

**IS TERRITORIAL COMPETITION POLICY NECESSARY?:  
THE CASE OF EAST JAVA'S MANUFACTURING INDUSTRIES**

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***Abstract***

*Under regional autonomy/decentralisation regime at city level that has been just implemented in Indonesia for about four years, city governments are likely tempted to pursue some sorts of territorial competition policy to affect firms' location decisions. By investigating the spatial pattern of manufacturing industries, there is evidence that the location decisions of industrial activities in East Java is subject to some sorts of agglomeration forces, most notably: natural advantages and spillovers (due to both intra and inter-industry linkages). The finding suggests that such policy, especially the short-term, ad hoc, fiscal and financial-based, and politically driven one, that intends to intervene the observed spatial pattern may appear to be useless and/or costly. Therefore, it implies that public resources might be better allocated onto measures that are deemed to have more strategic impact for sustainable local economic development (in the case of "periphery" cities) or to deliver better public services for businesses (in the case of "core" cities).*

***Keywords:*** territorial competition, agglomeration, spatial spillovers.