



Effect of Foreign Direct Investment (FDI) on economic growth and labor absorption in Maluku

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ABSTRACT

This study aims to determine the effect of foreign direct investment (FDI) on economic growth and employment. Method, for this purpose, secondary data was collected in the form of annual data from the Central Bureau of Statistics and the Investment and One-Stop Integrated Service (PTSP) Office of Maluku Province. The data were analyzed using simple linear regression. The analysis model used adopts the Cobb Douglas function, namely $Q = f(A K^\alpha L^\beta)$ with the assumption that Q is economic growth, K is capital and L is labor and A is technological progress. In the case of this study, it is assumed that economic growth is a function of capital, namely foreign investment (FDI) so that by modifying the Cobb-Douglas production function. The results showed that foreign investment (FDI) has a positive and significant effect on economic growth and employment. The effect of foreign investment (FDI) has a positive and significant effect on economic growth in Maluku Province. Policies that make it difficult for investors need to be reduced. Investment also has an influence on employment. Realized investment can expand production capacity and that will require additional labor.

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INTRODUCTION

Economic growth is a description of the economic situation of a region characterized by an increase in the amount of goods and services (output) produced in a certain period of time. Sustainable economic growth can increase the prosperity of society. During the period 2000-2020 the Maluku economy experienced fluctuations in growth from year to year, but has shown signs of recovery.

Economic growth itself is influenced by several factors, namely economic and non-economic factors. Economic factors include land or natural resources, capital, labor, and technology. Meanwhile, non-economic factors can include socio-cultural institutions, political and security conditions and moral values of a region or nation. Economic and non-economic factors are interrelated in determining sustainable economic growth. This can be realized if supported by both factors.

The current theory of economic growth is dominated by the Neo-Classical growth theory developed by Solow and Swan, then Harrod Domar who used the Cobb-Douglas production

function (Lin, 2003) The production function emphasizes the importance of labor, capital accumulation and technological change including natural resources (Saleh et al., 2020). While Keynesian emphasizes the demand aspect. Subsequent developments have shifted to the importance of the role of human resources, because they are considered to have a very large contribution to economic growth including the quality of education (Bhargava, et al., 2011; Teixeira and Queirós, 2016; Broxterman and Yezer, 2020; Marquez-Ramos and Mourelle 2019; Bakare, 2020).

One of the macroeconomic variables that can encourage a sustainable economy is investment, in this case foreign direct investment (FDI). Initially, many countries were not interested in foreign investment (FDI), but later it was considered an opportunity to obtain funds without increasing government debt (Abbes et al., 2015). In addition, it can increase per capita income, increase the exploitation and use of natural resources and create employment opportunities (Özturk & Suluk, 2020). Various studies have shown that investment has succeeded in improving the economies of several developed countries and in developing countries, especially in the early stages of economic development (Arsyad, 2004; Uwazie et al., 2015; Sothan, 2017; Matondang, 2020).

Maluku Province with its archipelagic characteristics is a challenge for the government in realizing the welfare of the Maluku people. There are still a number of areas that are remote, isolated, underdeveloped and underdeveloped. This condition makes it difficult for local governments to optimize the exploitation of available natural resources. On the other hand, the availability of development funds is still relatively limited. The opening of opportunities for the national and foreign private sector to participate in the development process continues to be encouraged by providing ease of investment. Awareness of the importance of investment in the economy is increasing so that local governments issue a series of investment policies to attract investors, including foreign investors.

Investment is an activity that can accelerate and stimulate production activities, because it increases production capacity, expands employment opportunities, which in turn occurs economic growth. Investment created in certain economic sectors can make these sectors develop faster. Through the linkage effect, other sectors can also develop. The sector can become a growth center for other economic sectors. Through the trickling down effect, the spread process creates simultaneous and sustainable economic growth.

One of the obstacles faced by Maluku Province is the high unemployment rate, which amounted to 7.57% in 2020. Although it is below 10%, this open unemployment rate is still high, because it is above the national open unemployment rate of 7.07% (Badan Pusat Statistik, 2020). This condition needs the attention of all parties, because unemployment can cause vulnerability problems such as crime, social and political turmoil, and poverty.

Unemployment in Maluku Province during 2020 was dominated by the male gender. This can be caused by the Covid-19 pandemic which has had an impact on the business world and the industrial world, so that many companies have to reduce their business activities or stop producing for a while. This has resulted in the termination of employment (PHK) of the workforce. Therefore, there was an increase in unemployment. Compared to 2019, the overall unemployment rate for 2020 increased by 16.33%. (Fahrudin Ramly and Amin Ramly, 2022) This happened in all regions. Many economic sectors are affected such as transportation, tourism, trade, health and other economic sectors (Susilawati et al., 2020).

Studies of the effect of investment on economic growth in several regions show a positive and significant effect (Purba, 2020; Amin 2013; Jamaliah 2018; Haq, Nasrul and Imamudin 2018), while in the case of Indonesia it was carried out by Batubara, (2018); Kambono & Marpaung (2020) and Matondang (2020). In India, it was conducted by Hamid & Jena (2020) and Nadar (2021).

The effect of investment on labor absorption in various regions shows a positive and significant effect (Kadir et al, 2016; Romdhoni 2017; Surani, 2021, Yesiana, et al, 2022). There are also findings that show the insignificant effect of investment on labor absorption (Lianna, 2020), while Purba (2020) actually shows a negative and significant effect. This shows that investment has a mixed

effect. This paper is expected to contribute to analyzing regions with archipelagic characteristics, including the poorest regions in Indonesia and have the potential for fisheries natural resources.

RESEARCH METHOD

The data used in this research is quantitative secondary data published by competent government institutions such as the Central Bureau of Statistics (BPS) and the Investment and PTSP Office of Maluku Province. The data collected is then analyzed both qualitatively and quantitatively. The analysis model used adopts the Cobb Douglas function, namely $Q = f(A K^\alpha L^\beta)$ with the assumption that Q is economic growth, K is capital and L is labor and A is technological progress. In the case of this study, it is assumed that economic growth is a function of capital, namely foreign investment (FDI) so that by modifying the Cobb-Douglas production function it can then be written:

$$Y = \alpha PMA^{\beta_1} \varepsilon$$

From the formula, it can be illustrated that gross regional domestic product is a function of the multiplication of foreign investment, elasticity and the amount of possible error. Where Y is gross regional domestic product (GRDP) and FDI is foreign investment. while β_1 , is the elasticity of foreign investment (FDI) to economic growth and ε is the error factor. There are two dependent variables in this study, namely economic growth and employment, so the same model is used for the employment variable, namely:

$$Y = \alpha PMA^{\beta_2} \varepsilon$$

From the formula, it can be seen that the level or rate of employment is the result of the multiplication of foreign investment, the elasticity of foreign investment and the amount of error that may occur.

Where Y is labor absorption (TK) and PMA is foreign investment. while β_2 , is the elasticity of foreign investment (PMA) to labor absorption and ε is the error factor. Formally, the form of the production function is non-linear, so to make the function linear, it is transformed into natural logarithm (ln) form, so that it becomes:

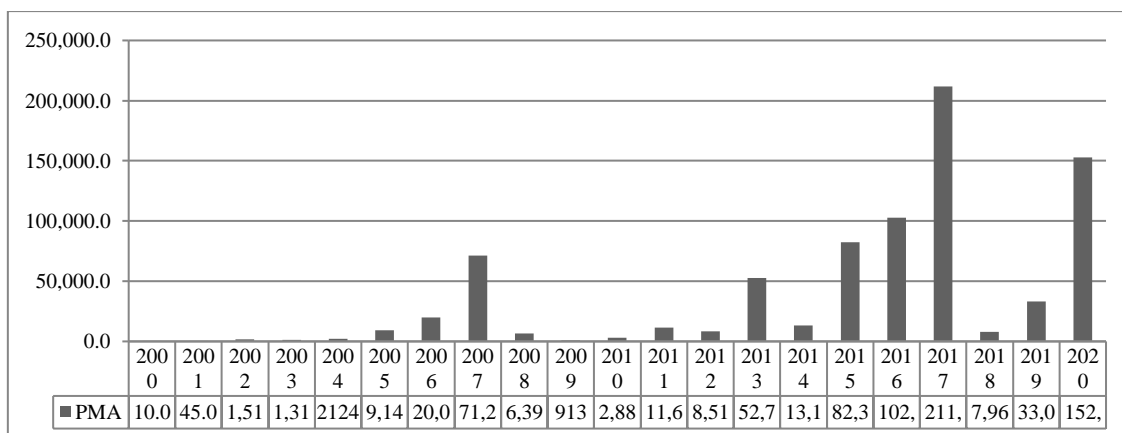
$$\ln Y = \alpha + \beta_1/2 \ln PMA + \varepsilon$$

From the formula, it is stated that \ln (natural logarithm / ln) is the sum of the regression coefficients plus \ln foreign investment and plus the amount of error set.

To find the value of regression coefficient (elasticity of labor growth/absorption), the OLS (Ordinary Least Squares) method is used. This solution method is intended to obtain the minimum number of square values of ε . (Usman and Nachrowi, 2006).

RESULTS AND DISCUSSIONS

Investment realization in Maluku province in 2020 amounted to Rp. 8.758 trillion. A total of Rp. 6.560 trillion was PMDN or 74.9% and the remaining Rp. 2.198 trillion or 25.1% was PMA. This investment was spread to various sectors and districts/cities. In general, FDI that occurs in Maluku Province is sourced from South Korea 77%, then China by 20% and other countries by 3% (Investment and PTSP Office, 2021). Overall, the development of Foreign Direct Investment (FDI) for several years in Maluku Province can be seen in Figure 1.



Source: (Investment and PTSP Office, 2021), various publications.

Figure 1. Development of Foreign Investment (FDI) in Maluku Province Year 2000 - 2020 (US\$).

Figure 1 shows that investment realization (FDI) fluctuates, but the presence of a number of investments (investors) in various economic sectors is expected to contribute to economic growth and employment. The decision to invest depends on several factors. Investment demand is often based on the concept of marginal efficiency of capital (MEC), which is the expected net rate of return due to additional capital expenditure. (Nanga, 2005).

In addition, accelerator theory assumes that the demand for capital goods is derived from the demand for final goods or products. A simple accelerator model says that the desired capital stock is proportional to a single level of output. Or in other words, the desired capital stock is determined by output. Meanwhile, the neoclassical investment theory is an optimal investment theory. This theory states that the investment made is determined by output and the ratio between the price of capital services and output. Meanwhile, the price of capital services is determined by the price of capital goods, interest rates and corporate income tax. Thus, investment is highly dependent on the ratio of the price of capital services and the price of output (Nanga, 2005).

The process of capital accumulation to create output growth is determined by two normative conditions, namely the increase in purchasing power of the community or in other words the availability of a market for the output produced and the existence of a profit rate above the normal profit rate. To achieve this, people must be given the freedom to carry out economic activities and market growth must be in line with capital growth so that the rate of profit does not decline (Nanga, 2005).

Based on districts/cities, Southwest Maluku Regency absorbed the largest FDI at around 77.05% and the smallest was Southeast Maluku Regency at less than 1% or only US\$300. This distribution is inseparable from the sectoral development objectives, economic conditions, natural resource potential and infrastructure availability of each region. Southwest Maluku Regency has mining potential that needs to be developed and exploration has begun, so FDI in this area is greater than in other regions. The distribution of FDI by district/city can be seen in Table 1.

Table 1. Distribution of FDI by Regency/City in Maluku Province

Regency	Total (US\$ kilo)
Southwest Maluku	117,615.70
Central Maluku	34,246.10
Buru	522.3
Ambon	152.4
Tanimbar Islands	86.4
West Seram	50.5
Aru	26
Southeast Maluku	0.3
Jumlah	152,699.80

Source: Maluku Province Investment and PTSP Office, 2021

In addition, the distribution of FDI is allocated to various economic sectors or business fields. The largest is the Basic Metal, Metal Goods and Non-Machinery Industry sector, which is around 76.29%. This sector is spread across various districts/cities. The smallest is the Hotel and Restaurant sector at 0.003%. Most FDI in this sector occurred in Ambon City and other large cities. This can be seen in Table 2.

The presence of FDI in Maluku Province is expected to contribute to economic growth and employment. The Province's economic growth has been considered quite high, even exceeding national economic growth in some years. Maluku's economic growth rate for the period 2000-2020 can be seen in Table 3.

Table 2. FDI Allocation by Economic Sector in Maluku Province

Sector	Total US\$ Kilo
Basic Metal, Metal Goods, Non-Machinery Industry	116,487.70
Fisheries	28,232.20
Electricity, Gas and Water	3,893.40
Food Industry	2,109.30
Mining	1,128.00
Food Crops, Plantations and Livestock	531.20
Rubber and Plastics Industry	165.30
Other Services	146.80
Hotel dan Restaurant	5.90
Total	152,699.80

Table 3. Economic Growth Rate of Maluku Province 2000 - 2020

No	Year	Growth (percent)
1	2000	-2,43
2	2001	-0,03
3	2002	2,87
4	2003	4,31
5	2004	4,43
6	2005	5,07
7	2006	5,55
8	2007	5,62
9	2008	4,23
10	2009	5,38
11	2010	5,76
12	2011	6,29
13	2012	7,77
14	2013	5,1
15	2014	6,64
16	2015	5,48
17	2016	5,73
18	2017	5,82
19	2018	5,94
20	2019	5,57
21	2020	-0,92

Source: Maluku in Figures, various publications.

Table 3 shows that since 2002 the economic growth of Maluku Province has reached a positive figure compared to the previous year, namely from 1999 to 2001 which had minus growth and showed an increasing trend from year to year. This can be an indication that the economy of Maluku Province has begun to normalize and stabilize again as before the economic crisis and social unrest. In 2020 Maluku's economic growth experienced a decline again due to the covid-19 pandemic which then contributed to a contraction in economic activity, especially during 2020.

The study of Sangadji, M. et al. (2021), shows that during the covid-19 pandemic the economy of Maluku Province contracted significantly, which can be seen in the negative growth of several economic sectors. In addition, the emergence of unemployment due to termination of employment (PHK) or temporarily not working. The Central Bureau of Statistics of Maluku Province (2021) reported a reduction in the number of operating companies and the number of working

people in 2020 compared to 2019. To see the effect of FDI on economic growth, see Table 4. The results show that foreign investment (FDI) has a positive and significant effect on economic growth.

Table 4. Linear Regression Model Calculation Results.

Variable	Coefisien	Std. Error	t-Statistik	Sig
C	13,666	0,672	20,351	0.000*
LnPMA	0,268	0.073	3,688	0.002*
R (Corelation)	0,645			
R ² (determination)	0,416			
F-statistic	13,532	Durbin-Watson		0,419
Prob (F-statistic)	0,002			

Source: (Investment and PTSP Office, 2021), data reprocessed

Description: * : Significant at $\alpha = 5$ percent

Can be rewritten: $Y = 13.666 + 0.268 PMA$

Se = 0.672 0.073

t = 20,351 3,688

Sig = 0.000 0.002

The model can be interpreted that foreign investment (FDI) has a positive and significant effect on economic growth in Maluku Province. Or in other words, if there is an increase in foreign investment (FDI) of 1%, it will increase economic growth by 0.267%. This means that foreign investment (FDI) plays a role and becomes a driving force for economic growth. The results of this study are in line with the theory of economic growth both developed by Classical, Neo-Classical or Post Keynesian Theory in this case Harrod-Domar. This implies for local governments that to increase or maintain stable economic growth, sustainable investment is needed. The theoretical role of investment is to increase production capacity and create employment opportunities. From these two things through the multiplier effect mechanism, economic growth will occur.

Several studies show that investment (especially foreign investment) plays a major role in economic growth, especially in developing countries such as in Asia and the Pacific region (Kuncoro, 2010). The assumption is that any Foreign Direct Investment (FDI) will result in an increase in imports and investment. With this assumption, the effect of Foreign Direct Investment (FDI) on a country's economic growth can be determined. Maluku Province, which is characterized as an archipelago, has a relatively large potential in the fisheries sector so that this sector has become a leading sector in addition to the agriculture, mining and tourism sectors in the Maluku Province economy. This is also the reason why the FDI allocation for this sector is 18.49% below the basic metal, metal goods and non-machinery industry sector (Investment and PTSP Office, 2021).

In general, fisheries sector commodities are export commodities and dominate the non-oil and gas export commodities of Maluku Province. In 2020, the contribution of fishery commodity exports amounted to 64.62% of total exports. (Central Bureau of Statistics, 2021). The export development of Maluku Province can be seen in Table 5.

Table 5. Export Development of Maluku Province

Tahun	Ekspor (US\$)
2010	168.533.499
2011	183.470.900
2012	229.415.500
2013	209.054.255
2014	173.571.736
2015	44.861.231
2016	49.083.492
2017	45.350.568
2018	51.456.972,11
2019	40.416.302,13
2020	70.366,31

Source: (Central Bureau of Statistics, 2021), various publications.

The export volume is dominated by fishery commodities consisting of fish and lobster-type shrimp as well as several other fishery product commodities. The allocation of foreign investment (FDI) in the fisheries sector is generally oriented towards foreign markets. Meanwhile, the effect of FDI on labor absorption shows the same thing. Investment has a positive and significant effect on labor absorption. This research is the same as Dewi and Sutrisna (2015). This shows that FDI in Maluku Province has a dual role, namely enlarging production capacity and creating employment opportunities. The expansion of employment opportunities can reduce the unemployment rate. The results of the regression calculation are shown in Table 6.

Table 6. Linear Regression Model Calculation Results

Variabel	Koefisien	Std. Error	t-Statistik	Sig
C	12,714	0,133	95,849	0.000*
LnPMA	0,056	0.014	3,918	0.001*
R (Corelation)	0,669			
R ² (determination)	0,447			
F-statistic	15,352		Durbin-Watson	0,419
Prob (F-statistic)	0,002			

Source: (Investment and PTSP Office, 2021), data reprocessed

Description: *: Significant at $\alpha = 5$ percent

Can be rewritten: $Y = 12.714 + 0.056 \text{ PMA}$

$Se = 0.133 \ 0.014$

$t = 95,849 \ 3,918$

$Sig = 0.000 \ 0.001$

From the table above, it can be said that foreign investment (FDI) has a very positive and significant effect on the level of employment (TK) in Maluku Province. Or in other words, it can be said that if there is an increase in foreign investment (FDI) by 1%, it will increase labor absorption by 0.056%. This also means how foreign investment (FDI) plays a role and becomes a buffer for the labor force. Moreover, population growth that will increase the number of working numbers will increase the unemployment rate if not thought ahead.

CONCLUSION

The effect of foreign investment (FDI) has a positive and significant effect on economic growth in Maluku Province. Therefore, policies are needed to maintain investment conditions that attract investors to come to Maluku Province. An intensive study is needed on the possibility of investment allocated to economic sectors that produce commodities with the aim of the domestic market, such as the small and medium industrial sector which is able to drive economic activity in the economic sector and the economy of Maluku Province as a whole. Policies that make it difficult for investors need to be reduced. Investment also has an influence on employment. Realized investment can expand production capacity and that will require additional labor.

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