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# Investment Attractiveness Assessment (Comparison Batu City and Malang City)

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## ABSTRACT

This study aims to: 1) compare factors of investment attractiveness between Batu City and Malang City, and 2) compare rating of investment attractiveness between Batu City and Malang City. Data analyzed uses Independent Sample t Test, with 80 investors as a respondent, 40 investors from Batu City and 40 investors from Malang City. Based the results of independent samples test obtained: 1) there are significant differences in the factors of investment attractiveness between Batu City and Malang City. The distinguishing factors are: business licensing system, leadership, politics and security. Batu City has a higher average value than Malang City in that factors; 2) there is a significant difference in the investment attractiveness rating between Malang City and Batu City. The rating of investment attractiveness of Batu City is more higher than Malang City

**Keywords** : business licensing system, investment attractiveness, leadership, politics and security, rating

## 1. INTRODUCTION

According on Law No. 32 of 2004 (UU, 2004) relating to Regional Government concerning Regional Autonomy, regional autonomy gives regions the right to manage their own households. Regional autonomy is widely believed to be the best way to encourage regional development (David Osborne & Peter Plastrik, 2000). The implementation of regional autonomy is expected to improve services in various sectors, mainly the public sector so that investors are interested to invest in the regions. If an area has adequate infrastructure, investors will be interested in investing and the community can also carry out daily activities comfortably so that it will have an impact on increasing productivity. The increase in community productivity and the number of investors investing is expected to increase local revenue (PAD) which in turn will impact on increasing regional spending (Abimanyu, 2005). This related with research of Windhyastiti, said that if local governments are able to increase the value of investment in their regions, it will have a positive impact on increasing local revenue (Windhyastiti I et al, 2019). Therefore, investment is one of the main things that drives the achievement of quality development. This is partly because investment has an influence on aggregate growth in terms of its ability to boost output and job opportunities, so that it has an impact on capital formation which in the long run can increase maintain growth and output potential (Hamid, 2006).

## 2. LITERATURE REVIEW

### 2.1. Regional Investement

Regional investment is investment in an area carried out by components of government, the private sector (business world), and society. The region should has "potential" to sell to attract investment. The ability of regions to sell should also be supported by a conducive climate such as legal certainty and security. Murwito believes that the Regional Government must produce regulations to trigger economic growth to attract investors. In addition, the system in government must be improved to be more effective and efficient. Long-winded procedures must be abandoned. Some local governments have taken steps to attract investors, but not yet thoroughly (KPPOD, 2013). Kuncoro said that several initiatives were carried out including providing and increasing physical infrastructure, reforming the investment service bureaucracy, and building information systems of investment potential (Kuncoro, 2004)

The attractiveness of investment is one type of lure that is targeted to attract a businessman to a special location. The attractiveness of city investment is related with the resources availability, the competence of cities to manage them and attract new ones so as to benefit from other cities and ensure the development of the city (Snieskaa & Zykiene, 2015). This attractiveness definition implies that it is a cyclical process, as an attractive city will be able to attract and retain certain target groups (tourists, new residents, and investors), where the outcome of the attraction will contribute, which in turn will impact on the outcome (Servillo et al, 2012)

Based on the description above, this study aims to: 1) compare factors of investment attractiveness between Batu City and Malang City, and 2) compare rating of investment attractiveness between Batu City and Malang City. The choice of Batu City and Malang City as the object of research is because Batu City and Malang City has the similar characteristic. They are the cities in the East Java Province of Indonesia, which are the potential tourist cities with a fairly high number of tourists. Usually tourists who travel to Batu City will stop by in Malang City or choose to stay in Malang City. This is because the number of star hotels in Malang City is more than in Batu City. The number of star hotels in Malang is 29 hotels, while in Batu there are 17 hotels. Investment is needed to support the development of tourism in the two cities. But, even Batu City and Malang City has the similar characteristic as a tourist city, the economic growth rate in Batu City is more higher than Malang City. In 2019, economic growth rate in Batu City obtained to 6,52%, while di Malang City only 5,73%.

## 2.2. Investment Attractiveness

The attractiveness of investment is one type of lure that is targeted to attract a businessman to a special location. The attractiveness of city investment is related with the resources availability, the ability of cities to manage them and attract new ones so that they can benefit from other cities and ensure the development of the city (Snieskaa & Zykiene, 2015). This attractiveness definition implies that it is a cyclical process, as an attractive city will be able to attract and retain certain target groups (tourists, new residents, and investors), where the outcome of the attraction will contribute, which in turn will impact on the outcome (Servillo et al., 2012)

## 2.3. Factors Affecting Investment Attractiveness

Mcdonald & Bailly state that the characteristics of city that have the most highly value are: 1) economy growth potential, workforce that has highly skilled, and resistant of external shocks and the decrease of economic; 2) the leader of the city should pro-investment, which prioritizes a city investment, has many consistent policies, has a good profile attitudes, and has bargaining power with the central government; 3) reliable connections of transportation, both intracity and intercity (nationally and internationally), as well as a the system of transportation that can support the economy expansion; and 4) focus on delivery, a responsive to planning system pro-investment, has a team with good access to investment expertise, and will to help immediately when necessary to facilitate investment (Mcdonald & Bailly, 2017). Danciu & Strat states that, Foreign Direct Investments (FDI) in the Romanian Regions uses scores of the factor extraction for the six variables: 1) infrastructure; 2) labor; 3) agglomeration; 4) knowledge; 5) market; and 6) cost and dummy variable as a general measures determinants of location for the inflow of Foreign Direct Investment. The dependent variable shows the probability of either invest or not invest in any given region, with the Bucharest-Ilfov region being a comparison group. The results shows that there are substantial differences of the attractiveness in Romanian regions, when the initial inflows of Foreign Direct Investment are evaluated. Foreign Direct Investment were attracted by the potential of the regions, th accessibility of the region and the mentality of local business. It is shown that if input costs and the availability of resources and labor are factors that be an main concern by investor for investing in Romania, then all regions are more favored for the inflow of foreign investment than the Bucharest-Ilfov area (Danciu & Strat, 2014). Snieska & Zykiene shows that, in many cases, for investment in Lithuania, the choicement of the city is effected by the accessibility and the cost of skilled workforce, price of resource and market (Snieskaa & Zykiene, 2015)

In line with the results of the study above, the 2018 Global Cities Investment Monitor established several investment criteria, namely: 1) the political stability and the juridical security; 2) the

availability of infrastructure; 3) the availability of human resources skills; 4) the growth of economic; 5) the accessibility and size of the market; 6) salaries , tax level and living cost; 7) the availability and cost of real estate; 8) education quality ; 9) life quality, 10) the quality of research and innovation; and 11) start up ecosystem (KPMG, 2018)

This study uses several combination variables from the research of McDonald & Bailly, Danciu & Strat, the Global Cities Investment Monitor and Kuncoro. Factors used in this research are: 1) infrastructure; 2) availability of labor; 3) agglomeration; 4) natural resources, 5) market; 6) business licensing system, 7) leadership and 8) political and security. Factors of attractiveness investment and attractiveness investment rating is measured by an investor assessment. The hypothesis is formulated as follows:

H1: There is a difference of the investment attractiveness factors in Malang City and Batu City

H2: There is a difference of investment attractiveness rating in Malang City and Batu City

### 3. METHODS

This research is a case study research in Batu City and Malang City, East Java. Data analyzed uses Independent Sample t Test with 80 investors as a respondent, 40 investors from Batu City and 40 investors from Malang City. The choice of Batu City and Malang City as the object of research is because Batu City and Malang City has the similar characteristic. They are the cities in the East Java Province of Indonesia, which are the potential tourist cities with a fairly high number of tourists. In 2019 the number of tourist arrivals in Batu City increased by 7% from 5,644,168 tourists in 2018 to 6,047,460 tourists consisting of 6,035,724 domestic tourists and 11,736 foreign tourists. Whereas in Malang City, the number of tourist visits in 2019 reached 5,186,806 tourists consisting of 16,286 foreign tourists and 5,170,523 tourists. Batu City and Malang City are cities which are located next to each other. Usually tourists who travel to Batu City will stop by in Malang City or choose to stay in Malang City. One of the caused is the number of star hotels in Malang City is more than in Batu City. The number of star hotels in Malang is 29 hotels, while in Batu there are 17 hotels. But, even Batu City and Malang City has the similar characteristic as a tourist city, the economic growth rate in Batu City is more higher than Malang City. In 2019, economic growth rate in Batu City obtained to 6,52%, while di Malang City only 5,73%. In terms of local revenue in Batu City in 2019 amounted to IDR184,490 million and Malang City amounted to IDR675,931 million. If we look at the population of Batu City, which is only 207,490 people compared to Malang City, which reached 870,682 people, the local revenue per capita of Batu City is higher than Malang City.

Factors used in this research are: 1) infrastructure; 2) availability of labor; 3) agglomeration; 4) natural resources, 5) market; 6) business licensing system, 7) leadership and 8) political and security. Investment attractiveness factors and investment attractiveness rating is measured by an investor assessment with scale 1 until 5 (from very less to very good). The indicators of each factor can be seen in table 1 below:

Table 1. Variables and Indicators of Research

No	Variables	Indicators
1	Infrastructure	Cost of public transportation
		Number of public transportation
		Road condition
		Number of terminal
		Terminal condition
		Completeness of facilities and infrastructure
2	Av Availability of labor	Cost of labor
		Education of labor
3	Agglomeration	Availability of industry centers
		Availability of industrial supporting components
		Availability of similar industries
4	Natural Resources	Availability of raw material
5	Market	Market Potential
6	Business licensing system	Convenience
		Cost
7	Leadership	Competence
		Commitment
		Reputation
8	Politics and security	Potency of demonstration
		Crime rate

#### 4. RESULT AND DISCUSSION

The result of the average investor assessment of each factor (table 2) shows that of the 8 factors investment attractiveness, Batu City has a higher average value than Malang City in 5 factors: 1) agglomeration, 2) market, 3) business licensing system, 4) leadership, and 5) politics and security. Meanwhile, Malang City has a higher average value Batu City in 3 factors: 1) infrastructure, 2) availability of labor, and 3) natural resources.

Table 2. Mean of Each Factor

Factors	Mean	
	Batu City	Malang City
Infrastructure	3.57	3.68
Availability of labor	3.16	3.44
Agglomeration	3.55	3.39
Natural resources	3.71	3.99
Market	3.60	3.50
Business licensing system	3.84	3.08
Leadership	3.95	2.94
Politics dan security	3.90	2.95
Investment attractiveness factors	3.64	3.42
Investment attractiveness rating	4.15	3.15

Source: data analyzed 2020

Table 3. Independent Sample t Test

Variables	t-test for Equality of Means	
	t	Sig. (2-tailed)
Infrastructure	-1.074	.286
Availability of labor	-1.803	.075
Agglomeration	1.153	.253
Natural Sources	-1.533	.129
Market	.662	.510
Licensing system	4.856	.000
Leadership	6.187	.000
Politics and security	6.254	.000
Investment attractiveness factors	2.598	.011
Investment attractiveness rating	4.783	.000

Source: data analyzed 2020

Based the results of independent sample t test (Table 3) obtained: 1) there are significant differences in the factors of investment attractiveness between Batu City and Malang City. The distinguishing factors are: business licensing system, leadership, politics and security. Batu City has a higher average value than Malang City in that factors; 2) there is a significant difference in the investment attractiveness rating between Malang City and Batu City. The rating of investment attractiveness of Batu City is more higher than Malang City

Batu City has a higher average value than Malang City in business licensing system. The significant difference in the licensing factor between Malang City and Batu City is that in Batu City, the Regional Government conducts intensive socialization regarding online licensing (Online Single Submission/OSS). It's line with the research of Windhyastiti, said that licensing system showed by Online Single Submission (OSS) performance has a positive and significant effect on investment attraction in Batu City (Windhyastiti I et al, 2019). The local government also intensively goes into the field to assist the entrepreneur in reporting on his business development. The other research shows that pro-investment policies, including the licensing process, can help achieve investment targets (Suhendra, 2017). This research also line with Widhayanti's research results which show that the highest score in determining the attractiveness of regional investment is apparatus and services in business licensing (Widhayanti N & Muta'ali L, 2012). So that Malang City has to improve the licensing business system as Batu City to attract investor.

In terms of political and security factors, Batu City also has a higher average value than Malang City. Batu City is relatively more stable, its political condition can be seen from the rare public demonstrations. Even when the leadership changes, it runs safely. It line with result of Kuncoro, shown that social and political factors rank third in investment attractiveness in Daerah Istimewa Jogjakarta (Kuncoro M & Rahajeng A, 2005). The potential for demonstrations in Malang City is higher than Batu City because of the large number of college students in Malang City. There are 3 State Universities and many Private Universities in Malang City. The college students are more critical if there is a change in policy that is deemed inappropriate. But, from the perspective of the availability of labor, the condition of the large number of universities and college students in Malang City has a higher investment attractiveness value.

Batu City has a higher average value than Malang City in the term of leadership. The Regional Government of Batu City is able to shown its commitment to creating a conducive climate for investors. Batu City had collapsed with the Lapindo mud disaster in 2007, where the number of tourist visits was less than 1 million people. However, the government took the initiative to persuade entrepreneurs/investors to stay in their place of business. The government began to make various activities that could attract tourist visits such as East Java Cultural Festival, National Paragliding Festival, Batu Flower Festival Batu Night Race, and others. The government

also provides security guarantees to investors to invest their capital. During its development, investor confidence began to increase their investment. Educational tour with target are students and families, become investor focus. This educational-based tourism has turned out to be able to make Batu City widely known again. Seeing the increase in the number of tourist visits, the government began to beautify the Batu City Square as a centre tourist to attract tourist (Windhyastiti I & Widiawati D, 2016). In 2019, Batu City has been able to increase tourists to reach 6 million people.

According to the results above, local government of Malang City should has commitment to create a conducive climate for investor specially in easily of licensing system and stability of politics and security aspect. While, for Batu City, if local government of Batu City wants to increase investment, especially foreign investment, the local government must immediately make an investment regulation.

## 5. CONCLUSION

Based the results of independent samples test obtained: 1) there are significant differences in the factors of investment attractiveness between Batu City and Malang City. The distinguishing factors are: business licensing system, leadership, politics and security. Batu City has a higher average value than Malang City in that factors; 2) there is a significant difference in the investment attractiveness rating between Malang City and Batu City. The rating of investment attractiveness of Batu City is more higher than Malang City

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