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The Influence of Economic Openness and Foreign Investment on Economic Growth in Indonesia

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ABSTRACT

One of the main goals of Indonesia's economic development is economic growth. The belief that there is a positive correlation between Indonesia's economic growth and economic openness and foreign investment underlies this research that efforts to increase investment and encourage economic openness are necessary to achieve high economic growth. This research aims to measure, determine and explain the relationship between economic openness and foreign investment on Indonesia's economic growth through a quantitative approach based on secondary data. The method used is quantitative regression analysis to evaluate the relationship between the independent variables (economic openness and foreign investment) and the dependent variable (economic growth). Secondary data was collected from various international and national publications, including reports from the World Bank and IMF. The research results show that economic openness and foreign investment have a positive and significant impact on Indonesia's economic growth. Increased exports, imports and inflow of foreign capital contribute to increasing Gross Domestic Product (GDP) and accelerating economic development in Indonesia. Therefore, it is recommended that there be policies that support economic openness and foreign investment to increase Indonesia's economic growth in a sustainable manner

Keywords: *Economic Openness, Foreign Investment, Economic Growth*

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INTRODUCTION

Economic growth is a long-term problem that must be carried out by every country where it is hoped that economic growth will be very rapid. Every country has the same goal, namely how to accelerate its economic growth (Salim, Fadilla, & Purnamasari, 2021). Because economic growth can be interpreted as an indicator in assessing the economy in analyzing the results of state development (Oktaviani & Soelistyo, 2020). Economic growth is very necessary to increase the wealth of a country or region. High economic growth will be one of the main goals of development of a country or region. (Bhinadi, 2003).

The Solow economic growth model will show that capital growth is one of the drivers of output growth, in addition to labor force growth and technological progress. However, this model assumes that the production function experiences a constant return to scale, which is not always the case, especially in the industrial and digital era. Capital growth from investment can be a driver of output growth and increased energy needs. (Arifah, 2023)

A country's economy depends on investment to solve several economic problems, crises and challenges. This is due to the fact that investment in certain economic sectors can quickly change the various economic challenges we will face as a nation. Investments both private and public come with many benefits such as job creation, increase in per capita income, reduction in poverty levels, increase in living standards, increase in GDP, etc.(Kambono & Marpaung, n.d.)

Year	Percentage of Economic Growth in Indonesia	Economic Openness	Foreign Investment
2017	5,069785901	39,35549707	2,019489198
2018	5,17429154	43,07430896	1,814289794
2019	5,01928768	37,62777754	2,233362043
2020	-2,065511829	32,9721754	1,81058402
2021	3,703055357	40,19775125	1,787862013
2022	5,308595005	45,3933054	1,641427554

Based on data obtained from the Indonesian Central Bureau of Statistics and in the last 6 years Indonesia's economic growth has tended to decline in 2018, Indonesia's economic growth was at 5.17% and fell in 2019, namely at 5.02% and in 2019 the economy Indonesia has dropped significantly to 2.07% due to the Covid-19 pandemic and in 2021 Indonesia's economic growth will begin to improve at a percentage of 3.20%. Likewise, in 2022 Indonesia's economic growth will accelerate very rapidly and increase by around 2% with a percentage of 5. 31% unfortunately in 2023 Indonesia will experience a slight decline due to the recession in economic growth in the world

Meanwhile, on the other hand, Indonesia's International Trade has increased quite significantly from year to year. In 2022, Indonesia's International Trade was at $60.05 and in 2023 it experienced a decline because Indonesia experienced problems in export trade to the amount of $48.66. Based on data on economic growth, foreign debt and foreign direct investment, it can be seen that the growth in foreign debt and foreign direct investment from 2018-2023 is not followed by good economic growth.

Several research results show that there is a positive relationship between international trade and economic growth, but the facts that occur in the field show that the increase in Indonesia's international trade from year to year is actually accompanied by a decline in economic growth. This research uses time series data for thirty years and is processed to determine the influence of international trade and foreign direct investment on economic growth in Indonesia. It can be assumed that international trade and foreign direct investment influence economic growth. However, according to the data it will be found that it will come from BPS (central statistical agency).

Based on previous research that I have researched from journals that I found on the internet. According to Heru Wahyudi, Qurrota Ayu Nindien, Marselina Marselina, Widia Anggi Palupi (2023) This research focuses on the influence of economic openness and foreign direct investment (FDI) on economic growth in ASEAN countries. The issue that will be raised is how economic openness can encourage economic growth through increasing efficiency, market access and technology transfer. And the method that will be used is panel data regression analysis with a fixed effects approach. This technique allows combined analysis of cross-section and time series data, providing a more comprehensive understanding of economic dynamics in ASEAN. The data source they examined is secondary data which will be used in this research taken from World Bank publications which will cover the period 2000-2017. This data includes information regarding international trade, foreign investment and economic growth in ASEAN countries. The results of his research show that trade openness and FDI have a positive and significant influence on economic growth in ASEAN. This research confirms that increasing economic openness helps increase efficiency and competitiveness, and encourages higher economic growth

Further research from Amalia (2022). This study examines the effect of economic openness on economic growth in six ASEAN countries during the 2018-2022 period. The main focus is on how openness to international trade and the inflow of foreign investment can affect economic growth in these countries. The method used in this research uses the panel data regression method to analyze the relationship between these variables. This approach allows researchers to capture the temporal and cross-country dynamics of the data to be collected. The data source is secondary data obtained from various international and national publications, including reports from institutions such as the World Bank and IMF, which will provide data on trade, foreign investment and other economic indicators. And the results obtained by the research show that economic openness, measured through the level of international trade and FDI, has a significant contribution to economic growth. This openness allows ASEAN countries to enjoy the benefits of free trade and greater international capital flows, which will help increase investment and productivity.

Further research from Anisya Gretsya Bambungan, Tri Oldy Rotinsulu, D. Mandeij (2021) This research examines the influence of exports, imports, foreign debt and foreign investment on economic growth in Indonesia during the 2013:Q1-2018:Q4 period. The main focus is to understand how these variables influence GDP growth in Indonesia. The method used in this study uses quantitative regression analysis to evaluate the relationship between independent variables (exports, imports, foreign debt and foreign investment) and the dependent variable (economic growth). This quantitative approach allows researchers to measure the direct impact of each variable on economic growth. The data used is secondary data from the Central Statistics Agency (BPS) and other sources which will provide information related to economic indicators in Indonesia. The results obtained by the research show that foreign investment and economic openness have a significant positive impact on Indonesia's economic growth. Increases in exports and imports, as well as the inflow of foreign capital, contribute to increasing GDP and accelerating the process of economic development in Indonesia.

These studies show that economic openness and foreign investment play an important role in driving economic growth in various countries. Trade openness and international capital flows help increase efficiency, competitiveness and productivity, which will in turn encourage higher economic growth. Foreign direct investment also brings additional benefits in the form of technology transfer and improving the skills of the local workforce.

RESEARCH METHODOLOGY

The type of research that researchers will carry out is field research using quantitative research methods. Quantitative research is methods for testing specific theories by studying the relationships between variables. These variables are measured generally with research instruments, so that the information will consist of numbers that can be analyzed based on statistical procedures.

This research was carried out via the website, the Indonesian statistical center (PBS) and DJPPR financial metrics by searching for information on the national reach of foreign loans, foreign investment and Indonesia's economic development. The information that will be used is time series information, time series information is a group of observation numbers that can be obtained at different duration points with intervals of similar duration. The author takes information from 2014-2023. The source of information that will be used is secondary information that will be obtained from the Indonesian statistical center (BPS) and the DJPPR of the Indonesian Ministry of Finance which will relate to variables, namely, foreign loans, foreign investment, and economic development.

RESULT AND DISCUSSION

Normaitas Test

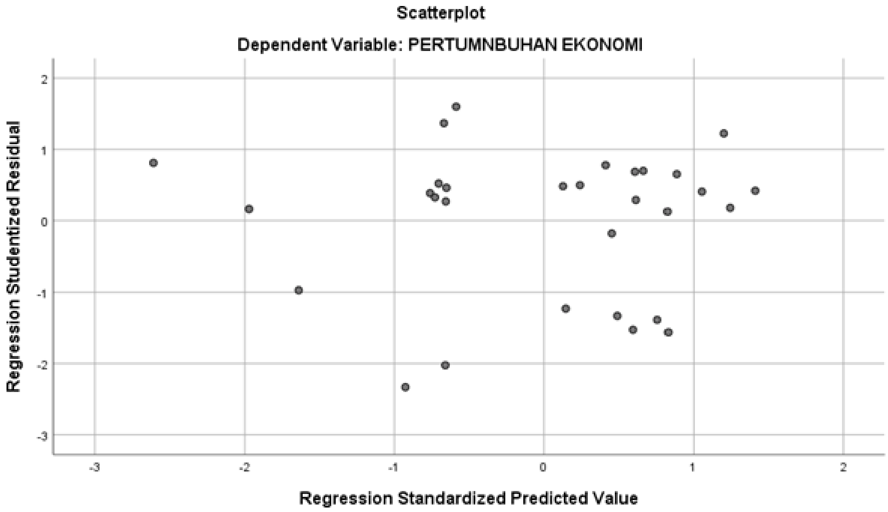
The normality test ensures that the data obtained is normally distributed. The results of the normality test can be seen in the following table :

N		30
Normal Parameters[a,b]	Mean	.0000001
	Std. Deviation	2740879879.188540 50
Most Extreme Differences	Absolute	.250
	Positive	.128
	Negative	-.250
Test Statistic		.250
Asymp. Sig. (2-tailed)		.000[c]

Based on the table in the bag, it is known that the sig value is 0.00> 0.05, meaning it can be said that the distribution is normal and can be continued to the next stage.

Heterochedasticity Test

The heteroscedasticity test is a method in regression analysis that is used to check whether the variance of the residual (error) of the regression model changes (not constant) throughout the data range. Heteroscedasticity can cause inefficient estimation results and biased standard errors, so this test is important to ensure the validity of the regression model. The following image describes the results of the heteroscedasticity test



Based on the image above, it can be seen that the pattern formed is random and evenly distributed around the horizontal line (usually around 0), so there is no indication of heteroscedasticity.

Multiple Regression Test

t -Test

The partial test in regression aims to test the significance of each independent variable individually on the dependent variable in the multiple regression model. This test helps determine whether each independent variable makes a statistically significant contribution to the prediction of the dependent variable when other independent variables are included in the model. The partial test results are as in the following table

Model		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	358685 8564.722	1553714665.45 2		2 .309	.029
	Keterbukaan Ekonomi	.025	.268	.019	.093	.926
	Investasi Asing Langsung	.289	.386	.150	.748	.461

Based on the table above, the calculated t value is 0.93 with a t table of 2.05, it can be concluded that there is no influence of variable x1 (economic openness) on variable y. Meanwhile, foreign investment (X2) has a value of 0.748, so the foreign investment variable has no influence on economic growth

Based on the table above, it is also known that the significance value (Sig) of the economic openness variable (X1) is 0.093. Because the sig value is 0.093 > probability 0.05, it can be concluded that there is no influence of the economic openness variable on economic growth (Y). Likewise, with the foreign investment variable (X2), the significance value 9Sig) is 0.461 > from a probability of 0.05, so there is no influence between the foreign investment variable (X2) on economic growth (Y).

F-Test

The simultaneous test in regression aims to test the overall significance of the regression model, namely whether all independent variables together have a significant influence on the dependent variable. This helps answer the question of whether the regression model built is suitable for predicting the dependent variable. Simultaneous test results can be seen in the following table

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4704146045536 814100.000	2	2352073022768 407000.000	.291	.749[b]
	Residual	2178602528520 77000000.000	27	8068898253780 629500.000		
	Total	2225643988976 13830000.000	29			

Based on the table above, the calculated f value is 7.654 with f table 3.35, it can be concluded that there is a simultaneous influence between variables x1 and x2 on variable y

CONCLUSION

Based on the information that will be provided, it can be concluded that the data that will be analyzed meets several basic assumptions in regression analysis. First, the significance value (Sig) is smaller than 0.05, so the data can be said to be normally distributed and can be continued to the next stage of analysis. Second, the points in the scatterplot are spread above and below zero, indicating that the data avoids heteroscedasticity problems. Third, the Variance Influence Factor (VIF) value is less than 10, indicating that the data avoids multicollinearity problems.

Furthermore, the analysis results show that the t-calculated value of variable X1 is 0.93, which is smaller than the t-table of 2.05, so it can be concluded that there is no significant influence of variable 7.654 is greater than the F-table of 3.35, so it can be concluded that there is a simultaneous influence between variables X1 and X2 on variable Y.

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