
The Influence of Investment On The Economy In Riau Province Indonesia

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Abstract – Economic growth is very important for all countries, one way to increase economic growth is to invest in both Domestic Investment (PMDN) and Foreign Investment (PMA). This study aims to analyze the effect of investment on economic growth in the Province. This research is quantitative research using secondary data from the Central Statistics Agency of the Republic of Indonesia, especially in the Province of Riau. The study results show that foreign investment and domestic investment, as well as several superior business sectors in Riau province, basically increase gross domestic product, which means it affects the economic growth of Riau province. The hope is that there is a need for coordination and a clear division of tasks and responsibilities between government units in districts in Riau Province to improve infrastructure services. Carry out a reform agenda in regional regulations. It is necessary to form an official investor forum and be carried out regularly, and Provincial and district governments should integrate policies and investment development programs (investment) following sectors/sub-sectors and highly competitive commodities in the region.

Keywords: Investment, Economy, Regional welfare

1. Introduction

Since Pelita I, the Indonesian economy has always grown favourable. During the period 1970–to 1997, the average growth of the Indonesian economy reached 6.6% per year (Hasan, 2021c). This encouraging result is certainly inseparable from investment efforts in various sectors of economic activity. Although many other factors are no less important, economists still believe that investment occupies a special position in development (Wahyuni & Ng, 2012). Therefore, the need for large investments in the context of economic development oriented towards growth and industrialization is expected to be filled by public funds through public savings (Wahyuni & Ng, 2012).

Riau Province is ranked 5th nationally and 1st in Sumatra in realizing national investment for the January-December 2021 period (Syahza & Asmit, 2020). The realization of domestic investment in Riau Province in 2021 totalled Rp. 24,997 trillion, placing Riau Province in 7th place overall National. Meanwhile, the completion of an FDI investment of US\$ 1.921 million, or equivalent to

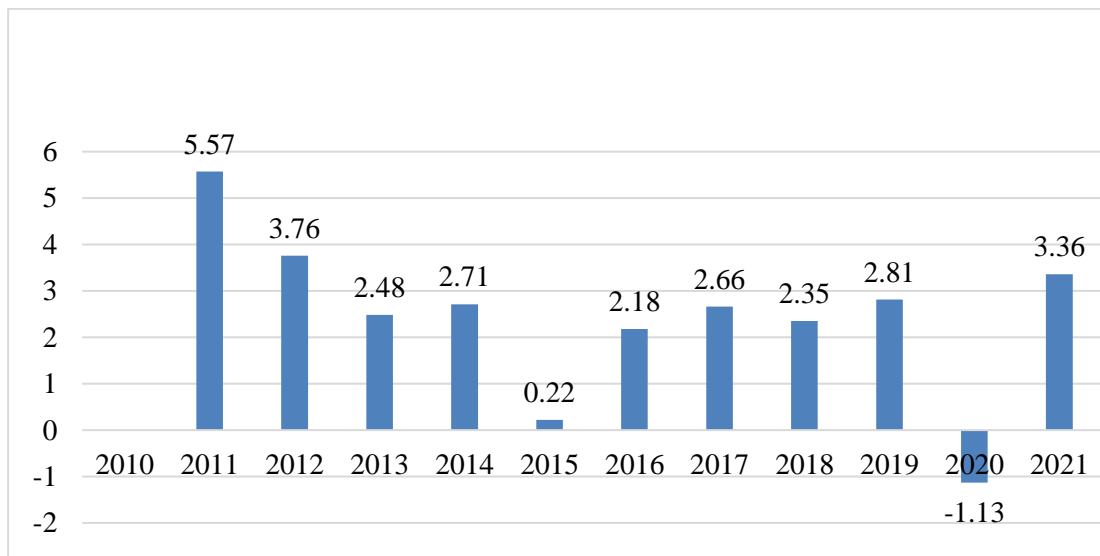
Rp. 28,052 trillion, made Riau Province ranked 6th as a contributor to FDI investment nationally. As for the Sumatra region, the realization of PMA and PMDN in 2021 is ranked 1st (Hasan, 2022).

The governor of Riau, Mr Syamsuar, conveyed his gratitude to the regional government (Pemda) of districts/cities and companies invested in Riau Province in Quarter I-III 2021 (Hasan, 2022). Through the Investment Service One-Stop Integrated Service Riau, Riau Provincial Government gave awards to the regional government and companies that have contributed to the best investment in Riau Province in 2021 (Hasan, 2021a). Those who received the award were the districts/cities that contributed the largest investment to Riau Province in 2021, namely the Pelalawan Regency, with an investment realization of IDR 32.4 trillion—then followed by Dumai City, with an investment realization of IDR 28.1 trillion and Bengkalis Regency with IDR 17 trillion (Caska & Indrawati, 2019). Then, the best regencies/cities comply with the Investment Activity Report (LKPM) of Riau Province in 2021, namely Pekanbaru City, with as many as 3,345 projects. Then, Kampar Regency has 1,188 projects. And Indragiri Hilir Regency has as many as 1,075 projects. Furthermore, the best foreign investment companies (PMA) contributing to Riau Province investment in 2021 are PT Riau Andalan Pulp and Paper, Sinarmas Group and PT Musim Mas Group. Then, the Domestic Investment (PMDN) companies that contribute the best investment in Riau Province in 2021 are PT Hutama Karya, PT Asianagri Group, and PT Pulau Sambu Group (Syahza et al., 2018).

Along with the rate of economic growth, especially felt by the community as evidenced by the increase in income or the community's need for facilities and infrastructure (infrastructure) and the productive age of the community is limited by time while people's desires are not limited by time (Al Fathan & Arundina, 2019). The majority community has begun to realize the importance of collecting and developing assets to meet all future needs (Salendu, 2019). In this case, the implementation of investment can be done by the community.

Figure 1

Economic Growth in Riau Province



Today, in the business world, entrepreneurs often invest in improving their business for the better. Many entrepreneurs make the wrong investment, which results in their companies tending to fail or go bankrupt. Therefore, it must be right in investing so that the results are maximized (Park & Chu, 2018).

Economic growth is an important factor in the long-term success of a region's economy. Each province will always try to increase its economic growth and make economic growth its financial target (Park & Chu, 2018). Regional original income is one of the provincial revenues that reflects the level of regional independence. The greater the local revenue, the higher the regional autonomy and the reduced dependence on the central government; government spending directly and significantly affects local income, while private investment and labour directly affect regional revenue. The results of the second structure analysis show that delivery has an immediate and significant impact on economic growth (Hasan, 2021b). In contrast, investment, government spending and local revenue have a direct and insignificant effect on economic growth. It found that the immediate impact of private investment, government spending and labour on economic growth was greater than the indirect effect of private investment, government spending and work on economic growth through local revenue (Hasan, 2020a).

2. Literature Review

Investment is an activity of placing funds in one or more types of assets during a certain period to obtain income or increase the value of investments in the future to meet the needs and desires of investors in the hope of providing benefits to them or benefiting the public. Taken must have risks, so invests (Jain et al., 2022). Therefore, it is very necessary to do management in dealing with risk. Investment needs to be encouraged so that economic development can run smoothly. For every Muslim who will and is making investments and other business activities, it is necessary to pay attention to sharia principles as a guide to life in various fields. In other words, sharia principles must be implemented in terms of human life, including investment activities. Like it should not contain elements of usury, *gharar*, *maysir*, something unlawful, falsehood and injustice. Because if an investment is still using usury, *maysir*, *gharar* will harm economic activity. In addition, some things must be known, such as the influence of investment knowledge, investment motivation, and capital market training on investment decisions with investment interest as a mediation (Sayed et al., 2022).

Economic growth at this time impacts the life of the population of a country. All of these affect the welfare of the people at large. Strengthening the role and institutions of government is very important to support the success of investment policies (Hasan, 2021d). The attractiveness of investment can be done in various ways, including improving licensing services, increasing legal certainty, increasing market diversification and encouraging local commodities with high added value (Hong & Jeong, 2006). Investment is encouraged by increasing SMEs' access to productivity resources. The goals and prospects to be achieved are difficult to achieve, and the chances are that they will be lost. The government needs to reorganize the current organizational and management functions (Zamani, 2022).

The role of foreign investment in developing countries is broken down into five: First, external sources of funds (foreign capital) can be utilized by developing countries to accelerate investment and economic growth. Second, increasing economic growth needs to be followed by a shift in the structure of production and trade. Third, foreign capital can play an important role in mobilizing funds and structural transformation. Fourth, the need for foreign money decreases as soon as structural changes occur, even though foreign capital will be more productive in the future. Fifth, for developing countries that are unable to start building heavy industries and strategic industries, the presence of foreign capital will be very helpful to establish steel factories, machine tools, electronics factories, basic chemical industries, and so on (Hasan, 2020b). The role of PMA in Indonesia is sufficient to support the development of economic life (Heidari, 2022).

Several conclusions are drawn about domestic investment (domestic) and foreign investment on economic growth and employment in eight provinces on Sumatra Island. Namely, domestic investment affects regional economic growth. These results indicate that an increase in domestic investment leads to a rise in economic development. Then FDI investment affects the absorption of regional workers. These results suggest that increasing FDI investment leads to increased economic growth (Hasan, 2020b). Then PMDN investment in energy absorption (Hilton, 2021). There is a positive correlation regarding the role of foreign investors in national economic development. The relationship between the part of foreign investors and national economic development is evidenced by comparing the amount of foreign investment (PMA/FDI) that has been realized with the amount of real GDP growth and total debt/GDP for the same period (Chakrabarty & Ray, 2021).

The insignificance of domestic interest rates on domestic investment is most likely due to the high inflation rate in Indonesia during the observation period. Therefore, it is recommended that the government take every economic policy to reduce the inflation rate (Zulfikar, 2020). Meanwhile, the government's investment spending is not significant for domestic investment in Indonesia. This is likely to occur during the observation period because government investment spending is mostly used to develop sectors that do not have a large enough multiplier effect on the national economy's performance. Therefore, it is suggested that the government change the orientation of government investment to other sectors that have a larger multiplier effect in the future (Ibhagui & Olawole, 2019).

Then the influence of investment on the economic growth of provinces in Indonesia can be described as follows: Investment has no significant effect and negatively affects the economic growth of provinces in Indonesia. These results indicate that an increase in investment causes a decrease in economic growth in areas in Indonesia. And investment also has a significant effect and positively affects the absorption of provincial workers in Indonesia. These results support hypothesis two, which states that investment significantly impacts the absorption of local labour in Indonesia. An increase will follow the investment in the absorption of provincial workers in Indonesia. It means that increasing economic growth will increase the absorption of local labour in Indonesia. And economic growth has no significant effect and has a positive relationship with people's welfare.

A positive sign means that an increase in the rate of economic growth will be accompanied by an increase in the people's interest in the provinces in Indonesia. And with employment, the effect is not significant and has a positive relationship to the community's welfare (Kim & Seo, 2003). This shows that the absorption of labour and the community's interest goes in the same direction, meaning that if the absorption of labour increases, it will increase the community's welfare. Findings on the effect of investment on economic growth, employment and public welfare provide analytical support for the interest of developing government policies and plans. In particular, it is useful for formulating strategies in the employment sector (Hasan, 2020b).

There is a significant and positively related effect of investment on the province's economic growth. The results of this study also follow the theory put forward by Harrold-Donard, which states that in a two-sector economy, the investment must increase so that the economy experiences prolonged growth and the increase in investment is needed to increase aggregate expenditure (Rioja et al., 2014). Domestic investment is an important thing for a region, especially in carrying out its economic development to reduce public consumption of foreign products, reducing the level of savings created in the future. Because this investment or capital formation is very important to be able to move the economy of a region, wherewith the presence of domestic investment will overcome the lack of

capital that occurs, and the higher the investment value will encourage and facilitate the process of economic growth (Suradiyanto, 2019).

Investment, government spending, money supply, and taxes have a significant effect on regional income. Meanwhile, partially investment has a positive and significant impact on regional pay. Government spending does not have a positive and significant impact on regional revenue. Furthermore, the money supply positively and significantly impacts regional income. Taxes have a negative and significant impact on regional pay. Therefore, investment has a causal or causal relationship to regional income (Gopalan et al., 2016), (Hasan, 2020b).

There is a positive correlation regarding the role of foreign investors in the development of the national economy. The relationship between the part of foreign investors and national economic development is evidenced by comparing the amount of foreign investment (PMA/FDI) that has been realized with the amount of real GDP growth and total debt/GDP for the same period (Mustangimah et al., 2021).

The capital investment decision is one of the important decisions that management must make. The inaccurate or misleading data usually cause mistakes in decisions made (Handa et al., 2019). The method of calculating the proposed capital investment is divided into two groups: ways that ignore interest and interest-based methods (discounting models). If it has been selected and defined, a proposed investment project must be audited. The audit is intended to assess whether the expected benefits can be achieved or not. With the results of this audit, management can immediately take action to improve the performance of ongoing projects or even stop the project to prevent greater losses. The capital analysis is not only used in companies that aim to make a profit (profit motive) but can also be used for public companies that aim to provide services to the community (Ibhagui & Olawole, 2019).

Investment based on the Law of the Republic of Indonesia Number 25 of 2007 concerning Investment is all forms of investment activities, both by domestic investors and foreign investors to conduct business in the territory of the Republic of Indonesia (Hasan, 2021c). During the Covid-19 pandemic in Indonesia, additional investment is needed. Investment policies must provide convenience for investors to invest in Indonesia. The Job Creation Act or Law Number 11 of 2020 concerning Job Creation aims to create jobs and increase foreign and domestic investment by providing convenience and reducing regulatory requirements for business permits and land acquisition. The enactment of the Job Creation Law is expected to give an answer to encourage investment flows, even when Indonesia is still experiencing the COVID-19 pandemic.

Judging from the declining investment value, this is due to the economic crisis that occurred in Indonesia. The government seeks to attract investors to invest in Indonesia. So, investment is needed to prevent a financial crisis in Indonesia.

3. Methodology

This research is quantitative, namely empirical research, where data can be calculated or in the form of numbers. This research is also included in the type of explanatory research, which is a study that explains the causal relationship between variables through hypothesis testing. The data used is secondary data obtained from the Central Statistics Agency and other related agencies, in the form

of times series data from 2010 to 2021. The variables in this study consist of exogenous variables and endogenous variables. The classification of the variables used in this study are:

1. The investment variable (X1) is classified as an exogenous variable and acts as an independent variable, namely a variable whose diversity is not influenced by other variables in the model.
2. Variables of economic Growth (Y1) and employment (Y2), PMDA and PMA (Y3) are classified as endogenous variables and act as intervening variables, namely variables that are influenced and affect other variables.

Economic growth In the analysis of a country's economic growth is calculated from the rate of Gross Domestic Product (GDP) in a certain period. The economy experiences growth if the real remuneration for using production factors in a certain year is greater than the previous year (Hasan, 2022). To calculate economic growth, the Growth Theory formula is used:

$$P_{t+n} = P_t (1 + r)^n$$

Where :

- P_{t+n} = GRDP last year
- P_t = Production in the first year
- r = annual growth rate
- n = Time

Data processing in this study was carried out in the following ways:

1. Verify data to get accurate data.
2. Make tabulations properly and correctly according to the needs of the analysis.
3. Perform data processing using the Statistical Package for Social Science (SPSS).
4. Perform analysis of processed data to prove the research hypothesis.

Data analysis begins with descriptive analysis, namely statistics used to analyze the data collected as it is without the intention of making generally accepted conclusions or generalizations. The path analysis technique examines the contribution (contribution) indicated by the path coefficient on each path diagram of the causal relationship between variables X1 to Y1 and Y2 and their impact on Y3. Testing the model and calculating the path coefficient is first done by formulating a hypothesis, namely

Hypothesis 1: Investment has a significant effect on the economic growth of provinces in Indonesia.

Hypothesis 2: Investment has a substantial impact on the absorption of provincial workers in Indonesia.

Hypothesis 3: Economic Growth has a considerable effect on domestic investment

Hypothesis 4: Economic Growth has a substantial influence on the welfare of the local community in Indonesia.

Hypothesis 5: Economic Growth has a significant effect on foreign direct investment (PMA)

This research data is secondary data, namely 2010 to 2021 data sourced from the BPS website. The information consists of:

1. Data on economic growth in the province of Riau
2. Investment investment data
3. Foreign investment data
4. Domestic investment data

4. Results and Discussion

The main components that shape the investment climate in the region consist of; Institutional investment services, promotion of regional investment, local government commitment, infrastructure, access to business land, labour, business security, regional economic performance, and the role of the business world in the regional economy. Meanwhile, the components that become obstacles for business actors in running their business are; infrastructure, provincial regulations, increase in fuel/electricity tariffs and others, taxes/retribution, scarcity of raw materials, invisible cost, capital scarcity, stability and defence security.

The factors that are attractive to the business world in making investments include; the availability of infrastructure, legal certainty, the potential of a region/region, investment policies, human resources, and assurance of security. Information needed by investors, generally in the form of investment needs in an area, investment policies, potentials, business opportunities, resources and investment projects, and examples of existing investment projects in a place. A Regional Potential Profile is needed to encourage and attract investment to the regions, which contains information on appropriate business opportunities for investors. This Regional Potential Profile is intended so that investors can more quickly seize investment opportunities and make decisions to invest. With the Regional Potential Profile, SMEs can also identify existing business opportunities.

Riau Province has a superior commodity of palm oil, so it is necessary to develop this sector to provide a multiplier effect to other industries. The development of the non-oil and gas sector that relies on renewable natural resources has not shown significant progress. However, the potential developed is quite broad, such as agriculture in general, namely food crops, plantations, livestock, fisheries, agricultural product processing industries, and agribusiness.

Several Businesses/Companies Based on the data collection results of Micro, Small and Medium Enterprises (UMK) in Riau Province, there are 518,106 which are spread into 13 business categories. Three provinces on the island of Java, namely West Java, Central Java, and East Java, still dominate the number of businesses, with a share of 50 per cent of the total companies in Indonesia.

Number of Workers The results of data collection of businesses/companies for the categories of Micro, Small and Medium Enterprises (UMK) show that the number of workers in Riau Province is 1,829,250. Most of them are still concentrated in large provinces on the island of Java, namely West Java, Central Java, and East Java, especially for the trade and industrial business sectors. Remuneration and Wages of Workers Remuneration/wages of workers show the amount of value issued by the company as a return for the work results that workers have generated. The remuneration/wages issued in Riau Province amounted to 37,851,549,936,852 rupiah. Nationally, DKI Jakarta is the province with the largest total remuneration, 22 per cent of the total value of business remuneration recorded.

The Central Statistics Agency (BPS) noted that the Riau economy, according to the amount of gross regional domestic product (GRDP) at current prices (ADHB), was IDR 843.21 trillion in 2021. The province's GRDP is the second largest in Sumatra and the 6th largest nationally.

Table 1

Investment in Riau Province

		Year	Investment in Riau Province	The economy in the province of riau
N	Valid	12	12	12
	Missing	0	0	0

Table 2

The Economy in Riau Province According to Riau's GRDP Data in 2010-2021

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	-1.1	1	8.3	8.3	8.3
	.2	1	8.3	8.3	16.7
	1.0	1	8.3	8.3	25.0
	2.2	1	8.3	8.3	33.3
	2.4	1	8.3	8.3	41.7
	2.5	1	8.3	8.3	50.0
	2.7	1	8.3	8.3	58.3
	2.7	1	8.3	8.3	66.7
	2.8	1	8.3	8.3	75.0
	3.4	1	8.3	8.3	83.3
	3.8	1	8.3	8.3	91.7
	5.6	1	8.3	8.3	100.0
	Total		12	100.0	100.0

The Riau province's economic growth data above shows that the economy in Riau province shows numbers that continue to increase but experienced a drastic decline in 2020 due to the COVID-19 pandemic and then increased again in 2021. If measured according to GRDP at constant prices (ADHK) in 2010, Riau's economy grew 3.36% to Rp506.46 trillion in 2021 from the previous year. This achievement is higher than in 2020 when the Riau economy contracted 1.13% due to the Covid-19 pandemic.

The Riau economy in 2021 contributed 22.92% to Sumatra's GRDP, with a growth rate above the average GRDP growth of 3.18% in Sumatra. In terms of business fields, in 2021, the processing industry will support Riau's largest economy, reaching 28.08% of GRDP. They were followed by the agricultural sector with 26.83%, the mining and quarrying sector with a grant of 19.83% to GRDP.

The accommodation and food and drink supply sector recorded the highest growth in 2021, 17.44%. Followed by the health services sector and social activities, which grew by 11.54% and the information and communication sector grew by 7.28%. From the expenditure side, the component of foreign exports is the pillar of Riau's economy, contributing 36.02% of GRDP. After that, there is a household consumption expenditure component of 35.51% and gross fixed capital formation (PMTB) of 33.67%.

Studies conducted by Sitompul (2007), Rustiono (2008); Luntungan (2008); and Sodik (2005) found that regional economic growth was mainly driven by significant investment. This means that high investment will increase economic growth and further increase employment. The unemployment rate

will be reduced, and people's incomes and welfare will increase. Investment also allows the transfer of technology and knowledge from developed countries to developing countries.

A high level of economic growth also depends on the size of the national output produced in a country. Therefore, national production is one indicator of creating an efficient allocation of resources. The magnitude of the federal work produced by an economy in a certain period provides an initial picture of how efficiently resources (including labour and capital goods) are used to create goods and services, also provides an overview of the productivity and level of prosperity of a country. The measuring instrument for the level of capital is the national output per capita, while the measuring device for the average productivity is the output per worker. In addition, national work provides an overview of the structural problems faced by an economy. If most of the national production is enjoyed by a small portion of the population, then the economy has a problem with its income distribution. If most of the national output comes from the agricultural sector, then the economy is faced with the problem of inequality in the production structure. This means that the economy must strengthen its industry so that there is a balance in the contribution of the influence of investment to economic growth and labour absorption between the agricultural sector, which is considered a traditional financial sector and the industrial sector, which is regarded as a modern economic sector.

The influence of economic growth on employment begins with an investment in the industrial sector. The overall capital accumulation in the modern sector will expand output in the modern industry. The shift of labour from the agricultural industry to the current industry (industry) will further increase output growth and employment in the modern enterprise. Economic growth also depends on the amount of investment that can move the economy.

CONCLUSION

This study aims to see the effect of increased investment in improving the economy in Riau province from 2010-to 2021, both in foreign investment and domestic investment, where several sectors in small and medium-sized businesses contribute to the economic growth of Riau province. A high level of economic growth also depends on the size of the national output produced in a country. Therefore the national result is one of the indicators for creating an efficient allocation of resources. The effect of investment on economic growth, employment and public welfare. Can provide analytical support for the development of government policies and plans. They are providing analytical support for the interests of developing government policies and procedures. In particular, it is useful for formulating strategies in the employment sector. The factors that are attractive to the business world in making investments include; the availability of infrastructure, legal certainty, the potential of a region/region, investment policies, human resources, and assurance of security. Information needed by investors, generally in the form of investment needs in an area, investment policies, potentials, business opportunities, resources and investment projects, and examples of existing investment projects in a room. Riau Province's economic growth data shows that the economy in Riau Province shows numbers that continue to increase but had a drastic decline in 2020 due to the COVID-19 pandemic and then increased again in 2021.

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