

## **ABSTRACT**

*Conceptually, the spatial industrial concentration has two externalities effects, static and dynamic externalities. According to endogenous growth theory, one of the effects of the dynamic externalities is spillovers. There are three types of spillovers i.e. market spillovers, network spillovers, and the knowledge spillovers. Knowledge spillovers is believed to be the engine of growth. Knowledge spillovers can be classified into two types: inter-industry spillovers and intra-industry spillovers. Inter-industry spillovers appear due to the localization savings (localization benefits) or MAR externalities and Porter, while intra-industry spillovers appear due to the urbanization savings or Jacobs externalities. This research aims to examine whether the knowledge spillovers on the industrial area of West Java Province comes from outside of the main industries (diversification) or from the related industries (specialization) and to analyze how the influence of the knowledge spillovers on industrial growth in the West Java Province. Knowledge spillovers are expected can lead to increasing returns to scale installation design and finally could spur the growth of industrial output in the region will be examined. This research uses panel data approach including 24 sub-sector industries based on 2-digit ISIC. Furthermore, Fixed Effect within Group (WG) regression method is applied in this study.*

*The results of the study showed that the specialization variable (SI) affect a positive and significant impact on the growth of industrial output. Competition variable (CI) influential in the negative and not significant for the growth of industrial output. The diversity of the variables (HHI) have positive influence and not significant for the growth of industrial output. Meanwhile, capital variables have positive and significant for the growth of industrial output and labor variables affect a positive and significant impact on the growth of industrial output. The research results can be concluded that Knowledge spillovers on the industrial area in West Java is more likely to come from the industries related or more toward the theory of the dynamic externalities MAR (inter-industry spillovers).*

*Keywords: growth, knowledge spillovers, dynamic externalities, Fixed Effect within Group (WG)*