

## **The Competitiveness And Economic Performance Of Regency/City In East Java Indonesia**

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**Abstract:** *The study aimed to analyze the typology of competitiveness and economic performance of East Java's regencies/cities, and investigate the influence of regional competitiveness to ward their economic performance. Moreover, the study applied quantitative research approach which employed some analysis instruments, namely: Confirmatory Factor Analysis (CFA), Regression Analysis and Region Typology.*

*The result showed: 1) The typology of competitiveness of regions which includes category I, II, III and IV were 31.58%, 26.32%, 15.79%, and 26.32%; 2) Competitiveness which comprises regional strength indicator, public service facilities, and investment climate proved to affect economic performance; 3) The investment climate had the greatest role compared with regional strength and public service facilities aspects; 4) Regional strength aspects that contributed significantly to the competitiveness was the quality of human resources; 5) Obligatory functions service to provide educational infrastructure had given largest contribution to the determinant of region competitiveness.*

**Keywords:** *Competitiveness, Economic Performance, East Java*

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### **I. Introduction**

Regional development is an integral part of national sustainable development which reaches all levels of Indonesian society. Hence, the development of a country is always synonymous with economic development, for the purpose of economic development is to improve human life and society of a country relatively, in order to achieve a safe, equitable and prosperous society.

In dynamic concept, the development contains changes continuously in every aspect of community life. Developments require basic conditions such as the flexibility of civilization, which means the openness of the structure and the economy of society for any possible changes. A strong encouragement for development is the willingness to become prosperous or better. In order to achieve a safe, equitable and prosperous society, the construction requires a process of socio-cultural change. The process should be a process of change that can move forward on its own strength (self-sustaining process) with a human support factor, natural resources and social structure.

The aim of regional development to achieve welfare society must be done with a sustainable development. According to Brundtland (1987) in Eko and Djoko (1993), sustainable development is development that meets the needs of human beings recently without compromising the ability of humans to meet the needs of them in the future. The concept of sustainable development has now become a goal in the construction and development of regencies/cities in Indonesia. In order to create sustainable development of the regency/city required five basic principles, namely the environment (ecology), economy (employment), equity, engagement and energy (Research Triangle Institute, 1996 in Eko and Djoko, 1999). According to the World Bank Institute (2001), the achievement of regency development area/sustainable city can be summarized into a more micro sphere with four parameters consisting of livability, competitiveness, banks ability, good governance and management.

Keyword competitiveness of countries by the World Economic Forum (WEF) is productivity. Productivity is the main determinant level of Return on Investment (ROI) and aggregation of economic growth. Thus, the more competitive in the competitiveness of an economy system, the development will grow faster in the medium and long range. By having a competitive rivalry, a country will attract many investors to invest.

Increasing the number of investment flows (Foreign Direct Investment) who enter a country will have a significant impact. Economists consider foreign direct investment as one of the booster of economic growth as it contributes to national economic measures such as Gross Domestic Product (GDP / GDP). If a country does not have a competitive rivalry, they will have difficulty in improving domestic economy. There is no a lot of investment inflows.

There are three groups of factors that determine the level of competitiveness of a country. First, the basic requirements such as institutional, infrastructure, macroeconomic conditions and the level of education and public health. These factors are considered as the main motor stimulus of the process/economic growth. Empirically, these factors has been shown to correlate positively to economic growth. Second, the factors that

can increase the economic efficiency or productivity such as higher training and education (human resources), the performance of an efficient market, and technological readiness at the national and enterprise levels individually. Third are the factors of innovation and sophistication of production processes in companies that jointly determine a country's level of innovation.

Theoretically, the discourse how to build the country's competitiveness was brought Michael Porter 1990 in his book *The Competitive Advantage of Nations*. Porter's work is an evolution thoughts on how to build the best country's competitiveness. In the first part of the description Porter reminded the need for a new paradigm in the economic policy of a country. Porter's theory of competitiveness departing from the belief that classical economic theory that explains the advantages komparative (Comparative Advantage) insufficient, or even inaccurate. According to Porter, a country gain a competitive advantage if the company (which exist in the country) competitive. The competitiveness of a country is determined by the ability of the industry to innovate and improve its capabilities.

According to Porter (1990), the issue of regional competitiveness is closely related to industrial competitiveness. Region with high competitiveness is an area that can support the industry which is always oriented to the low prices due to low production costs. So that the industry's ability to gain competitive advantage by basing on: production factor; demand conditions; corporate strategy and structure of the competition; also supporting industries and related industries.

Dimensional shape factor refers to the factors of production required by the industry. This dimension is divided into basic factor and advanced factors (advanced). Basic factors important role in building a competitive advantage, such as: human resources, natural resources, knowledge, capital, location and infrastructure. While further factor involves digital communication, education, and technology.

The dimensions demand conditions refer to the domestic demand. This demand is driven by a combination of needs and characteristics of the domestic buyer or force in a local community in consuming. The composition of demand can describe the style and needs of the buyer. The company will benefit from domestic demand which gave a preliminary description buyer needs to compete in international markets and seeks to suppress the local companies to innovate products quickly and more sophisticated than foreign competitors. These conditions have helped SMEs in promoting his company. If SMEs more competitive, then they will be able to contribute to the economy of the region.

Departing from the Porter's theory, in order to encourage the industry that can compete in an increasingly competitive global market, it is necessary to support regions with high competitiveness. Model Porter diamond has indeed been used by researchers in determining a country's industrial competitiveness compared with other countries. Research Porter diamond model has been widely applied in various countries, including: Sweden (Nachum, 1998), New Zealand (Cartwright, 1993), Netherlands (Jense et al., 1994), Canada (Rugman, 1991 and 1992; Rugman & D'Crusz, 1993; Moon et al., 1995 and 1998).

Originally, Porter diamond models are used to measure the competitiveness of Canada. The weakness of this model is not taking into account the role of government and multinational activity is not well summarized (Rugman, 1991). Disadvantages of this model followed by using the model of the double diamond (Rugman and D'Crusz 1993). However, this model is only appropriate to measure the competitiveness of Canada, but it is inappropriate to measure competitiveness in other countries, including Indonesia.

Double diamond model is developed into a model of generalized double diamond by Moon et al. (1995). The advantages of this model is able to measure the competitiveness in all countries and includes multinational and government activity. Moon et al. (1995) have conducted an analysis of competitiveness for the country of Korea and Singapore. But the shortcomings of this model is that measurement bias in comparing the size and shape of diamond domestic and international diamond. Research results show that the Korea more competitive than Singapore in terms of the domestic diamond, but Singapore is more competitive than Korean in terms of the international diamond. These measurements lead to problems in determining the absolute competitive advantage.

Theoretically, it can be conclude that the main keyword of the requirement to achieve a good performance of regional development, ongoing decentralization and economic globalization is regional competitiveness. The level of competitiveness is one of the parameters in the development of the regency/city sustainable. Usually, if the level of competitiveness of a regency/city is high, the rate of growth and welfare even higher. However, variables measured in the measurement of the level of competitiveness in the region still varies in accordance with the conditions of each region. This is theoretically still cause gap theory, which still require continuous research to develop indicators for competitiveness which are universal. The condition is the background of researchers conducted a study on competitiveness in the region of East Java. In addition to the condition of the theory, empirical conditions of competitiveness of East Java also became the background of this study, as will be discussed below.

In connection with the global competitiveness rankings, since 2005 WEF using the World Competitiveness Index (WCI) as a basis for competitiveness analysis. Definition of competitiveness according

to the WEF is "the set of institutions, policies, and factors that determine the level of productivity of a country." While understanding the productivity level is "the level of prosperity that can be earned by an economy", the position of Indonesia remains much lower than in Malaysia and Thailand, each ranging in positions 31 and 34 in the period of 2001 to 2005. Meanwhile, in the same period, the position of Indonesia continued to fall from position 46 up to 58. In 2005, it finished 59 of 60 countries surveyed, one level above Venezuela.

The ranking position on the terms of the competitiveness of Indonesian latest World Economic Forum (WEF) released the Global Competitiveness Report 2012-2013 Edition (GCR 2012-2013) on September 5, 2012. The position of Indonesia's competitiveness is ranked 50th out of 144 countries, it decreased 5 levels compared to 2011-2012 edition. Countries in North America and Western Europe still dominate the top rankings. Top Ten Ranking successively occupied by Switzerland, Singapore, Finland, Sweden, Netherlands, Germany, USA, UK, Hong Kong, and Japan. Indonesia ranks 5th in the ASEAN under Singapore, Malaysia (the 23's), Brunei (28), and Thailand (38).

When viewed ratings for each of the pillars, Indonesia slumped on the labor market efficiency pillar that is ranked 120th, followed by the technological readiness pillar which ranks 85th, and infrastructure ranks 78th. Best pillar is the size of the market (16), macro-economic environment (25), and innovation (39).

Besides the national macro conditions, investors are strongly considering the influence of local authorities and regional policy. Therefore, efforts to improve the global competitiveness of behavior originated within the scope of the authority of local and regional against some indicators that affect the level of regional competitiveness.

Research on the conditions of regional competitiveness in the Indonesian province newest conducted by Lee Kuan Yew School of Public Policy and the National University of Singapore, survey uses 91 indicators included in the four-sphere is macroeconomic stability, government and institutional planning, financial conditions and labor-business, as well as quality of life and infrastructure development. Source of data collected includes three things: The first is a survey of the members of APINDO and faculty of economics and management; The second is an interview with the provincial government; Third, official data from the relevant agencies, such as the Central Bureau of Statistics, Bank Indonesia, and Investment Coordinating Board.

The results showed that the competitiveness in 19 of 33 provinces in Indonesia is below the national average rate, mostly in eastern Indonesia. While the competitiveness of all provinces in Java has been above the national average. Competitiveness score of all provinces in Java is above the national average. While the entire eastern Indonesia below the average, except in the province of Sulawesi Island. The top five rankings is Jakarta, East Java, West Java, East Kalimantan and Riau Islands. Consecutive ranked the 6 to -13 covering Central Java, Banten, Bali, Riau, North Sumatra, Papua, South Kalimantan and Bangka Belitung. While 19 other province is below the average national competitiveness.

While the study of competitiveness regencies/cities in Indonesia have been carried out by the Regional Autonomy Implementation Monitoring Committee (KPPOD) with United States Agency of Improvement and Development (USAID) and The Asia Foundation. This study focuses on competitiveness which is seen from the aspect of local investment in 169 regencies and 59 cities throughout Indonesia. Indicators to measure the competitiveness of regencies and cities based on 5 categories of support, namely institutions, regional economic, social, political culture security (sosbudpolkam), physical infrastructure, and labor.

The research results relating to the regency/city in East Java showed that: First, from 59 cities that disurve there are 2 cities in East Java are predicated A, which is ranked 13 Surabaya and Kediri rated 16. The predicate B there are two cities that ranked 34th Malang and Mojokerto ratings are predicated C 37. While Probolinggo is rated 48, and the predicate D is Madiun rated 56. Second, 169 regencies that disurve no one regency in East Java are predicated A. Sidoarjo rated 8 with "B" predicate and Gresik regency is rated 39. While there are predicated C 1 regency is Kediri on rated 65. There are 6 predicated D regencies including; Banyuwangi rated 95, Mojokerto rated 97, Jombang rated 100, Bangkalan rated 107, Magetan rated 118, and 125. While Blitar rated predicated E, there are 8 districts, namely Tulungagung rated 139, Situbondo rated 141, 153 Jember, Pasuruan rated 158, Ponorogo rated 159, Lamongan rated 161, Bondowoso rated 165, and Pamekasan rated 166.

Based on the results of two regional competitiveness of the provinces, showed that the competitiveness of East Java province have shown encouraging results that are ranked second out of 33 provinces in surve. The level of competitiveness of East Java province only in Jakarta. However, the results of the competitiveness of the regency/city research are poor. As the results of research conducted by KPOD described above, it indicated that most of the area is equal to 47.6% of regencies in East Java predicated E and 35,2% predicated D. each only 5.8% for predicated A.

Inequality or inequity in East Java development is emphasized also by the macro-economic indicators such as the Gini Index Ratio and employment. Gini coefficient is a measure of evenness were calculated by comparing widely between the diagonal and the Lorenz curve (area A) divided by the area of the triangle below the diagonal, the figure ranges from zero (perfect equity) to one (perfect inequality). The following conditions of

equitable development in East Java based Gini index value ratio over the past five years.

Based on the value of Gini ratio, the average level of inequality of consumption per capita in East Java 2009-2012 was included in the medium category (0.3 to 0.5). During the years 2009-2011 the value of Gini ratio in East Java showed a trend towards improvement, but in 2012 a decline of 0.01 points to 0.36. The situation is still better than the national figure Gini ratio, which from 2009 to 2011 continues to increase. Gini ratio of Indonesia during the years 2009-2012 in a row is 0.37 (2009), 0.38 (2010), 0.41 (2011) and 0.41 (2012).

So that the magnitude of the increase in the average consumption per capita during 2009-2012 as well as an increase in the percentage of non-food consumption is not expected evenly on the entire population, this condition becomes the cause of inequality in the distribution of consumption. In general gini ratio of urban areas beginning in 2009-2012 is higher than in rural areas. Within the past four years gini ratio in urban areas included in medium category, while the Gini ratio in rural areas included in the low category.

Lorenz curve in the figure above, gives an overview of the differences. There is fairly high Gini ratio between urban and rural areas. Rural strip tends to be closer to normal line than urban areas.

Based on national aspects, employment can be obtained from the National Labour Force Survey (Sakernas) conducted quarterly since 2011. Employment data per quarterly in general can explain the conditions of seasonal employment. This is because most of the labor particularly force in East Java. In general Indonesia is still based on the agricultural sector which is heavily influenced by climate changes. In the third quarter of 2012, the employment situation in East Java is relatively better despite industrial relations between employers and workers have not been harmonized, especially with the labor demands associated with the determination of the minimum wage regencies/cities (MSE), sectoral minimum wages (UMS) and removal outsourcing system.

The number of workers in East Java in August 2012 were 19.081 million, it has increased become 141.655 persons compared to August 2011. Whereas the total labor force in East Java has increased 139.672 people, it started from 19.761 million people in 2011 to 19.901 million in 2012. While conditions in 2013 (February), the labor force reached 20.095 million people, the number of workers as much as 19.291. Thus the increase in the number of workers becomes insignificant when compared with the increase in the labor force. This may reflect that the competition is getting tougher among the workforce.

Employment opportunities is the relationship between labor force with employment's ability. Additional labor force must be balanced with the investment, it could create employment opportunities. Thus, it can absorb the increase of labor force. In economics, employment means opportunities or circumstances indicate the availability of jobs so that all people who are willing to work in the production process can get a job in accordance with the expertise, skills and talents. Employment (labor's demand) is a condition that describes the availability of jobs (job vacancies for job seekers). The employment opportunities can be interpreted as the demand for labor. The ratio of the working population in 2012 amounted to 95.88%, which means that in 100 people from the total labor force, there are 96 of them absorbed in jobs available. Those number has increased 0.04 percentage points compared to the year 2011.

Based on these conditions, it is described that there are problems that inequities in development or the development gap in East Java. Regional autonomy should be able to re-organize and plan appropriately potential of the regency/city in East Java which has not been organized effectively yet. In socio-economic, communities and East Java government are needed structuring and planning, especially in an effort to maintain economic growth, expansion of employment opportunities, and increase value-added development of other productive activities. These conditions aim to support the optimization potential and competitiveness of the region in order to achieve a better quality construction in East Java.

Based on the problems of the condition in East Java, then the purpose of this research are: 1) to analyze the typology of competitiveness and economic performance of regencies/cities in the administrative region of East Java; 2) to analyze the influence of the competitiveness of regency/city toward economic performance in each regency and city in the administrative region of East Java .

## **II. Research Methodology**

In order to analyze the competitiveness of the regency/city, it used some indicators and analysis tools, here are some indicators of measurement and analysis tools that are used to measure the competitiveness of the regency/city in East Java.

1. Regional Economic Capabilities Focus
2. Public Service Facilities Focus
3. Investment Season Focus

### **The Influence of Each Indicator Analysis Confirmatory Factor Analysis**

Confirmatory Factor Analysis (CFA) was used to examine how the variables measured (indicators) to describe or represent a number of the construct. CFA is used to test the assertion of the measurement theory that

determines how the variables measured and described logically and systematically.

### **Regression Analysis**

Estimated regression analysis to determine the effect of the independent variable (X) consisting of: Regional Strength (X1), Public Service Facilities (X2), and the Investment Season (X3) toward flexible variable (Y) that is the economic performance. The model form used in the panel data regression analysis are:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + e_{it}$$

where:

Y = Economic Performance

$\beta$  = Constant

X1 = Region's Strength

X2 = Public Service Facilities

X3 = Investment Season

E = Error Disruptors

## **III. Results Of The Study**

### **Factor Analysis of Regional Strength**

Firstly, the researchers will test the strength factor analysis assumptions region right before factor analysis performed. The correlation between the independent variables in the analysis of factors must be  $> 0.5$  with significance  $< 0.05$ .

KMO value and Bartlett's Test in correlation between the desired variable is  $> 0.5$ . The significance of the study was 0.05. Based on the analysis results, it can be known that KMO value was 0.803, which means greater than 0.5. Meanwhile, the resulting significance of Bartlett's Test was 0.000. Thus, it can be said that the variable and the sample used to allow for further analysis.

Based on the loading factor, it can be seen that the most important role indicator is a certified high school population with a correlation value of 0.948. Next in a row were IPM, certified colleges population, literacy rate, Elementary school APM, Population certified elementary school, APM junior high school, APM senior high school, junior certified population, and per capita with a correlation value of 0.948; 0.904; 0.889; 0.880; 0.855; 0.781; 0.764; 0.711; 0.614; and 0.525.

Therefore the main priority of the policy to increase the strength of the region is a certified senior high school population. This variable should be maintained and enhanced, so that minimum education of East Java Resident are certified senior high school/equivalent.

Based on the the previous discussion, it can be known that senior high school certified population is the most important indicator on the region's strength. The regency/city that still has a senior high school degree in the low population should be the primary focus in the policy. Regency/city has a low certified population of senior high school were Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Nganjuk, Madiun, Ngawi, Bojonegoro, Tuban, Lamongan, Bangkalan, Sampang, Pamekasan, and Sumenep.

The next important indicator is HDI, HDI low value contained in Ponorogo, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Madiun, Ngawi, Bojonegoro, Tuban, Lamongan, Jakarta, Sampang, Pamekasan, and Sumenep regencies.

Indicators certified college population were low in Pacitan, Ponorogo, Terri, Tulungagung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Tuban, Jakarta, Sampang, Pamekasan, and Sumenep.

Another important indicator is literacy rate (AMH), a low AMH values contained in Pacitan, Lumajang, Jember, Bondowoso, Situbondo, Probolinggo, Madiun, Ngawi, Bojonegoro, Tuban, Lamongan, Jakarta, Sampang, Pamekasan, and Sumenep.

The next important indicator is NER, NER values were low (below the province) in all regencies/cities in East Java.

Elementary school certified population indicators were high in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Probolinggo, Pasuruan, Nganjuk, Magetan, Ngawi, Bojonegoro, Tuban, Jakarta, Pamekasan, and Sumenep.

On the junior high school APM indicator, the low value contained in Trenggalek, Blitar, Kediri, Malang, Jember, Banyuwangi, Probolinggo, Sidoarjo, Madison, Lamongan, Gresik, Jakarta, Sampang, Pamekasan, and Sumenep.

Moreover, next important indicators is APM senior high school, APM senior high school value throughout the regency/city in East Java already above the standards of East Java.

Indicators of qualified junior residents were low in Lumajang, Jember, Bondowoso, Situbondo, Probolinggo, Pasuruan, Magetan, Jakarta, Sampang, Pamekasan, Sumenep, Malang and Probolinggo.

### **Public Service Facilities Factor Analysis**

The results of correlation between independent variables (Public Service Facilities) exist at the output of KMO and Bartlett's Test as follows: The value of KMO and Bartlett's Test for the correlation between the desired variable was  $> 0.5$ . The significance of the study was 0.05. Based on the analysis results can be known that KMO value was 0.531, which means greater than 0.5. Meanwhile, the resulting significance of Bartlett's Test of 0.000. Thus, it can be said that the variable and the sample used to allow for further research.

Based on the loading factor value, it can be seen that the role of the most important indicators in the public service is the Level Availability of School with a correlation value is 0.833. Next are good elementary building, Pupil Teacher Ratio, good Senior High School Building, good junior high school building, Traveler's visit, Sport, Social Security Services, Health environmental, health services, and active cooperation. The correlation value are 0.773; 0.751; 0.708; 0.488; 0.483; 0.408; 0.397; 0.185; 0.111; 0.37.

Therefore, the main priority of the policy to improve public service facility is educational facilities.

Based on the analysis from the previous discussion that the availability of school is the most important indicator of the public service, the Regency/City which has a low value of the availability of schools (under the provincial value) should be the main policy focus. Regency/City has low availability at all schools regency (29) in East Java and two cities, they are Malang and Surabaya.

Indicators of Elementary School buildings has also low at Pacitan, Terri, Banyuwangi, Bondowoso, Situbondo, Madiun, Magetan, Ngawi, Lamongan, Jakarta, Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, Madiun, and Batu.

Moreover, student teacher ratio indicator was low in Trenggalek, Blitar, Kediri, Banyuwangi, Bondowoso, Sidoarjo, Nganjuk, Madiun, Ngawi, Tuban, Jakarta, and Surabaya.

Besides, good senior high school building indicator was low in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Lumajang, Bondowoso, Situbondo, Probolinggo, Nganjuk, Madiun, Magetan, Ngawi, Tuban, Jakarta, Sampang, Pamekasan, Kediri, Blitar, Probolinggo, Pasuruan, Mojokerto, and Madiun.

Furthermore, Good Junior High School building indicator was also low in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Kediri, Lumajang, Bondowoso, Probolinggo, Pasuruan, Mojokerto, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Tuban, Gresik, Jakarta, Sampang, Pamekasan, Sumenep, Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, Madiun, and Batu.

Travelers visit indicator still low in Pacitan, Ponorogo, Terri, Tulungagung, Kediri, Lumajang, Jember, Bondowoso, Situbondo, Probolinggo, Sidoarjo, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Sampang, Pamekasan, Sumenep, Kediri, Malang, Probolinggo, Pasuruan, Mojokerto, and Madiun.

Sports indicators were also low in Pacitan, Ponorogo, Terri, Tulungagung, Blitar, Kediri, Malang, Lumajang, Jember, Situbondo, Pasuruan, Sidoarjo, Nganjuk, Madison, Bojonegoro, Tuban, Gresik, Jakarta, Sampang, Pamekasan, Sumenep, Mojokerto, Surabaya and Batu.

Social security services indicator still low in Trenggalek, Tulungagung, Blitar, Lumajang, Banyuwangi, Situbondo, Pasuruan, Mojokerto, Nganjuk, Madison, Tuban, Gresik, Sampang, Sumenep, Probolinggo, Surabaya and Batu.

Environmental hygiene also still low in Trenggalek, Blitar, Kediri, Bondowoso, Situbondo, Pasuruan, Sidoarjo, Mojokerto, Madison, Bojonegoro, Lamongan, Sampang, Sumenep, Malang, Surabaya and Batu.

Indicators of health services are still low in Trenggalek, Tulungagung, Kediri, Jember, Banyuwangi, Bondowoso, Situbondo, Pasuruan, Sidoarjo, Madiun, Magetan, Sampang, Sumenep, Blitar, Malang, Mojokerto, and Surabaya.

The other indicator that also still low is active cooperatives contained in Trenggalek, Tulungagung, Kediri, Jember, Situbondo, Probolinggo, Nganjuk, Magetan, Blitar, Malang, Probolinggo, Pasuruan, and Batu.

### **Investment Season Factor Analysis**

Correlation test result between the independent variables (investment season) exist at the output of KMO and Bartlett's Test as follows: The value of KMO and Bartlett's Test for the correlation between the desired variable is  $> 0.5$ . The significance of the study was 0.05. Based on the analysis results can be known that KMO value is 0.521, which means greater than 0.5. Meanwhile, the resulting significance of Bartlett's Test is 0.000. Thus, it can be conclude that the variable and the sample used to allow for further research.

Based on the loading factor value, it can be seen that the most important indicator in the investment season was the amount of investment with a correlation value of 0.875. Next in a row were the investment units, industrial growth, the IDB and harvested area with a correlation value of 0.655; 0.644; 0.632; and 0.359.

Therefore, the main priority of the policy to improve the investment season is increasing the amount of

investment.

Based on the analysis of previous discussion, the amount of investment is an indicator that the most important in the investment season, the regency/city still has a low investment amount should be the focus of policy. Low investment amount indicator included in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Lamongan, Gresik, Jakarta, Sampang, Pamekasan, Sumenep, Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, and Madiun.

Business unit's indicator has low investment in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Kediri, Malang, Jember, Banyuwangi, Probolinggo, Pasuruan, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Bojonegoro, Tuban, Lamongan, Gresik, Jakarta, Sampang, Pamekasan, Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, Madiun, and Batu.

Industrial growth indicators was also low in Pacitan, Ponorogo, Trenggalek, Tulungagung, Blitar, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Probolinggo, Pasuruan, Sidoarjo, Mojokerto, Nganjuk, Madiun, Magetan, Bojonegoro, Tuban, Lamongan, Gresik, Jakarta, Sampang, Pamekasan, Sumenep, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, and Madiun.

IDB indicators was still low in Pacitan, Ponorogo, Tulungagung, Kediri, Malang, Lumajang, Jember, Banyuwangi, Bondowoso, Situbondo, Probolinggo, Pasuruan, Nganjuk, Madiun, Ngawi, Bojonegoro, Tuban, Lamongan, Jakarta, Sampang, and Pamekasan.

Indicators of land area (harvest) was also still low in Pacitan, Trenggalek, Tulungagung, Lumajang, Banyuwangi, Sidoarjo, Mojokerto, Jombang, Nganjuk, Madiun, Magetan, Ngawi, Gresik, Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, Madiun, Surabaya, and Batu.

### **Typology Competitiveness Of Each Regency/City In East Java**

This typology is used to determine the patterns of Competitiveness compared to the Economic Performance of each regency/city in East Java. Based on the analysis, a region which fall under category I (Economic Performance and High Competitiveness) are Malang, Banyuwangi, Sidoarjo, Mojokerto, Jombang, Gresik, Kediri, Malang, Mojokerto, Madiun, Surabaya, and Batu. Region in the category II (High Economic Performance but Low Competitiveness) are Bojonegoro, Nganjuk, Lamongan, Pasuruan, Jember, Lumajang, Kediri, Blitar, Tulungagung, and Trenggalek.

Region in the category III (Low Economic Performance yet high) are Ponorogo, Magetan, Ngawi, Blitar, and Pasuruan. While region in category IV (both Economic Performance and Competitiveness are Low) namely Sumenep, Pamekasan, Sampang, Jakarta, Tuban, Madiun, Probolinggo, Bondowoso, Situbondo, and Pacitan.

There will be explained in details the typology analysis that indicates the position of regional strength of the regency/city, and the factors that influenced a regency/city in quadrant position:

#### **a) Quadrant I**

Quadrant I is a quadrant that describes the condition of the economic performance and high competitiveness. Regions/cities that fall into quadrant I tend as industrial areas or regions that which have a comparative advantage or competitive. Malang and Batu included in to the first quadrant because both of these regions possess such vast agricultural resources than other regencies/cities. Based on the typology of public service facilities and the investment season of this region is an area that ranked the top from 38 districts, it means the regency of Malang and Batu have high competitiveness. Besides, Sidoarjo, Mojokerto, Jombang, Gresik, Kediri, Malang, Mojokerto, Madiun, and Surabaya included in to I quadrant, they are regencies/cities that have the characteristics of the industrial city with development level quite rapidly. This can be seen from the results of regional powers typology, investment season typology, as well as public services typology that show the regency/city is an area that ranks the top of 38 regencies and cities in East Java. While Banyuwangi regency as an area slightly further away from the center of the industrial region yet included in the first quadrant, because based on the public service facility typology and strength, Banyuwangi regency was ranked top of the 38 regencies/cities in East Java.

The important things are to be aware of regions that are in this quadrant, do not be lulled by the performance that has been achieved. Because the next region will face greater competition, which is the entry force of the free market of ASEAN or ASEAN Economic Community (AEC). In the era of AEC areas in East Java no longer have to contend with a region, but also interstate competition, especially in terms of product and labor competition. Therefore, there are areas in the first quadrant must maintain the competitiveness of the region in order to maintain their competitiveness in entering the era of the AEC. Because if the local government is not able to maintain the competitiveness of the local products, it will have an impact on many import products of other countries in ASEAN which will enter the domestic market in East Java, so it will decrease the region's economic performance.

#### **b) Quadrant II**

Quadrant II is the quadrant that describes the condition of high economic performance but low competitiveness. Regencies/cities that fall within the second quadrant is generally an area that tends to level the strength of the region, but public service facilities as well as lower investment season. Regencies/cities that fall into quadrant II are Bojonegoro, Nganjuk, Lamongan, Pasuruan, Jember, Lumajang, Kediri, Blitar, Tulungagung, and Trenggalek. Competitiveness of the Regencies/cities that are located in this quadrant mid position of the 38 Regencies orit called municipalities in East Java.

The important thing notification in this quadrant is how to anticipate the low competitiveness of the region. In the future, there is nothing impossible for investors in this area will run into the surrounding areas that have high competitiveness. The escape of these investments will certainly have an impact on the decline of economic performance, which eventually will lead to regions in this quadrant plunged into the area with category quadrant IV (low conditions of economic performance and competitiveness).

#### **C) Quadrant III**

Quadrant III is the quadrant that describes the condition of low economic performance but high competitiveness. Regencies/cities that fall into quadrant III is an area that tends to have the advantage, can the advantages of natural resources or human resources and adequate facilities. But the area that fall into this quadrant tend to weak economic growth rates and productivity levels are not too high. Regions/cities that fall within the quadrant III are Ponorogo, Magetan, Ngawi, Blitar, and Pasuruan.

This quadrant has the characteristic of high competitiveness, but have not been able to optimize the competitiveness of the region into a regional force, so it can not improve the performance of the local economy. It is important that there should be regions in this quadrant is how to optimize the strength of the competitiveness of the region in order to become the main attraction for investors, by carrying out a wide variety of promotions and ease of investing in various sectors, especially sectors of the seeded area.

#### **d) Quadrant IV**

Quadrant IV is the quadrant that describes the condition of economic performance and low competitiveness. Regency/city included in this quadrant generally an indicator of the strength of local area level, common maid facilities, as well as lower investment season. The area included in this quadrant tend to be developing regions. This can be illustrated by the level of economic performance that is low, low economic growth and food productivity. Regencies/cities that fall into this category are Sumenep, Pamekasan, Sampang, Jakarta, Tuban, Madiun, Probolinggo, Bondowoso, Situbondo, and Pacitan. In general, regencies/cities that fall into this quadrant is an area that the position of the sequence achievement strength indicator area, the investment season and public service facilities in the lower ranks of the 38 regencies/cities in East Java.

The low economic performance areas included in quadrant IV is due to geographical conditions. Most of these regions exist in geographically have less accessibility, due to the physical infrastructure such as roads and bridges as well as electricity or energy is not sufficient for the entry of large-scale investors. Such regions exist in Madura, all regenciess in the island of Madura faced with the problem that is not entirely in the territory of villages with asphalt road access and electricity grid. This condition is causing these areas to experience delays in economic activity, as compared to other areas in East Java.

### **Effect Of Regional Strength, Public Service Facilities And Investment Climate For Economic Performance**

After analyzing the CFA, the next step regression analysis. The data were regressed is the result of factor analysis in the previous discussion. The magnitude of the effect of the Regional Capability ( $X_1$ ), Public Service Facilities ( $X_2$ ), and the Investment Climate ( $X_3$ ) for Economic Performance ( $Y$ ) Regency / City in East Java can be displayed on the following models:

$$Y = -0,03 + 0,47 X_1 + 0,50 X_2 + 0,55 X_3$$

Specification:

Y = Economic Performance  
X1 = Regional Strength  
X2 = Public Service Facilities  
X3 = Investment Climate

Value indicates a constant  $\beta_0$ ,  $\beta_0 = -0.03$  mean value of Economic Performance ( $Y$ ) at  $-0.03\%$  at the time of the Regional Strength ( $X_1$ ), Public Service Facilities ( $X_2$ ), and the Investment Climate ( $X_3$ ) is equal to or considered constant .

B1 is the regression coefficient value variable Regional Strength ( $X_1$ ) is known of 0.47 means that there is a positive influence between the Forces of the Regional Economic Performance of 0.47%. If the

Regional Strength (X1) rose by 1%, the Economic Performance (Y) is also set to increase by 0.47%. Conversely, if the Regional Strength (X1) fell by 1%, the Economic Performance (Y) also will drop by 0.47%.

While the value of  $\beta_2$  is the regression coefficient of Public Service Facilities (X2) is known of 0.50 means that there is a positive influence between the Public Service Facilities for Economic Performance of 0.50%. If the Public Service Facilities (X2) rose by 1%, the Economic Performance (Y) is also set to increase by 0.50%. Conversely, if the Public Service Facilities (X2) fell by 1%, the Economic Performance (Y) also will drop by 0.50%.

$\beta_3$  is the regression coefficient value of the investment climate variables (X3) is known by 0.55 means that there is a positive influence between the Investment Climate for Economic Performance at 0.55%. If the Investment Climate (X3) rose by 1%, the Economic Performance (Y) is also set to increase by 0.55%. Conversely, if the Investment Climate (X3) fell by 1%, the Economic Performance (Y) will also decrease by 0.55%.

From the results of the regression and significance test (t test and f) can be concluded that the Regional Strength (X1), Public Service Facilities (X2), and the Investment Climate (X3) positive effect on related variables (Economic Performance).

To find a variable that has the most dominant influence on the magnitude of Economic Performance in East Java during the study period can be seen from the value of probability. The independent variables have the lowest probability value indicates that the variable is a variable that has the most dominant influence on the dependent variable.

Based on the calculation results can be known probability value Regional Strength, General Services Facility, Investment Climate and 0.15 respectively; 0.17; and 0,016, then by comparing the value of the probability of each variable can be concluded that the variables that have a dominant influence on the magnitude of the economic performance is the investment climate. While the second lowest probability, and the third is the strength of local and public service facilities.

Based on regression analysis, it can be concluded that competitiveness is able to affect the economic performance although only 41.1%. This is consistent with the results of the typology of competitiveness is just as much as 31.58% is an area that has the economic performance and competitiveness were high (quadrant I). While there is 26.32% which is an area having a high economic performance despite the low level of competitiveness (Quadrant II). This means that the region's economic performance is in Quadrant II is more influenced by variables outside of competitiveness. Similarly, in areas that are in quadrant III as much as 13.16% is an area that despite high saingnya power but have not been able to improve economic performance. This means that factors beyond competitiveness as factors of leadership (local government), the use of technology is crucial in improving economic performance.

The results of this study generally concludes that there are approximately 31.58% of the region in East Java which has the first category, namely economic performance and competitiveness are steeper and 26.32% had the second category is of high economic performance and low competitiveness. While there is a 13.16% have category III, low economic performance and high competitiveness, while the other is equal to 26.32% have a third category, namely economic performance and low competitiveness.

These results are less consistent with findings from previous studies conducted by the Regional Autonomy Implementation Monitoring Committee (KPPOD) with United States Agency of Improvement and Development (USAID) and the Foundation which states that the majority of which 47.6% district in East Java predicated E and 35.2% predicated D, while the predicate A and B respectively only 5.8%.

In this study, the District / City located in quadrant I (competitiveness and high economic performance), equivalent to a predicate in a previous study by 31.58% and consists of: Malang, Banyuwangi, Sidoarjo, Mojokerto, Jombang, Gresik, Kediri, Mojokerto, Madiun, Surabaya and Batu. It is certainly counter to the results of United States Agency Improvement and Development (USAID) and the Foundation which states only 5% of the area that have category A.

Likewise for category B, the results of United States Improvement and Development Agency (USAID) and the Foundation which states that there are only 5% of the area that have category B. While the results of this study found 26.32% of the area included in the quadrant II or the equivalent of a category B in the USAID study. While the rest, or most of the United States Agency study of Improvement and Development (USAID) and The Asia Foundation found that 47.6% of existing districts in East Java predicated predicated 35.2% E and D. The results of this study found that 15.79% is in quadrant III (equivalent predicate C) the area of low economic performance and high competitiveness. While there are areas in quadrant IV (equivalent rank E) is the region that has economic performance and competitiveness lower by 26.32%.

Several factors contribute to the differences in the results of this study are: First, the United States Agency of Improvement and Development (USAID) and The Asia Foundation. Doing research competitiveness is seen only from the aspect of local investment. While in this study see the competitiveness seen from three aspects: aspects of regional strength, service aspects, and aspects of the investment climate.

This study contributes to the competitiveness of the measurement variables are more varied than not only measures of aspects of the investment, but also look at aspects of the power of local and regional services. Determination of the area of performance measurement aspect refers to aspects of local government performance assessment contained in Regulation No. 54 of 2010. Thus the determination of measurement variables competitiveness in this study could be the raw variable to measure the competitiveness of the districts / cities throughout Indonesia.

Second, the United States Agency of Improvement and Development (USAID) and the Foundation conducts research competitiveness of the region by taking a sample of the 169 districts and 59 cities throughout Indonesia. The research could lead to the differences in the assessment standards are very high gap. While the study was conducted in 38 districts / cities in East Java are the differences in the assessment standard does not happen very high gap.

This study contributes to the measurement method a relative regional competitiveness more balanced (far) or real. to measure the competitiveness of the smaller space is the space provinces. Thus the measurement will avoid comparisons are relatively balanced level, compared to the level of a larger space such as in national coverage.

Third, the United States Agency of Improvement and Development (USAID) and the Foundation no further see the variable relationship with the regional competitiveness of regional performance. The study compares the only stop on the competitiveness of each region. So that the results of this study could be a recommendation for a lack of policy-making in order to improve the economic performance of the region.

While doing this research, the researcher successfully demonstrated the influence of variables on the performance of the regional competitiveness regions. The results of this study indicate that the competitiveness consisting of strength indicator area, public service facilities, and investment climate that can influence economic performance. It can be shown that the areas that are in the first quadrant is an area that has the economic performance and competitiveness were high, while statistically demonstrated from the results of the t test and f which shows that three indicators were either partially or simultaneously able to affect economic performance an area.

Competitiveness variables can influence the economic performance of 41.1%. This is consistent with the results of the typology of competitiveness is just as much as 31.58%. There is an area that has the economic performance and competitiveness were high (quadrant I). While there is 26.32% area having a high economic performance despite the low level of competitiveness (Quadrant II). This means that the region's economic performance is in Quadrant II is more influenced by variables outside of competitiveness. Similarly, in areas that are in quadrant III as much as 15.79% is an area that despite high competitiveness power but have not been able to improve economic performance. This means that factors beyond competitiveness is factors of leadership (local government). Besides the use of technology is crucial in improving economic performance.

Based on the results of the study showed that the results of this study support the theory of competitiveness at the national level, according to Porter (1990), the competitiveness of a region (eg province or city / county) is highly dependent on the capacity of the community (especially employers) to innovate and update continuously, and the technology and human resources necessary. In contrast, competitive advantages are dynamic: technological change continues, so does the quality of human resources continues to grow.

This study is also consistent with the results of research Institute of Management Development (IMD) in 1989, present the results of his research in *The World Competitiveness Yearbook* with eight factors that affect the competitiveness of the region's economic performance, namely: The domestic economy, internationalization, Government, Management, Finance, Infrastructure, Science and technology, and Human Resources. The results of the World Economic Forum (WEF) in 1996, present the results of his research in *The Global Competitiveness Report*, with eight competitiveness factors that affect the performance of the economy, namely: Civil Institutions, Public, Government, Management, Finance, Infrastructure, Technology, and labor.

It is also reinforced by the various results of previous studies such as Irawati (2012), Cahyono and Kaluge (2010), Santoso (2009), Yanuar (2006), Prasetyo (2008), and Sibarani (2002). Who concluded his research that the variables which have the greatest role to the establishment of the economic performance in the region is the investment climate, followed by the power of local and public service facilities.

The results of this study also support the model actually competitiveness Porter (1990) associated with factors become determinant of competitiveness. The determinants of competitiveness generated in this study are: First, the Regional Aspects of Strength. Variables that contribute greatly to the establishment of competitiveness is the quality of the population (human resources). Quality of the population can be shown on the level of education of the population. Residents are more qualified to be able to increase the productivity of the area, so that regional competitiveness will also be increased. Factors that human resources are able to mobilize other physical factors. Humans will combine and arrange physical factors with a view to obtain the competitiveness of the region. This is consistent with Porter (1990) which states the competitiveness of a region (eg province or city / county) is highly dependent on the capacity of the community (the quality of human

resources) to innovate and update them continuously, and this is necessary for the technology and human resources.

Second is Aspects of Public Service Facilities. In the public service, Variables that contribute greatly to the formation of competitiveness is associated with the service obligatory. The results of this study indicate that the obligatory services related to the provision of educational infrastructure has the largest contribution to the determinant of the region competitiveness. It is certainly a continuation of the previous discussion shows that the quality of human resources has contributed greatly to the determinants of competitiveness, so in order to make it necessary to provide the infrastructure that support it.

Third is Aspects of Investment Climate. When compared with the two previous aspects, aspects of the investment climate has the greatest role. If an area has a high investment value, the area will easily improve other variables. With a huge investment value, the area will be able to improve the quality of human resources, infrastructure, regional productivity, and economic performance in general. This is in line with the opinion of Porter (1990) which states the creation of high-quality production factors, such as skilled human resources should require sustained investment in and specialized. If viewed from the aspect of the company, then the amount of the investment may also reflect industry conditions in the area. An industry will easily create a competitive advantage if it has a large investment funds.

The results of this study also reinforces associated with the measurement of competitiveness according to Porter (1990), among others, argues that human resources and capital (investment) is more important in improving the economic performance compared to only rely on natural resources. This can be seen in areas that are in the first quadrant are the areas that have the quality of human resources and high capital although limited in resources.

Based on the indicators that have a major role on the formation of competitiveness and economic performance, the general policy priority is to increase investment through increased investment climate in terms of the order of regulations, security, social stability, provision of infrastructure, as well as the readiness of human resources. Improving the quality of human resources should also be a priority because the variables of human resources and capital is an important factor in the formation of competitiveness based on the results of the study.

In the context of improving economic performance, influenced by the competitive position of each region due to potential differences in the economic and geographic region. In addition, it also due to the strength of the region, public service facilities, and the investment climate. Based on the analysis, region-based infrastructure development is increasingly important to note. Where infrastructure development plays a major role to open the isolation region lagging in order to spur the growth of the region and to balance economic development of the region.

In order to make East Java equalization, the entire area is able to be in the position of the first quadrant, it is necessary to increase economic activity in the entire service area is characterized by the development of transportation infrastructure that reaches to the lagging regions that accessibility throughout the region were able to rise. Besides development in urban areas directed its development to be more organized with the support of regional development management tools that can accommodate the development of the region for the growth of each region and the harmonious relationship cities large, medium, small and rural areas there.

As some effort must be made to strengthen the competitiveness of the regency / city in East Java in order to support the functions of the regency / city as a boosting force of national development are:

### **Regional Development Strategy Quadrant I**

The main strategy needs to be done in the area included in the first quadrant is "increased efficiency in the management of the area, while maintaining the performance of the competitiveness of the region, especially in anticipation of a decline in the manufacturing sector which will switch on the trade sector".

The direction of the development of regional (spatial) area included in the first quadrant needs to be done by local governments, among others:

- a. Upgrading system of urban services that are designated as National Activity Center (PKN) which has a function in the service of national scope or several provinces covering an area Urban Gresik, Surabaya-Sidoarjo and Malang
- b. Stabilization of industry, trade, and commercial services comprising the Metropolitan corridor that includes the area in the city of Surabaya, CBD (Central the Business District / CBD) Surabaya, High Tech Industrial Park (HTIP) in Surabaya and Sidoarjo, Gempol industry region in Pasuruan, Commercial Area in Lawang, Malang City Central Business District, and Tourism Center Stone) in Surabaya.

Based on the direction of the urban system and the establishment of strategic metropolitan region, then in the city of Surabaya, Kota Batu, Sidoarjo, Gresik, Malang with the following strategies:

1. Increasing completeness of infrastructure areas of infrastructure support economic activity
2. Increasing transportation infrastructure that can encourage the spread of various commodities, agricultural products and industrial raw materials and increase the mobility of people.
3. Developing regional centers of agro-industry
4. Developing activity urban region that includes fisheries, industry, and trade in services
5. Developing tourism region
6. Developing inter-regional accessibility of urban settlements
7. Developing industry-based agricultural and extractive industries manufacturing industry in the form of industrial zones (Shorebase Industrial Estate)
8. Build regional trash high-tech and environmentally friendly
9. Developing small industry / crafts.
10. Increasing educational facilities
11. Developing renewable energy
12. Increasing health care coverage
13. Increasing intensive investment
14. Increasing early warning and disaster mitigation

### **Quadrant II Regional Development Strategy**

This quadrant characterizes regions that are still less competitive due to the limitations of the input factors forming regional competitiveness, so the main strategy of regional development that is needed is "enhancement factors of competitiveness indicators and accompanied by increased efficiency", even though it has a level of efficiency good enough to sustain economic performance has been good.

Areas that exist in this quadrant should be directed to the development of competitiveness with the following strategies:

1. Increasing seed crop farming sector to support food security and processing industry.
2. Increasing fishery production and competitiveness of fisheries production.
3. Developing leading sectors of oil and gas energy.
4. Upgrading added value and competitiveness of petroleum and gas
5. Developing urban settlements
6. Management and control around the mining area
7. Upgrading quality of the environment around the mining area through the establishment of a buffer zone
8. Developing activities for agriculture downstream industries to increase employment and spur the growth of sectoral
9. Increasing capacity and class roads in the area that connects the region with industrial agriculture and export port
10. Developing industry supporting seed sector
11. Increasing transportation access to the industry.
12. Developing marketing facilities with regional services.
13. Developing trade and services to support activities of urban growth resulting multiplier effect on the growth of the leading sectors (agricultural crops, fisheries, oil and gas mining, quarrying, and industrial).

### **Quadrant III Regional Development Strategy**

This quadrant characterizes regions that have high competitiveness, but it still requires a better transformation process again so that an increase in output indicators (GDP), especially for the areas of processing industry sector is still underdeveloped. The main strategy needs to be done is to "increase the promotion of the region and the need to encourage the development of investment and value-added industry-wide to improve economic performance".

Areas that exist in this quadrant should be directed to the development of value-added through Agroindustry development and Agropolitan with the following strategies:

1. Upgrading infrastructure to strengthen the region's role as agropolitan.
2. Developing natural resources optimally local seed and support small and medium-sized industrial society as a major supplier of regional markets.
3. Developing agribusiness trade and services that can support the local tourism activities.
4. Developing commodity clusters in order to accelerate the growth of commodity and commodity organizing regional development.
5. Expansion products and improving the local economy with efforts to create a local market linkages with regional markets.
6. Upgrading human resources with a focus on the agricultural sector, particularly research innovations that can

make a comparative advantage in leading sectors.

7. Strengthen institutional coordination within the cluster Agropolitan to create synergy between the implementation of development,

8. Upgrading cooperation with other parties in the development area to encourage the development of leading sectors,

9. Creating conducive investment climate in terms of the order of rules / regulations, security, social stability, provision of infrastructure, as well as the readiness of human resources.

#### **Quadrant IV Regional Development Strategy**

Regions which exist in this quadrant shows the competitiveness and production of low areas. In order for regional competitiveness can be increased more in this region. It is necessary to apply the main strategy of "increasing capacity of encouraging regional competitiveness factors".

Regions that exist in this quadrant should be directed at improving the competitiveness of the region to encourage the competitiveness of products, with the following strategies:

1. Urging agriculture, plantation, animal husbandry and fishery development as a major sector in the economic growth in Madura.

2. Developing agropolitan cluster based on the superiority of natural resources that are renewable and sustainable from the nature aspect.

3. Developing agribusiness sector supported by the development of regional infrastructure without depending on a specific area. Regional infrastructure is focused on increasing production, distribution, and marketing of leading commodity.

4. Developing agribusiness trade and services that can support economic activities in agropolitan.

5. Products expansion and improving the local economy to create a link between local markets with regional markets.

6. Upgrading human resources for a focus on the agricultural sector, particularly research innovations that can make a comparative advantage in leading sectors.

7. Strengthen institutional coordination to create a synergy of development and the accelerated development of underdeveloped areas.

8. Upgrading cooperation with other parties in the development of the region to encourage the development of leading sectors.

9. Creating conducive investment climate in terms of the order of rules / regulations, security, social stability, provision of infrastructure, as well as the readiness of human resources.

#### **Limitations Of Research**

First is determining regional competitiveness indicators method, based on Regulation 54 of 2010, which incidentally the policy user product. This could lead selecting indicators to measure competitiveness. In addition, the selection of the core indicators of regional economic performance indicators is done with FGD process that invites the whole BAPPEDA regencies / cities in East Java. The process of determining main variable does have limitations, particularly with regard to the subjectivity of the importance of each indicator to be incorporated into the core indicators determining regional competitiveness.

Second is variables measured competitiveness tends to macro indicators of regional economic performance aspects. While the micro level such as the competitiveness of business actors or industry in each region have not been measured. On the other hand, micro indicators also reflect regional excellence to supply facilities and certain economic activity atmosphere. However, because the researcher has a subjective interest to the results of this research, the time and resources are limited, competitiveness indicators in this study only focuses on macro-economic performance indicators region.

#### **Closing**

#### **IV. Conclusion**

The research findings can be summarized as follows:

1. The study of East Java regency/ city competitiveness revealed: First, in term of the strength / ability, Kediri occupied the top rank, followed by Blitar and Mojokerto. While the last position was occupied by Sampang. Secondly, based on the analysis of public service aspect, Malang regency resided the first position, followed by Pasuruan and Madiun. While the last position was Sampang. Third, based on the analysis of regional aspects of the investment, Surabaya had the best ratings, then followed by Sumenep. While the worst was Bojonegoro. Fourth, Based on the analysis of all aspects of competitiveness (strength / ability, service and competitiveness regions) Surabaya won the first position which followed by Kediri and Madiun. While the region has the worst competitiveness rankings for all aspects (strengths / abilities, services and regional competitiveness) is

Sampang.

2. Based on the typology analysis of economic performance and competitiveness, Category I (High Economic Performance and Competitiveness) occupied by 12 areas (31.58%), namely: Malang, Banyuwangi, Sidoarjo, Mojokerto, Jombang, Gresik, Kediri, Malang, Mojokerto, Medium city, Surabaya, Batu. Category II (Low Economic Performance but High Competitiveness) included 10 areas (26.32%), namely: Bojonegoro, Nganjuk, Lamongan, Pasuruan, Jember, Lumajang, Kediri, Blitar, Tulungagung, Trenggalek. Category III (High Economic Performance but Low Competitiveness) involved 6 areas (15.79%), namely: Ponorogo, Magetan, Ngawi, Blitar, Pasuruan, and Probolinggo. Category IV (Economic Performance and Competitiveness Low) consisted of 10 areas (26.32%), namely: Sumenep, Pamekasan, Sampang, Bangkalan, Tuban, Madiun, Probolinggo, Bondowoso, Situbondo, and Pacitan.

3. The competitiveness consisting of strength area indicator, public service facilities, and investment which have proven to affect economic performance. Investment has confirmed as the greatest influential aspect compared with regional strength and public service facilities.

## V. Suggestion

The key issue to understand the regional development, especially in regencies / cities in East Java today, is the less optimal function of regencies / cities as the centers of economic growth activities and investment regionally and nationally. Some areas in East Java have not been able to be the activators of surrounding area development because of uneven strength / ability, insufficient public services, and lack of regional competitiveness. Consequently, it is important to apply appropriate regional development strategy that is able to direct the policy of spatial development, such as: (a) development of rural areas economy; (b) development of rural areas and lagging regions infrastructure; (c) increase transparency and investment; (d) linkage of urban and rural areas; (e) human resources development policy, and (f) improvement of regencies / city government institutions quality.

Several attempts which were made to strengthen the competitiveness of the regency / city in East Java in order to support their functions as the activators of national development are:

- **Quadrant I areas:** improve the area management efficiency by maintaining competitiveness especially by anticipating the manufacturing sector decreasing which will shift into the trade sector.

- **Quadrant II areas:** improve the competitiveness indicators factors, in less competitive areas due to the limitations of the input factors which support regional competitiveness, which accompanied with efficiency enhancement, although it has showed good level of efficiency.

- **Quadrant III:** increase the output indicators (GDP), in high competitive area that still require better transformation process, especially for the manufacturing areas which less competitive. They should be encouraged to develop extensive investment and value-added industry.

- **Quadrant IV:** increase the capacity of competitive supporting factors, for competitive yet having low production area, in order to increase the regional competitiveness.

Regional competitive approach can be synergized with the strategy of surrounding area development since the objectives of development are not merely strengthen the internal factors but also hold important role in broader context, which are expected to be able to encourage the region growth. Competitive area will be able to contribute to build linkages with local / other areas in accordance with the scale and function of the area.

The level identification and regional competitiveness mapping will help each region to determine the future direction of improvement in order to recognize their strengths and weaknesses based on the input and output indicators so they can increase the local production (GDP). Due to the importance of regional competitiveness level, it is necessary to conduct continuous study to enhance an objective measurement and identify the measuring regional competitiveness indicators.

It is very important to develop the measurement instrument for further research, for example include the micro level aspect such as the manufacturer or business owner in each region which have not been measured in this study. It will be very useful in observing the competitiveness of business performers who also play important role in the establishment of regional economic performance.

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