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## The Influence Factors of Regional Development to Create Regional Competitiveness : A Review

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### A B S T R A C T

Regional development was done before Indonesia's Independent day in 1945, but it still did not achieve the result as expected. The root cause of this problem is avoiding factors that influence regional development. The method used is an integrated review of research focused on regional development and competitiveness. This paper will discuss the external and internal factors of regional development to increase Indonesian position in regional competitiveness level. Internal factors related to regional development are management, resources, participation, local industry, infrastructure, technology, local policy, innovation, and entrepreneurship. Moreover, the external factors affecting regional development are the government, politics, market, and investment. Internal factors in regional development can be controlled; however, external factors are uncontrollable. Focusing on regional development to maintain competitive economic growth and become a competitive region should be put on innovation, entrepreneurship, and networking.

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### INTRODUCTION

Regional development is one of the approaches in agricultural development which aims to accelerate economic growth (BAPPENAS, 2004). Regional development is not just a phenomena in local or regional but also cannot be separated from national or even global (Rustiadi, 2001).

Based on Indonesian regulation UU no 26 the year 2007 about spatial planning, the regional is spatial, which is geographical and its all inside related to the boundary and the system allocated trough administrative or through functionality (Pemerintah Republik Indonesia, 2007). Moreover, regional development is the effort to develop and improve the inter-dependent relation and interaction among the economic, social, and eco-systems (BAPPENAS, 2004).

Some researchers argued that the success of regional development could be shown by the productivity, efficiency, and participation of the community (Riyadi, 2000). The indicators that can be used to measure the successfulness of the regional development are GDP/GNP per capita, growth, GDP per capita with purchasing parity, growth of economic structure, and employment (Todaro & Smith, 2004).

Agricultural regional development is usually done in a rural area because the rural area is the center of agricultural activities. The key factors that affect regional development can be mentioned as internal or endogen (Tankovic & Stojsavljevic, 2014) and external factors (Tankovic & Stojsavljevic, 2014; Zheliazkov, Zaimova, Genchev, & Toneva, 2015).

Some methods that had been used to regional development in Indonesia are *Bimbingan Massal* / Mass guideline (BIMAS), *Intensifikasi Khusus* /

special intensification (INSUS), Supra INSUS, *Perkebunan Inti Rakyat* (PIR), *Kawasan Industri Peternakan* / livestock industrial region (KINAK), *Kawasan Usaha Peternakan* / livestock venture region (KUNAK), *Kawasan Pengembangan Ekonomi Terpadu* / integrated economic development region (KAPET), *Kawasan Sentra Produksi* / production central region (KSP), *Kawasan Sentra Produksi Agribisnis Unggulan* / supreme agribusiness production central region (SPAKU), *Kawasan Industri Masyarakat Perkebunan* / industrial plantation community region (KIMBUN), *Kawasan Cepat Tumbuh* / quick growth region dan *Kawasan Ekonomi Khusus* / social economic region (KEK), *Kawasan Agropolitan* / agropolitan region, *Kawasan Minapolitan* / minapolitan region, *Kota Terpadu Mandiri* / independent integrated region (KTM) (Akil, 2004; BAPPEDA, 2012; BPS, 2015; Kementan, 2014, 2015; Mardiharini & Jamal, 2012; Menfebri, 2007; Suprpto, 2011).

In the case of improving regional development, the Indonesian government actively participated in the sustainable development regular summit facilitated by United Nations (UN, 2000, 2002, 2012; UN & group, 2014). Besides that, the building of infrastructure, human resource development, natural resources management, and the development policies that have been done still have not achieved the expected results (Akil, 2004; Kementan, 2015; Menfebri, 2007; Mondal, 2007; Pakpahan, 2005).

Based on the arguments above, some questioning and analysis need to be done. The questions are: What factors influence regional development? The aims of this literature review are:

1. Identified the internal factors that influence regional development.
2. Identified the external factors that influence regional development.

## REVIEW METHOD

The method that is used in this paper is an integrative review which compares and analyses the documents or journals that appear on the ultimate database such as SAGE, Springer, Science Direct, Emerald, Oxford, Wiley, Google scholar, BPPT, IPB Repository; and data from World Bank, United Nation, Indonesian Census Center BPS, Indonesian Ministry of Agriculture. The ranges of the papers are between the years 2000 and 2018. The keywords for searching are regional development, sustainable development, regional development agriculture, regional competitiveness, and gross domestic product (GDP). Moreover, the books related to regional development also become the sources of this paper. Finally, the information and data results are analyzed as the criterion mentioned

## RESULTS AND DISCUSSION

### *Internal Factors*

Internal factors are the factors that available within the region, which become the object of the development. Internal factors that affect regional development can be classified as management, resources, participation, local industry, culture and local identity, local community, infrastructure, technology, innovation and entrepreneurship.

Management is a process or activities integrated from planning, organizing, actuating, and controlling. The focus of management in regional development is efficiency in every activity, from planning to control (Bian, Liang, & Xu, 2015; Jovanović & Milićević, 2013; Khairullof, 2014; Panfiluk, 2017). However, efficiency can be achieved if there are synergies between actors involved in regional development.

Resources that influence regional development can be both natural resources and human resources. A region has to optimize the use of the resources for regional development activities (Djamudin, Fauzi, Arifin, & Sukardi, 2012; Romão & Neuts, 2017; Sorensen, 2015; Swords, 2013; Zheliazkov et al., 2015; Zhongya, 2014; Zhuravleva, 2014). Moreover, it should consider the demand for natural resources since it significantly affects regional development (Perloff & Wingo, 1961). In this case, the potential resources and global demand trends must be considered to support achieving a competitive advantage.

Human resources have also had a big impact on regional development in correlation to labor availability (Božović & Đurašković, 2014; Jelic, Jandric, Zivkovic, & Milovancevic, 2015). Human resources have to be

supported by a high level of education, such as formal or informal education, to maintain the success of regional development (Albulescu & Albulescu, 2014; Anand, Bisaillon, Webster, & Amor, 2015; Biriescu & Babaita, 2014; Katona Kovacs, 2014; Lansu, Boon, Sloep, & van Dam-Mieras, 2013).

The implementations of regional development based on resources that have been done in Indonesia are SPAKU and KSP. However, in reality, some farmers in the area that are used as production centers for certain products have changed to planting other products because of the potential for higher product selling points. Therefore, regulatory support is needed to be related to the guaranteed sale value of commodities from the local and central governments.

is a proactive human resource activity involved in regional development. The level of participation and initiative is a crucial factor in the success of regional development (Doitchinova & Stoyanova, 2014) (Spekkink, 2015). Participation will trigger creativity, entrepreneurship, and community involvement (Cabras & Bosworth, 2014; Dabić, Bašić, & Vlačić, 2013; Gawel, 2013). The participation of actors is needed in planning, organizing, implementing, and controlling (Berjan, El Bilali, Jankovic, & Radosavac, 2015; Jankovic, 2012; Khayrullina, 2014; Nastran, 2015). Besides, human resource participation is needed in efforts to build local institutional capacity (Doitchinova & Stoyanova, 2014; Jankovic, 2012) and industry activity (Barber, 2016) that has a significant impact on regional development. The low level of participation of the community in regional development is one of the problems in Indonesia's regional development (Kementan, 2014; Menfebri, 2007; Pakpahan, 2005).

The industry is an economic activity that processes the raw material or creates goods in the production regions. Local industries in a region can be a source of economic growth by offering job opportunities and also benefiting from goods produced are needed (Dabić et al., 2013; Muresan & Gogu, 2012). Moreover, the performance of the industries is related to entrepreneurship orientation, resources networking, and innovation (Ginting, 2015). The improving level of the industry's performance will boost the economic growth of the regions. The implementations of regional development based on industrial practices in Indonesia are KINAK and KIMBUN. Indonesia also has the potential to develop industries that produce regional-specific products such as weaving from Silungkang, batik from Solo, fresh food from Berastagi, silver from Yogyakarta and Koto Gadang, and others.

The collaborating the industries and the cultural heritages in the regions can achieve competitive cultural cities

(Evans, 2005). But, the new culture industry tends to change from goods to services such as news, televisions, film, cultural tourism, natural tourism, and entertainment tourism (Shu-sheng, 2012).

The factors that got much attention in regional development are innovation and entrepreneurship. In fact, innovation has a role in economic growth (Dabić et al., 2013; Gawel, 2013) (Ivolga, 2014; Lorenzini, 2014). Innovation and entrepreneurship are the success factors that can increase productivity and business competitiveness (Ding, de Vries, & Han, 2014) (Adeliya & Renata, 2015; Khiari & Rejeb, 2015). The competitive advantage of a region can be developed based on the innovation of the firm inside the region (Porter, 1998). Innovation can be classified as a product, process, organization, and marketing innovations (Bologa, 2009; Eren & Koşan, 2012) (Abolhosseini & Heshmati, 2014; Muazir & Hsieh, 2014) (Belotti López de Medina, 2015; Fetschenko, Shadoba, Katkow, Shchelikova, & Glushak, 2015; Schwarz et al., 2014).

Some regions change to become innovative regions that aim to create knowledge-intensive regions (Hajek, Henriques, & Hajkova, 2014; Lau & Lo, 2015). The characteristic of innovative regions is a value (Hartono, 2015) (Oh, Chen, Wang, & Liu, 2015). Innovation is related to entrepreneurship and regional network that adds value to the regions (Ríos-Carmenado, Rahoveanu, & Gallegos, 2014) (Ginting, 2015) (H. Yoon, Yun, Lee, & Phillips, 2015; J. Yoon, 2015) (Yun & Lee, 2013). Some countries support the innovative regional program with institutional and financial support to create a new competitive product (Doh & Kim, 2014; Sang-Arun, 2013). Regional innovation systems are developed by building networks between actors to accelerate the transfer of knowledge in the form of information and technology to support the creation of innovation (Adeliya & Renata, 2015; Gerasimova, Mokichev, & Mokichev, 2013; Herliana, 2015; Oliveira, Echeveste, Cortimiglia, & Gonçalves, 2017). Indonesia has developed a system of regional innovation (SIDa) but has constrained coordination and cooperation between actors or stakeholders (Handayani & Nasution).

However, infrastructure (Ejdemo & Söderholm, 2015; Muazir & Hsieh, 2014; Nistor & Dona, 2014) and technology (Dabić et al., 2013) greatly influence regional development. However, the dissemination of technology and information through direct communication is preferred in regional development (Alexiadis, Korres, & Ladias, 2012) (Herdon, Peto, Botos, & Varallyai, 2014). The local policy is also essential in supporting regional development (Jankovic, 2012).

### External Factors

External factors appear from outside of the region, which will be developed and contribute to the region's development. External factors can be mentioned as government, politics, market, and investment.

As the external factor, the government is the national government based in the capital city. The national government is responsible for funding, coordination, and policy. Funding that usually allocated in the form of financial (Bielik, Smutka, Hoeska, & Shelby, 2014; Nolic, Ivonis, & Stevovic, 2014). In this case, the allocated budget can trigger regional development (Bielik et al., 2014; Gawel, 2013; Onder & Ozyildirim, 2010), although some nations have limitations on budgeting the regional development (Clifton, Díaz-Fuentes, & Revuelta, 2014; Schwarz et al., 2014). In addition, the Indonesian government has allocated the budgeting through departments related to regional development (Kementan, 2015).

Coordination in regional development can be formed as vertical coordination, which involves inter-coordination among national and local governments (Berjan et al., 2015; Elmenofi, El Bilali, & Berjan, 2014). The effectiveness of vertical coordination depends on the horizontal coordination in the region (Řehor, 2013) (Berjan et al., 2015). Inter-coordination among the departments in regional development practice is still low, creating problems in regional development (Mondal, 2007) (Kementan, 2014, 2015).

The policies taken by the government related to budgeting and regulations have a significant effect on supporting regional development. Moreover, the policies can maintain the region's competitiveness (Božović & Đurašković, 2014) (Tankovic & Stojsavljevic, 2014; Zheliazkov et al., 2015). However, the policies that do not match the situation of a region can slow down the regional economy (Gouda et al., 2018). The policies related to regional development have been released, such as Presidential decree No 150 / 2000 about KAPET, and Agriculture Ministerial decree No 392 / Kpts / OT. 210 / 06 / 2002 about KIMBUN, UU no 25 / 2004 about the national development planning system and others.

The political condition, which is related to the political stability nation has a significant impact on ensuring the safety of the investment (Elekes, 2014; McDuie-Ra, 2008). In this case, investment is the financial resources that the investor invests in supporting regional development. So, the important thing that should be considered is investment attraction in the region that will be developed (Ivolga, 2014).

A market is a place where the seller can meet the customers, so transactions appear and get financial

revenue that can be used to create regional development (Tankovic & Stojsavljevic, 2014). Market demand for products or services produced in an area will greatly affect productivity to be able to achieve regional competitiveness.

### CONCLUSIONS

Internal factors related to regional development are management, resources, participation, local industry, infrastructure, technology, local policy, innovation, and entrepreneurship. The external factors affecting regional development are the government, politics, market, and investment. Internal factors in regional development can be controlled; however, external factors are uncontrollable.

Stakeholders in regional development in Indonesia must build a network of coordination and cooperation through a system to be able to accelerate the creation of innovation. Innovation that is supported by the spirit of entrepreneurship can increase productivity in order to create regional competitiveness. The development of regional innovation systems is supported by funding, infrastructure, resources, technology, and government policies..

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