

**AN ANALYSIS OF THE EFFECT OF DOMESTIC AND FOREIGN
INVESTMENT, LABOR FORCE AND POPULATION RATE ON
REGIONAL GROSS DOMESTIC PRODUCT OF EAST JAVA IN
2000-2013**

**SYAMNUR RIZAF
115020107121002**

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An Analysis of the Effect of Domestic and Foreign Investment, Labour Force and Population Rate on the Gross Domestic Regional Product of East Java in 2000-2013

Syamnur Rizaf

Supervisor : Prof.Dr.Drs. M.Umar Burhan.MS

FACULTY OF ECONOMICS AND BUSINESS

UNIVERSITY OF BRAWIJAYA

Email : syamnurrizaf@gmail.com

Abstract

This study aimed to determine the effect of the resulting correlation of independent variables, Domestic Investment, Foreign Investment, labor force and population rate on the dependent variable, RGDP (Regional Gross Domestic Product) of East Java in 2000-2013. The data used in this study was time series, the 2000-2013 period which were sourced from the central bureau of statistic and capital investment coordinating board. This study used SPSS 17 multiple linear regression analysis method.

Results from this study showed that the effect of Domestic investment, Foreign investment, labor force and population rate on the Gross Regional Domestic Product. This was shown by the results of the regression analysis of Adjusted R Square by 64.1% and the 36.9% remaining was affected by other factors. In this study it was explained that the Domestic investment and population rate was significant and positive affected on RGDP growth. While Foreign investment and labor force had insignificant negative effect on the growth of RGDP.

Keywords: Economic Growth, Domestic Investment, foreign investment, population rate, labor force and RGDP

A. INTRODUCTION

Regional economic development is one of focus points of Indonesian government in the effort to improve the society's welfare. In its development, regional government is given the rights to enhance the economic growth based on the characteristics and potential that a region possesses. The growth process and economic development of a country cannot be separated with the existence of domestic or foreign investment to make it possible in an effort to help development and growth in a developing country. In general, regional economic development can be seen with the occurrence of a measurement transition or criteria in form of numbers that shows the growth or downturn which is RGDP (Regional Gross

Domestic Product). RGDP is the total of additive value of goods or service that can be calculated based on two means, constant price and annual applied price.

RGDP Constant Price Based on Business Field (Billion Rupiah) East Java in 2000-2013

Year	RGDP (Bilion)
2000	56.828.132,83
2001	210,448,570,19
2002	218,452,389,09
2003	228,884,458,54
2004	242,228,892,17
2005	256,374,726,78
2006	271.797.924,37
2007	288.404.312,28
2008	305.538.686,62
2009	320.861.168,91
2010	342.280.764,89
2011	366.983.277,46
2012	393.666.437,37
2013	419,428,445,69

Source: Central Statistics Agency, East Java in Numbers

The growth process and economic development of a country cannot be separated with the existence of domestic or foreign investment to make it possible in an effort to help development and growth in a developing country to create infrastructure, employment, human resource increase and other factors that affects output and input in a country.

Investment is a financial management activity to achieve a bigger profit and develop in the future. It is an integrated part that has a vaster role in long term as a development institution to improve economic growth and social welfare. On the other hand, according to Harrod-Domar concerning the acceleration of a country's economic growth, every economic activity must have certain reserve savings from the national income to add and replace some necessities.

Besides investment planning, the increasing population also affects towards the economic growth of a country. The growth and development rate will also be determined based on the labour force rate that has performance potential for input and output growth of a region and it will weaken if it is not balanced with employment which is balanced with the population growth. According to Todaro (2000), a high and fast population growth will have a negative impact towards the development process making it uncontrolled and the competitiveness of the growth will decrease. The problem is because of the appearance of migration rate from rural areas to cities

because of reasons such as their prosperity rate in rural areas are not fulfilled and prefer the city where the income is higher. This is what needs to be emphasized. Decentralistic comprehensive planning needs to be considered with supervision, government management and accurate policies.

The growth in population numbers and the increased number of labor force from year to year occurred in almost every developing country. Therefore, local governments must be aware of the sector conditions need to be developed. Because the balance between population, labor force and number of jobs should be balanced and appropriate. So that every year the number of open unemployment can be minimized and controlled.

Based on the explanation of background explained above, the author were interested to know and analyze the effect of domestic investment (X1) and foreign investment (X2), labor (X3) and population (X4) on RGDP (Y) of East Java province in the year 2000-2013. If the independent variable increases then RGDP of regional economic growth as the dependent variable will be increased as well. On the other hand if the independent variables has decreased the RGDP of regional economic growth as the dependent variable will decrease as well. This was the background for the study and the title of minor thesis as “An Analysis of the Effect of Domestic and Foreign Investment, Labour Force, Population on Regional Gross Domestic Product of East Java in 2000-2013”.

B. LITERATURE REVIEW

In this chapter, the discussion about the definition of some topics in research will be explained.

Definition of Economic Development

Todaro (2006) gives a definition of construction quality to give meaning for development as a multidimensional process that covers important changes in social structure, society behaviour, traditional institution to accelerate economic growth, equity that is stood for and also the eradication of absolute poverty.

Siagian (2010) define of development as a series of efforts to achieve growth and change consciously and planned that is implemented by modern countries in an effort to develop a country. There are seven ideas in this perception; they are: 1) Process is one form of special attention in a development, 2)Development is a thing done consciously, 3) Planned development, 4) In its purpose, development has a goal which is growth and change, 5) Leads from traditional development to modern development, 6) Multidimensional development in its activity, 7) The main goal in implementing a development is to build an independent character in a country, solid and become equal with other countries. In its development, it has to be long term, about the future and have continuity in its development.

The Essence of Economic Development

Economic development is an increase in the income and growth process of goods and services. In economic development, the measurement to determine the process measurement is empirical quantitative data or in form of numbers that are systematically in years. It gives growth information in series data. The problem of economic growth can be seen as a long-term process in macroeconomic about the ability of a country or region to produce goods and services due to the increase of production factors. Simon Kuznets gives a concept about the characteristics of the economic growth process that are considered as the era of economic growth in the world, those are:

- a. A real per capita income growth rate
- b. An even distribution of labour force based on its sector
- c. Population distribution pattern
- d. Inclusive productivity
- e. A tendency to make new innovation
- f. A transformation of high social and ideology rate
- g. Continuity of modernized technology

The Factors that Influences Economic Growth

1. Investment

Investment is an expenditure of country or regional capital investment to be used in the production process to increase the goods and services capacity in the economic activity (Sadono Sukirno, 2003). Investment is one of the important capital factors in the economic growth process. Domestic investment is needed. It has to be maximized so it does not depend on foreign parties. Based on *Regulation No.6 year 1968* and *Regulation No.11 year 1970* which describe about the domestic investment. It explains that the investment activity in Indonesia is done to conduct the economic activities by using domestic investment. The above *Regulation* guarantees the presence of investment as a passionate capital activity.

2. Labor Force

According to Haryani (2002), labour force is the population that are aged 15 and above and is economically active. In its classification, it consists of population labour force that are searching for jobs and those who have jobs, labour force who are in the working age but has not found jobs and labour force who are working but occasionally do not work. The labour force total who works in each region is an illustration of the available employment condition. The higher the employment of a region, the higher the regional income production total (Kuncoro, 2004).

3. Population Growth

In the world history of population growth, it is noted that in a year, the population increases 75 million. The growth is approximately 9,7%, this mostly happens in developing countries. It is not merely the issue of the growing number of population, but rather the effect that will be suffered in the economic development and growth of developing countries if it is not balanced with long term planning in giving special attention towards the population number. A significant population growth will affect the social change as well.

4. Regional Gross Domestic Income (RGDP)

RGDP is the total number of all goods and services prices or the total number of the added value that is produced by the regional government in a period of 1 year. According to Central Statistics Agency, the added value number produced from an economic activity in a region is deducted by the total cost of each gross production from every sector or sub-sector activity in a certain period.

C. RESEARCH METHOD

The type of research was quantitative research with a descriptive approach using multiple-regression data analysis. This research used secondary data from the Central Statistics Agency of East Java in collecting the research data as the main source of this research. The type of research was quantitative research with a descriptive approach using multiple-regression data analysis. The quantitative approach or method is a type of research that presents data in form of numbers, tables, graphics, frequencies, diagrams and pictograms.

In this research, the variables consist of one dependent variable and three independent variables. The dependent variable is influenced by the independent variables that are expected to be significance. This research used the hypothesis testing of Classical Assumption Testing or Multiple Linear Regression to find the effect of the independent variables towards the dependent variables. The test were measured by using the SPSS program or Eviews in computer.

Research Methodology

Type of Research	Quantitative
Scope	Central Statistics Agency of East Java
Type and Source of Data	Multiple-Regression data Analysis
Data Collection Method	Central Statistics Agency and Directorate General of Financial Balancing
Data analysis Techniques	Multiple Linear Regression

D. ANALYSIS RESULT

In a research, to fulfill testing requirements, there has to be several test to find unbiased and efficient results. It needs a regression equation or other testing methods that can explain quantitatively or qualitatively. This research used the hypothesis testing of Classical Assumption Testing or Double Linear Regression to find the effect of the independent variables towards the dependent variables.

CLASSICAL ASSUMPTION TEST

Classical assumptions test must be done to fulfill the usage of Multiple linear regression. After the double regression calculation with the help of SPSS for Windows take place, the regression classical assumption test is done. The test results are presented as follows:

Normality Test

This test is done to find whether the spreaded residual value is normal or not. The test is done using the Kolmogorov-Smirnov test, with the following regulations:

The hypothesis used:

H_0 : normal spread residual

H_1 : **not normal spread residual**

If the **sig.** value (*p-value*) > then H_0 is accepted which means the normality is fulfilled.

The normality test results can be seen in Table below

Normaly Test Result

One-Sample Kolmogorov-Smirnov Test

		Regional Gross Domestic Product (RGDP)
N		14
Normal Parameters ^{a,b}	Mean	2,80E+08
	Std. Deviation	91690769
Most Extreme Differences	Absolute	,152
	Positive	,064
	Negative	-,152
Kolmogorov -Smirnov Z		,569
Asymp. Sig. (2-tailed)		,902

a. Test distribution is Normal.

b. Calculated from data.

Sumber: Data Processed.

From the calculation result, the **sig.** Value is 0.902 (can be seen in Table 4.3) or greater than 0.05; thus the H_0 provision is accepted and that the normality assumption is fulfilled.

Autocorrelation Test

From the Durbin-Watson table for $n = 14$ and $k = 4$ (the number of independent variables) the d_u value of 1.736 and $4-d_u$ of 2.264 are known. The autocorrelation result can be seen in Table below

The Autocorrelation Results Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,867 ^a	,751	,641	54972850,7	1,767

a. Predictors: (Constant), Population Rate, Foreign Investment, Number of Labour Force, Domestic Investment

b. Dependent Variable: Regional Gross Domestic Product (RGDP)

Source : Data Processed.

From table above, the Durbin-watson test value of 1.767 is located between 1.736 and 2.264, then it can be concluded that the assumption of autocorrelation existence is fulfilled.

Multicollinearity Test

Multicollinearity test is done to find whether there is a strong relationship or there is no perfect linear relationship which means that among the independent variables there are no correlation. The test is done by comparing the Tolerance value that was gotten from the Multiple Linear regression calculation, if the tolerance value is $< 0,1$ then there is multicollinearity. The multicollinearity test can also be done by comparing the VIF (Variance Inflation Factor) with the number 10. If the VIF value is $> 1,0$, there is multicollinearity.

The multicollinearity test results can be seen in Table below

The Multicollinearity Test Results

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistic	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-576789085	373342235,9		-1,545	,157		
	Domestic Investment	,733	,424	,371	2,269	,048	,676	1,478
	Foreign Investment	23,022	7,654	,351	1,008	,115	,425	2,212
	Number of Labour Force	139,603	119,662	,312	1,014	,175	,311	2,233
	Population Rate	287,898	97,183	,480	2,359	,077	,652	1,535

a. Dependent Variable: Regional Gross Domestic Product (RGDP)

Source: Data Processed.

From the test results, it can be concluded that there is no multicollinearity among the independent variables. Thus, the assumption test of the existence of multicollinearity is fulfilled.

Heteroscedasticity Test

The heteroscedasticity test is used to find whether or not there is dissimilarity in the residual deviation due to the number of one of the independent variables, or whether or not there is difference in the range value with the increasing of the independent variable value. The test procedure is done with the scatter plot test. The residual range homogeneity test is underlied by the following hypothesis.

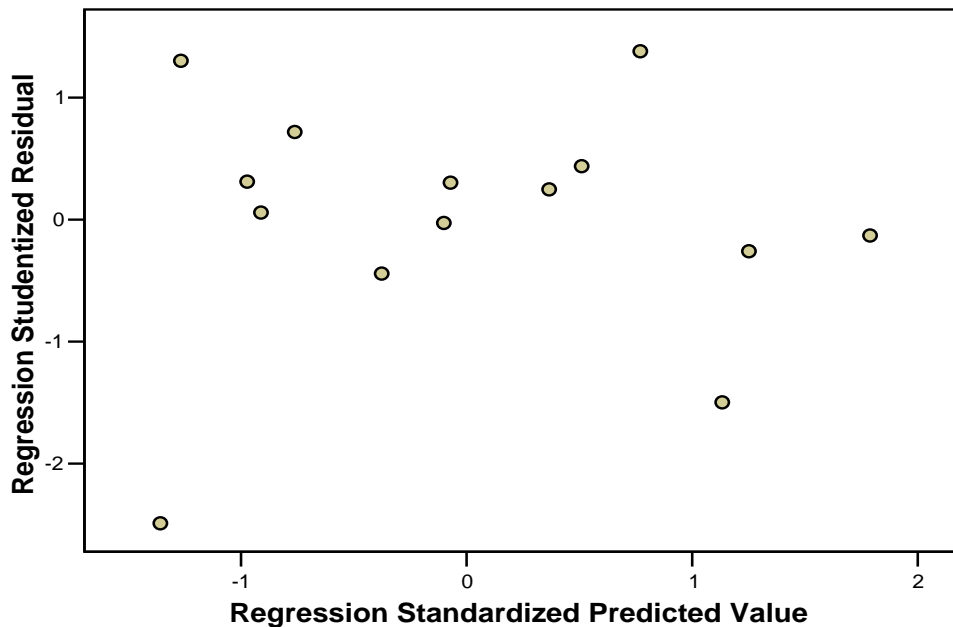
H_0 : homogeneous residual range

H_1 : not homogeneous residual range

The heteroscedasticity test result can be seen in below

Scatterplot

Dependent Variable: Regional Gross Domestic Product (RGDP)



Heteroscedasticity Test

Source: Data Processed.

From the test result, the scatterplot displays diagram spreads and it does not create a certain pattern. Then there is no heteroscedasticity. Therefore it can be

concluded that the residuals have homogeneous range or in other words there is no symptoms of heteroscedasticity.

MULTIPLE LINIER REGRESSION ANALYSIS

This regression analysis is used to calculate the how big the effect among the independent variables, which are Domestic Investment (X_1), Foreign Investment (X_2), Labour (X_3) dan Population (X_4) toward the dependent variables of RGDP (Y).

The Regression Equation

The regression equation is used to find the relationship form between independent and dependent variables. Using SPSS for Windowsver 13.00, the regression model can be seen in Table below

The Regression Equation

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-576789085,835	373342235,92		-1,545	,157
	Domestic Investment	,733	,424	,371	2,249	,048
	Foreign Investment	23,022	7,654	,351	1,008	,115
	Number of Labour Force	139,603	119,662	,312	1,014	,175
	Population Rate	287,898	97,183	,480	2,359	,077

a. Dependent Variable: Regional Gross Domestic Product (RGDP)

Source: Data Processed.

Based on Table 4.6, the regression equation gained is as follows:

$$Y = -576789085,835 + 0,733 X_1 + 23,022 X_2 + 139,603 X_3 + 287,896 X_4$$

From the above equation, it can be interpreted as follows:

The RGDP will increase for every percent unit of addition Domestic Investment (X_1), Foreign Investment (X_2), LabourForce (X_3), Population (X_4). Therefore, if the Domestic Investment (X_1), Foreign Investment (X_2), LabourForce (X_3), Population (X_4) for 1 unit, the RGDP will increase as much as increase per unit, assuming that other variables are constant.

The Effect of Domestic Investment on RGDP

Based on the test analysis results of multiple linear regression, it explained that the relationship between domestic investment (X_1) and RGDP (Y) as a positive and significant relationship which affected the growth of Gross Regional Domestic Product. It certainly would help various sectors of goods and services and improving

the quality of the welfare society. From the statistical results and their effects, it can be concluded that the Domestic Investment as very significant in helping the growth of regional economies.

The Effect of Foreign Investment on RGDP

Based on the test results of multiple linear regression, it can be concluded descriptively that foreign investment had negative effect and it was not significant on the regional growth or RGDP. That's because in the long term and short term, foreign investments indirectly inhibit and less profitable for region. Various aspects such as technological factors and human resources were one factor caused inability of national goods and services to compete, or even eliminate the existence. Local government policies should be reviewed in term of accuracy of foreign investment effects that will be resulted, the level of profit that the local government got for RGDP growth both in short term and long term.

The effect of Labor on RGDP

Based on the statistical results, it can be concluded that labor had negative effect and it was not significant on the regional economy growth of East Java. This happened because there was no balance between the number of labor with the available number of jobs. In addition, entrepreneurial trainings should be conducted as the development draft plan of East Java government for long term to address the challenges the AEC (ASEAN Economic Community).

The effect of Population on RGDP

From the results of statistical tests above it can be concluded that population affected the economic growth of East Java. In terms of growth, the demand and supply of labor was offset by the availability of jobs and the growing industry in eastern Java.

Determination Coefficient (R²)

To find contribution of the independent variables (Domestic Investment (X₁), Foreign Investment (X₂), Labour (X₃), dan Population (X₄)) towards the dependent variables (RGDP) R² value is used. The R² value is shown in Table below:

Correlation Coefficient and Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,867 ^a	,751	,641	54972850,7

a. Predictors: (Constant), Population Rate, Foreign Investment, Number of Labour Force, Domestic Investment

Source: Data Processed.

The determinant coefficient is used to calculate the effect or contribution of the independent variables towards the dependent variable is. From the analysis on Table 4.7 the adjusted R² result (determinant coefficient) is 0,641. It means that

64,1% of the RGDP variable will be affected by the independent variables, which are Domestic Investment (X_1), Foreign Investment (X_2), Labour (X_3) and Population (X_4).

HYPOTHESIS TEST

The hypothesis test is an essential part of this research, after the data are collected and processed. This test is to answer the hypothesis made by the researcher.

F test/Simultaneously

The F test or the model test is used to find whether the result of the regression analysis is significant or not in other words, the model that was used is precise or not. If the result is significant, H_0 is not accepted and H_1 is accepted. Meanwhile, if the result is not significant, then H_0 is accepted and H_1 is not accepted. This can also be said as follows:

H_0 is not accepted if calculated $F > F$ table

H_0 diterima jika calculated $F < F$ table

F test/ Simultaneously

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	82095433906323900,00	4	20523858476580990,00	6,791	,001 ^a
	Residual	27198128827911980,00	9	3022014314212443,00		
	Total	109293562734235900,00	13			

a. Predictors: (Constant), Population Rate, Foreign Investment, Number of Labour Force, Domestic Investment

b. Dependent Variable: Regional Gross Domestic Product (RGDP)

Source: Data Processed.

Based on Table above, the calculated F value is 6,791. Meanwhile the F table ($\alpha = 0.05$; db regression = 4 : db residual = 9) is 3,633. Because calculated $F > F$ table, which is $6,791 > 3,633$, or the sig t valuet $(0,001) < \alpha = 0,05$, then the regression analysis model is significant. This means that H_0 is not accepted and H_1 is accepted. Thus, it can be concluded that the dependent variable (RGDP) is significantly affected by the independent variables of (Domestic Investment (X_1), Foreign Investment (X_2), Labour (X_3), dan Population (X_4)).

T test/Partial

From the overall result below, it can be concluded that the independent variables have a significant effect towards the RGDP simultaneously and partially. From this, it can be seen that, among the four independent variables, Population is the most dominant in affecting the RGDP because it has the biggest beta coefficient and calculated t.

The t Test / Partial Result

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-576789085,835	373342235,92		-1,545	,157
	Domestic Investment	,733	,424	,371	2,269	,048
	Foreign Investment	23,022	7,654	,351	1,008	,115
	Number of Labour Force	139,603	119,662	,312	1,014	,175
	Population Rate	287,898	97,183	,480	2,359	,077

a. Dependent Variable: Regional Gross Domestic Product (RGDP)

Source: Data Processed.

- The t test between X_1 (Domestic Investment) and Y (RGDP) shows that the calculated $t = 2,269$. Meanwhile the t table ($\alpha = 0.05$; db residual = 9) is 2,262. Because the calculated $t > t$ table which is $2,269 > 2,262$ or the sig t value ($0,048$) $< \alpha = 0.05$, then the X_1 (Domestic Investment) effect on the RGDP is significant. This means that H_0 is not accepted and H_1 is accepted. Thus, it can be concluded that the RGDP can be significantly affected by Domestic Investment or by increasing Domestic Investment. Then the RGDP will have a concrete increase as well.
- The t test between X_2 (Foreign Investment) and Y (RGDP) shows that the calculated $t = 1,008$. Meanwhile, the t table ($\alpha = 0.05$; db residual = 9) is 2,262. Because the calculated $t < t$ table which is $1,008 < 2,262$ or the sig t value ($0,115$) $> \alpha = 0.05$ then the X_2 (Foreign Investment) effect on the RGDP is not significant at alpha 5%. This means that H_0 is accepted. Thus, it can be concluded that the RGDP cannot be significantly affected by Foreign Investment or by increasing Foreign Investment. Then, the RGDP will intagibly increase.
- The t test between X_3 (Labour) and Y (RGDP) shows that the calculated $t = 1,014$. Meanwhile, the t table ($\alpha = 0.05$; db residual = 9) is 2,262. Because the calculated $t < t$ table which is $1,014 < 2,262$ or the sig t value ($0,175$) $< \alpha = 0.05$, then the X_3 (Labour) effect on the RGDP is not significant at alpha 5%. This means that H_0 is accepted. Thus, it can be concluded that the RGDP cannot be significantly affected by Labour or by increasing Labour. Then, the RGDP will intagibly increase.
- The t test between X_4 (Population) and Y (RGDP) shows that the calculated $t = 2,359$. Meanwhile, the t table ($\alpha = 0.05$; db residual = 9) is 2,262. Because the calculated $t > t$ table which is $2,709 > 2,359$ or the sig t value ($0,077$) $< \alpha = 0.05$, then the X_4 (Population) effect on the RGDP is significant. This means that H_0 is accepted. Thus, it can be concluded that the RGDP cannot be significantly affected by Labour or by increasing Labour. Then the RGDP will intagibly increase. This means that H_0 is not accepted, and H_1 is accepted. Thus, it can be concluded that the RGDP can be significantly affected by

Population or by increasing Population. Then, the RGDP will have a concrete increase as well.

E. CONCLUSION AND RECOMMENDATION

The conclusion and recommendation will explain the result of the research in a brief summary.

CONCLUSION

Based on the analysis on the effect of domestic capital investment (Domestic Investment)(X_1), foreign capital investment (Foreign Investment) (X_2), Labour (X_3), and Population (X_4) towards GDRP(Y) of the East Java Province by using the Multiple regression analysis model in the period of 2000-2013, the conclusions are as follows :

1. The Domestic Investment variable (X_1) had a significant effect towards the GDRP because it had the sig. value of $< 0,05$. . If the increase in domestic investment rose by 1%, it would affect the growth RGDP as well, and vice versa if domestic investment fell by 1%, the growth and the RGDP growth rate will fell as much as the decrease in Domestic Investment.
2. The Foreign Investment variable (X_2) had an insignificant effect towards the GDRP because it had the sig. value of $> 0,05$. Foreign investment is not always guarantee to provide regional and national economic growth significantly. Because foreign investments sometimes also have negative impacts on the sustainability of growth in the regional economy, especially in the long term and short term.
3. Labour variable (X_3) had an insignificant effect towards the GDRP because it had the sig. value of $> 0,05$. . If this continues to happen and not balanced with the level of investment and growth in the availability of jobs, then it will cause open unemployment rate and inability for competing with other regions. The need for capital accumulation as one way for increasing productivity, improving human resources and creating new jobs.
4. Population variable (X_4) had a significant effect towards the GDRP because it had the sig. value of $< 0,05$. The positive and significant correlations between the number of population with RGDP growth were not always be linked to the increase. But it must be seen from the regional government efficiencies in improving the household productivity and the existing potential so that growing population will not burden the regional government expenditures.
5. Various investment sectors for human development needs to be improved, so human resources in Indonesia has a human development index. Human development, would also spur regional economic growth and reduce the poverty level domestically or regionally.
6. The simultaneous effect of each independent variables towards the GDRP was done by the F-test. From the double linear regression analysis result, the

independent variable was seen to have a simultaneous significant effect towards the GDRP. Therefore, the test towards the hypothesis that stated there was a simultaneous effect of the independent variables towards the GDRP variable could be accepted.

RECOMMENDATION

From the test result and the conclusion made by researcher, the suggestions for regional policies are as follows:

1. The Government of East Java must always improve the domestic and foreign investment number to increase the economic growth in East Java in various sectors depending on the regional or local characteristics in East Java province.
2. The government of East Java must create policy about conducive investments that can give profit for various parties. They have to be more aggressive in promoting every region to attract domestic or foreign investors, creating an excellent bureaucracy, ease and speed in making permits for investors or other affairs, improving facilities and infrastructures, and maintaining the security of each region.
3. Work opportunities will be greater if the government directs the investment funds towards new business establishments in an effort to reduce open unemployment rate in East Java.
4. The Government of East Java must regularly analyze various sectors in each region that needs more funds for developing and improving the quality in the sectors.
5. The Government of East Java must notice the need and capacity in each region, so each provincial government policy can be precise.
6. The Government of East Java must consider that the independent variables in this research are important aspects in affecting the RGDP. It is expected that the research result can be used as a reference for future researchers to develop this research by considering other variables that were not included in this research.

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