CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Economic Development

Economic development is a process that aims to increase the Gross Domestic Product (GDP) of a country or region beyond the rate of population growth. Thus, economic development can be defined as an effort to improve the living standard of a nation that can be measured with high low real incomes per capita.

The pace of a country's economic development is shown by using the rate of increase of Gross Domestic Product (GDP). However, such a way has a weakness because it does not accurately indicate the improvement of community welfare to be achieved. In the process of calculating GDP at the time of the increase of economic activity of the community then the increase of population will be happened. Thus, the result of the increase of economic activity is used to improve the economic welfare of the community. If the GDP growth is equal to or lower than the population growth, then per capita income will remain the same or tend to decrease. This means that the increase in GDP does not improve the level of community welfare. With the emergence of this distinction, some economists distinguish the term or definition of economic development as follows (Arsyad, 1999):

a. Increase in income per capita of the society is the rate of increase of Gross Domestic Product (GDP) in a given year is exceed the rate of population growth.

b. The development of Gross Domestic Product (GDP) that occurs in a country is accompanied by a reshuffle and modernization of its economy.

According to Todaro (1995), development should be understood as a multidimensional process involving changes in structure, attitudes, and institutional factors, the acceleration of economic growth, the reduction of injustice and the eradication of poverty. Thus, in essence, development is expected to take place at a level of change thoroughly so as to improve the welfare of society.

Todaro in Arsyad (1999) explains that the success of a country's economic development can be seen from three basic values, namely:

a. The development of people's ability to meet basic needs.

b.   Increasing people's sense of self-esteem.

c. Increasing people's ability to choose.

Of these three basic values will be encouraging in the development of economic development tend to be evenly distributed and has a positive value.

Understanding of economic development not only increase the Gross Regional Domestic Product (GRDP) every year but this economic

development can be defined as a country that strives in the sense of conducting community activities.

2. Economic Growth

According to economists, the notion of economic growth is an increase in Gross Domestic Product (GDP) regardless of whether the increase is greater or less than the rate of population growth, or whether changes in economic structure occur or not. More generally economic growth is usually used to state economic development (Arsyad, 1999). Further Robinson (2005) argues that economic growth is an increase in public opinion as a whole that occurs a region, namely the increase of all added value that occurs. The higher the level of Gross Domestic Product (GDP) then the more prosperous the country.

Boediono in Kuncoro & Sutarno (2003) says that economic growth is a process of increasing per capita output in the long run where there is an emphasis on the process because in the process it contains dynamic elements. In this case there are three aspects to note are:

a. The economic growth of a country is seen from the continuous increase of inventory. Increased output is a continuous form of economic growth. The ability to provide a variety of goods is a sign of a country's economy is mature.

b. Advanced technology is a factor in economic growth that can determine the ability to grow the supply of various goods to the population.

c. The widespread and effective use of technology is required with the orientation of the institute and ideology so that it can be exploited appropriately by the innovations produced by science. Modernists technology itself must be followed by social renewal as well.

Professor Kuznets in Jhingan (1990) says in his book Modern Economic Growth, 1996 the definition of economic growth is a continuous increase in the product of per capita or per worker, often followed by an increase in population and usually by structural change.

The factors that influence economic growth according to Arsyad (1999), are:

a. Capital Accumulation, including all new investments in land, physical equipment, and human resources.

b. Population Growth, meaning that more labor force means more labor production factors, where more and more people will increase the potential of the domestic market.

c. Technological advances, in the simplest form of technological advancement, are brought about by new ways and old ways of improving in traditional

work. Technological advances are classified into three types: neutral, labor saving, and capital saving.

d. The broad market as a growth, Adam Smith has shown specialization limited by the breadth of the market. Limited specialization limits economic growth.

3. Regional Economic Development

Regional economic development is a process whereby the government and its people can manage the existing resources so as to form a pattern of cooperation between the local government and the private sector so that it can create new jobs and stimulate economic activity in the area (Arsyad, 1999).

Arsyad (1999) explains that every effort of regional economic development has the main goal is to increase the number and type of employment opportunities for local communities. In an effort to achieve these objectives, local governments and their communities must jointly take initiative to build the region. Local governments and their community participation and by using existing resources seek to capture the potential of existing resources to design and build the regional economy. Thus, if it will build an area, the policies taken should be proportional to the conditions in the relevant area.

Thus regional economic development can be interpreted as the procurement of employment for the community in a region so that the

human resources of the community itself can process the existing resources so that it becomes useful and will eventually increase the rate of economic growth. Nationally development is a continuous improvement in a country's Gross Domestic Product (GDP). in other words, regional development means that the continuous improvement of Gross Regional Domestic Product (GRDP) is centralized to the respective regions (Provinces, Districts/Municipalities, and Districts).

4. **The Theory of Economic Growth**

As a reference there are several theories of economic growth, among others, as follows (Hudiyanto, 2013):

a. **Theory of Economic Growth by Classical**

In the history of economic thought, the classical argued theories of economic growth before 1870. The classical argues that the role of capital is essential for economic development. The use of capital is suppressed to increase supply as high as will be followed by high demand (supply creates its own demand). In fact, however, high supply is not followed by high demand, causing problems such as overproduction, unemployment, and deflation.

b. **Ricardo Growth Theory**

Basically, there is not much change in Ricardo's theory with Adam Smith's theory because Ricardo uses the theoretical foundations of the classical theory. Only, Ricardo suggests that

in the long term the population will be constant. Since output depends on the number of people it is thought that over the long run the national output will tend to be constant or stop growing, so per capita income will be constant as well. As a result of the natural rate of pay, the population growth is constant or stopped growing, then the part of the capitalist overproduction is also constant at a minimum level of capital accumulation stalled. This condition is then known as a stationary condition (stationary state).

c. **Lewis Growth Theory**

In Ricardo's is the population will be constant, then, in theory, Lewis said otherwise. That the population or labor force is not limited. Regardless of the labor required by the industrial sector will be biased supplied by the labor of agriculture / rural areas which is a traditional sector. With this unlimited population or workforce, it is possible that economic growth should not be followed by an increase in the rate of wage labor. Here is an estimate put forward by Lewis:

1) The economy consists of two sectors: modern or industrial and traditional or agricultural.

2) Capital and labor are the main factors of production.

3) There is a surplus in the agricultural sector.

4) Surplus or profit in the modern sector will be re-invested into the productive sector resulting in accumulation or accumulation of capital.

5) Wage rates in the modern sector are higher.

6) Wage rates in the agricultural sector will be constant due to labor surplus.

d. Rostow Growth Theory

According to Rostow, there are considerations of non-economic aspects in the developing economy. In the economic development, it not only thinks of the agricultural sector directed to the industry sector but also consider changes in political, social, and cultural aspects such as:

1) Changes in orientation from social institutions, economic politics from the inward-looking to the outward-looking. Namely opportunities and challenges not only domestic but within the international scope.

2) There is a change of population orientation, from oriented to the number of children may become on the orientation of a small number of children.

3) Changes in savings patterns and investments from unproductive investments towards more productive investments, for example; saving deposited or invested in the real sector.

4) The change of orientation of the society in the election of leader based on heredity becomes based on deliberation or emphasizing the importance of democracy value.

5) The occurrence of changes in view of nature, from obstacles to challenges that encourage development.

From some of these considerations Rostow realized the stages in the process of economic growth experienced by a country in general which is divided into five stages, namely:

a) The Traditional Society

Traditional society is a society that has a way of thinking, production and primitive and traditional technology. At this stage, people still use primitive production methods by pressing various problems on the values of irrational thinking based on things that prevailed from generation to generation.

b) Precondition for Take-off

The precondition for take-off is a transitional period in which the community prepares itself or is prepared from the outside to attain growth that has the power to evolve continually to grow.

c) Take off

Take off is a time of drastic change in society. Rapid progress in innovation and the creation of new markets.

Investors are a prerequisite for take-off, as increased investors can cause the economy to expand beyond the rate of population growth. The existence of a cultural framework is the final requirement to take off so that it can lead to an expansion in the modern sector. At this stage is marked by the removal of the obstacles that hinder the process of economic growth.

d) The Drive to Maturity

The Drive to Maturity is a time when people effectively use modern technology in most of the factors of production and natural resources.

e) The Age of High Mass Consumption

It is a condition where people pay more attention to the problem of consumption and welfare so that production problems are ruled out.

e. **The Harrod-Domar Growth Theory**

Harrod-Domar is an economist who develops the theory of Keynes which emphasizes the need for investment in creating an economic growth. Economic growth is determined by high levels of savings and investment. If the saving rate decreases then economic growth will decrease, and vice versa. According to him, every economic effort must save a certain share of national income by adding stock of capital to be used in new

investment. Harrod-Domar said that there is an economic relationship between capital stock (K) with the number of national production (Y). As an example; $ 400 units of capital needed to generate $ 1 unit of income, then the Capital Output Ratio (COR) is 4 : 1 which means COR = 4.

5. **Regional Economic Development Planning**

According to (Arsyad, 1999) regional economic planning can be considered planning to improve the development of public resources available in the area and to improve the capacity of the private sector to create responsible private sources of resources. There are three main implications of economic development planning:

First, realistic regional economic development planning requires an understanding of the relationship between the region and the national environment in which it is a part, the fundamental interest between the two, and the consequent consequences of the interaction.

Second, something that looks good nationally is not necessarily good for the region, nor is it good for the region not necessarily good nationally.

Third, the institutional tools available for regional development such as administration, decision-making processes, authority are usually very different at the regional level with those available at the central level. Therefore, effective regional planning should be able

to distinguish between what is done and what can be done, using the most efficient development resources that can be achieved and benefiting from the complete information available at the local level.

The purpose of planning according to Hatta in research (Basuki & Gayatri, 2009) is to establish a regulated national economy, whose goals and paths have been planned. Meanwhile, according to Widjojo Nitisastro, basically planning relates to two things: *first,* the determination of the choice to be achieved within a certain time on the basis of the value owned by the community concerned. *Second,* the choices between efficient alternatives to achieve a particular goal. Thus, for the determination of the objectives covering a certain period of time or for the selection of such means required certain criteria that previously must be selected first.

With this economic development plan is for the location of the resources owned by the state can be more efficient and effective and avoid the waste, steady economic growth and always sustainable and a stable economy.

6. Economic Base Theory

According to Tarigan (2005), the theory of economic base based on his view that the economic growth rate of a region is determined by the large increase in exports from the region. Economic activities are grouped based on base and non-base activities, but only base activities can promote the economic growth of a region. Besides, this theory can

also be used as an indication of multiplier effects for economic activities of a region.

There are several methods to choose between the base and non-base activities of Tarigan (2005) among others as follows:

a. Direct Method

This method can be done by the direct survey on the business actors where they market the manufactured goods and from where they buy the materials need to produce the product. From their answers, can be determined how many percent of goods sold out of the region and how many percent of goods sold into the region. The lack of this method, however, can cost a lot of money, time and labor. Given these deficiencies, most regional economists use indirect measurements.

b. Indirect Methods

One indirect method is to use assumptions or called assumption methods. In the method of assumption, based on the condition of the region (secondary data), certain activities are assumed to be base activities and other activities as non-basis activities.

c. Mixed Method

This method is a combination of assumption methods with the direct method. In a mixed method, a survey is conducted first, which is secondary data collection, usually obtained from

government agencies or data collection agencies such as Central Bureau of Statistics (BPS). If the portion of the base and non-bases are not so contrasting, this portion should be estimated by re-surveying and should be determined which sectors may require sampling of data collection directly from the business and which sectors are adequate with secondary data collection. Thus, for open economies or diverse activities, it is not possible to use only the assumption method but must use a mixed method.

d. Location Quotient Method (LQ)

The Location Quotient method compares the portion of employment / added value to a particular sector in a particular region with the share of employment / added value for the same sector in its upper region. The assumption used is average productivity / average consumption across the same region. This method has several advantages such as this method take into account the sale of goods, not expensive and easy to apply.

B. Previous Study

In this section of previous study contains about research that has been done before and which become consideration and reference for the author in the preparation of this thesis. Previous study can be seen in Table 2.1 below:

Table 2.1
Previous Study

No	Authors, Year, Title	Analysis Methods	Results
1.	Agus Tri Basuki dan Utari Gayatri, 2009, Penentu Sektor Unggulan dalam Pembangunan Daerah: Studi Kasus di Kabupaten Ogan Komering Ilir	a. Growth Ratio Model (MRP) b. Shift Share Analysis c. Location Quotient Analysis (LQ) d. Overlay Analysis e. Klassen Typology Analysis	From the analysis results can be seen that the agricultural sector is a leading sector or very dominant because it shows growth and a very large contribution to the formation of GRDP and development in Ogan Komering Ilir district. Building sector; the trade, restaurant and hotel sectors and services sectors show a small growth sector but a large contribution. This is possible that the sector is a declining sector which one of them is caused by the lack of job availability.
2.	Adi Sutrisno 2012, Ketimpangan Pendapatan dan Pengembangan Sektor Unggulan di Kabupaten dalam Kawasan Barlingmascakeb Tahun 2007-2010	a. Williamson Index Analysis b. Entropy Theil Index Analysis c. Shift-Share Analysis d. Klassen Typology Analysis e. Skalogram Analysis f. Overlay Analysis	The results of the Williamson index analysis show that the level of inequality in the Barlingmascakeb region shows a low gap rate with an average of 0.185. While based on the result of calculation of Entropy Theil Index shows the average inequality in Barlingmaskaceb area of 0.722. this shows that income inequality that occurred in the area Barlingmaskaceb still relatively low

No	Authors, Year, Title	Analysis Methods	Results
3.	Ana Yulianita 2009, Analisis Sektor Unggulan dan Pengeluaran Pemerintah di Kabupaten Ogan Komering Ilir	a. Location Quotient Analysis (LQ) b. Correlation and Determination Analysis (R, R^2, T-test)	The results of the LQ show that during the period 2004-2008, the Ogan Komering Ilir Regency has three leading sectors, namely agriculture, building, and trade sectors, hotels, and restaurants. While based on the results of quantitative analysis obtained that the influence of government spending significant to the leading economic sector of Ogan Komering Ilir Regency.
4.	Sutarno dan Mudrajat Kuncoro 2003, Pertumbuhan Ekonomi dan Ketimpangan antar Kecamatan di Kabupaten Banyumas, 1993-2000	a. Klassen Typology Analysis b. Williamson Index Analysis c. Entropy Theil Index Analysis d. Trend e. Korelas Pearson	Based on Klassen Typology analysis, the sub districts in Banyumas Regency are classified into four groups: fast forward and fast-growing sub-districts, advanced but depressed sub-districts, fast developing districts and lagging sub-districts. While the results of Williamson index and Entropy Theil index indicate a tendency of increasing inequality period 1993-2000, this inequality one of them caused by the concentration of spacial economic activity.

No	Authors, Year, Title	Analysis Methods	Results
5.	Rifki Adhitama 2012, Pengembangan Sektor-Sektor Ekonomi di Tiap Kecamatan di Kabupaten Magelang	a. Location Quotient Analysis (LQ) b. Klassen Typology Analysis c. Shift-Share Analysis	The result of the research by using some analytical tools such as services sector, agriculture sector, and trade sector, hotel, and restaurant in Magelang Regency dominate the existing superior sector in each district in Magelang Regency.
6.	Fachrurrazy 2009, Analisis Penentuan Sektor Unggulan Perekonomian Wilayah Kabupaten Aceh Utara dengan Pendekatan Sektor Pembentuk PDRB.	a. Klassen Typology Analysis b. Shift-Share Analysis c. Location Quotient Analysis (LQ)	The result of Klassen Typology analysis shows the advanced and growing sectors of agriculture and transportation and communications sector. The LQ result shows that agriculture sector, mining and quarrying sector, processing industry sector and transportation and communications sector are a base sector in North Aceh Regency. Shift Share analysis results show that the sector which is a competitive sector, namely the agricultural sector, construction sector and construction sector banks and other financial institutions.

No	Authors, Year, Title	Analysis Methods	Results
7.	Azis Pratomo 2014, Analisis Potensi Pengembangan Pusat Pertumbuhan Ekonomi di Kabupaten Cilacap.	a. Klassen Typology Analysis b. Location Quotient Analysis (LQ) c. Growth Ratio Model (MRP) d. Overlay Analysis e. Skalogram Analysis	The results of this study indicate that the center of economic growth in Cilacap regency and cooperation region is the Western Region with economic growth center Majenang Subdistrict, Central Area with growth center of Gandungmangu Subdistrict, East Area with growth satisfaction Kesugihan District. For its development needs to increase investment in order to develop competitive sectors that are competitive and comparative competitive.
8.	Puspaningtyas *et al*, 2013 Analysis of Local Economic Potential and Competitiveness Economic Sector in Improving Local Economic Development (Study in Batu City)	a. Location Quotient Analysis (LQ) b. Shift-Share Analysis	The result of this study are: Batu has three superior sector during 2007-2010, there are services sector; trade, hotel and restaurant sector, and agriculture sector. The competitiveness sector are trade, hotel, and restaurant sector, and agriculture sector. The superior sector that contributed to PAD are, services, hotel and restaurant sector.

No	Authors, Year, Title	Analysis Methods	Results
9.	Endaryanto *et al* 2015, The Impact of Regional Expansion on Economic Structure: A Case Study in Lampung Province, Indonesia	a. Quantitative descriptive approach b. Location Quotient Analysis (LQ) c. Shift-Share Analysis d. Klassen Typology Analysis	The result Showed that after expansion in the District of Pringsewu there were differences in the economic structure with dominance in the tertiary sector/services, while the main District of Tanggamus dominated in primary sector/agriculture. Based on the result of analysis Klassen Typology that in District of Tenggamus, mining and Quarrying sectors, and construction sector were an advanced sector which were growing rapidly. The Development of potential economic sectors prioritized in advanced sectors wit high growth, considering the local and regional potential, the quality of human resources, the distance location, roads infrastructure, regulation, and other supporting facility and infrastructure.
10.	Dini Hariyati & Maria Ariesta Utha 2016, Analysis of Determinants Sectors Regional Development at 33 Provinces in Indonesia	a. Location Quotient Analysis (LQ) b. Klassen Typology Analysis	Based on the result of calculations leading sectors using Location Quotient Analysis (LQ) in 33 provinces in Indonesia showed that dominated by: first, the agricultural sector, second, the mining sector, third, the manufacturing sector, four, publicities, gas and water sector, five, construction sector, sixth, sector of trade,

			hotel and restaurant, seven, sectors of transportation and communication, eight, sector financial/Banking and nine, service sector.

The difference of this research with the previous research is the research that is done now residing in the object of research on West Nusa Tenggara Province especially in economic sector recorded in North Lombok Regency. The analytical tools used are Growth Ratio Model (MRP) analysis, Shift Share analysis, Location Quotient analysis, Overlay analysis, Klassen Typology analysis. With data source obtained from West Nusa Tenggara Province BPS and BPS North Lombok Regency with period 2012-2016. The contribution that can be given from this research is with the result of an analysis that can be used by the local government of North Lombok Regency in order to arrange and plan economic development in North Lombok regency by using economic sectors that can be relied upon for the development of the region.
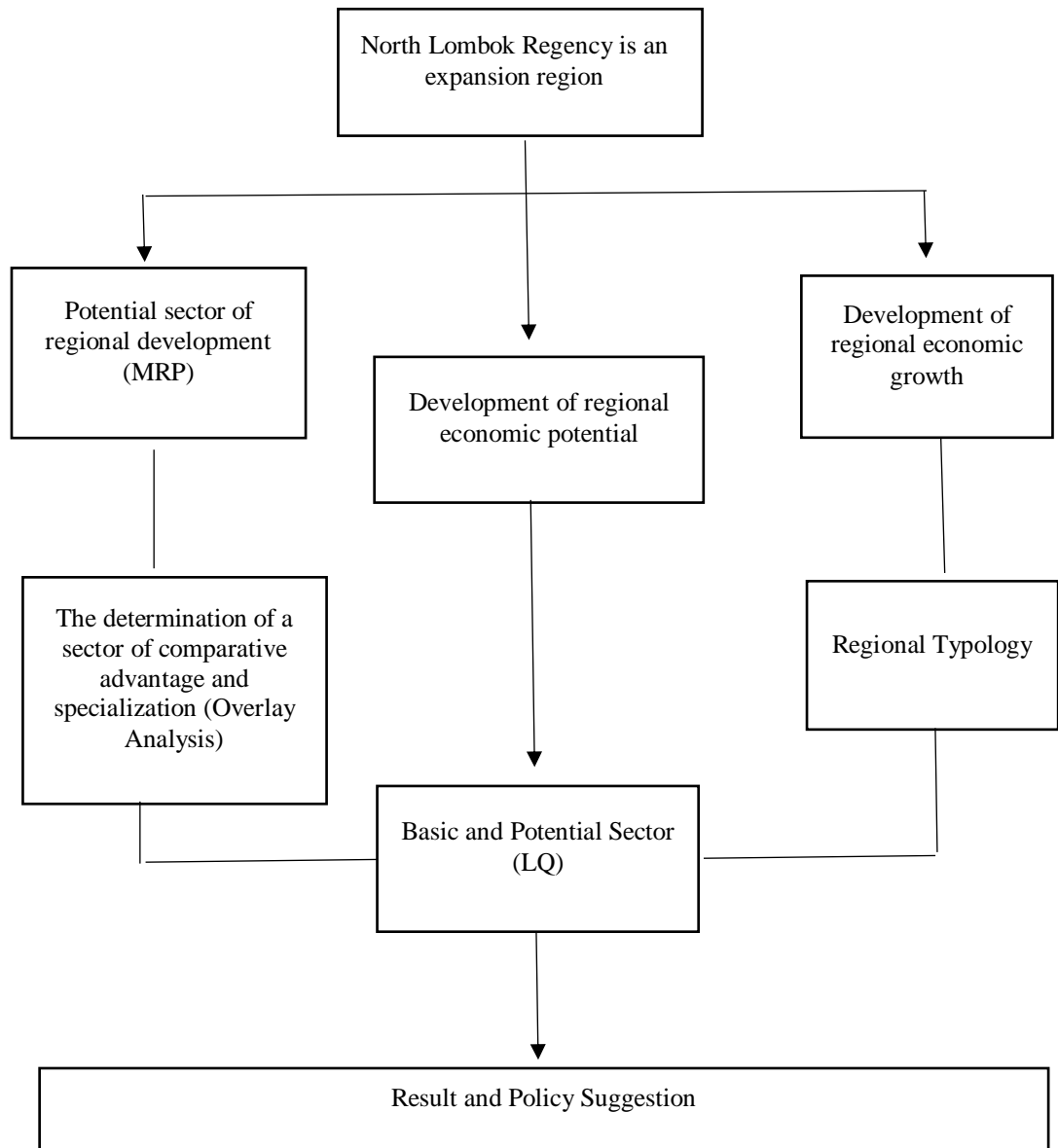
C. Research Framework

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│ North Lombok Regency is an  │
│      expansion region       │
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Potential sector of regional development (MRP)

Development of regional economic potential

Development of regional economic growth

The determination of a sector of comparative advantage and specialization (Overlay Analysis)

Regional Typology

Basic and Potential Sector (LQ)

Result and Policy Suggestion

Figure 2.1

Research Framework