

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Definition of leading sector.

The definition of a leading sector is usually related to a comparison, whether it is regional, national or international scale comparison. In the international sphere, a sector is said to be excellent if the sector is able to compete with the same sector as other countries. While in the national scope, a sector can be categorized as a leading sector if that sector in a particular region can compete with the same sector produced by other regions, both in national and domestic markets (Tambunan, 2001). An area will have a leading sector if the region can win the competition in the same sector with other regions so that it can produce exports (Suyatno, 2000).

The leading sector according to Tumenggung (1996) is a sector that has a comparative advantage and competitive advantage with similar sector products from other regions as well as providing great value for benefits. The leading sectors also provide added value and large production, have a large multiplier effect on other economies, and have high demand both local and export markets (Mawardi, 1997).

The leading sector is certain to have greater potential to grow faster than other sectors within a region, especially with the supporting factors of the leading sector, namely capital accumulation, employment growth absorbed, and technological progress. Creation of investment opportunities

can also be done by empowering the potential of the leading sectors owned by the region concerned (Rachbini, 2001).

The leading sector in a region is closely related to the GRDP data from the region concerned. Because in the GRDP data contained very important information, such as to see the output of economic sectors (contribution of each sector) and the growth rate in an area both the provincial and district/city.

2. Determination of leading sector criteria.

The determination of the leading sector becomes an important thing as the basis of regional development planning in accordance with the current era of regional autonomy, where the region have the opportunity and authority to make policies in accordance with the regional potential to accelerate regional economic development. The criteria of superior sector according to Sambodo in Usya (2006) is first, the leading sector has a high rate of economic growth; second, the leading sector has a relatively large employment rate; thirdly, the leading sector has a link between the high sector either forward or backward; and fourth, a sector that capable of creating high added value.

According to Rachbini (2001) there are four conditions for a particular sector to be a priority sector, namely:

1. The sector must produce a product that has considerable demand, so the growth rate grows rapidly as a result of the demand effect.

2. Because there is a technological change that is adopted creatively, the new production function shifts with the development of a wider capacity.
3. There has to be an increase in re-investment from the priority sectors of production, both private and government.
4. The sector should grow, so as to influence other sectors.

According Ambardi and Socia (2002), the criteria of superior commodities of a region, including:

1. Leading commodities should be able to become the main drivers of economic development. That is, leading commodities can contribute significantly to increased production, income, and expenditure.
2. Leading commodities have a strong forward and backward linkage, both among the leading commodities and other commodities.
3. Leading commodities can compete with similar products from other regions in the national market and international market, both in product prices, production costs, service quality, and other aspects.
4. Regional superior commodities are linked to other regions, both in the market (consumer) and supply of raw materials (if the raw materials in their own areas are inadequate or not available at all).
5. Leading commodities have an ever-increasing technological status, especially through technological innovation.

6. Leading commodities are optimally able to absorb quality workforce, in accordance with the scale of production.
7. Leading commodities can survive within a certain timeframe, from the birth phase, growth, peak, to decline. As the leading commodity one enters the decline stage, other superior commodities must be able to replace it.
8. Leading commodities are not vulnerable to external and internal shocks.
9. The development of superior commodities should get various forms of support. For example, security, social, cultural, information and market opportunity, institutional, incentive/disincentive facilities support, etc.
10. The development of leading commodities is oriented towards the sustainability of resources and the environment.

3. Concept of development and economic growth.

Development is an ongoing process of change towards the improvement in all areas of society's lives by standardizing its set of values that lead them to reach the desired state and level of life. Development should be directed to the development of potential resources, initiative, creativity and personality of every citizen.

Kartasamita (1996) in Safi'i (2007) says that development is an effort to increase the dignity of society who are in a condition not able to escape from poverty trap and backwardness. Building society means making them capable

and independent. The commencement of the development process based on community development, is expected to be able to spur public participation in the development process itself.

Economic development is a multidimensional process that involves major changes, whether to change the economic structure, social, reducing or eliminating poverty, reducing inequality and unemployment in the context of economic growth, Todaro (2003) in Sirojuzilam (2010).

Sadono Sukirno (1985) defines economic development as a process that causes the per capita income of a population to increase in the long term. The definition implies that economic development is a continuous change through a combination of processes to achieve something better, that is, a continuous increase in per capita income over the long term.

According to Schumpeter in Adisasmita Rahardjo (2005) development is a spontaneous and discontinuous change in a stationary state that constantly changes and replaces the existing equilibrium situation. In the context of development, Rodinelli (1961) states that government policy is aimed at changing ways of thinking, always thinking of the need for development investment. With the development, there will be an increase in the nation's cultural values, namely the creation of a better standard of living, mutual respect for each other, and avoid arbitrary action.

As for development goals according to Gant (1971) in Sirojuzilam (2010), there are two stages. The first stage of development essentially aims to eliminate poverty. If this goal has already begun to feel the result, then the

second stage is to create opportunities for its citizens to be able to live happily and meet all their needs.

Economic growth is a description of the impact of government policies that are implemented especially in the economic field. Economic growth is a growth rate formed from various sectors of the economy that indirectly describes the rate of economic growth that occurred. For regions, this indicator is important to know the success of development in the future.

Economic growth must go hand in hand and planned, striving for equal distribution of opportunities and the sharing of development outcomes more equitably. Growth is a key measure of the success of development, and the results of economic growth will also be enjoyed by the community to the bottom layer, either by itself or by government interference. Fluctuations in real economic growth from year to year are reflected through the presentation of Gross Regional Domestic Product (GRDP) on the price of consumers on a regular basis. Positive growth indicates an increase in the economy, on the contrary, if negative it indicates a decrease in growth.

Kuznets (1996) in Sirojuzilam (2008) defines economic growth as a long-term increase in a nation's ability to provide more goods to its population. This capability increases according to technological advances and necessary institutional and ideological adjustments. Meanwhile, according to Boediono (1985) in Tarigan (2003), economic growth is a process of per capita output increase in the long run. According to Adisasmita Rahardjo

(2005) economic growth is an increase in the capacity of a long-term nation to produce various goods and services for its people.

4. Regional economic development.

In general, regional economic development is a process whereby local governments and all components of communities manage existing resources and form a partnership pattern to create new jobs and stimulate the development of economic activity within the region, depending on the fundamental problems faced by the area. How the region overcomes fundamental problems is determined by the chosen development strategy. In this context it is important to formulate the vision and mission and then choose the right strategy (Kuncoro, 2004).

The main problem in regional development lies in the emphasis on development policies based on the specificity of the region concerned (endogenous development) using the potential of human resources, natural resources, and artificial resources owned by the region concerned (Khusaini, 2006).

In regional economic development the role of government can include the role of entrepreneur, coordinator, facilitator and stimulator (Blakely, 1989) and (Kuncoro, 2004). As entrepreneurs, local governments are responsible for running a business by utilizing the potential for land, buildings, for conservation purposes or for other environmental reasons, or for development planning purposes. As a coordinator, local governments can set policies and propose development strategies in their areas, in collaboration

with business entities and other community groups. As facilitators, local governments can accelerate development through improved environmental behaviors in their areas. This role may include the efficiency of the development process, improvement of planning procedures and regulatory enforcement. As a stimulator, local governments can stimulate the creation and development of enterprises through specific actions that will affect the existing companies to stay in the area, as well as various facilities to attract entrepreneurs into the region.

Each regional economic development effort has the main objective to increase the number and type of employment opportunities for local communities. In an effort to achieve these objectives, local governments and communities must jointly take local development initiatives. Therefore, local governments and their community participation and by using existing resources should be able to assess the potential resources needed to design and build the regional economy, Arsyad (2004) in Sinaga (2012).

In regional economic development, development can not be done simultaneously in all sectors of the economy, but prioritized on the development of sectors of the economy with considerable potential for growth. Because this sector is expected to grow and develop rapidly and will stimulate other related sectors to grow to offset the development of the potential sector. The rapid growth of the potential sector will drive the polarization of other economic units that will ultimately indirectly stimulate other sectors of the economy to flourish.

5. Changes in regional economic structure

Continuous economic growth in a certain period of time can change the economic structure. The economic situation in any country generally grows, both naturally and by the influence of economic policy. The structural change (structural transformation) of a region's economy is a shift from a traditional economic system to a modern economic system. This means that there is also a change of economic structure from the agricultural sector to the industrial sector, then from the industrial sector to the services sector (Sirojuzilam and Mahalli, 2010).

According to Kuznets (1966), structural transformation can be defined as a change in the composition of demand, trade, production and use of the factors of production necessary to sustain economic growth.

Isard (1960) provides a pattern of regional economic structure shifts in employment. While Chennery and Syrquin say that the pattern of changes in economic structure is divided into 3 (three) groups, namely: changes in economic structure in the process of capital accumulation, allocation of resources, and changes in demographic and distribution processes.

In the process of regional development, in addition to considering growth and equity, also consider the impact of economic activity on social life of the community. Moreover, in the process of development efforts are made to improve the structure of the economy in a better direction (Kuncoro, 2003).

6. The economic base theory

This theory was proposed by Richardson (1973) which states that the main determinant of economic growth of a region is directly related to the demand for goods and services from outside the region (Arsyad, 1999). The growth of industries using local resources, including labor and raw materials for export, will generate local wealth and job creation opportunities. This assumption provides an understanding that an area will have a leading sector if the region can win the competition in the same sector with other regions so as to produce exports (Suyatno, 2000).

Hoover and Giarratani (1984) in Sirojuzilam (2010) say that some economic activities within a region is specifically an economic base activity, that is, in the sense that its growth leads and determines the development of the region as a whole, while other non-base activities are simple is a consequence of the overall development of the region. This theory is one approach that aims to explain the development and growth of the region.

Glason (1978) in Sirojuzilam (2010) states that base activities are activities that export goods and services to places outside the boundaries of the region's economy or to sell their goods and services to people from outside the boundaries of the economy of the people concerned. While non-base activities are activities that provide the items needed by persons residing within the boundaries of the economy of the people concerned.

Base activity has a role as a prime mover in the growth of a region. The greater the exports of a region to other regions will further advance the

growth of the region, and vice versa. Any changes that occur in the base sector will have a multiplier effect in the regional economy (Adisasmita, 2005).

The economic base theory seeks to discover and recognize the base activity of a region, then forecast the activity and analyze the additional impact of the export activity. A key concept of economic base theory is that export activity is a growth engine. The growth or absence of a region is determined by how the region's performance of demand for goods and services from outside.

One way of determining a sector as a base or non-base sector is through *Location Quotient* (LQ) analysis. Arsyad (1999) explains that the *Location Quotient* technique can divide the economic activities of a region into two groups:

1. The activities of the economic sector that serve the market in the region itself as well as outside the region concerned. This economic sector is called a potential economic sector (base).
 2. The activity of the economic sector that only serves the market in the area is called the non-potential sector (non-base).
7. Gross regional domestic product.

Gross Regional Domestic Product (GRDP) is a production produced by a community within a period of one year in a certain region or region. Gross Regional Domestic Product figures are needed and need to be presented, as they can be used as materials for development planning analysis, as well as a

barometer for measuring the results of development that have been implemented.

Gross regional domestic product (GRDP) is an economic indicator to measure development progress in a region. In addition to the value of all goods and services produced by the economic sectors, GRDP is useful for knowing the level of the net product or the added value generated by all factors of production, the magnitude of economic growth, and the pattern (structure) of the economy in a given year period in a country or region, Prihatin (1999) in Azis (2012).

The presentation of GRDP can be divided into two ways, namely GRDP on Constant Prices, meaning that all aggregate income is valued at fixed price, so the aggregate development of income from year to year is solely due to real production growth not because of price increase or inflation. Or in other words GRDP at constant prices is the amount of production value or income or expenditure that is valued at a fixed price (the price of a base year) used for one year. Whereas GDRP at Current Price is the amount of production value or income (expense) that is valued according to the prevailing price in the year concerned.

The calculation of GRDP at constant prices is useful to describe the economic growth of a region both aggregate (whole) and sector. It is also useful to see changes in the economic structure of a region based on the distribution of each sector of the economy to the total value of GRDP. In addition, the per capita income derived from the ratio of GRDP at current

prices to the number of residents in the year may be used to compare the level of prosperity of one region to another. The comparison between GRDP at current price and GRDP at constant prices can also be used to see inflation or deflation occurring.

According Widodo (2006), there are three approaches to calculate the GRDP that can be used, namely:

- a. The production approach, meaning that GRDP is the added value of goods and services produced by various production units in a region's territory within a certain period of time (usually one year). The added value is the result of a reduction between output and input. The units of production are grouped into 9 business fields (sectors), namely: 1. Agriculture, Livestock, Forestry and Fisheries 2. Mining and Quarrying 3. Processing Industry 4. Electricity, Gas and Water 5. Building, 6. Trade, Hotels and Restaurants, 7. Transportation and Communications, 8. Finance, Leasing and Corporate Services, 9. Services including government services.
- b. The income approach, meaning that GRDP is the amount of remuneration received by the factors of production that participate in the production process in an area within a certain period of time. Production factor services are wages and salaries, rent of land (repayment of land), capital interest (remuneration of capital) and profits (compensation of entrepreneurship), all before deduction of income tax and other direct taxes.

- c. The expenditure approach, ie GRDP is all components of final demand consisting of: (1) household consumption expenditure and non-profit private entities, (2) government consumption, (3) gross domestic fixed capital formation, (4) stock changes, and (5)) net exports (exports minus imports).

Based on the business field, GRDP is divided into nine sectors, namely:

1. Agriculture, Livestock, Forestry and Fisheries
2. Mining and Quarrying
3. Processing Industry
4. Electricity, Gas and Water
5. Building
6. Trade, Hotels and Restaurants
7. Transportation and Communications
8. Finance, Leasing and Corporate Services
9. Services including government services.

While in macroeconomics, GRDP is divided into three major groups called primary sector consisting of agriculture, mining and quarrying sector, secondary sector consists of manufacturing industry sector, electricity, gas and drinking water and building and tertiary sector consist of trade sector, hotel and restaurants, transportation and communications, banks and other financial institutions and services (Concern, 1999) in (Azis, 2012).

8. Development of underdeveloped sector and potential sector being a leading sector as a regional development strategy.

The main problem in regional development lies in emphasizing development policies based on the specificity of the region concerned (endogenous development) by using human resources potential. This orientation leads to the taking of initiatives originating from the region in the

development process to create new employment opportunities and stimulate economic improvement (Arsyad, 1999).

According to Safi'i (2007), the new paradigm of regional economic development strategy includes the following:

1. Development is done by considering the potential of the area concerned, as well as the needs and the ability of the region to run the development.
2. Regional development is not only related to the economic sector but also the success associated with other factors such as social, political, legal, cultural, bureaucracy and others.
3. Development is done gradually in accordance with the priority scale and which has the effect to move other sectors more quickly.

By knowing the development goals and targets, as well as the strengths and weaknesses of a region, the existing potential development strategy will be more focused and the strategy will be a guide for local governments or anyone who will carry out business in the area. Therefore, according to Mangun (2007) the following steps can be used as a reference in preparing existing potential development strategies in the area, namely:

1. Identify which sectors of activities that have potential to be developed with due regard to the strengths and weaknesses of each sector.

2. Identify sectors that have low potential to be developed, as well as look for factors causing the low potential of the sector to be developed.
3. Identify existing resources (factors of production), including ready-to-use human resources to support the development of each sector concerned.
4. With the weighting model for the variables of strength and weakness for each sector and sub-sector, then will be found the leading sectors which then considered as economic potential that should be developed in the area concerned.
5. Determining the strategy to be followed for the development of sectors that are expected to attract other sectors to grow so that the economy will be able to develop by itself in a sustainable manner.

Differences in local conditions bring the implication that the pattern of economic development applied in each region will be different. Impersonation of the pattern of policies that have been applied and succeeded in an area, not necessarily give the same benefits for other areas, Munir (2002) in Aziz (2012).

Potential economic sector in a region is a sector that has a higher production capability compared with the ability of the same sector in other regions, thus the products and services from the potential economic sector in addition to self-sufficient, the rest can be sold outside the region , so the region gets incoming revenue. These revenues will encourage the utilization

of local resources and drive potential economic sectors while simultaneously increasing the utilization of the resources of the unlikely economic sector, so that the overall economy will flourish, which in turns each sector of the economy is a market for other sectors. These conditions can create new business opportunities and employment opportunities for the community.

The strategy for developing the region's economic potential should be based on the opportunities and potentials of a region by highlighting the advantages possessed by a region and the friendly local government policies to the enteRGReneurship environment.

B. Previous Researches

Table 2.1
Previous Researches

No.	Researcher	Tools of Analysis	Title and Research Result
1	Wali I Mondal (2009)	- <i>Shift Share</i>	<p><i>“An Analysis of The Industrial Development Potential of Malaysia: A Shift-Share Approach”</i></p> <p>Result from this research shows that Malaysia has basis sector in a region of Klantan, Terenganu, Pahong and Johor Utara which from that four regions have unique mix industry compared to other region in Malaysia, and supported by abundant resources. In Semenanjung Malaysia, agriculture and fishery sector as dominant sector, beside of that tourism sector has an important role in Malaysian economy.</p>
2	Agus Tri Basuki and Utari Gayatri (2009)	<ul style="list-style-type: none"> - LQ - GRM (SGR, RGR) - <i>Overlay</i> - <i>Shift-Share</i> - <i>Klassen Typology</i> - <i>Overlay</i> 	<p><i>“Penentu Sektor Unggulan Dalam Pembangunan Daerah : Studi Kasus Di Kabupaten Ogan Komering Ilir”</i></p> <p>Result from this research can be conclude that potential economic in Ogan Komering Ilir District are agriculture sector and manufacturing industry as dominant sector. Beside of that, this sector shows increasing structure of economic growth. This is because the majority of population in Ogan Komering Ilir District still engaged in agriculture, so</p>

			agriculture has a remarkable growth compared to other economic sectors. In addition, manufacturing industry is also an economic sector with remarkable growth. Example from this manufacturing industry is among kemplang and pempek industry widely grown in the province of South Sumatra and Ogan Komering Ilir District.
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No.	Researcher	Tools of Analysis	Title and Research Result
3	Ahmad Ma'ruf (2009)	- LQ (DLQ) - Shift-Share - ICOR	<i>"Anatomi MakroEkonomi Regional: Studi Kasus Provinsi DIY"</i> Research result: The purpose of this study was to determine the growth rate, a description of the structure of regional economic and analyze the potential economic sectors as well as determine the level of investment and economic stability in Yogyakarta. This study concludes that the dynamics of economic growth of Yogyakarta in line with national growth. Then sectors that have the greatest contribution is the trade, hotels and restaurants. Typology Klassen shows that a sector with some potential to be developed is the agricultural sector, manufacturing and the services sector.
4	Janaranjana Heralth, Tesfa G. Gebremedhin dan Blessing M. Maumble (2012)	- Dynamic Shift-Share	<i>"A Dynamic Shift Share Analysis of economic Growth in West Virginia"</i> Research result: Agriculture, mining and manufacturing is no longer the backbone of the economy of West Virginia. Three sectors show declining performance in the 38-year period. Services, finance insurance and real estate sectors are the most powerful contributing 91 percent of the job growth from 1970 to 2007. Apart from the two sectors, the wholesale and retail sector and construction showed positive growth. Identification of priority investments in this sector and the potential implementation of a comprehensive plan of regional development policies will certainly accelerate economic growth in West Virginia
5	Kartika Hendra Titisari (2010)	- Comparison of GRDP - <i>Klassen Typology</i> - LQ - GRM	<i>"Identifikasi Potensi Ekonomi Daerah Boyolali, Karanganyar, dan Sragen"</i> Research result: Analysis of internal potential (growth and contributions), which occupies a prime position and expand in Boyolali is the sector of electricity, gas and water utilities, financial institutions, building rental and

			<p>corporate services as well as services. While in Karanganyar growing sector position is the sector of electricity, gas and water supply, transport and communications, building rental and corporate services, as well as services. For Sragen which occupy prime positions and growing in industry and the services sector. <i>Klassen Typology</i> results showed that the average income per capita in Karanganyar above the per capita income of the average in Central Java. While Boyolali and Sragen are below the average income per capita in Central Java.</p>
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No.	Researcher	Tools of Analysis	Title and Research Result
6	Siti Nurwahidah (2004)	- LQ - <i>Shift Share</i> - <i>Klassen Typology</i>	<p>"<i>Analisis Sektor Unggulan dan Kontribusi Sektor Pertanian terhadap PDRB Kabupaten Sumbawa</i> "</p> <p>Research result: The result of LQ Analysis shows the agriculture sector, building/construction sector, trade, hotel and restaurant sector, and electricity, gas and water sector are is the base sectors in Sumbawa District. The result of LQ analysis of sector contribution during the research period (1997 - 2002) shows that agriculture sector gives the biggest contribution to GRDP of Sumbawa District. The result of <i>Shift Share</i> analysis shows that economic growth (GRDP) of Sumbawa District increased as a result of the influence of provincial economic growth. The result of <i>Klassen Typology</i> analysis shows that Sumbawa District belongs to developed but depressed region. Result of regression analysis and t test of contribution of GRDP of agriculture sector showed significant influence toward total of GRDP, while sub-sector of agriculture of food crop, fishery, and plantation showed significant influence to PDRB of agriculture sector.</p>
7	I Dewa Made Dharma Setiawan (2007)	-Multiregional Input-Output (I-O)	<p>"Peranan Sektor Unggulan Terhadap Pertumbuhan Ekonomi Daerah Jawa Timur, Bali dan Nusa Tenggara Barat (NTB)"</p> <p>Research result: there are five (5) leading</p>

			sectors which include food and beverage industry; Trade Sector (in East Java Province); Hotel and Restaurant Sector; Livestock Sector and its products (in Bali Province); Food, beverage and tobacco industry sectors, as well as hotels and restaurants (in West Nusa Tenggara Province). The growth of these sectors will have an impact on output, gross added value, and intra and interregional labor absorption. At the national level, the growth of the leading sectors in East Java, Bali has a greater impact when compared to the impact of leading sector growth in West Nusa Tenggara Province (NTB).
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No.	Researcher	Tools of Analysis	Title and Research Result
8	Mujib Saerofi (2005)	- LQ - Shift Share	<p><i>“Analisis Pertumbuhan Ekonomi dan Pengembangan Sektor Potensial di Kabupaten Semarang (Pendekatan Model Basis Ekonomi Dan SWOT)”</i></p> <p>Research result: indicate two potential economic sectors to improve the economic growth of Semarang District. The two potential sectors are manufacturing sector and service sector with LQ Index greater than one (base sector) and positive (fast growth) differential component (Dj).</p>
9	Nanang Gilang Prayoga (2008)	- Input Output Analysis (I-O)	<p><i>“Analisis Sektor Unggulan Dalam Struktur Perekonomian Jawa Tengah Tahun 2000 dan Tahun 2004 (Analisis Input Output)”</i></p> <p>Research result: that the leading sector in the pre-eminent sector in Central Java in 2000 is the food, beverage and tobacco industries, the industrial sector, the oil refinery industry sector, and the transportation and communications sector. In 2004 there were only two sectors that became the leading sectors in Central Java namely the food industry, beverages and tobacco, and other industrial sectors.</p>
10	Azhar, Syarifah Lies Fuaidah, M. Nasir Abdussamad	-LQ	<p><i>“Analisis Sektor Basis dan Non Basis di Provinsi Nanggroe Aceh Darussalam”</i></p> <p>Research Result: The base sectors in Nanggroe Aceh Darussalam from 1992 to 2001 were the migration and excavation</p>

	(2003)		sector, the processing sector and the agricultural sector. While the other six sectors were non-base sector. The growth rate of both base and non-base sectors from 1992 to 2001 increased and decreased, or fluctuated.
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Source: Relevant Undergraduate Thesis and Journal

C. Research Framework

Regional economic development model can be done with sectoral approach. Economic development with a sectoral approach always begins with the question of what sector should be developed (Aziz, 1994). In this study, the sector/sub-sector to be developed are referred to as potential sectors/sub-sectors. To identify potential sectors/sub-sectors in Pemalang District, data analysis of GRDP from both contribution and growth side is used. The potential economic sector can not be only seen from the growth and contribution part.

To determine the potential sector it is necessary to consider the comparative advantage, competitive advantage and specialization of the sector towards the same sector at the Provincial level. In order to see the comparative advantage of a sector, *Location Quotient* (LQ) analysis is used, to see the specialization and competitive advantage, *Shift-Share* analysis, *Growth Ratio Model* (GRM), and *Overlay* analysis are used, while to see the pattern and structure of sectoral economic growth, a modification of *Klassen Typology* is used.

Figure 2.1
Research Framework

