

How To Increase City Investment Attraction

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Abstract: This study aims to find out: 1) how the investment influences the Local Own-Source Revenue; and 2) what factors must be considered to attract investors to invest. The research was conducted in Batu City, a city that has great potential in the tourism (one of the cities with the highest number of tourists in East Java) and agriculture (famous for its apple farming products). The results show that the increase in regional investment had a significant effect on the increase in Local Revenue. Therefore, the Regional Government must be able to attract investors to invest in their regions by: 1) preparing adequate facilities and infrastructure, 2) preparing skilled human resources, and 3) setting up an effective and efficient bureaucratic system..

Index Terms : City Investment Attraction, Investment, Local Own-Source Revenue

1. INTRODUCTION

THE Law No. 32/2004 [1] on Regional Government which is a revision of the Law No. 22/1999 on Regional Autonomy shows that regional autonomy gives the region the right to regulate its own households. Regional autonomy is widely believed to be the best way to encourage regional development [2]. The implementation of regional autonomy is expected to improve services in various sectors, especially the public sector, to be able to attract investors to invest in the regions. If a region has adequate infrastructure, investors will invest and the community can carry out their daily activities comfortably so that the level of productivity will increase. The increasing productivity of the community and the number of investors will increase the investments. It is expected that this situation will increase Local Own-Source Revenue which in turn will have an impact on increasing regional spending [3]. One of the important things to encourage the achievement of quality development is investment. This is partly because investment has an influence on aggregate growth by its ability to drive the level of output and employment opportunities, thus affecting the formation of capital which in the long run will increase output potential and maintain the growth. Regional investment is an investment in a region carried out by components of government, society and the private sector (business world). Increased regional investment can be realized if a region has "potentials" to sell. The ability of a region to sell must also be supported by a conducive climate such as security guarantees and legal certainty. The Regional Government must produce regulations to trigger economic growth to attract investors [4]. In addition, the governmental system must be improved to be more effective and efficient, such as long-winded procedures must be abandoned. Some local governments have taken steps to attract investors, but not yet thoroughly. Kuncoro (2004) [5] states that several initiatives have been carried out including reforming the investment service bureaucracy, building information systems on investment potential and enhancing and provisioning physical infrastructure. Local governments will have the convenience to increase regional development with investment support. Therefore, we need a way to increase investor interest in investing in a region. This study aims to find out: 1) how the investment influence the Local Own-Source Revenue, 2) what factors must be considered to attract investors to invest. The study was conducted in Batu City, is a city that has great potential in the tourism (one of the cities with the highest number of tourists in East Java) and agriculture (famous for apple farming).

2 LITERATURE REVIEW

2.1 The Effect of Investment on Local Own-Source Revenue

To support the increase in local revenue, new investments are needed. Investment is an important component in long-term economic growth. Economic development involves production activities (goods and services) in all sectors of the economy. Investment can have an effect on local revenue if investment returns and government spending are used to finance all the needs and activities of the region itself. The results of research in regencies/cities in Central Java show that investment variables affect the Local Own-Source Revenue [6]. This is in line with the results of research conducted in West Lombok Regency showing that investment has an effect on Local Own-Source Revenue (PAD) [7].

2.2 Investment Attraction

McDonald and Bailly(2017) [8] state that for investors, the characteristics of city that have the most highly value are: 1) a strong city economy with growth potential, a highly-skilled workforce, and resilient to economic downturns and external shocks; 2) excellent transport connections, both within and beyond the city (nationally and internationally), as well as a transport system that can keep up with an expanding economy; 3) pro-investment city leadership which prioritizes investment has consistent policies and attitudes, high profile, and bargaining power with central government; and 4) a focus on delivery, with a responsive, pro-investment planning system, a team with access to investment expertise, and willingness to step in where necessary to facilitate investment. A research by Danciu & Strat (2014) about Foreign Direct Investments (FDI) in the Romanian Regions uses the extracted factor scores for the following six variables: 1) labor; 2) agglomeration; 3) infrastructure; 4) knowledge; 5) market; 6) cost and a dummy variable as the general measures of the location determinants for the inflow of FDI [9]. The dependent variable represents the probability of either investing or not investing in any given region, with the Bucharest-Ifov region being the comparison group. The results indicate that that there were substantial differences in the attractiveness of Romanian regions when the initial inflows of FDI were evaluated. FDI were directed by accessibility and the potential of the regions as well as the local businessmen mentality. It is shown that if input costs and the availability of labor force and resources were seen by investors as important factors for investing in Romania, all regions would be more favored for the inflow of foreign capital than the Bucharest-Ifov area. A

study by Snieska & Zykiene (2015) [10] in Alytus City Lithuania shows that in many cases the choice of the city for investment was influenced by the accessibility of skilled workforce and its costs, the resource price and competition in the market. In line with the results of the research above, the 2018 Global Cities Investment Monitor [11] sets several investment criteria, namely: 1) Political Stability and Juridical Security; 2) Infrastructure; 3) Availability of Human Resources Skills; 4) Economic Growth, 5) Market Accessibility And Size; 6) Living Cost, Salaries And Tax Level; 7) Availability And Cost of Real Estate; 8) Quality Of Education; 9) Quality Of Life; 10) Quality Of Research and Innovation; and 11) Start Up Ecosystem. Based on some of the above research results, it can be concluded that in order to attract investors, it is necessary for a city to increase its selling power both in terms of economic factors such as high growth rates, availability of skilled labor, market potential and in terms of infrastructure and ease of licensing processes.

3 HYPOTHESES DEVELOPMENT

Based of research in regencies/cities in Central Java show that investment variables affect the Local Own-Source Revenue [6]. This is in line with the results of research conducted in West Lombok Regency showing that investment has an effect on Local Own-Source Revenue (PAD) [7]. Therefore, the hypothesis can be formulated: that investment variables affect the Local Own-Source Revenue

4 METHODOLOGY

This research used a case study in Batu City, Jawa Timur, Indonesia. This data analysis used a statistic descriptive. Secondary data were collected from Central Bureau of Statistics Batu City from 2011 to 2017. Investment was measured by the Rupiah value of regional investment in 2012 to 2016, while Local Own-Source Revenue was measured by the value of the Rupiah of Local Own-Source Revenue in 2013 to 2017. This is based on the consideration that investment on current year will have an impact on the Regional Revenue of the upcoming year.

5 RESULT

Batu City is one of the cities in the East Java Province of Indonesia which is one of the tourist cities with a high number of tourists. In 2017, the number of tourists reached a total of 4,188,910 tourists, 4,622 of which were foreign tourists. Batu City has a big target in 2025, i.e. the achievement of the Tri Asa as a competitive education center, an organic agriculture center and an internationally competitive tourism center. Therefore, to help achieve these targets, investors need to help the development process in Batu City. Batu City has an area of 19,908.72 ha. In 2017, the total population of Batu City was 203,997 people with an average growth of the last 5 years was 0.95%/year. The total workforce in Batu City is 52.36% of the population with an average growth rate is 5 years 2.89%/year. From the total workforces, most of them work in the trade, service, industry and agriculture sectors. In 2017, the quality of human resources shown in the Human Development Index (HDI) reached 74.26 above the HDI of East Java Province, i.e. only 70.27.

TABLE 1
WORKFORCES AND HUMAN DEVELOPMENT INDEX OF BATU CITY IN 2013-2017

Year	Number of Workforce	Workforce (%)	Growth of Workforce (%)	HDI
2013	101.339	51.45	3.13	71.55
2014	104.177	52.45	2.80	71.89
2015	100.970	50.36	-3.08	72.62
2016	105.496	52.14	4.48	73.57
2017	112.984	55.39	7.10	74.26
Average		52.36	2.89	

Gross Regional Domestic Product (GRDP) in Batu City in 2017 reached Rp14,351,465.52 million with growth rates over the past 5 years was 12.18%/yr. From the GRDP value, the average distribution of GRDP based on employment is mostly in: 1) the wholesale and retail trade sector, car and motorcycle repair (18.23%); 2) other services (15.42%); 3) agriculture, forestry, fisheries (16.11%); 4) provision of accommodation and food and drink (11.86%); and 5) construction (11.35%).

TABLE 2
GRDP BASED ON APPLICABLE PRICES OF BATU CITY IN 2013-2017

Year	GRDP Value (in million rupiahs)	Growth of GRDP (%)
2013	9,076,617.06	12.34
2014	10,259,709.1	13.03
2015	11,510,377.15	12.19
2016	12,901,676.73	12.09
2017	14,351,465.52	11.24
Average		12.18

Table 3 shows the investment value in Batu City in 2017 reached Rp1,755,000 million with an average growth of 23%/year, while the Local Own-Source Revenues reached Rp149,424 million with an average growth of 32%/year.

TABLE 3
REGIONAL INVESTMENT VALUE AND LOCAL OWN-SOURCE REVENUE OF BATU CITY (IN MILLION RUPIAHS)

Year	Investment Value	Local Own-Source Revenue
2012	676.281	38.794
2013	791.507	58.670
2014	915.072	78.189
2015	1.402.072	104.234
2016	1.915.000	109.533
2017	1.755.000	149.424

The results of data analysis (Table 4) show that regional investment has a positive and significant effect on Local Own-Source Revenue (sig = 0.017). This means that an increase in regional investment will have an impact on increasing Local Own-Source Revenue. This is in line with research conducted in districts/cities in Central Java [6] and in West Lombok Regency [7] which show that investment affect the Local Own-Source Revenues

TABLE 4
ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
1					
Regression	4200849092,739	1	4200849092,739	23,575	,017 ^b
Residual	534575649,261	3	178191883,087		
Total	4735424742,000	4			

a. Dependent Variable: Local Own-Source Revenue

b. Predictors: (Constant), Investment

6 DISCUSSION

The increase in regional investment has a significant effect on increasing Local Own-Source Revenue; thus, regional government must be able to sell its "potentials" to attract investors to invest in their city/regency. This is because the Local Own-Source Revenue has great benefits to help the regions carry out development programs in accordance with the plans that have been prepared as well as to improve people's welfare and reduce unemployment by opening jobs. Some ways to increase the investment attraction of the city are as follows:

a. Preparing adequate facilities and infrastructure

Facilities and infrastructures must be prepared adequately especially the supply of electricity, water and transportation. Investors will be very disturbed if electricity and water supply is uncertain or transportation costs are very high. Data published by the Indonesian Chamber of Commerce and Industry show that the total company spending in Indonesia, around 17%, is absorbed by logistics costs. It is higher than neighboring countries (< 10%). For Batu City, the transportation aspect must be the main concern, given the heavy traffic going to Batu City or around Batu City. In order to overcome transportation problems, Batu City has prepared several plans as set out in the 2017-2022 Regional Medium-Term Development Plan [12] including:

1. Structuring and developing primary collector road network which includes: (a) Malang-Batu Line; (b) Surabaya-Pasuruan-Batu Line; (c) Batu-Kediri Line, (d) Batu-Jombang Line; and (e) Batu-Mojokerto Line.
2. Structuring and developing the secondary collector road network which includes: (a) Development of the southern ring road via Dau - Pendem - Junrejo - Tlengkung road - Oro-oro Ombo - Pesanggrahan; (b) Development of the northern ring road via Karangploso - Giripurno - Bumiaji - Sidomulyo road sections; and (c) Development of alternative road networks on Pacet road section - Sumber Brantas - Punten -Sidomulyo – Sisir.
3. Development of tourist paths (Oro-oro Ombo, Pesanggrahan and the main square)
4. Development of the cable car (Batu Night Spectacular (BNS) area, Jatim Park and the main square)
5. Development of terminals and shelters which include: (a) Type B passenger terminal in Giripurno Village on approximately 3 Ha of land; (b) Type C passenger terminal in Temas Village; (c) The goods terminal includes the goods terminal at Giripurno as the center of the agropolitan; and (d) Passenger stops are planned in Tulungrejo Village, Punten Village, Songgoriti, Junrejo Village, Oro-oro Ombo Village.
6. In addition to water, electricity and transportation infrastructure, telecommunications is crucial in this digital age. In this case, Batu City plans to add a Base

Transceiver Station (BTS) tower in Batu City based on the direction of the development of telecommunications towers in East Java, using the concept of joint tower development plans in the Mount Panderman area Oro-oro Ombo Village and Tlengkung Village and Gunung Pucung Village area Sumbergondo.

7.

b. Preparing skilled human resources

The availability of workforces with adequate quantity and quality in a city will be the main attraction for investors. This will help efficiency in labor costs if the company can use local workforces. In terms of quality human resources, Batu City in general has decent human resources as indicated by the Human Development Index (HDI) in 2017 reaching 74.26 above the HDI of East Java Province which was only 70.27. Related to the icon of Batu City as a tourist city, the number of workforces who have skills in the tourism sector is still limited. For this reason, Batu City should start planning the establishment of schools or training centers in the field of tourism.

c. Developing an effective and efficient bureaucratic system

In general, the bureaucratic system in Indonesia is still considered inefficient, convoluted, causing problems for investors. This can be seen from The Ease of Doing Business Index (World Bank) that can be used to measure whether the bureaucratic system in a country is running well or not. The value of the Ease of Doing Business in Indonesia in 2018 decreased from 72 to 73 ranking among 190 countries. In this regard, the results of a survey conducted by an independent agency show that the main problem for foreign investors to invest in Indonesia is Corruption and Bureaucracy. For this reason, the government must immediately resolve this problem to achieve a better Indonesia. Related to these conditions, Indonesia has begun to improve itself. In 2018, Batu City, as has been done by several cities in Indonesia, began implementing an online licensing system (Online Single Submission/OSS) that makes it easy for investors to take care of business licensing. Through this system, investors can take care of business licenses anywhere with a shorter time (only in a matter of hours). It is expected that this system can increase The Ease of Doing Business Index both in Indonesia in general and Batu City in particular

7 CONCLUSION

Based on the results of this study, it can be concluded that the increase in regional investment has a significant effect on the increase in Local Own-Source Revenues. Therefore, the Regional Government must be able to attract investors to invest in their areas by: 1) preparing adequate facilities and infrastructure, 2) preparing skilled human resources, and 3) setting up an effective and efficient bureaucratic system.

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