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The Analysis of the Influence of Foreign Direct Investment and Domestic Direct Investment on Economic Growth in the Province of Bengkulu

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Domestic direct investment, Foreign direct investment, Economic Growth

ABSTRACT

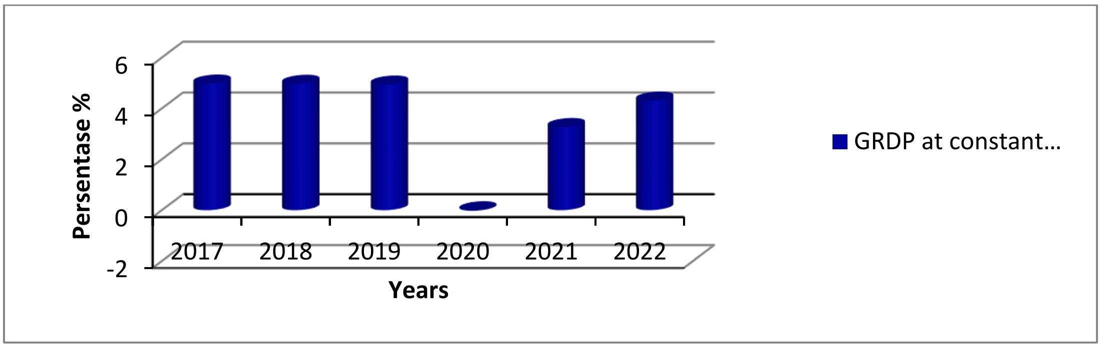
Investment is one of the diverse factors influencing the economic growth of a region. This research focuses on foreign and domestic direct investment in the districts and cities of the Bengkulu Province. The aim of this study is to make a significant contribution to improving the welfare of the community in this region. Additionally, the research provides guidance to policymakers in developing effective investment strategies. The method employed in this research is quantitative, utilizing the EViews software. The study uses the values of the total Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) collected from the Bengkulu Province's Central Bureau of Statistics (BPS). It was found that FDI does not have a significant impact on economic growth, in contrast to DDI, which significantly contributes positively to the economic growth of the Bengkulu Province. It is important to note that this research was conducted in a single region and only utilized two independent variables.

INTRODUCTION

Economic growth is a crucial indicator of progress for a region. Bengkulu Province, located in the western part of Sumatra Island, Indonesia, has significant potential for substantial economic growth. However, in recent years, the Province has experienced fluctuations in its economic growth. Investment is one of the diverse factors influencing the economic growth of a region. Capital investment plays a vital role in national economic development (Sinulingga, 2022).

Meilaniwati & Tannia (2021) The economic growth of a country will increase if it can pay attention to the amount of incoming capital flows, both from within the country and from foreign sources. The capital entering a country is a reflection of the trust of individuals or groups that believe the country they are investing in has the potential for significant economic growth Yunita & Sentosa (2019) Investment can increase economic growth and employment opportunities for the people of the region.

Investment has two main forms, namely foreign direct investment (FDI) and domestic direct investment (DDI) (Bahri et al., 2018). Both forms of investment can play a significant role as catalysts for economic growth if managed well. However, the actual impact of Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) on economic growth in the Province of Bengkulu is not yet fully understood.



Source: Central Statistics Agency of Bengkulu Province 2017-2022

Figure 1.1 Economic Growth of Bengkulu Province

The economic growth in the province of Bengkulu experienced a significant decline in 2020. This occurred as a result of a global phenomenon, namely the outbreak of the Covid-19 pandemic. Subsequently, there was an increase in the following years. Through this research, it is hoped to provide an overview of the factors contributing to the economic growth decline in the province of Bengkulu. Does Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) also have an impact on this decline.

The research focuses on foreign and domestic direct investment in the regions of regencies and cities in the province of Bengkulu. Does FDI and DDI have an impact on the economic growth of regencies and cities in the province of Bengkulu? This study aims to analyze the influence of foreign direct investment on economic growth and the influence of domestic direct investment on the economic growth of the province of Bengkulu. This research will provide a better understanding of the role of investment. Investment can support the growth of the province of Bengkulu. The results of this study are expected to provide policy recommendations that can enhance investment and economic growth in the province of Bengkulu. By analyzing the relationship between FDI, DDI, and economic growth in the province of Bengkulu, this research is expected to make a meaningful contribution to efforts to improve the welfare of the community in this region and provide guidance for policymakers in developing effective investment strategies.

LITERATURE REVIEW

Economic Growth

Economic growth is a crucial indicator used to measure the health and development of a country's economy. Economic growth refers to the increase in the quantity of goods and services produced by a country or region during a specific period. Economic growth is measured by examining changes in Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP), which reflects the value of all goods and services produced within a country or region.

Priyono dan Zainuddin Ismail (2012) Investment is one of the most crucial variables in the field of economics. It involves the allocation of capital in various economic activities with the expectation of obtaining profits in the future. This can encompass various forms of investment, both in the financial and non-financial sectors (Firdaus & Widyasastrena, 2016). Financial investment encompasses investments in financial instruments such as stocks, bonds, certificates of deposit, mutual funds, and financial derivatives. On the other hand, non-financial investment involves capital expenditures in the form of physical assets, such as land, buildings, equipment, machinery, vehicles, and infrastructure. However, financial investments can also be realized as physical or non-financial investments.

Foreign Direct Investment (FDI)

The Republic of Indonesia Law Number 25 of 2007 Concerning Investment, Article 1, paragraph 1, explains that investment is anything in the form of capital investment carried out by foreign and domestic citizens with the aim of establishing a business within the territory of Indonesia (International, 2007). While quoting from (Nikmah, Fitrawati Ilyas, 2013) foreign capital is the capital owned by foreign countries, partially or entirely held by foreign citizens. Foreign capital investment is the activity of investing capital conducted by foreign citizens. Foreign investors are attracted to invest in Indonesia due to the low tax burden (Suranta et al., 2020). Whether utilizing foreign capital entirely or in partnership with Indonesian citizens, with the aim of conducting business within the territory of the Republic of Indonesia. Nabut & Benhard (2021) according to classical economic growth theory, Harold and Domar's research on economic growth theory suggests that investment plays a crucial role in economic growth, and it is highly significant in economic development. According to Salim and Budi (2008: 149), foreign direct investment (FDI) involves the transfer of capital, both tangible and intangible, from one country to another or the relocation of capital. The purpose of this capital transfer is to generate profits under the supervision of the capital owner, either wholly or partially. Foreign Direct Investment (FDI) is one of the efforts to increase the amount of capital for economic development that originates from abroad. Asiyan (2020) with the presence of foreign direct investment, job opportunities are created. Foreign direct investment also constitutes a source of savings that contributes to economic growth.

H1: Foreign direct investment has a positive impact on economic growth.

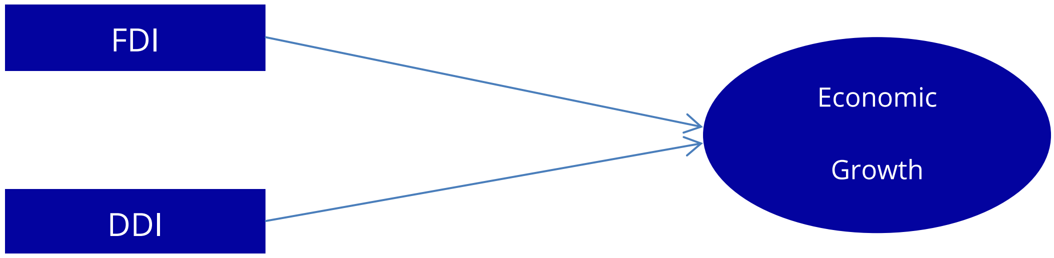
Domestic Direct Investment (DDI)

The domestic capital investment is an investment activity carried out to establish a business in the territory of Indonesia. It is undertaken by domestic investors, including individual Indonesian citizens, Indonesian business entities, the Republic of Indonesia, or regional entities, who invest within the territory of the Republic of Indonesia using domestic capital. (International, 2007). Domestic Direct Investment (DDI) is a type of investment carried out by residents or companies within a country (the same country) across various economic sectors. DDI involves the use of capital or financial resources to develop businesses, projects, or assets within the country itself. The primary objectives of DDI are to support domestic economic growth, create employment opportunities, enhance production, and improve the well-being of the society. (Fatmawati & Syafitri, 2015) The Solow theory emphasizes the importance of savings and investment in financing capital accumulation. Investment in the form of physical capital addition is crucial for long-term growth. The more savings allocated to investment, the faster the accumulation of capital and economic growth.

Domestic Direct Investment (DDI) has become a crucial focus in the economic development of many countries, including Indonesia. DDI represents investments originating from citizens or domestically-based companies, and its contribution to economic growth has been a subject of attention in economic literature. Previous research has attempted to identify factors influencing the magnitude of DDI, its impact on specific economic sectors, and the government's role in promoting domestic investment. Through this research, we can comprehend the dynamics of DDI and its effects on economic growth, gaining profound insights into the role of DDI in the economic growth of the Bengkulu Province.

H2: Domestic Direct investment has a positive impact on economic growth

Kerangaka penelitian



METHODS

This study will employ a quantitative research approach. Quantitative research is a method based on the positivist philosophy used to investigate a specific population or sample Sugiyono (2015). The quantitative research method is an approach where the research involves precise measurement of the research subjects (Ikriyati & Aprila, 2019). The population is an object in a region that will be studied. The population in this research consists of regencies and cities in the Province of Bengkulu. The sample size is seven regencies and cities in the Province of Bengkulu for the period 2017-2022. This study utilizes secondary data collected through literature/document review data collection techniques. The collected data are obtained from the official website of the Province of Bengkulu and the Bengkulu Central Statistics Agency (BPS). The type of data for this research is panel data, which is a combination of cross-sectional and time series data (Wade, 2014), The data analysis is conducted by testing variables through the multiple linear regression analysis method using the assistance of EViews 12 software. Variable testing in the study will involve panel data regression testing, classical assumption testing, and hypothesis testing.

RESULTS

Uji Regresi Data Panel

Panel data regression is a combination of cross-sectional and time-series data. In the estimation of regression models with panel data, three model approaches can be applied, namely the common effect model, fixed effect model, and random effect model. To choose the appropriate model for managing panel data, several tests are conducted, including the Chow test, Hausman test, and Lagrange Multiplier test.

Table 1. Chow Test Results

Effects test	Statistic	d.f.	Prob.	Description
Cross-section F	644,0494	(6,33)	0,000	FEM Model
Cross-section Chi-square	200,4042	6	0,000	FEM Model

Source: Processed data, Eviews 12 output

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.	Description
Cross-section Chi-square	297,0461	2	0,000	FEM Model

Source: Processed data, Eviews 12 output

Based on the results of the Chow Test with a probability level of 0.000 < 0.05 and the Hausman Test with a probability level of 0.000 < 0.05, there is no need to conduct the Lagrange Multiplier test because the selected model is the Fixed Effects Model (FEM).

Classical Assumption Tests

The classical assumption test is a prerequisite in the statistical analysis of multiple linear regression based on ordinary least squares (OLS) (Basuki & Prawoto, 2015). The classical assumption tests include tests for Linearity, Autocorrelation, Heteroskedasticity, Multicollinearity, and Normality. However, not all classical assumption tests need to be conducted for every linear regression model using the OLS approach (Wade, 2014). In the OLS method, only the tests for multicollinearity and heteroskedasticity are required.

Multicolinearity Test

Conducted to determine whether there is a correlation among independent variables, the regression model. The presence of multicollinearity can be assessed through the Variance Inflation Factor (VIF). If the VIF value is < 10.00, then the data is free from multicollinearity symptoms.

Table 3. Resulr Multicolinearity Test

Variable	Cooficient variance	VIF Value	Description
FDI	5,0566	1,9605	Free from multicollinearity
DDI	0,7148	2,3096	Free from multicollinearity

Source: Processed data, Eviews 12 output

The table above yields Variance Inflation Factor (VIF) values of 1.9605 < 10.00 and 2.3096 < 10.00, indicating that the independent variables are free from multicollinearity symptoms.

Heteroskedasticity Test

Used to determine whether there is a deviation in the regression model. The basis for decision-making is that if the significance between independent variables and the absolute residual > 0.05, then there is no heteroskedasticity issue.

Table 4. Result Heteroskedasticity Test

	Value		Value	Description
Obs*R-squared	4,0663	Prob. Chi-Square	0,1309	No heteroskedasticity is observed

Source: Processed data, Eviews 12 output

The table shows the results of the heteroskedasticity test. Based on the output table above, it is apparent that the value of Obs*R squared is 4.0663, with a probability of 0.1309 > 0.05. Therefore, it passes the heteroskedasticity test.

Hypothesis Test

Hypothesis testing is a statistical method used to make decisions about a population based on sample data from that population. Testing is conducted to determine the influence between dependent variables (economic growth) and independent variables (FDI and DDI). This research employs a single regression with two tested hypotheses, namely, testing whether FDI and DDI have a positive impact on Economic Growth. The analysis method used is multiple linear regression. This research utilizes a significance level of 5%. The following are the results of the hypothesis testing:

Table 5. Results of the hypothesis Test (t-test)

Variable	Coefisien	t-statistic	Prob.	Description
FDI-> Economic Growth	-1,1285	-3,8907	0,0005	Negative impact
DDI-> Economic Growth	0,6324	5,2012	0,0000	Positive impact

Source: Processed data, Eviews 12 output

Table 5 shows the results of multiple regression analysis (t-test). The results indicate a regression coefficient of -1.1285 for the independent variable FDI with a probability of 0.0005. Therefore, the FDI variable is declared to have no significant effect on economic growth in the Bengkulu Province. The regression coefficient results for the DDI variable show 0.6324 with a probability of 0.0000, indicating that the DDI variable has a positive impact on economic growth in the Bengkulu Province.

Test F

Table 6. Results of the F-test

	Value		Value
F-statistic	2355,327	Prob(F-statistic)	0,0000

Source: Processed data, Eviews 12 output

From the table above, it can be observed that the F-statistic value is 2355.327, and the probability value is 0.0000 < 0.05, indicating that the independent variables of FDI (Foreign Direct Investment) and DDI (Domestic Direct Investment) collectively have a significant impact on the economic growth of Bengkulu Province.

DISCUSSION

After undergoing a series of trials, where the impact of foreign direct investment and domestic direct investment on economic growth, measured by regional gross domestic product (RGDP) in the Province of Bengkulu, has been identified, the author seeks to discuss the influence of both independent variables on its dependent variable.

The foreign direct investment (FDI) towards economic growth

The results of this research analysis indicate that the independent variable of FDI has a negative coefficient. This negative coefficient suggests a negative relationship between FDI and the Economic Growth of Bengkulu Province. This can be interpreted as follows: if the value of domestic investment increases, economic growth tends to decrease. The probability value approaching zero indicates that the FDI coefficient is highly statistically significant. Therefore, it can be concluded that FDI has a very significant influence on economic growth but in a negative direction.

Although research conducted by (Muazi Nur & Arianti Fitrie, 2013), (Rumalutur et al., 2022) dan (Wihda & Poerwono, 2014), States that foreign investment has a positive and significant impact on economic growth in the region. However, these findings are consistent with previous research by (Yoga Krissawindaru Arta, 2013) dan (Nadzir & Kenda, 2023).

The domestic direct investment (DDI) toward economic growth

The research results indicate that the coefficient for the PMDN variable has a positive value. A positive coefficient suggests a positive relationship between the independent variable (PMDN) and the dependent variable (Economic Growth). In other words, when the PMDN value increases, it is likely to be followed by an increase in economic growth. The magnitude of the coefficient provides an insight into the extent to which changes in PMDN can be associated with changes in economic growth. The higher the coefficient value, the greater the influence of PMDN on economic growth.

A probability approaching zero indicates that the relationship between PMDN and Economic Growth is highly statistically significant. This implies that the likelihood of this relationship occurring by chance is very low. Therefore, this finding can be considered a strong indication that the relationship between PMDN and Economic Growth carries significant statistical significance.

This finding is consistent with previous research (Nadzir & Kenda, 2023), (Yoga Krissawindaru Arta, 2013), and (Mahriza & Amar B, 2019) hich has a significant influence. Meanwhile, in the study

(Wihda & Poerwono, 2014) Domestic Direct Investment (DDI) has a positive and non-significant influence.

CONCLUSION

The results of this study indicate that the independent variable of Foreign Direct Investment (FDI) has a negative coefficient, indicating a negative relationship between FDI and economic growth in the Bengkulu Province. In other words, an increase in the value of foreign direct investment tends to contribute to a decline in economic growth. The probability approaching zero indicates high statistical significance, confirming that the impact of FDI on economic growth is significantly in a negative direction. On the other hand, the analysis of the Domestic Direct Investment (DDI) variable shows a positive coefficient, signifying a positive relationship between DDI and economic growth. In other words, an increase in the value of domestic direct investment tends to contribute to an increase in economic growth. The probability approaching zero indicates high statistical significance, reinforcing that this relationship is not a coincidence.

SUGGESTION

The limitations of this study include the use of only one region, namely, the province of Bengkulu. Additionally, the study only involves 2 independent variables. Future researchers may consider utilizing a broader dataset. They may also incorporate other variables such as export-import values, infrastructure, socio-economic conditions, and so forth. Subsequent research is expected to contribute to a more comprehensive understanding of economic growth, not limited to the province of Bengkulu alone but encompassing a wider geographical area. Furthermore, it should explore various factors that can influence economic growth.

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