

## World Academy of Science, Engineering and Technology

International Scientific Committee and Editorial Review Board on Economics and Management Engineering

|   |  |   |
|---|--|---|
| <b>Dr. Jinhoa Lee</b><br>Department of Economics<br>Hankuk University of Foreign Studies, KR  | <b>Dr. Aissaoui Nasreddine</b><br>Department of Economics and Management<br>University of Oum El Bouaghi, DZ                 | <b>Dr. Tissa Ravinda Perera</b><br>Department of Management & Organization<br>Studies<br>University of Colombo, LK                          |
| <b>Dr. Pongsiri Kamkankaw</b><br>Department of Marketing<br>North Chiang Mai University, TH   | <b>Dr. Isaac Kofi Mensah</b><br>Department of Economics and Management<br>Jiangxi University of Science and Technology, CN   | <b>Assoc. Prof. Dr. Nino Paresashvili</b><br>Department of Management and Administration<br>Ivane Javakishvili Tbilisi State University, GE |
| <b>Dr. Essia Ahmed</b><br>Department of Accounting and Finance<br>Universiti Sains Malaysia, MY   | <b>Dr. Tariq Alabdullah</b><br>Department of Accounting and Finance<br>University of Basrah, IQ                              | <b>Dr. Rubee Singh</b><br>Department of Management Sciences<br>HRIT Group of Institutions, IN   |
| <b>Dr. Monika Hadaś-Dyduch</b><br>Department of Mathematical and Statistical<br>Methods in Economics<br>University of Economics in Katowice, PL           | <b>Prof. Dr. Jonardan Koner</b><br>Economics Department<br>National Institute of Construction Management and<br>Research, IN | <b>Assist. Prof. Dr. Łukasz Marzantowicz</b><br>Department of Logistics<br>SGH Warsaw School of Economics, PL                               |
| <b>Dr. Arkas Viddy</b><br>Business Administration Department<br>State Polytechnic of Samarinda, ID  | <b>Dr. Javad Khamisabadi</b><br>Industrial Management<br>Islamic Azad University, IR   | <b>Dr. Anthony Amoah</b><br>Economics Department<br>Central University, GH<br><br>Activate Windows  |
| <b>Dr. Vidyahwati Tenrisanna</b><br>Department of Social Economics of Animal<br>Husbandry<br>Hasanuddin University, ID                                    | <b>Dr. Feddaoui Amina</b><br>Department of Accounting<br>Jijel university, DZ  | <b>Assist. Prof. Dr. Dolhadi Bin Zainudin</b><br>Department of Business Administration<br>International Islamic University, MY              |
| <b>Assoc. Prof. Dr. Nguyen Phuc Nguyen</b><br>Department of Business Administration<br>University of Da Nang, VN  | <b>Assist. Prof. Dr. Vladimír Kulil</b><br>Faculty of Economics<br>Technical University of Ostrava , CZ                      | <b>Assist. Prof. Dr. Vladimír Kulil</b><br>Department of Economics<br>Technical University of Ostrava, CZ                                   |
| <b>Prof. Dr. Hrudanand Misra</b><br>Department of Management<br>The Mandvi Education Society Institute of<br>Business Management and Computer Studies, IN | <b>Dr. Wassim Ben Ayed</b><br>Department of Accounting<br>Higher Institute of Management of Tunis, TN                        | <b>Dr. Oscar Montiel</b><br>Management Department<br>Universidad Autonoma de Ciudad Juarez, MX  |
| <b>Prof. Dr. Stephen Ferris</b><br>Finance Department<br>University of Missouri, US   | <b>Dr. Marta Perez Perez</b><br>Business Administration Department<br>University of Cantabria, ES                            | <b>Prof. Dr. Des Raj</b><br>Department of Commerce and Management<br>GOVERNMENT PG COLLEGE AMBALA CANTT<br>HARYANA INDIA, IN                |
| <b>Dr. Jerzy Kropiwnicki</b><br>Monetary Policy Council<br>National Bank of Poland, PL  | <b>Prof. Dr. Nugzar Todua</b><br>Department of Marketing<br>Tbilisi State University, GE                                     | <b>Dr. Hakimah Yaacob</b><br>Economics and Finance<br>University Islam Sultan Sharif Ali, BN  |

## The Analysis of Underground Economy Transaction Existence of Junk Night Market (JNM) in Malang City

**Authors :** Sebastiana Viphindratin, Silvi Asna

**Abstract :** The underground economy phenomenon exists in Indonesia. There are some factors which affect the existence of this underground economy activity. One of them is a hierarchy power structure that handles the underground economy existence. The example of the existence of underground economy is the occurring informal market in Indonesia. Malang city is one of the cities which has this kind of market. Junk night market (JNM) as an underground economy activity is arising in that city. The JNM is located in Gatot Subroto Sidewalk Street. The JNM is an illegal market which sells thrift, antique, imitation and black market goods. The JNM is an interesting topic to be discussed, because this market is running in long time without any policy from local government. The JNM activity has its own "power" that runs the market rules. Thus, it is important to analyze how the existence and power structure of JNM actors' community are in Malang city. This research uses a qualitative method with a phenomenological approach where we try to understand the phenomenon and related actors deeply. The aim of this research is to know the existence and power structure of JNM actors' community in Malang. In JNM, there are no entry barriers and tax charges from Malang government itself. Price competition also occurs because the buyer can bargain with the seller. In maintaining buyer loyalty, the JNM actors also do a pre-order system. Even though this market is an illegal market but the JNM actors also give goods guarantee (without legal contract) as a formal market. In JNM actors' community, there is no hierarchy and formal power structure. The role in JNM is managed by informal leaders who come up from trading activity problems that are sidewalk and parking area dividing. Therefore, it can be concluded that even the JNM is an illegal market but it can survive with a natural market pattern. In JNM development, JNM has positive and negative impacts for Malang city. The positive impact of JNM is this market can open a new employment but the negative impact is there is no tax income from that market. Therefore, it is suggested that the government of Malang city should manage and give appropriate policies in this case.

**Keywords :** junk night market (JNM), Malang city, underground economy, illegal

**Conference Title :** ICFE 2015 : 17th International Conference on Finance and Economics

**Conference Location :** Sydney, Australia

**Conference Dates :** December 10-11, 2015

# The Analysis of Underground Economy Transaction Existence of Junk Night Market (JNM) in Malang City

Sebastiana Viphindartin, Silvi Asna

**Abstract**—Underground economy phenomenon is exist in Indonesia. There are some factors which affect the existence this underground economy activity. One of them is a hierarchy power structure that handles the underground economy existence. The example of the existence of underground economy is the occurring informal market in Indonesia. Malang city is one of the city which has this kind of market. Junk night market (JNM) as an underground economy activity is arising in that city. The JNM is located in Gatot Subroto Sidewalk Street. The JNM is an illegal market which sell thrift, antique, imitation and black market goods. The JNM is interesting topic to be discussed, because this market is running in long time without any policy from local government. The JNM activity has their own “power” that run the market rules. So, this is important to be analyzed about how is the existence and power structure of JNM actor community in Malang city. This research is using qualitative method with phenomenological approach. The writer tries to understand the phenomenon and related actors deeply. The aim of this research is to know the existence and power structure of JNM actor community in Malang. In JNM, there is no any entry barriers and tax charge from Malang government itself. Price competition also occurs because the buyer can do a bargain with the seller. In maintaining buyer loyalty, the JNM actors also do pre-order system. Even though, this market is an illegal market but the JNM actors also give the good guarantee (without legal contract) as a formal market. In JNM actor’s community, there is no hierarchy and formal power structure. The role in JNM is managed by informal leaders who come up from the trading activity problems that are sidewalk and parking area dividing. So, can be concluded that even the JNM is illegal market but it can survive with natural market pattern. In JNM development, JNM has positive and negative impact for Malang city. The positive impact of JNM is this market can open a new employment but the negative impact is there is no tax income from that market. Therefore, suggested that the government of Malang city should manage and give appropriate policies in this case.

**Keywords**—Junk night market (JNM), Malang city, Underground economy, illegal

## I. INTRODUCTION

The economic activities on the way experienced formal and informal or legal and illegal forms [2]. The form of the activity is explained by differences in the process. But any the purpose forms of economic activity comes down to the benefits and the achievement of profit that is to be maximized.

In achieving maximum benefit in business aspect, the business actors take many activities which does not in line with economy road and the society do not realize that those activities are exist around them – it called as underground economy. Underground economy also called as shadow economy, informal economy, parallel economy, and hidden economy.

Much less realizing that in a big portion, the Indonesian economy is attributed by activities who are in the underground economy. Among illegal activity includes an illegal market, where goods and services produced, be sold and consumed illegally. These activities are classified as illegal because legally it is not justified (e.g.: drugs distribution or smuggling). While the activity of legal which includes the underground economy in the form of legal goods and services that was the condition be sold under illegal. Based on reference [7], give a wide definition about underground economy that is the legal nor illegal production goods and service which escape from government GDP calculation. This definition shows that underground economy is not only illegal economy activities but also as legal

activity in their transactions and income but do not record in statistical recording <sup>7</sup>

This reflects how big the unseen economy activities that exist in the business environment. The existence in informal sector has big impact to national economy. The research about informal economy sector has strong existence means it has exist in various countries. So, this kind of economy cannot be ignored. Informal sector contributes 2/3 from national economy, in 2007 shows the amount of informal sector reach 47, 7 million from 49,8 million worker.

The characteristic of informal sector is non fixed, low and nor sufficient wage. In addition, the productivity in informal sector is low productivity because in informal economic activity; there is neither sophisticated technology nor modern equipment, capital intensified technology. Relatively, labor skill is lower than formal sector. Contrary, good economic system will decrease the informal economic activity.

The phenomenon of the existence of the underground economy is the phenomenon that draws considering their existence. In the media and electronic too often we are presented with news about the smuggling of goods from domestic and abroad as wood, drugs a protected species, electronic goods and others. From the absence of the activity of the underground economy there are several factors that support it up to remain in existence. One factor supporting the sustainability of that activity is the existence of a hierarchical structure of power that move those activities [11]

One of the practice of the underground economy happening in Indonesia is existence from the emergence of informal markets in the community [10]. It cannot be denied the existence of these informal markets has become an alternative for some in the community to meet the needs of living. In big cities in Indonesia as Jakarta and Surabaya are not separated from the existence of the markets. While in major cities like Jakarta other there are also similar market such as snake market located on Lumpang Raya St, North Jakarta. Not much different from a

burglar market in Wonokromo Surabaya, snake markets in Plumpang Jakarta is selling goods that the remaining export [12]

Same thing with the existence of its informal market in two city Jakarta and Surabaya in the Malang town also not in spite of the existence of a similar market is Malang junk night market (JNM) unfortunate that is located along the sidewalk highway Gatot Subroto. JNM was a market that sells secondhand goods, imitation antiquarian ancient or even the process of goods from the black market. The existence of JNM in this area has been long time and remain in existence until now although the condition in JNM relatively very simple and far from formal. Activities such as this are indeed interesting to be discussed, because an existence within the community there are rulers who runs and rules form a play. Although the pattern that power is formal and informal.

Therefore based on the discussion earlier that the underground economy is one of the phenomena faced by Indonesia economy hence important research. On the basis of this is the writer trying to scrutinize the underground economy problems on a community JNM unfortunate.

## II. LITERATURE REVIEW

In reference [4] :” it is very difficult to get accurate information about activities are underground economy, the individuals involved in these activities are very may not want to be identified. Because it is an underground economy and activities are considered to be a desire to know something hard scientific known” The shadow economy that includes not only activities are legal but also it income which not recorded derived from the production of goods and services, whether their transactions using the means of payment ( money ) even just by way of barter or exchange [9]

In other words the underground economy actually includes all economic activity can be taxed if these activities are recorded in a tax [4]. Therefore was assume that the bigger the

underground economy then the greater the potential in losing tax. As mentioned in reference [9] the shadow economy will decrease if the government has strong system. Mentioned also that several studies found empirical evidence about a positive relationship between corruption and the shadow economy [9]. The more severe the corruption rate of a country the greater the shadow economy. In general bad governance and law enforcement also leads to economic recovery run so slow so in the end no available employment sufficient and adequate income. To detect the presence of the underground economy. Some economists using methods that is not necessarily the same approach each other. Several approaches used to determine the amount of the underground economy is as follows [5] :

A) Direct approach .Through the suspect in a survey of activity in the underground economy.

B )Monetary approach .Usually deals is categorized as a use the money in the underground economy cash payment .If money supply , and good cash deposit bank increased exceeding recorded transaction , then the difference used to estimate the amount of the underground economy .

C) Describing approach in official statistic .Counting the difference between spending and the number of national income in the balance .In

addition also use the decreasing level of labor force participation as her approach .

D) Consumption electricity approach. If electricity consumption growth beyond its economic growth (economic activities), it can be used to estimate the underground economy growth.

### III. RESEARCH METHODOLOGY

We observed the JNM in Malang by using qualitative method. Where interview, observation, and recheck the data by using source triangulation are our way to get the trusted information [3]

### IV. DISCUSSION

Based on the approach used in this research is a qualitative approach where the data obtained very dependent on information provided by the informants [6].Because of it , an informant who was chosen to the process of the data of this research first , sellers on a community of JNM , which is key informants who can describe how the existence of JNM communities can exist and explain how the structure of existing powers .In addition to key informants , researchers also requires informant supporters as one form or a tool validity of testing data [8] .These informants supporters are among consumers and the parking lot in JNM .Details of the informants could be seen in following table 1

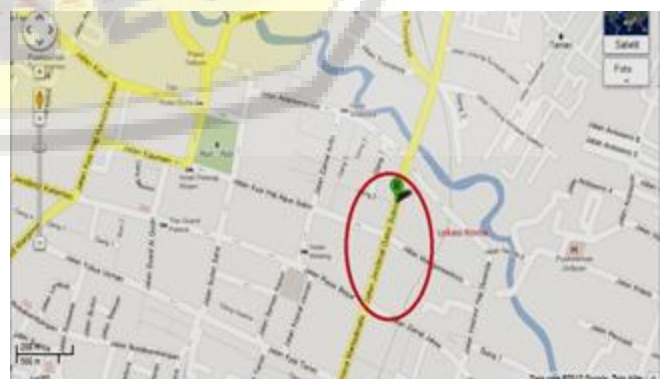
by writer for this research. An unfortunate there is one sector informal that its existence still exist until now. The place is usually called Junk Night Market (JNM).

**TABLE 1**  
**INFORMANT TABLE**

| Name  | Job    | Business Type              | Long of Job |
|-------|--------|----------------------------|-------------|
| Topan | Seller | Phone Charger Seller       | 6 years     |
| Angga | Seller | Headset and speaker seller | 6 years     |
| Amin  | Seller | Watch seller               | 4 months    |

Source : Modified from field, 2014

Based on the table 1,the list of informants that are the source information to research conducted by writer .Informants is felt to be by researchers can respond synthesis problems that determined



Source: Google map, modified. Gatot Subroto street, Malang

Gatot Subroto road to be said is one of the area of business in the city poor .This can be seen shopping with the existing conditions , office , to the eating .On the condition of the morning until afternoon Gatot Subroto road is the area of shops .Gatot Subroto this kind of shops in all kinds , starting from the motor dealer , the workshop , cell phone dealer , mini , the bike , a shop building , the store glass , electronics store , an apothecary shop to toughen up to .For office while there is one of the bank owned by the government who also opened a branch in this area . With the condition of being quite strategic , because it is the main line to poor come to the city from the south and is not far from the city center , about 1 km from the square Merdeka , in addition to the Gatot Subroto also near to traditional markets “kebalen” with the distance only about 50 meters and also near to big market of the city which is about 500 meters .Gatot Subroto comparison road conditions by day and night can be seen from the following:

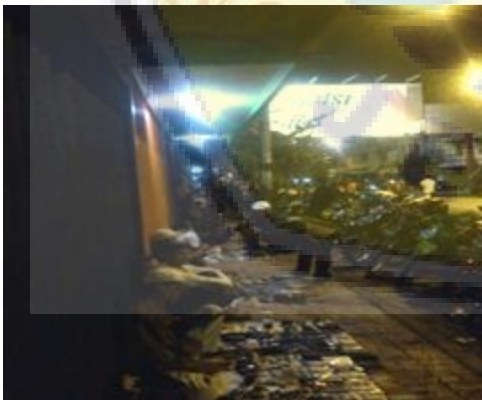


Source : Field documentation, 2014  
JNM area in noon

Through the picture can be seen the difference of the condition of activities during the day and night days on the road Gatot Subroto .Where these differences can be seen, in the afternoon, the condition on the road is dominated by shops of Gatot Subroto .Entering night , when the owners of the shops has close up shop them then the situation changed economic activity in the area by sellers JNM. The existence of JNM can be excavated from Topan one of the vendors when asked since when JNM there:

Figure 1

The comparison of Gatot Subroto road by day and night



Source : Field documentation, 2014

“yo sekitar sewelas taun nduk”. (Around 11 years)

Based on that information can be excavated from Mr Topan, can be predicted the existence of JNM has lasted since 2003. The majority of sellers in JNM dominated by those who derived from Malang and the immigrants from Madura native and offspring. When there is a potential buyer approached and asked the loot, then that one of the vendors provide information on the products on sale. In addition the condition of JNM is quite simple, the sellers was just sitting there on the sidewalk / a terrace a shop or on the side road .So that the existing visitors here in JNM have to accept what it is with squatting or just stand there to look over or purchase goods .

Figure 2



Source : Field documentation, 2014

The area of JNM is almost open on a daily basis, usually opening hours of JNM at around 7:00 pm, but depending on the conditions of the respective merchants. This articulated By Amin :

*“Biasa e jam pituan atau setengah wolu wes podo buka nduk, yopokok e toko-tokoikiwestutupbiasa e wespodoteko, tapilekaku jam 5an westekosol e barangkuakeh mas, durungnoto-noto e sisan”.*

(Usually at 7 or 8 and a half has been opened sir, yeah just stores is closed usually)

Concerning the operational hours in JNM this indeed does not have official time, but depending on the condition of each seller. also there is who already have opening hours earlier than others, but on the other side there are also sellers who do not have definite schedule .But at 7 pm there were some of sellers open .Can be said to be between 7 pm until at 7.30 pm some sellers are still managing their goods .Following on 4 sellers pictures is preparing goods.

Figure 4.

The Seller was preparing their goods



Source : Field documentation, 2014

To meet the availability of the goods, the sellers JNM usually get their stuff off several cities as Malang and Surabaya. Most of visitors in JNM they use of motor vehicles .It is reasonable given the JNM directly located in the area of road Gatot Subroto , but is the main line out the usual passed by city trucks and buses .So as to ease and convenience many visitors use of motor vehicles .In the provision of the price, sellers of JNM also give special treatment on a regular customer or commonly called subscriptions .This is a form of service to the transactions between sellers and customers. So, consumers can save their time and money. In addition, consumers and JNM sellers has trust and supporting network that has been established between sellers and buyers. To maintain their existence, sellers in JNM make every effort to continue to maintain the loyalty of consumers .Not only with apply a strategy through the price, the sellers also try other strategies. One of the seller strategy is by offering pre-order system or may be called a reservation in advance / at the beginning without down payment and the JNM seller able to give the buyer goods.



Figure 5  
Preorder and guaranteed goods



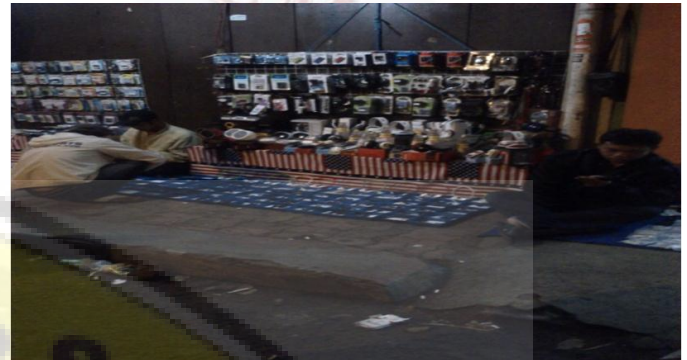
Source : Field documentation, 2014

In organization, a group or community will not set off from the leadership and determine the purpose of the organization, led by a group or community [1]. Leadership in general type often found is leadership that is formal. Then it is usually any organization, a group or community leadership is using patterns of formal and there is a hierarchy vertically<sup>8</sup>, this different stuff appeared in JNM, within the community JNM was not know of a leadership with hierarchy system or there is no power structures. As Junaidi said:

*“adek nik, dunnak riyah bebas, adek bos-bosan nik”*. (No leader or boss in JNM.)

Sellers in a community of JNM does not has the land system. The sellers are free to choose the land and place to sell during the place was not yet occupied by other sellers. The state of land and the selling can be seen in the following figure 6.

Figure 6  
JNM sellers in Gatot Subroto sidewalk



Source : Field documentation, 2014

The senior seller had advantage that is in the form of seniority that arises because those who beforehand come and occupy land / place. The status of the senior sellers has a high position in JNM. So, they will easier in selling their goods or did everything in JNM world community

## V

### CONCLUSION

1. No barrier entry in JNM
2. No tax from local government
3. Customer can bargain the price
4. There is also pre order system
5. There is goods guarantee (illegal)
6. No hierarchy leader system
7. No formal policy
8. Illegal ownership

REFERENCES

- [1] Bardhan,Pranab.1989. *The Economic Theory of Agrarian Institutions*. Oxford: Oxford University Press
- [2] Burhan,M.Umar.2006.*Konsep DasarTeori Ekonomi Mikro*.Malang: BPFE Unibraw,pp 42-44
- [3] Case,Karl E and Ray C.Fair.2003. *Principle of Economics*. New Jersey: Prentice Hall
- [4] Dermawan,Mohammad Kemal.2010. *Underground Economy dan Kejahatan Birokrat*. *Jurnal Masyarakat dan Budaya*. Vol,12 No.2: 227-306
- [5] Irawan,Milyan Andi. 2010. *Undergorund Economy danPertumbuhan Ekonomi*.[tanahbumbu.bps.co.id](http://tanahbumbu.bps.co.id) accessed February 9, 2014
- [6] Moelong,Lexy J.2011.*Metode PenelitianKualitatif*. Edisirevisi. Bandung: PT RemajaRosdakarya
- [7] Purnomo, Kuntarto. 2010. *EstimasiUndergroung Economy Periode 2000-2009 MelaluiPendekatanMoneter*. Jakarta: FE UI
- [8] Sugiyono.2008. *MemahamiPenelitianKualitatif*. Bandung CV Alfabeta
- [9] Susanto,Hari.2011. *Underground Economy*. Jakarta: Badouse Media
- [10] Todaro,Michael P and Stephen C.Smith.2006. *Pembangunan Ekonomi*. EdisiKesembilan. Jakarta: PenerbitErlangga.
- [11] Yustika,Ahmad Erani,2008. *EkonomiKelembagaanDefinisi, TeoridanStrategi*. Malang: Bayumedia
- [12] [www.kabarinews.com](http://www.kabarinews.com) , accessed the date of 1 march 2012