACT

This analysis aims to evaluate the impact of public sector spending efficiency on the performance of economic development in Surabaya City. The main focus of this analysis is to understand the relationship between public sector spending efficiency and various indicators of economic development, including regional gross domestic product (GDP) and unemployment rates. The method used in this research is quantitative descriptive, with data taken from secondary sources, such as the Central Statistical Agency of East Java. The data is analyzed to identify patterns and trends that show how efficiency in public spending can affect economic growth and the decline in the unemployment rate in the city. The findings of this analysis are expected to provide a deep insight into the correlation between efficient public sector budget management and economic progress in Surabaya. This insight is crucial for policymakers and other stakeholders in formulating effective strategies to improve the city's economic performance. In addition, this research can also serve as a reference for further studies in urban economics and public finance management. Thus, this analysis not only provides an overview of the current economic conditions, but also provides directions for better economic policy development in the future.

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**INTRODUCTION**

Administration is the combination of individuals with individuals or groups with groups to work on something in order to a common goal. The term development may have different meanings between one person and the other, but the general meaning of development is an agreement that the construction process is to make change (Listyaningsih, 2014).

Development administration is a course that studies the development of state administration in developing countries (Listyaningsih, 2014). The characteristics of public administration with the state administration have significant differences such as, public administration tends more into the social environment in the developed countries while the development administration channels attention to the people in the new developing countries, the public administration has groups that tend to participate in the process of formulation of wisdom, but its role is still less emphasized while the administration of development is actively engaged in towards the objectives of the development either the formulation the wisdom activities or in its effective enforcement, then public administration also emphasizes more orderly coercion in the activities of the government at present but in the management of development rather directed to the endeavour of promoting change towards the situation that may be better for the society in the future (Listyaningsih, 2014).

Surabaya, the second largest city in Indonesia, has experienced rapid economic development in recent decades. The success of economic development in this city can be seen from its various empirical aspects. Significant economic growth, rapidly expanding infrastructure, industrial sector growth, and success in overcoming economic challenges are some of the important factors that strengthen the empirical state of economic development in Surabaya (Jayachandran, 2022).

Economic growth in Surabaya has shown a positive trend over the last few years. Support from local governments committed to boosting investment and business development has been a major driving force in this achievement. The city has succeeded in attracting investment from both home and abroad, which contributes to stable economic growth. In addition, the success in building an industrial area and a modern business centre has also increased the attractiveness of Surabaya as an economic centre in eastern Indonesia. (Ningrum et al., 2018).

**Table 1.** Economic Growth of Surabaya City

	Economic Growth of Surabaya City (Percent)			
	2022	2021	2020	2019
Surabaya City	06.51	04.29	-4.85	06.09

Source: Central Statistic Bureau East Java Province, (2022)

The rapidly expanding infrastructure is also an important pillar in the success of Surabaya's economic development. The construction of toll roads, international airports, modern ports, and an efficient public transport network have facilitated connectivity between Surabaya and other cities in Indonesia and the world. Adequate infrastructure facilitates the distribution of goods and services, increases business efficiency, and opens up new opportunities for economic sectors to grow and thrive (Prastiwi et al., 2022).

The industrial sector in Surabaya has also experienced significant growth. The city has a variety of industrial sectors that contribute to economic development, including manufacturing, petrochemicals, logistics, and others. Support from local governments in providing incentives to entrepreneurs and industry has fueled the growth of these sectors. In addition, success in creating jobs and improving the skills of the labour force has also helped boost industrial productivity in Surabaya (Aminah, 2022).

**Table 2.** Rate of Economic Growth of Surabaya City

	Rate of Economic Growth of Surabaya City
	2022
Kota Surabaya	06.51

Source: Central Statistic Bureau East Java Province, (2022)

Nevertheless, Surabaya also faces various challenges in its economic development. One of the major challenges is the economic disparity between urban and rural areas, as well as the gap between the rich and the poor. Local governments are continuing to tackle these challenges through inclusive development programmes aimed at improving access to education, health, and employment for all segments of society. (Aminah, 2022).

Besides, environmental issues are also serious concerns in the development of Surabaya's economy. The rapid industrial growth and urbanization have increased the pressure on natural resources and the living environment. To address this, local governments have encouraged the adoption of environmentally friendly business practices as well as investment in sustainable environmental management. (Aminah, 2022).

Overall, the empirical state of economic development in Surabaya reflects the success that has been achieved in overcoming challenges and taking advantage of development opportunities. Support from local governments, stable economic growth, rapidly expanding infrastructure, growth in the industrial sector, and commitment to addressing social and environmental problems are key factors that have helped strengthen the Surabaya economy and make it one of the major economic centres in Indonesia. (Liejanto & Pahar, 2021).

The empirical factors that influence the economic development of Surabaya are the result of the interaction of various economic, social, political, and environmental variables that affect the growth and development of the city. Surabaya, as the second largest city in Indonesia and the economic center of East Java, has undergone rapid development in the last few decades (Aini, 2022). Adequate infrastructure enables smooth movement of goods and people, as well as supporting the growth of diverse economic sectors (Ufitri & Puspitasari, 2022). Initiatives such as the development of industrial zones, investment incentives, tourism development, and the provision of quality public services can increase the economic attractiveness of the city to investors and local residents. (Zenda & Suparno, 2017).

The availability of qualified and trained labour is also a key factor in the development of the city's economy. Surabaya, as a city with a large population, has great potential in providing a varied workforce, from manufacturing to service sectors. (Zenda & Suparno, 2017).

Diversification of the industrial sector is an important strategy in strengthening the city's economy. Surabaya has experienced significant growth in manufacturing, agriculture, trade, financial services, and information technology sectors. Sustainable development in these sectors has created new jobs and increased the contribution of cities to the national economy. (Aini, 2022; Ufitri & Puspitasari, 2022).

Openness to foreign investment also plays a role in boosting the city's economic growth. Surabaya has attracted foreign investors through policies that support investment, such as facilities and tax incentives. Foreign investment brings capital, technology, and experience that can accelerate growth in specific sectors. (Wardhanie & Arnandy, 2020).

The economic growth of the city of Surabaya was also driven by increased domestic consumption. Rising population incomes, urbanization, and lifestyle changes have increased demand for a variety of goods and services, driving the growth of retail, entertainment, and tourism sectors. (Ufitri & Puspitasari, 2022).

Collaboration between the public and private sectors is a key factor in designing and implementing economic development strategies. Partnership programmes such as the construction of joint infrastructure projects, labour training, and the development of industrial areas have helped accelerate the economic growth of the city of Surabaya. (Priambodo, 2022).

External factors such as global economic conditions, commodity price fluctuations, and international trade policies also influence the economic development of the city of Surabaya. Regional and international cooperation can open up new opportunities and meet the challenges that cities face in an effort to strengthen their economic base. (Wardhanie & Arnandy, 2020).

Taking into account the above empirical factors, the economic development of the city of Surabaya can take place sustainably with appropriate policy support, sustained investment, and active participation of various stakeholders. Attention to infrastructure development, development of SDM, economic diversification, and partnerships between the public and private sectors will be key to facing challenges and leveraging opportunities for inclusive and sustainable economic growth. (Jayachandran, 2022; Ningrum et al., 2018).

The ideal conditions for the economic development of the city of Surabaya involve a number of interrelated and mutually supportive factors. First of all, modern and integrated infrastructure will be a strong foundation. Efficient transport networks, including reliable toll roads, railways, and public transport, will facilitate smooth mobility of goods and people, accelerate the distribution of products and services, and reduce traffic jams that slow economic activity. In

addition, the development of robust digital infrastructure, such as fast and extensive internet networks, will support the growth of the information and communication technology sector, facilitate e-commerce, and expand access to global markets. (Wardhanie & Arnandy, 2020).

Ideally, government policies that support investment, including tax incentives and financial aid, will attract domestic and foreign capital to develop various economic sectors, create jobs, and increase people's income. Moreover, clear and consistent regulation will provide entrepreneurs with certainty, minimize investment risks, and encourage innovation and sustainable growth. (Wardhanie & Arnandy, 2020).

Ideally, the availability of skilled and educated workforce would be a priority. Investment in vocational education and training will improve the quality of local workforce, provide SDMs that meet the needs of the labour market, and increase the productivity and competitiveness of cities. In addition, social protection and equal access to health and education will improve the well-being of the population, reduce social disparities, and create conditions conducive to inclusive and sustainable economic growth. (Wardhanie & Arnandy, 2020).

In addition, strong partnerships between the public, private and civil society sectors will be the main driving force in achieving the ideal conditions for the economic development of the city of Surabaya. Collaboration in the planning and implementation of development projects, as well as active participation in decision-making, will ensure that the interests of all parties are represented and accommodated. In addition, support for local entrepreneurship initiatives and local intelligence-based industry development will strengthen local economies, increase competitiveness, and create added value for cities. (Priambodo, 2022).

With these ideal conditions fulfilled, Surabaya will be a centre of dynamic, inclusive, and sustainable economic growth, benefiting its entire population and being an example for other cities in their efforts to sustained economic development.

(Priambodo, 2022; Zenda & Suparno, 2017).

**LITERATURE REVIEW**

The study uses a descriptive quantitative approach to analyze the impact of government spending efficiency in the public sector on the performance of economic development in Surabaya City. In this context, descriptive quantitative research will focus on the collection and analysis of numerical data that describes government spending efficiency and various indicators of economic development performance, such as GDP growth rates, unemployment rates, and the Human Development Index (HDI). These data are then analyzed using statistical techniques to get a clear picture of the actual conditions and relationships between the variables.

Through a descriptive quantitative approach, the research not only seeks to identify and describe existing phenomena, but also analyzes data in greater depth to find patterns and possible relationships between government spending efficiency and economic development performance. Statistical analysis techniques, such as regression analysis and hypothesis testing, will be used to test the significance and strength of the relationship. The results of this analysis are expected to provide an in-depth insight into how efficient government budget management can contribute to improved economic performance in Surabaya, as well as provide a solid basis for policy recommendations that can improve the efficiency of government spending in the future.

**RESEARCH METHOD**

The economic development of Surabaya City has shown significant development in the last few decades. As one of the largest cities in Indonesia and the economic centre of East Java, Surabaya has become the locomotive of regional economic growth. Discussions about the state of the city's economic development can be seen from various indicators such as economic growth, emerging industrial sectors, infrastructure, investment, availability of labour, and other factors that influence the dynamics of the town's economy.

**Table 3. Economic Growth of Surabaya City**

Surabaya City	Economic growth (Percent)													
	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Surabaya City	5.70	6.51	4.29	4.85	6.09	6.19	6.13	6.00	5.97	6.96	7.58	7.35	7.13	7.01

Source: Central Statistic Bureau East Java Province, (2023)

The economic growth of the city of Surabaya over the last few years has shown a positive trend. According to data of the Central Statistical Agency (BPS), the gross regional domestic product (GDP) of the city of Surabaya in 2022 reached the figure of about 784.5 trillion rupees, a growth of 6.5% compared to the previous year. This economic growth is driven by major sectors such as manufacturing, trade, services, and construction. (Yogo Subekti & Muhammad Yasin, 2023).

The manufacturing sector has become one of the sectors that has made a significant contribution to the economic growth of the city of Surabaya. The city has become an important industrial base in East Java, with the presence of various factories and production facilities. According to data from the Surabaya City Industry and Trade Service, the manufacturing sector accounted for about 30% of Surabaya City GDP by 2022. This increase is supported by local government policies in support of investment in the sector, as well as the availability of adequate infrastructure and workforce. (Yogo Subekti & Muhammad Yasin, 2023).

In addition to the manufacturing sector, the trade sector also plays an important role in the economic development of the city of Surabaya. As a centre of trade and distribution in East Java, Surabaya has a variety of traditional markets, modern shopping centers, and crowded trading areas. Data from the Surabaya City Trade Service show that the trade sector contributes about 20% to the city's GDP by 2022. This growth is largely driven by increased local and international trade activity, including through the port of Tanjung Perak which is one of the largest ports in Indonesia. (Yogo Subekti & Muhammad Yasin, 2023).

In addition to these major sectors, the economic development of the city of Surabaya is also supported by the rapidly expanding infrastructure. The city has a good transportation network, including access to sea ports, international airports, and a toll road network that connects Surabaya with other cities in eastern Java and western Indonesia. Digital infrastructure is also expanding, with increased Internet access and telecommunications services facilitating business and public communication. (Noor et al., 2017).

Investments in infrastructure development are also continued by the Surabaya regional government. Development projects such as construction of roads, bridges, and development of industrial areas continue to improve connectivity and support the growth of the city's economic

sectors. (Noor et al., 2017).

The availability of skilled and educated labour is also an important factor in the economic development of the city of Surabaya. Surabaya has a number of universities and higher education institutions that produce graduates with skills and knowledge that fit the needs of the local labour market. In addition, employment training and skills development programmes organized by local governments and private agencies also help improve the quality of the workforce in the city. (Wardhanie & Arnandy, 2020).

In addition, partnerships between local governments, the private sector, and civil society are also key in the economic development of the city of Surabaya. Through good cooperation, various parties can synergize to identify problems, design solutions, and implement sustainable development programmes. (Priambodo, 2022).

With sustained support from all sides, Surabaya has the opportunity to become a center of stronger and more sustainable economic growth, as well as providing greater benefits to the population and other stakeholders. Analysis and Discourse.

One of the research hypotheses that has existed in connection with the economic development of Surabaya City is that the diversification of the economy can increase the economic resilience of the city. Based on this hypothesis, the analysis of alternative solutions to the development of the Surabaya City economy can be focused on efforts to diversify the existing economic sectors. (Amir et al., 2018). In this context, some alternative solutions that can be considered are as follows:

- Development of Surabaya Tourism Sector has tourism potential that is not fully exploited. Through the promotion of cultural, historical, and culinary tourism typical of Surabaya, the city can attract more domestic and international tourists. This diversification will create new jobs and boost the revenue of the region.
- Investment in Creative Industries By strengthening creative industries, such as art, music, fashion, and design, Surabaya can expand its economic base. This initiative will not only provide opportunities for local entrepreneurs, but also create unique and competitive products and services in the global market.
- Increased Technology Infrastructure and Digitization Investment in information and communication technology infrastructure can improve productivity and efficiency of other

economic sectors. Development of technology centres, research and development facilities, as well as training programmes to enhance digital skills will help create an environment conducive to the growth of technology-based industries.

- Empowering Small and Medium Enterprises (SMEs) Through policy support and training programmes, SMEs in Surabaya can be empowered to develop local products and market them more widely, both at home and abroad.
- Strengthening public-private partnerships Cooperation between governments, the private sector, and academic institutions can boost investment and innovation in various economic sectors. The partnership program may include the development of industrial areas, the establishment of business incubators, and the provision of consulting services for local entrepreneurs.

Through the analysis of these alternative solutions, the economic development of Surabaya City can lead to sustained diversification and increase the economic resilience of the city to changing global conditions. By implementing the combination of the above strategies, Surabaya can become a hub for dynamic and sustainable economic growth at the regional and national levels.

The most realistic hypothesis of the quotation below is the empowerment of small and medium-sized enterprises. (UKM). The empowerment of SMEs can be done through policy support and training programmes, as is done by the Small and Medium Micro Cooperation and Enterprise Service (UMKM) of the City of Surabaya. This empowerment aims to develop local products and market them more widely, both at home and abroad. Increased market access and financing will help boost the competitiveness of SMEs in the global economy.

The theoretical study of the library shows that empowering SMEs is one of the important strategies in reducing poverty and developing the national economy. The empowerment of SMEs can be done through participation, access, control, and equality in order to improve the well-being of SME owners.

Public-private partnerships (PPS) can also help empower SMEs. KPS is cooperation between government agencies and private companies in providing public services and infrastructure. In this partnership, the two sides share resources, knowledge, and responsibility to a common goal

that focuses on serving the community. Public-private partnerships can help empower SMEs by providing support in the form of policies, regulations, and facilities necessary to implement projects and business activities involving the private sector. In this opportunity, empowerment of SMEs can be carried out through public-private partnership programmes that can include the development of industrial areas, the establishment of business incubators, and the provision of consulting services to local entrepreneurs. These partnerships can create an enabling environment for the growth of technology-based industries, as well as provide opportunities for local entrepreneurs to expand their economic base by strengthening creative industries such as art, music, fashion, and design.

The public-private partnership is a collaboration between the government and the private sector in achieving mutually beneficial development goals. In this context, the government provides policies, regulations, and public resources, while the privately owned sector contributes capital, technology, and managerial expertise. This partnership enables the government to improve the accessibility and quality of public services to the public, as well as help create significant added value. Public-private partnerships can occur in various sectors, such as extractive and mining industries, infrastructure projects, and other sectors.

SMEs are experiencing several problems, such as capital constraints, low human resources, and lack of knowledge mastery; To improve the competitiveness of SMEs in the country, it is necessary to develop human resources and technology, as well as the expansion of the marketing area; The program starts from the concern of BUMN to empower SMEs through the profit share of 2.5 percent used for empowering SMEs; Ministry of Cooperation and UMKM and other Ministries directly undertake construction against SMEs throughout the territory of the homeland.

An opportunity analysis of the existing hypotheses suggests that both the solutions to the hypothesis described, the strengthening of public-private partnerships (PPS) and the empowerment of small and medium-sized enterprises (SMEs), have the potential to reduce problems and help the domestic economy.

## **CONCLUSION AND RECOMMENDATION**

In conclusion, the economic development of Surabaya City requires a comprehensive and

planned approach to achieving sustainable growth and increasing its economic resilience. Based on the analysis of alternative solutions that have been submitted, it can be concluded that economic diversification is the key to facing the challenges and opportunities facing this city.

First, the development of the tourism sector is an important step to attract more tourist visits and create new jobs. The cultural, historical, and culinary tourism potential of Surabaya can be used as a major attraction for domestic and international tourists.

Second, investment in creative industries will open up new opportunities for local entrepreneurs and create unique and competitive products and services in the global market.

Thirdly, technological infrastructure development and digitization will strengthen other economic sectors by increasing productivity and efficiency. The move will also create an enabling environment for the growth of technology-based industries in Surabaya.

Fourthly, empowering SMEs will be a major driver of inclusive and sustainable economic growth. Policy support and training programmes will help SMEs develop local products and market them more widely.

Fifthly, public-private partnerships are an effective strategy in attracting investment and innovation to support the economic development of Surabaya City. This cooperation will also strengthen the city's competitiveness and economic resilience to changing global conditions.

Overall, by implementing such alternatives, Surabaya has the potential to become a hub for dynamic and sustainable economic growth at the regional and national levels. It is important for governments and other stakeholders to collaborate effectively in realizing a vision of inclusive and sustainable economic development for the City of Surabaya.

Based on the conclusion, it is recommended that the Surabaya City government and relevant stakeholders undertake the following actions to ensure sustainable economic development and increased economic resilience:

- 1. Develop and Promote the Tourism Sector**  
Establish a comprehensive tourism development plan that leverages Surabaya's cultural, historical, and culinary assets. This plan should include marketing strategies targeted at both domestic and international tourists, infrastructure improvements to support tourism, and initiatives to train the local workforce in hospitality and tourism management.

- 2. Invest in Creative Industries**  
Provide financial incentives, grants, and training programs to encourage local entrepreneurs to enter and innovate within the creative industries. Establish incubators and innovation hubs to foster collaboration and development of unique products and services that can compete on a global scale.

- 3. Enhance Technological Infrastructure and Digitization**  
Allocate resources to upgrade technological infrastructure, including high-speed internet and digital tools, to improve productivity and efficiency across various sectors. Promote the adoption of digital technologies among businesses and support the growth of tech startups through incubator programs and funding opportunities.

- 4. Empower Small and Medium Enterprises (SMEs)**  
Implement policies and provide training programs designed to support SMEs in product development, marketing, and scaling operations. Establish networks and partnerships to help SMEs access wider markets, both locally and internationally.

- 5. Foster Public-Private Partnerships**  
Create a framework for effective public-private partnerships to attract investment and drive innovation. Encourage collaboration between government entities, private companies, and academic institutions to enhance the city's economic competitiveness and resilience. Focus on joint ventures that align with Surabaya's strategic economic goals.

By adopting these recommendations, Surabaya City can effectively position itself as a dynamic hub of sustainable economic growth and resilience, benefiting both the local community and the broader regional and national economy.

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