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**Analysis of the Effect of Structural Transformation  
of The Economy**

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**ABSTRACT**

This study aims to analyze the impact of economic structural transformation on economic growth, income inequality, labor distribution, and community welfare. The method used is a literature study, by reviewing various academic literature, government agency reports, and case studies of countries that have undergone structural transformation. The results show that economic structural transformation generally increases economic growth and productivity through labor shifts from the primary sector to the secondary and tertiary sectors. These sectors tend to be more productive and efficient, resulting in increased output and new economic opportunities. However, these positive impacts are often accompanied by rising income inequality, as the industrial and service sectors offer higher compensation than the primary sector. In addition, this transformation brings significant changes to labor market dynamics, requiring new skills that the primary sector workforce may not possess, thus risking increased unemployment and skills gaps. From a social perspective, the structural transformation of the economy may lead to lifestyle changes and rapid urbanization, leading to infrastructure stress and social disintegration. To address these challenges, the study recommends a range of policies, including training and education programs that focus on inclusion, as well as income redistribution policies to reduce inequality. In conclusion, the structural transformation of the economy presents significant growth opportunities, but requires an inclusive and sustainable strategy to ensure its impact is felt equally across society. This study provides relevant recommendations for policymakers in managing economic structural transformation with a balanced approach between growth and social inclusion.

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## INTRODUCTION

Economic structural transformation is the process by which an economy shifts from primary sector orientation to secondary and tertiary sectors. This process usually occurs in the context of a country's economic development and growth. This change is not only related to the shift of resources and labor from agriculture to industry and services, but also includes changes in production, distribution, and consumption patterns that support sustainable economic growth.

As structural transformation takes place, developing countries experience a surge in economic growth. New sectors are emerging, creating employment opportunities and raising productivity levels. This transition is often considered a positive step towards industrialization and urbanization, which in turn support increased per capita income and reduced poverty levels. However, this process is not always smooth and brings a number of challenges that need to be addressed (Fedihartono et al., 2023).

One of the challenges posed by structural transformation is the change in labor market dynamics. The shift from agriculture to industry and services demands a workforce with different skills. If the workforce is unable to keep up with these changes, unemployment and skills gaps will occur. The inability to meet market demands can hinder economic transformation and create income inequality (Pramaria, 2022).

In addition, structural transformation can increase income inequality and economic injustice. The industrial and service sectors tend to provide higher compensation than the primary sector (Sasmita et al., 2023). This can lead to a concentration of wealth and economic opportunities among certain groups, while other groups remain marginalized. Therefore, it is necessary to understand how structural transformation can be carried out in an inclusive manner to ensure that the benefits are felt by all levels of society.

Structural transformations also have an impact on social and cultural dynamics. The shift from rural to urban, as well as from agrarian to industrial and service communities, brings changes in lifestyles, values and social structures (Ningtyas et al., 2023). This can create new challenges in the form of social disintegration, loss of cultural identity, and increased pressure on urban infrastructure. Therefore, a holistic approach is needed that not only focuses on the economic aspects, but also on the social and cultural impacts of this transformation.

This literature review aims to analyze the impact of economic structural transformation from various perspectives. By reviewing the existing literature, we can understand patterns and trends in economic transformation, as well as

identify key factors that influence the success or failure of this process. In addition, this study also aims to reveal the challenges and opportunities that come along with economic transformation, as well as the implications for public policy.

The results of this study are expected to provide valuable insights for policymakers, academics, and economic practitioners. A better understanding of the effects of structural transformation will help in formulating policies that support inclusive and sustainable economic growth. In addition, this study will also contribute to the academic discussion on economic transformation, focusing on social and cultural aspects that are often overlooked.

### **RESEARCH METHODE**

The method used in this study involves a literature review from various sources, including academic journals, government agency reports, and case studies from countries that have undergone structural transformation. Through the analysis of this data, we can describe common patterns in economic transformation and identify the factors that drive such changes. This research will also highlight various policy approaches that can help overcome the challenges posed by structural transformation (Abadi, 2020).

### **RESULT AND DISCUSSION**

#### **Economic Growth and Productivity**

An analysis of the impact of the structural transformation of the economy shows that this process has a significant influence on economic growth and productivity. The shift of labor from the primary sector to the secondary and tertiary sectors is one of the main factors driving this change. Secondary and tertiary sectors, such as industry and services, are known to be more productive due to more sophisticated technology and production methods. This increase in productivity contributes directly to economic growth, as more productive sectors are able to produce higher levels of output with the same or fewer resources.

A study by (Junarti & Yasin, 2023) confirms that countries that manage to carry out structural transformation effectively tend to experience faster economic growth than countries that are still trapped in the primary sector. Countries that succeed in this transformation are generally able to create ecosystems that support the development of industry and services, such as through infrastructure investment, education, and labor training. This change also creates new, more varied employment opportunities and contributes to an increase in people's income.

In addition, the analysis shows that the structural transformation of the economy also plays a role in supporting technological innovation and development. With the shift to industry and services, countries have greater opportunities to adopt new technologies and improve the quality of products and services. This process can boost global competitiveness and open the door to foreign investment, which in turn can accelerate economic growth.

However, the structural transformation of the economy also brings challenges. Labor shifts can lead to skills gaps and increased unemployment if the primary sector workforce is unable to adapt to the demands of the secondary and tertiary sectors. Therefore, the success of structural transformation depends not only on sector shifts, but also on ensuring that the workforce has the necessary skills and support to transition to new sectors.

### **Income Inequality and Economic Opportunity**

Structural transformation of the economy can generate significant economic growth, but is often accompanied by rising income inequality. The shift of labor from the primary sector to the secondary and tertiary sectors does open up new opportunities with higher wages and more attractive career prospects, but its impact on income distribution can be problematic. The industrial and service sectors generally offer higher compensation than the primary sector, creating an economic gap between those with relevant skills and those lagging behind in terms of knowledge and training.

Previous research (Khafidzin, & Istifadah, 2020) explains that this results in exacerbating income inequality and creating a widening economic gap. People with skills that are in demand by the industrial and service sectors gain access to better jobs and higher incomes, while those who remain in the primary sector, or who cannot adapt to the changes, find it difficult to improve their lives. These groups often have lower education and limited access to resources and training, further marginalizing them in a transforming economy.

Research (Kartiasih, 2019) also shows that the negative impacts of structural transformation are often felt by groups of people who depend on the primary sector, such as farmers and workers in natural resource extraction. With reduced economic opportunities in these sectors, many of them face difficulties in finding new jobs that match their skills. These changes may lead to increased unemployment and economic insecurity among groups that are unable to transition to new sectors.

Therefore, effective policies are needed to address the negative impacts of this structural transformation. Measures such as skills training programs, inclusive education, and social support for those negatively affected need to be

implemented to ensure that this transformation not only drives economic growth, but also creates a more equitable and inclusive society.

### **Changing Labor Market Dynamics**

Research findings (Abadi, 2020) suggest that structural changes in the economy have a significant impact on labor market dynamics. As the economy shifts from primary sectors, such as agriculture and natural resource extraction, to the industrial and services sectors, the need for labor skills also changes. The industrial and services sector demands more specialized and complex skills, such as technical proficiency, digital literacy and managerial expertise, which primary sector workers often lack. As a result, many primary sector workers are struggling to adapt to these changes, putting them at risk of unemployment.

Countries that are unable to anticipate the skills needs of the industrial and service sectors may experience rising unemployment rates and skills gaps. The inability to provide training and education that matches changing market demands will leave the workforce behind and make it difficult to compete in an increasingly knowledge-based economy. These skills gaps not only impact individuals, but also have the potential to cause social instability due to high unemployment and reduced quality of life.

The inability of the workforce to adapt to new market needs can also hinder the process of structural transformation itself. Without a skilled and competent workforce, the industrial and service sectors cannot develop optimally, which in turn can slow down economic growth and innovation. As mentioned in (Christina & Pratiwi, 2017), it is therefore important for countries undergoing structural transformation to invest in relevant education and skills training. Training programs tailored to market needs, as well as greater access to education, can help primary sector workers transition to industry and services.

To address this challenge, the government and private sector need to work together to identify skills needs and provide the necessary training. In addition, policies that support social and economic inclusion, such as skills certification programs and support for workers affected by structural transformation, are needed to ensure a smooth and sustainable transition in the labor market.

### **Social and Cultural Implications**

The structural transformation of the economy not only impacted the economic aspect, but also brought significant changes to the social and cultural aspects. Along with the shift from the primary sector to industry and services, there is rapid urbanization, with many workers migrating to big cities in search of new jobs and opportunities. This urbanization is often accompanied by increased population density, which can put great pressure on urban

infrastructure, such as transportation, housing, and health services (Lisda, 2023). Cities that are unprepared for this wave of urbanization may experience severe traffic congestion, housing shortages, and a decline in the quality of public services.

Community disintegration is also a significant challenge in the urbanization process. When people move to cities, they often leave behind established community structures in the countryside, where social ties are closer and cultural traditions are stronger. Urbanization can lead to a loss of sense of community and solidarity, which in turn can affect social cohesion. In addition, the shift towards more modern and fast-paced urban life can lead to changes in cultural values, which may not always be in line with the traditions of rural communities.

These changes can also widen the gap between urban and rural communities. Large cities generally have better access to education, employment and other services, while rural areas may lag behind in terms of economic and social development. This gap can lead to inequalities in the distribution of opportunities and quality of life, creating a widening gulf between more modern urban communities and more traditional rural communities (Sufriadi, 2017).

To address the social and cultural impacts of structural economic transformation, a holistic approach is required. Governments and policymakers need to ensure that the urbanization process is well managed, by strengthening urban infrastructure and maintaining a balance between modernization and cultural preservation. In addition, there needs to be efforts to reduce the gap between urban and rural communities through investments in rural development and programs that support social cohesion. By doing so, the structural transformation of the economy can generate more equitable and sustainable benefits for the entire society.

### **Policy Approach and Recommendations**

Overcoming the negative impacts of economic structural transformation requires a comprehensive and inclusive set of policy approaches. Based on research results, countries that have been successful in structural transformation are those that have implemented policies that focus on education, training, and more equitable income distribution. This approach not only addresses the immediate impact of sector shifts, but also helps reduce the inequality that often arises in the process of economic transformation.

One important step is investment in education and skills training. Programs designed to upskill the workforce, especially those from the primary sector, can help reduce skills gaps and provide opportunities for workers to

transition to industry and services. Vocational training, skills courses, and apprenticeship programs are some examples of initiatives that can improve the ability of the workforce to compete in a rapidly changing market.

A more equitable distribution of income is also a key component of inclusive policies. To achieve this, the government can implement measures such as progressive taxation and subsidies to disadvantaged groups. These income redistribution policies can help reduce economic disparities and ensure that the benefits of structural transformation are felt by more people (Khafidzin & Istifadah, 2020).

In addition, it is important to create a strong social safety net. Support for workers affected by structural transformation, such as unemployment benefits and re-skilling programs, can help prevent social and economic instability. This social safety net can also help maintain social cohesion when society faces major changes in the economic structure.

Furthermore, the government needs to focus on infrastructure development that supports economic transformation. Good infrastructure, such as transportation, information technology, and public facilities, can facilitate sector shifts and support the growth of industry and services. Infrastructure development should also cover rural areas to prevent disparities between urban and rural communities. This was also expressed in previous research (Fedihartono et al., 2023).

With an inclusive and comprehensive policy approach, the negative impacts of economic structural transformation can be minimized, and the benefits of the resulting economic growth can be distributed more fairly. Through education, training, income redistribution, social safety nets, and infrastructure development, structural transformation can become a powerful and inclusive engine of economic growth.

## **CONCLUSION**

Overall, the results and discussion of this study show that the structural transformation of the economy has significant impacts on various economic, social and cultural aspects. While it brings growth opportunities, it also poses a number of challenges that require appropriate policies to ensure inclusive and sustainable outcomes. This study provides insights and recommendations that can assist policymakers in formulating strategies that support structural transformation that is equitable and beneficial for the whole society.

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