The Effect of Investment in The Banyuwangi Economy

M. Azizul Khakim
STIE Mahardhika Surabaya
Email : m.khakim@stiemahardhika.ac.id

Article History:
Received: 25 April 2023
Revised: 02 Mei 2023
Accepted: 08 Mei 2023

Keywords: *Investment, Economy, Banyuwangi*

Abstract: *Banyuwangi is the largest area in East Java. With natural wealth and tourism potential and the agricultural sector is getting better. So many investors have started to invest in Banyuwangi Regency. Likewise, people are starting to be interested in the world of investment, both in the capital market sector and the traditional investment sector. These reasons motivated researchers to continue their research related to the effect of investment in Banyuwangi Regency. This is in line with the high interest in investment, so there are also cases of civil and criminal crimes related to investment. All of these cases can occur because of the minimal level of public knowledge about investment and all its derivatives. Therefore, in addition to studying the influence of investment on the economy, this article also adds insight to the readers so that the level of crime and fraud under underinvestment can be suppressed.*

INTRODUCTION

In a country, economic growth is very important. One of the developing countries that is currently focusing on development and economic growth is Indonesia. Having good economic growth can be an indicator of a country's success in running the wheel of development. Economic development requires investment support which is one of the main sources of economic growth. Investment activities generate investments that will continue to increase capital stock (capital stock). Furthermore, an increase in capital stock will increase productivity as well as production capacity and quality, which in turn can encourage economic growth and increase employment.

Foreign Investment (PMA) is still needed to support development in various activities that have not been able to be fully implemented with PMDN, especially those that produce capital goods, raw materials and components as import substitutes, finished goods and semi-finished goods to create business opportunities and employment. Sukurno, 2004). The existence of Foreign Investors (PMA) and Domestic Investors (PMDN) has an influence on employment absorption.

The role of investment in the national economy can also be seen through the realization of employment. From the data from the Ministry of Investment/Investment Coordinating Board (BKPM) it can be seen that in 2016 and 2017 the absorption of labor from PMA was greater than the workforce absorbed from PMDN (Figure 1). Meanwhile, from 2018 to 2020 PMDN absorbed more workers compared to FDI. Labor absorption in PMDN has tended to increase in the last 5 years with the largest absorption in 2020 of 611,335 people. Meanwhile in FDI, employment fluctuated, but the number decreased in 2020 when compared to 2016. Overall, in 2020, the workforce absorbed through both PMDN and FDI increased from 1,033,835 people in 2019 to 1,156,361 souls.

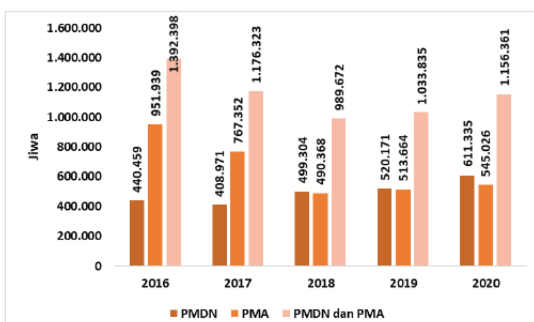
Absorption of manpower both from Foreign Investors (PMA) and Domestic Investors (PMDN) has a positive impact. So that the government is very aggressive in seeking foreign investors. The government also provides convenience to investors, such as ease of obtaining business licenses and other guarantees such as guarantees for the availability of energy, raw materials, etc. This is done to restore Indonesia's economic situation. From this review, the background of the writer wants to know the existence of "the effect of investment in improving the economy".

DISCUSSION

In a country, economic growth is very important. One of the developing countries that is currently focusing on development and economic growth is Indonesia. Having good economic growth can be an indicator of a country's success in running the wheel of development. Economic development requires investment support which is one of the main sources of economic growth. Investment activities generate investments that will continue to increase capital stock (capital stock). Furthermore, an increase in capital stock will increase productivity as well as production capacity and quality, which in turn can encourage economic growth and increase employment.

Foreign Investment (PMA) is still needed to support development in various activities that have not been able to be fully implemented with PMDN, especially those that produce capital goods, raw materials and components as import substitutes, finished goods and semi-finished goods to create business opportunities and employment. Sukurno, 2004).

The existence of Foreign Investors (PMA) and Domestic Investors (PMDN) has an influence on employment absorption. For more details, we can see in the image below:



Sumber: Kementerian Investasi/BKPM (diolah)

Figure 1. Graph of PMA and PMDN

The role of investment in the national economy can also be seen through the realization of employment. From the data from the Ministry of Investment/Investment Coordinating Board (BKPM) it can be seen that in 2016 and 2017 the absorption of labor from PMA was greater than the workforce absorbed from PMDN (Figure 1). Meanwhile, from 2018 to 2020 PMDN absorbed more workers compared to FDI. Labor absorption in PMDN has tended to increase in the last 5 years with the largest absorption in 2020 of 611,335 people. Meanwhile in FDI, employment fluctuated, but the number decreased in 2020 when compared to 2016. Overall, in 2020, the workforce absorbed through both PMDN and FDI increased from 1,033,835 people in 2019 to

1,156,361 souls.

Absorption of manpower both from Foreign Investors (PMA) and Domestic Investors (PMDN) has a positive impact. So that the government is very aggressive in seeking foreign investors. The government also provides convenience to investors, such as ease of obtaining business licenses and other guarantees such as guarantees for the availability of energy, raw materials, etc. This is done to restore Indonesia's economic situation. From this review, the background of the author wants to know the existence of "the effect of investment in improving the economy"

Investment

Economic theory interprets or defines investment as expenditures to purchase capital goods and production equipment with the aim of replacing and especially adding to capital goods in the economy that will be used to produce goods and services in the future. In other words, investment means shopping activities to increase the production capacity of an economy (Sukirno, 2009). Statistically, investment or expenditure to purchase capital goods and production equipment is divided into 4 components, namely: investment by private companies, expenditure for building residences, changes in company inventory and investment by the government. The aim of the entrepreneur in realizing the means of production is to gain profits from the production activities he undertakes in the future.

This role derives from three important functions of investment activity in the economy:

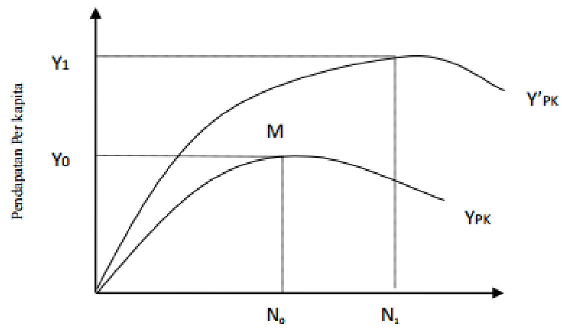
1. Investment is a component of aggregate spending, so an increase in investment will increase aggregate demand and national income.
2. The increase in capital goods as a result of investment will increase production capacity in the future and this development will stimulate an increase in national production and employment opportunities.
3. Investment is always followed by technological developments, these developments will make an important contribution to increasing the productivity and income per capita of society.

Classical Economic Growth Theory

This theory explains that economic growth is determined by 4 (four) factors, namely population, total stock of capital goods, land area and natural wealth and the level of technology used. Of the four factors that are the focus of their attention is the effect of population growth on economic growth. Classical growth theory can be seen that if there is a shortage of population, the marginal product is higher than per capita income. However, if the population increases, the law of diminishing returns will affect the production function, that is, the marginal product will begin to decrease. Therefore, national income and per capita income are growing slower.

Optimum Population Theory

Ricardo's opinion and the theory put forward by Thomas Robert Malthus, states that food (production) will increase according to arithmetic progression. Meanwhile, the population will increase geometrically so that when the economy is at the subsistence level. According to Malthus, the continuous increase in population is a necessary element for additional demand. But an increase in population alone without being accompanied by progress in other development factors or elements will certainly not increase income and will not increase demand. In order for economic growth to be created, it is necessary to increase the amount of capital for continuous investment. The theory that explains the relationship between population growth and per capita income is often also known as the optimum population theory. Graphically it can be described as follows:



Sumber : (Rahardja, 2001)

Figure 2. Graph of Optimum Population Theory

In the Figure above, YPK shows the level of income per capita at various population sizes, and M is the peak of the curve. Then the optimal population is a population of $N0$ and the maximum per capita income is $Y0$. With economic growth, the YPK curve will continue to move upward (for example, becoming Y'PK).

Such a change causes the following two things:

- Optimum population will shift from $N0$ to the right to $N1$
- In the optimum population $N1$ per capita income is higher than $Y0$ which is to be $Y1$

Neo Classical Economic Growth Theory

According to Harrod and Domar, investment has a very strategic position at the level of a country's economic development. Harrod-Domard explained that if a country wants steady-state growth which is characterized by production growth at full capacity, then the demand impact arising from the addition of investment must be balanced with the supply impact. Meanwhile, according to Abramovits and Solow stated that economic growth is highly dependent on the addition of production factors including labor, capital accumulation, and technological progress. This theory is based on the classical theory which assumes that the economy will always be in a "full employment" condition so that the production capacity of the machine can be fully used.

Adam Smith's Investment Theory

According to Adam Smith, investments are made because the owners of capital expect profits and future expectations of profits depend on the investment climate today and on real profits. Smith believes profits tend to decline with economic progress. When the rate of capital accumulation increases, competition between capital owners will increase. Wages will be increased and profits will decrease (Jhingan, 2000).

The Marginal Efficiency of Capital theory from Keynes

According to Keynes, the interest rate is not the only thing that causes the ups and downs of investment, but also the possible profit expected from a number of investments, which according to Keynes is called the marginal efficiency of capital (MEC). So rationally the entrepreneur's decision to invest is likely to occur, among other things, if the expected profit (MEC) is greater than the interest rate, then the investment is carried out. Thus the investment will increase or become large. If the expected profit (MEC) is less than the interest rate, the investment is not implemented. This causes the investment to go down or get lower. If the expected profit (MEC) is equal to the interest rate then the investment can be carried out or not. If the company is socially oriented then the investment is feasible, whereas if the company is profit oriented, then the investment will not be made.

Harrod and Domar's Investment Theory

The Harrod-Domar theory views capital formation as expenditure which will increase the ability of an economy to produce goods and or services, as well as expenditure which will increase the effective demand of the whole society. Where if at a certain period a number of capital formations are carried out, then in the following period the economy will have the ability to produce greater goods and or services (Sadono, 2008).

The Effect of Foreign Investors (PMA) on Economic Growth

The results of the variable regression of Foreign Investors (PMA) show significant results with a positive direction from research by Puspasari (2018). These results are also consistent with previous research on foreign investment on economic growth conducted by Setyowati (2008). If investment increases, it will improve the economy, this indicates that an increase in investment will trigger economic growth due to increased investment (Todaro, 2003). Investment will result in an increase in the production of goods and services in the economy. Increased production of goods and services will increase economic growth. For this reason, each region or region requires investment to improve the quality of production in its territory, investment must be invested in various economic sectors, in order to expand the market, and the products produced are able to compete and have high selling prices, of course, with good quality, so as to be able to boost the economy. This is in accordance with Samuelson's theory, investment is an important thing in developing the economy because it is needed as a supporting factor in increasing the production process.

The Effect of Domestic Investors (PMDN) on Economic Growth

The results of the regression of the Domestic Investor (PMDN) variable show an insignificant effect on economic growth, this is because PMDN is not the only factor that plays a major role in increasing economic growth in Indonesia. The use of PMDN for development is often not on target, so it cannot increase economic growth and indicates that there is still a lack of confidence from domestic investors to invest their capital by Puspasari (2018). These results are also consistent with research conducted by Jamzani, the results of which show that domestic investment has no effect on regional economic growth after autonomy in Indonesia in 2000-2003.

Effect of Labor on Economic Growth

The labor variable shows a significant influence on economic growth by Puspasari (2018), this result is also in accordance with Sodik (2007) which shows that the workforce seen from the proxy of the labor force has a significant influence on economic growth in Indonesia. From the point of view of the production process, the existence of labor is one of the inputs or factors of production. These results are also in accordance with the theory of total output growth and the Solow growth theory which states that a rapid increase in the number of workers can also accelerate the rate of economic growth. Because the workforce is an actor and manager of other factors of production so that an increase in the number of workers in Indonesia will have a positive impact on increasing economic growth.

Effect of Net Exports on Economic Growth

The net export variable shows an insignificant effect on Puspasari's economic growth (2018), this result is also in line with that of Susanti (2008) which shows that the net export variable has a positive but not significant effect on economic growth. Experiencing a decrease in net exports is also due to a decrease in demand for goods and services abroad so that imports are greater than exports and this will result in a decrease in the production of goods and services. The decline in the production of goods and services has resulted in a decline in economic growth.

Effect of Government Spending on Economic Growth

The results of the regression of the government spending variable show significant results with a negative direction Puspasari (2018). These results are consistent with research conducted by Taufan and Heny (2014) entitled the effect of government spending on economic growth in West Sulawesi. The regression coefficient value of the Government Expenditure variable which is negative is 4.786065 explaining that if there is an increase in Government Expenditures of 1%, the value of economic growth will decrease by 4.786065 with other factors considered constant. The decline occurred because government expenditure from 2012 to 2016 was greater in the personnel expenditure sector than capital expenditure, while capital expenditure was one of the biggest contributing factors to increased economic growth.

CONCLUSION

Foreign investment has results that affect Indonesia's economic growth. Foreign Investors (PMA) also have a positive relationship with Indonesia's economic growth. This is because the increase in foreign investment has an impact on increasing the production of goods and services which will increase economic growth. Foreign investment or FDI has a greater impact on economic growth. Domestic investment chooses results that do not affect economic growth. This is because PMDN is not the only factor that plays a major role in increasing economic growth in Indonesia.

The number of workers in Indonesia has influential results and also chooses a positive relationship with Indonesia's economic growth, with an increase in the number of people working in Indonesia it is hoped that the productivity of the workforce will increase so that this can spur economic growth in Indonesia. For net exports, the results do not affect Indonesia's economic growth. Net exports have not been able to contribute to economic growth, because net exports have slowed down and experienced a deficit. Global economic factors and the weakening of export commodity prices are also blamed as the main causes.

Government expenditure has results that affect economic growth in Indonesia, which implies that growth in government spending is needed to improve the economy, in this case government policy in regulating and controlling its expenditures, both routine and development expenditures. As for the advice that can be given, namely to be able to increase investment growth in Indonesia, the government must be able to seek a conducive investment climate, create economic stability, improve state security and appropriate regulations so that investors, both foreign and domestic, can feel safe and are interested in investing. invest their capital so as to increase economic growth.

The policy that should be carried out by the government is to increase labor-intensive employment for the long term and short term in various business fields so that a large workforce can be absorbed so that the number of workers increases and increases GDP as well. Another way to increase the number of workers is to facilitate the flow of job vacancy information to all corners of the country so that people can easily get jobs according to their expertise. The government should make policies to increase commodity exports that benefit exporters and the country, make it easier for exporters to export goods , even the government can help exporters to obtain the required information. Another way is to improve the quality of goods and services exported, adding or diverting export destination countries so that Indonesia's exports increase. As well as local governments are expected to allocate more APBD funds for capital expenditures, because so far the trend that has occurred is that APBD is allocated more for personnel expenditures.

REFERENCES

Sukirno, Sadono. 2004. Makro Ekonomi Teori Pengantar Edisi Ketiga. Jakarta: PT. Raja Persada Grafindo.

Sukirno, Sadono. 2008 "Makro Ekonorni Teori Pengantar", PT. Raja Grafindo Persada, Jakarta.

Todaro, Michael, P. dan Stephen C. Smith. 2003 . Pembangunan Ekonomi di Dunia Ketiga, edisi kedelapan. Jakarta : Erlangga.

Jhingan, M. L .2000. Ekonomi Perencanaan dan Pembangunan. Edisi Kesembilan. Jakarta: PT Raja Gravindo Persada.

Khakim, M. A. (2015). Analisis Perbandingan Internet Financial Reporting (Ifr) Pada Sektor Perbankan Yang Go Publik Di Indonesia Dan Di Singapura (Doctoral dissertation, STIE Perbanas Surabaya).

Khakim, M. A. (2022). Pelatihan Dan Konsultasi Manajemen, Bisnis Dan Keuangan Bagi Umkm Kalibata. Jurnal Abdidas, 3(3), 525-530.

Khakim, M. A. (2022). Pengaruh Investasi Dalam Perekonomian. Jurnal Akses, 14(2).

Khakim, M. A. (2022). The Effect Of Industrial Management Implementation On Msme Operational Performance In The Gresik Region. Enrichment: Journal Of Management, 12(4), 2770-2776

Khakim, M. A. (2022). ANALISIS FAKTOR-FAKTOR YANG MEMPENGARUHI PEMILIHAN JURUSAN MANAJEMEN SEBAGAI TEMPAT KULIAH DI PERGURUAN TINGGI. *Journal MISSY (Management and Business Strategy)*, *3*(2), 1-5.

Khakim, M. A. (2022). The effect of industrial management implementation on msme operational performance in the gresik region. *Enrichment: Journal of Management, 12*(4), 2770-2776.

Khakim, M. A. (2022). PENGARUH KUALITAS PRODUK DAN HARGA TERHADAP LOYALITAS PELANGGAN PENGGUNA HANDPHONE MEREK SAMSUNG PADA MASYARAKAT MENGANTI 2018. *Journal MISSY (Management and Business Strategy)*, *3*(2), 18-26.