

ABSTRACT*The Influence of Industrial Development and International Trade to the Industrial Concentration and Economic Development and People Welfare in the East Java*

Objectives of the study is to analyze eight causal relationships among five variables. The first three, development of industry influenced to the development of economy (economic growth), to concentration of industry, and to welfare. Second, concentration of industry pushed the economic growth. The third three, the international trade influenced to concentration of industry, to economic growth, and to welfare. Finally, the impact of economic growth to welfare.

This analysis using structural equation modeling (SEM) and found that five of eight relationships were significant and the rest were insignificant. First, development of industry negatively influenced concentration of industry. Second, international trade pushed concentration of industry. Third, concentration of industry also pushed economic growth. Fourth, international trade positively influenced economic growth. Finally, the economic growth positively influenced welfare. The development of industry was insignificant influence to the economic growth, and positively influenced to welfare. It's negativity relation was caused by dispersion of the location of industry, so resulted low economies of scale. International trade was negatively influenced welfare.

Concentration of industry exist in the Arek Cultural Region, and two other – Mataraman and Madura Cultural Regions are agriculture. Three strongest predictors which distinguished between Mataraman and Madura Regions were percentage of value added of manufacturing industry to GRDP, location quotient (LQ) of manufacturing value added, and percentage of manufacturing's labor to population. Two predictors significantly distinguished Arek and Madura Cultural Regions. They were ratio of exported output of manufacturing industry and it's total output, and ratio of value added of manufacturing industry to their gross output. The result showed that why concentration occurred, what kind of commodity produced, and where the region of concentration of industry located.

Descriptive analysis showed that manufacturing industry concentrated in Arek Cultural Regions caused by allocation of investment and relatively better infrastructure.

Using structural quotient (SQ) showed that structural change indicated by value added did not followed by structural change of employment.

Policy implication obtained from the whole analyses, especially for the East Java Provincial Government; and in order to improve performance of the economy, it is suggested employing the Integrated Territory-provincial Planning based on comparative advantage among regions.

Keywords: *industry, manufacturing, concentration, cultural regions, structural, interdependency, territorial, integrated.*