

## Potential Investment Analysis: A Case Study at Kotabaru Regency, Province of South Kalimantan, Indonesia

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**Abstract:** Investment is not only important for economic growth, but also for developing existing potentials. The right direction investment will eventually determine performance developments in line with expected result. In correlation with economy politics in democratic climate as stated in Act UU no. 25 year 2007 regarding capital investment, activities of capital investment are directed to support populist economy that empowers micro, small and medium businesses and cooperative. Investment is an important instrument for traffic of capital from domestic or abroad to be invested in the potential sectors to enhance economic activity. As another impact of investment is not only enhancing economy, but also absorbing men power which will suppress unemployment number. Foreign capital brought by investors is an important thing as an instrument to integrate global economy. In addition, investment activities will gain positive impact for countries who receive capital such as encourage business growth, technological supply from investors either in production process or machinery, and create employment (Ridgway & Talib, 2002; Soepono, 1993). Since the economic crisis, Indonesian Law system has been incapable of creating predictability, stability and fairness. It can be seen from Indonesian Act which is not synced to law enforcement which supports investment climate and weaknesses in culture quality (Supardi, 2008; Syahyu, 2003). The method used in the research was survey method, with sample taken purposively. Data were obtained through observation, interview, and focus group discussion. Data processing was done with shift share analysis and Location Quotient (LQ). The results showed development plans in Kotabaru Regency should develop sectors which have competitive advantage to support local economy and contribute to Gross Regional Domestic Product (GRDP). Therefore, the result will have good point for consideration. The sectors are agriculture, plantation, fishery, livestock, forestry, tourism, health, mining and energy.

**Key Words:** Investment, Economic growth, Existing potentials

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### INTRODUCTION

Kotabaru is one of the regencies in the South Kalimantan Province that consistently spur economic growth where investment is one of its triggers. Investment growth will increase production capacity which has impact on increasing the availability of foods and services. Since 2001, local government had authority to regulate their own governance and economy sources. The local government tried to improve regional income through creation of conducive investment climate. However, the local government has barriers in investment planning. Local government has bigger responsibility to manage development after they get in regional autonomy era. Government should be able to plan, implement and control the development autonomously. One of its ways is to support the implementation of investment in a conducive situation for their local area.

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Planning and implementation of investment should be based on qualified study inventory of the potential market. This research will explore potential investment and help government or private bodies in determining potential investment that will be invested. It was done because investment climate in Indonesia is decreasing compared to the last decade. There is reluctance of investors to invest in Indonesia. Moreover, there is tendency, that the old investors left Indonesia and moved their investment after observing a non-conducive situation. Investment growth will encourage economic growth and social welfare. For its purpose, the study of potential investment is very important to be included in the master plan for capital investment development suitable for the local needs.

The study inventory of potential investment in this research is a strategic guidance which contains potentials, priority, direction and investment objectives and sectorial production that will be implemented in development. This study supports formal existing implementation of economic activities such as Local Long Term Development Plan (LLTDP), Local Middle Term Development Plan (LMTDP), Local Government Work Plan (LGWP), or Strategic Plan (SP), and Work Plan for Local Government Unit (LGU). Inventory of potential investment is an interesting issue to be investigated based on its background and its importance. For this reason, the research question becomes: How potential investment at Kotabaru Regency is?

## **THEORETICAL REVIEW**

Economic growth in a country depends on its investment level. More investment will give more power for economic growth. Meanwhile, investment development is heavily influenced by socio-political situation, consistency of law enforcement, conducive of labor policy and vividness of investment regulation that is related to local autonomy implementation which often overlaps with national regulation. In this case, the most influencing factor toward foreign investor is no legal certainty. Therefore law enforcement is difficult to be implemented (Hor, 2016; Phyo, 2015; Suryohadikusumo, 2016; Tarigan, 2005).

The problem of local investment attractiveness, According to Agung Pambudi, Executive Director of Local Autonomy Implementation Monitoring Committee (LAIMC), is that institutional factors become local investment attractiveness. The institutions include service, local government policies, and legal certainty. According to report by LAIMC in 2002, to find out attractiveness of investment in cities/regencies, overlapping regulations, long chain of bureaucracy, and extortion, are barriers for businessmen. Overlapping regulation between local governments with the higher level has frequently happened. For that reason, many regions with abundant natural potential are possible to be unattractive for businessman or investor.

If developing countries want to attract developed countries to invest in their country, then there are several things that should be fulfilled to attract them such as (Head, 2002; Kaur, Naqshbandi, & Jayasingam, 2014; Khairandy, Sutrisno, & Thontowi, 1999; Khairandy, 2006; Pramono, 2016).

- a. Fixed and consistent policies which are hard to change and can guarantee legal certainty because of absence of legal certainty will give difficulties to the business for long term planning.
- b. Permit procedure to prevent complicated step that causes high cost economy.
- c. Guarantee to their investment and legal protection for investors' property right.
- d. Infrastructure that is able to support their investment, such as communication, transportation, banking, and insurance.

Reluctance of foreign investment and indication of relocation to other countries caused by current investment climate in Indonesia are not conducive. According to Lubis and Maramis (2015), McCann (2001), Rahmadi (n.d), various factors caused the non conducive climate.

1. Instability of politics and security.
2. Demonstration and labor strikes.
3. Misunderstanding about the implementation of Local autonomy law and the incompleteness and unclear guidance about the implementation of local autonomy.
4. Lack guarantee of legal certainty.
5. Weak law enforcement.

6. Lack of guarantee or investment protection.
7. Incentive in taxation.
8. Corruption, collusion and nepotism.
9. Bad image of Indonesia, on the verge of disintegration and ineffectiveness of law decrease Indonesia's competitiveness in attracting investor to Indonesia.
10. Low quality of human resources.

Eskom Monthly Journal also recorded several factors that influence the non-attractiveness of investment climate in Indonesia as follows (Eskom, n.d);

1. Security, social and political problems.
2. Weak legislation of law supremacy and legal certainty.
3. Many employment problems.
4. Local autonomy implementation is not clear.
5. Governmental policies that do not encourage the investment such as inconsistency of the issued policies.

Beside disadvantage factors above, investment climate in Indonesia has become not conducive because of social and political instability and security guarantee and weak law enforcement. The most complained problem by investor is law enforcement. Report from Political and Economic Risk Consultancy Ltd shows that Indonesia is the worst in Asia at the top with a score of 10. Now, legal uncertainty makes investors feel insecure to invest their money in Indonesia. Moreover, other factor complained by investors is permit services and cost for bureaucracy.

Legal certainty for investor is the main measuring rod, investors enter by calculating the risk ; (Kurniawati & MeilianaIntani, 2016; Musa, 2016; Toemion, 2012). How far risk can be controlled and how law enforcement toward risk can be made possible, if law enforcement cannot get trust from investor, it can be confirmed that investor will not speculate in uncertainty. In this condition, investor will not invest either in portfolio or direct investment.

Investment is an economic variable connector between present condition and future, and connecting between goods market and financial market. In this case, the role of interest rate is very important in bridging between both markets. In addition, investment is the Gross Domestic Product (GDP) component that is most volatile. At recession, the main cause of spending decrease due to investment decline.

In macroeconomic context, the investment definition is the flow of spending that adds to the physical stock of capital. Then the activities such as house construction, machinery/instrument purchasing, factory and office construction, and addition of inventory goods of certain company are included in the definition of investment. Meanwhile, the shares or bond purchasing of certain company are not included in the definition.

Investment can be distinguished in three ways, fixed business investment, residential investment, and inventory investment. Fixed business investment includes instrument and facilities used by a company in the production process, while residential investment includes purchasing of a new house, either occupied by the owner or rented. While inventory investment definition is stored goods by company in warehouse, including raw materials, stock, half cooked goods, and finished goods.

## **RESEARCH METHOD**

Research is systematic, controlled, empirical and critical investigation of hypotheses proposition about the certain relationship between phenomena (Kerlinger, 1966). Then, it is said also that research is reflection from willing to know something in the form of facts or natural (Indrianto & Supomo, 1999; Kartika Abadi Foundation, 2012; Rajagukguk, 2007).

Research implementation uses several approaches to reach systematic results and have scientific accountability. One of the approaches is a survey. According to Zikmund, (1997) survey research method is one of the research techniques where information is collected from some samples in the form of persons, through questions. According to Gay and Diehl (1992) survey research method is a method used as general category of research using questionnaire and interview, while according to (Ashby, 1964; Bailey, 2008), survey research method is a research method whose data collection technique is done through

written or oral questions.

Deciding location is an important procedure to know the characteristics of location which will help to find out infrastructures that can support during research. Research was held at all sub district where there are twenty one sub districts in Kotabaru Regency of South Kalimantan Province.

Populations are all societies in Kotabaru Regency distributed in twenty one sub-districts. From a wide range of population, this research only took certain respondents or informants (Purposive Sampling) who were believed to have important information needed by the researcher.

In addition, primary data were obtained by questionnaire or interview, either structured or unstructured. In this research, data collection was planned to be obtained by questionnaire and also interview. While the secondary data were obtained by studying documents in various institutions that were relevant to the research.

Data analysis was done using LQ and ad hoc assumption approach. LQ is a common method in an empirical study where LQ is used to know how much the specialization level of base sectors or leading sectors is. Shift share analysis is used to know the developing sectors in certain area compared to the national economy. It shows the performance of sectors in certain area compared to the national economy. Therefore, it can be shown that there is a shift in economic development outcome in the local area if the area gets progress suitable for its position in the national economy.

## **RESEARCH RESULTS**

### **Strategy of local economy development**

- a. Optimization of the use of land, post-harvest, capital, biotechnology, and value added to the agricultural sector.
- b. Agribusiness and agritourism development with natural resources and environmental advantages.
- c. Optimization of small and medium enterprises development in production, capital and marketing aspects.
- d. Strengthening knowledge of farmer and local businessmen, bargaining position, distribution improvement, partnership and sustainable agricultural system improvement.
- e. Improvement of small industries of agricultural yield processed product, strengthening economic and cooperative institution.
- f. Helping farmers in capital of agricultural business and entrepreneurship.
- g. Improvement of field officer role in agricultural and industrial sector.
- h. Providing infrastructure to improve productivity.
- i. Market access, farmer income and SME entrepreneur.

### **Program of local economy development**

- a. Human resources and technical capabilities improvement.
- b. Capital access (central/local grant, banking/financial institution access, and investor access and partnership).
- c. Accompaniment improvement of technical capabilities.
- d. Value added improvement of featured product.
- e. Agricultural yield based on industry development to become agribusiness, agritourism and agro-industry.
- f. Improvement of food distribution and agricultural yield.
- g. Market access improvement to decrease monopoly.
- h. Improvement of agricultural carrying capacity in fertilizer availability, quality seeds, extension, agricultural center, farmer human resources capability, apprenticeships, and comparative study for famers to be pilot project.
- i. Empowerment of joint venture through agricultural group, joint venture group and business cooperative.

### **Analysis of sectorial macroeconomic**

Analysis of macro-economic sector of Kotabaru Regency shows the leading development ratio above the

province in services sector, financial, construction, trading and industry so the three sectors need more attention in development planning and the local government policy. Even governmental investment and private investment should be encouraged in those three sectors. However, the other sectors still should be developed in order to give more contribution.

Table 1: Economic ratio of Kotabaru and South Kalimantan province

| Sector                         | PDRB of Kotabaru |           | PDRB of Kotabaru |             | Ktb South Kal.<br>(ri) | Aggregate |      |
|--------------------------------|------------------|-----------|------------------|-------------|------------------------|-----------|------|
|                                | 2012             | 2014      | 2012             | 2014        |                        | (Ri)      | (Ra) |
|                                | (Eij)            | (E'ij)    | (Ei)             | (E'i)       | (Ri)                   | (Ra)      | (Ri) |
| 1. Agriculture                 | 2.030.790        | 2.262.762 | 14.490.151       | 15.452.609  | 1.11                   | 1.07      | 1.10 |
| 2. Mining & digging            | 1.194.255        | 1.254.729 | 28.667.200       | 30.689.238  | 1.05                   | 1.07      | 1.10 |
| 3. Processing industry         | 395.060          | 451.163   | 12.641.815       | 13.576.570  | 1.14                   | 1.07      | 1.10 |
| 4. Electricity, gas, and water | 8.082            | 8.950     | 425.935          | 484.887     | 1.11                   | 1.14      | 1.10 |
| 5. Construction                | 277.497          | 324.509   | 8.845.864        | 9.975.407   | 1.17                   | 1.13      | 1.10 |
| 6. Trading                     | 979.131          | 1.115.146 | 9.026.507        | 10.530.893  | 1.14                   | 1.17      | 1.10 |
| 7. Transportation              | 408.729          | 462.309   | 8.179.670        | 9.435.728   | 1.13                   | 1.15      | 1.10 |
| 8. Financial institution       | 67.121           | 78.758    | 2.760.227        | 3.377.393   | 1.17                   | 1.22      | 1.10 |
| 9. Services                    | 241.963          | 289.862   | 11.660.469       | 13.297.991  | 1.20                   | 1.14      | 1.10 |
| Total                          | 5.602.628        | 6.248.188 | 96.697.837       | 106.820.716 | 1.12                   | 1.10      |      |
|                                | 466.886          | 520.682   | 8.058.153        | 8.901.726   |                        |           |      |

Source: Kotabaru Regency in number year 2012 and 2014, BPS of Kotabaru Regency

From the results above, we can see that Economic sector of Kotabaru Regency still depends on agriculture, mining, trading and transportation. The primacy of sector is able to absorb many workers and support local economy. The advantages are supported by geographical excellence in agricultural sector especially fish and plantation, also supported by high quality and quantity of human resources. At the end, all sectors such as agricultural, industrial, and trade will synergize to support the local economy.

### Contribution of economic sector to the local economic (Actual increase)

Macro-economic analysis of Kotabaru Regency based on shift share per sector in Kotabaru Regency is given below.

Table 2: Shift shares per sector in Kotabaru

| Sector                         | GRDP     | NG     | IMG     | RSG     | Effect | Increase | Rank |
|--------------------------------|----------|--------|---------|---------|--------|----------|------|
|                                | Kotabaru | (Ra-1) | (Ri-Ra) | (ri-Ri) | Net    | Actual   |      |
| 1. Agriculture                 | 11.42    | 10.47  | (3.83)  | 4.78    | 0.95   | 11.42    | 7    |
| 2. Mining & Digging            | 5.06     | 10.47  | (3.42)  | (1.99)  | (5.40) | 5.06     | 9    |
| 3. Processing industry         | 14.20    | 10.47  | (3.07)  | 6.81    | 3.73   | 14.20    | 4    |
| 4. Electricity, Gas, And Water | 10.74    | 10.47  | 3.37    | (3.10)  | 0.27   | 10.74    | 8    |
| 5. Construction                | 16.94    | 10.47  | 2.30    | 4.17    | 6.47   | 16.94    | 3    |
| 6. Trading                     | 13.89    | 10.47  | 6.20    | (2.77)  | 3.42   | 13.89    | 5    |
| 7. Transportation              | 13.11    | 10.47  | 4.89    | (2.25)  | 2.64   | 13.11    | 6    |
| 8. Financial institution       | 17.34    | 10.47  | 11.89   | (5.02)  | 6.87   | 17.34    | 2    |
| 9. Services                    | 19.80    | 10.47  | 3.57    | 5.75    | 9.33   | 19.80    | 1    |

Table 3: Analysis and economic sector

| Analysis  | Economic Sector  |
|---|--|
| Positive IMG showed the developing economic sector        | Sector of LK, Trading, Transportation, Services, LAG, and Construction                         |
| Negative IMG showed the non developing economic           | Sectors of Agriculture, Mining, and Industry   |
| Positive RSG means strong competitiveness                 | Sector of Agriculture, Industry, Construction, and Services.                                   |
| Negative RSG means low competitiveness                    | Sector of Mining, LAG, Trading, Transportation, and LK   |
| Positive net effect means as addition of Provincial PDRB  | Sector of Agriculture, Industry, LAG, Construction, Trading, Transportation, LK, and Services. |
| Positive net effect means as reduction of Provincial PDRB | Sector of mining   |

Table details:

- Industrial Mix Growth (IMG)/proportional effect if positive showed the developing economic sector.
- IMG/proportional effect if negative showed the non-developing economic sector.
- Regional Share Growth (RSG) if positive means strong competitiveness position.
- RSG if negative means weak competitive position.
- Net effect if positive means as addition of provincial PDRB.
- Net effect if negative means as reduction of provincial PDRB.

The actual increase is sector contribution growth toward the local economy where the highest is services sector (19.80%), followed by financial sector (17.34%), construction sector (16.94%), industrial sector (14.20%), trading sector (13.89%), transportation sector (13.11%), agricultural sector (11.42%), electricity sector, gas, and water (10.74%), and mining sector (5.06%). The highest contribution to the economy in this area is services sector which shows human resources in the Kotabaru regency are qualified to contribute to the local economy. It also means construction sector has developed rapidly which also means infrastructure development is ready to support macro-economic growth. Trading and financial sector also showed they can support the local economy.

It is interesting thing to analyze sector which has highly contribute to actual increase of GRDP, service sector (19.80%), financial sector (17.34%), construction sector (16.94%), industrial sector (14.20%), and trading sector (13.89%). Contribution these sectors to GRDP shows sector develop rapidly as indicator of competitiveness. Kotabaru regency become destination for investment in industrial, housing, and infrastructure sectors. It means Kotabaru has alternative development besides services, financial and trading sectors that already concentrated at the area.

During the period, LQ of agricultural sector is 4.9 and LQ of trading sector is 3.5. The actual increase of services and financial sector highly increasing because these sectors related with trading and agricultural sector. The economic sector which has low actual increase is mining and electricity sector, water and gas sector because Kotabaru experience declining contribution toward GRDP due to the expansion of Tanah Bumbu where mining sector was located. Therefore, net effect value to the province decrease by 5.40% and the lowest actual growth among sectors are electricity, water and gas sectors. The low value of LAG sector because Kotabaru regency has issue in fulfilling water supply because lack of water resources.

There are several sector have low actual value such mining sector, water, electricity and gas, and agricultural sector which has significant impact to GRDP and local economic as consequence of decreasing of coal price for export in early 2000-2010 along with global economic influence toward the demand of the commodity. Meanwhile, the decrease of actual growth for agricultural sector as the main income has been witnessed especially outcome of palm oil plantation whose CPO commodity price also decrease although the sector still supported by the export of stable relative sear fish yield.

The shift which support Kotabaru Regency that interrelated among regions. The region able to support sector growth which have comparative advantages as bases for export. Then, the local growth can be increased. It will occur because the increase of export will bring double impact to the local economic.

It is interesting and delighting phenomenon because the sector developed rapidly in short period. The sector has potentials to be developed, has small risk and does not need too much investment. More-

over, the most important thing is the multiplier toward the economic and the local revenue. On the other hand, the local government of Kotabaru regency should evaluate the agricultural and industrial sectors through agribusiness, agro-industry and agritourism. The effective strategy for future can be made because the sector is able to absorb many people. Services, construction and trading sector develop rapidly and give high contribution for PDRB mean that the local economic run smoothly and have multiplier with other sectors. Paying more attention to the sectors is comparable with the contribution to the PDRB can be seen from the actual increase. In this case, the needs of depth investigation about how to develop these sectors become leading sectors since they belong to mainstay sectors.

Trading sector who has actual increase of 13.89% is lower than construction sector which is 16.94%. It shows that the trading sector still become the main activity for economic activities in this area with IMG of 6.20 but still has weak competitiveness with RSG of 2.77. It can be seen with the change of traditional market into a modern shopping center as the representative of the change in the increase of sector competitiveness.

The development trend at the trading sector is the shift from only traditional market to modern market. The economic development becomes more advanced. If it is not given space, it will cause social jealousy and economic stagnation. Therefore, economy cannot run optimally. The significant economic impact is the occurrence of low economic growth and inflation because of inhibited distribution and scarcity. At the end it may cause unemployment and the work opportunities decrease. There are six basic models that underlie the analysis about goods mobility and production factors among the areas that can be used as an alternative in decreasing the stagnation and economic development saturation at the Kotabaru regency.

### The competitiveness advantages (regional share growth) of local economic sector

From the change percentage contribution of GRDP caused by RSG with positive value that means having the competitiveness in the area is agricultural sector of 4.78%, industry of 6.84%, construction of 4.17%, and services 5.75% while mining 1.99%, LAG of 3.10%, trading of 2.77%, transportation of 2.25% and financial 5.02% are sector which experience negative value that means no competitiveness. It showed that sectors which have competitiveness are only those with positive RSG.

Table 4: The advantages of Kotabaru regency

| Sector                      | GRDP<br>Kotabaru | NG<br>(Ra-1) | IMG<br>(Ri-Ra) | RSG<br>(ri-Ri) | Net<br>Effect |
|-----------------------------|------------------|--------------|----------------|----------------|---------------|
| Agriculture                 | 11.42            | 10.47        | (3.83)         | 4.78           | 0.95          |
| Mining and digging          | 5.06             | 10.47        | (3.42)         | (1.99)         | (5.40)        |
| Processing industry         | 14.20            | 10.47        | (3.07)         | 6.81           | 3.73          |
| Electricity, gas, and water | 10.74            | 10.47        | 3.37           | (3.10)         | 0.27          |
| Construction                | 16.94            | 10.47        | 2.30           | 4.17           | 6.47          |
| Trading                     | 13.89            | 10.47        | 6.20           | (2.77)         | 3.42          |
| Transportation              | 13.11            | 10.47        | 4.89           | (2.25)         | 2.64          |
| Financial institution       | 17.34            | 10.47        | 11.89          | (5.02)         | 6.87          |
| Services                    | 19.80            | 10.47        | 3.57           | 5.75           | 9.33          |

In arranging the development plan of Kotabaru Regency, the development of sectors with competitiveness is needed because the sectors are able to support the local economic and give great contribution to PDRB in the long term. Therefore, the calculation is worthy of consideration. The other sectors which have negative value are also important as base and supporting sectors, so contribution toward PDRB and local revenue will increase. The lack of local advantage level causes the competitiveness to decrease either in economic or non-economic way. The Kotabaru Regency, based on the local potentials is influenced heavily by climate and the change of natural condition that consists of mountainous area, swam/turf area and urban area. Each area has economic productivity, and it is adapted to the potentials and the societal behavior of each area.

### Net effect of contribution ability to provincial PDRB

The net effect is ability of the local economy in Kotabaru regency to contribute toward provincial economy. Almost all sectors except mining and industrial sectors are capable to give contribution based on calculation.

### Rapidly growing sector

Economic sectors which have positive IMG such as electricity, water, and gas of 3.37%, construction of 2.30%, trading of 6.20%, transportation of 4.89%, finance of 11.89%, and services of 5.67% showed rapid development. The development of those sectors is supported by sectors that have competitive advantages and comparative advantages.

Sectors that have comparative and competitive advantages are able to encourage the strong and sustainable economic mobility and economic growth. Competitive economic will be able to survive and develop rapidly and able to absorb employment.

Table 5: The advantages of Kotabaru regency

| Economic sectors            | LQ 2012 | LQ 2014 | LQ     | Progress | Criteria | 2014     | 2012-2014 | Analysis conclusion         |
|-----------------------------|---------|---------|--------|----------|----------|----------|-----------|-----------------------------|
| Agriculture                 | 2.4189  | 2.5034  | 2.4612 | up       | > 1      | Base     | Base      | Growth higher than province |
| Mining and digging          | 0.7190  | 0.6990  | 0.7090 | down     | < 1      | Non base | Non base  | Growth lower than province  |
| Processing industry         | 0.5394  | 0.5681  | 0.5537 | up       | < 1      | Non base | Non base  | Growth lower than province  |
| Electricity, gas, and water | 0.3275  | 0.3156  | 0.3215 | down     | < 1      | Non base | Non Base  | Growth lower than province  |
| Construction                | 0.5414  | 0.5562  | 0.5488 | up       | < 1      | Non base | Non base  | Growth lower than province  |
| Trading                     | 1.8722  | 1.8104  | 1.8413 | down     | > 1      | Base     | Base      | Growth higher than province |
| Transportation              | 0.8624  | 0.8376  | 0.8500 | down     | < 1      | Non base | Non base  | Growth lower than province  |
| Financial institution       | 0.4197  | 0.3987  | 0.4092 | down     | < 1      | Non base | Non base  | Growth lower than province  |
| Services                    | 0.3581  | 0.3727  | 0.3654 | up       | < 1      | Non base | Non base  | Growth lower than province  |

Table above shows percentage of contribution from each sector toward GRDP as a description of sector's ability in economic activities that have role to give contribution toward GRDP value. Agriculture sector still dominated compared to other sectors, although the low competitiveness can develop based on the shift share analysis and still become the base sector with LQ of 2.64 > 1. Other sector that gives great contribution is trading 1.84 > 1.

### CONCLUSION

Potential is resource capabilities that are not used yet or not optimally used. Therefore, if it is developed, it will improve productivity and efficiency of local resources (Adisasmitha, 2010; Arsyad, 2002). Based on the condition and potentials of Kotabaru economic development, we can divide potential sectors as follows:

#### 1. Agriculture

In years, rice and palawija showed slight increase. The production of vegetable is increasing continuously each year. If production is compared with vegetable consumption of population, it shows slight surplus. Fruit production also increases each year. There are several fruit types that become main commodities. Investment opportunities in agriculture include:

a. Service business of agricultural yield

b. Cultivation include:

1. Corn

2. Soybean

3. Cassava

4. Vegetables: tomato, cabbage, chili, potato, carrot, union

5. Fruits: bark, rambutan, passion fruit, pineapple, orange, and banana.

c. Seedling business, include:

1. Decorative plants/flowers

2. Fruits: bark, rambutan, passion fruit, pineapple, orange, and banana.

3. Vegetables: tomato, cabbage, chili, potato, carrot, onion

d. Agricultural product processing industry including:

1. Integrated fruit processing industry (fruit canning)

2. Tapioca flour

3. Food and beverage industry

4. Animal feed industry

e. Agri tourism include:

1. Flower garden (decorative plants)

2. Fruit and vegetable garden

2. Plantation

Surface area and plantation plants production are dominated by palm oil, rubber, palm, and hazelnut.

The investment opportunities in plantation are:

a. Trading business and plantation yield, include

- Palm oil and rubber

b. Cultivation, include

- Palm oil and rubber

- Coffee

- Cacao

c. Seedling business include

1. Palm oil manufacture, cooking oil, soap, margarine, and etc with CPO materials.

2. Rubber processing factory as raw material for crumb rubber, glove, tire and etc.

3. Cacao and coffee processing factory and industry with cacao and coffee raw materials

d. Plantation yield industry, include

3. Fishery

Area and production of aquaculture become investment opportunities. The investment opportunities in fishery are:

a. Trading of fishery yield

b. Aquaculture

c. Fishing, include:

d. Seedling, include:

e. Fishery business development include:

- Warehouse, ice factory/cold storage

- Fish auction

- Boat, mesh, fishpond and other facilities to catch fish

f. Fishery yield processing industry include:

- Fish flour processing

- Food/restaurant industry

- Fish feed

4. Livestock

Potential investment in livestock at Kotabaru are broilers, duck, pork, goat, buffalo and beef cattle. The

Investment opportunities in livestock are:

a. Trading of livestock yield

b. Livestock cultivation

- Development of cattle, buffalo, goat, pork, chicken, quail, (eggs, milk, and meat)

c. Seedling business

- Forage development

- Seedling of cattle, goat, buffalo, goat, and chicken

- Industry of frozen semen/artificial insemination of cattle, goat, sheep, buffalo

d. Livestock processing industry

- Slaughterhouse

- Industry of livestock yield processing/preservation
- Industry of animal feed
- Industry of leather craft

#### 5. Forestry

Forestry potential opportunity is wood production and other forest yield consist of:

- Pinewood log
- Pulp
- Sawn wood
- Molding
- Plywood
- Jungle log
- Block Board

While forest area according to the function, consist of:

- Production
- Protected
- Conserved
- Production forest that can be converted

While the investment opportunities in forestry:

a. Trading of forest yield

b. Forest cultivation, include:

- Industrial forest
- Agriculture at Langkat Regency

c. Forest yield processing industry

- Furniture from wood
- Real estate that need settlement development

d. Eco tourism

- Conservation area
- Jungle activity eco-resort

#### 6. Tourism

The Investment in various tourism objects should be supported with hotels. Number of hotels in various area showed the area is eligible for tourism destination. For that reason, number of hotel especially at tourism area should be improved in quantity and quality.

Natural tourism object and marine tourism at Kotabaru regency, consist of

- Natural tourism
- Marine tourism

Investment opportunity at Kotabaru includes:

- Development and Construction of Hotel and Resort
- Theme park
- Marine tourism object

#### 7. Health

Potential investment in health sectors are:

- Hospital: private and public
- Community health center: clinic
- Drugstore

Investment opportunity in health sectors:

- Hospital, construction of private and public hospital
- Providing medicines and health instrument
- Drugstore at all regency area
- Medical laboratory in the form of medical laboratory procurement

#### 8. Mining end energy

Potential investment in mining and energy sector include coal, geothermal, crude oil, gas and mineral.

Investment opportunity in mining and energy such as:

- Mining business
- Trading of mining yield
- Mining yield processing industry

## RECOMMENDATIONS

1. Developing small and medium scale investment will be more effective to drive local economic compare with big scale investment which needs more demand and requirements (such as macro-economic and political and security situation).
2. To select the local leading commodity should be based on performance such as: a) has competitive potential at regional or global market b) has competitive product but not developed optimally c) has specific conformity for certain product but not developed d) as strategic commodity for import substitution, and e) create technology transfer opportunity at local partner or small holder.
3. The expected investment to be invested in business scale and competitive commodity should accommodate at least two criteria from capital, technology and skill transfer, and access to market.
4. Industry whose materials are from the natural resources especially at the agricultural sector is the mainstay investment opportunity for development of agro industry with the raw materials of: crops and horticulture, plantation and fishery. Besides that, primary raw material product of crops whose production is high can make the sub sector have the potential to encourage the secondary industry which has added value for domestic or export market.
5. For the development of potential investment, it need the extension of networking, research and technology which focused to support local productivity, competitiveness and commodity .
6. The Government should construct and develop information system network about investment opportunities at local area to promote potential resource and local investment opportunities through various media to national and foreign investor candidates.
7. Government should provide various incentives for investors such as providing infrastructure, transportation, communication, electricity, clean water, permission ion, and tax incentive.
8. For increasing the local investment, the coordination between governmental institution both central and local, creating efficient bureaucracy, legal certainty in the capital investment, economic cost with high competitiveness, conductive business climate and security to do business should be improved.

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