

## THE INFLUENCE OF DOMESTIC INVESTMENT AND FOREIGN INVESTMENT ON ECONOMIC GROWTH IN NORTH SUMATRA PROVINCE IN 2001-2020

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1

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### Abstract

Domestic Investment (PMDN) and Foreign Investment (PMA) have an influence on economic growth, this study aims to analyze the extent of the influence between PMDN and PMA on economic growth in North Sumatra. The data in this study are secondary data from the Statistics Indonesia of North Sumatra Province with a period of 20 years (2001-2020). The approach used is quantitative, and multiple regression analysis to identify the relationship between PMDN, PMA, and GRDP variables. The results of the study indicate that both PMDN and PMA have a significant positive influence, both partially and simultaneously, on economic growth in North Sumatra. The results of the inferential analysis show that the PDMN variable has a calculated t value of  $3.964 > t \text{ table } 1.73961$ , with a significant level of t of  $(0.01 < 0.05)$  so there is a positive and significant influence of PDMN Use on Economic Growth. The PMA variable has a calculated t value of  $4.366 > t \text{ table of } 1.73961$  showing that it has a positive and significant influence between PMA on Economic Growth. There is a significant positive relationship between PMDN and PMA in producing synergy that is very important for economic growth. The calculated f test of  $39.118 > f \text{ table of } 3.59$  shows that the proposed hypothesis is proven true. The results show the importance of government efforts in creating a conducive investment climate through supportive policies, as well as relevant infrastructure improvements. Synergy between the government, investors, and local communities is very important to ensure that economic benefits can be felt evenly.

**Keywords:** Decent Work, Domestic Investment (PMDN), Economic Growth, Foreign Investment (PMA).

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## INTRODUCTION

Economic growth is a process that describes a country's economic progress over a specific period, reflected in increases in per capita output and production capacity. This increase plays a crucial role in economic development and serves as a benchmark for future development policies. In Indonesia, this can be seen through the contributions of Domestic Direct Investment (PMDN) and Foreign Direct Investment (PMA), which directly support the national economic growth rate. As stated by Muryanto et al. (2022), economic growth not only reflects an increase in national income but also reflects a country's ability to increase the availability of goods and services.

Based on data obtained by researchers, domestic investment (PMDN) and foreign direct investment (FDI) in Indonesia play a significant role in driving economic growth. In 2001, the contribution of PMDN and FDI to the Indonesian economy was quite low, reaching IDR 528.64 billion and IDR 422.2 billion, respectively. However, over time, PMDN has shown a tendency to continue increasing, as recorded in 2007, reaching IDR 1,672.46 billion. This increase in PMDN is in line with the theory that domestic investment can increase national production capacity, which ultimately contributes to sustainable economic growth (Febdianti, 2017).

Meanwhile, foreign direct investment (PMA) also plays a significant role. For example, in 2007, FDI surged to IDR 3,110.6 billion, contributing to the provision of more efficient technology and management, as well as opening up access to global markets. According to Istikomah & Kustituantio (2017), FDI in Indonesia has had a positive impact on the sectors strategic sectors, by providing additional capital and knowledge not readily available domestically. This is evident in Indonesia's economic growth figures, which reached IDR 99,792 billion in the same year. Therefore, FDI is crucial for introducing innovation and increasing national productivity.

Although FDI offers numerous benefits, as explained by Todaro (2006), its impact can be limited, particularly in developing countries like Indonesia, due to limited trained human resources. Furthermore, a "crowding-out" effect can occur, where more attractive foreign investment can crowd out local savings and investment (Purwanto & Mangeswuri, 2016). Therefore, the rapid growth of domestic investment since 2011 can reduce dependence on foreign investment and support more sustainable economic growth (Aji et al., 2023).

Indonesia's economic growth, reflected in increasing GDP, demonstrates its success in creating jobs and increasing national productivity. This aligns with the Harrod-Domar theory, which emphasizes the importance of investment in increasing long-term production capacity (Perawati & Ermawati, 2023). This success is also supported by policies that support both domestic and international investment, as well as efforts to improve the quality of human resources, a crucial factor in maximizing investment returns.

It is clear that domestic and foreign direct investment (PMDN) have contributed significantly to driving Indonesia's economic growth, particularly in accelerating industrial development and increasing competitiveness in the global market. The combination of these two types of investment, according to existing economic theory, will have a sustainable positive impact on the Indonesian economy.

**Table 1. PMDN (Domestic Investment) and PMA (Foreign Investment) on Economic Growth**

Year	Domestic Investment	PMA	Economic Growth
2001	528.64	422.2	71908.0
2002	653.03	186.2	75189.0
2003	413.69	693.1	78805.0
2004	1046.03	935.4	83328.0
2005	621.64	517.7	87897.0
2006	594.25	488.5	93347.0
2007	1672.46	3110.6	99792.0
2008	391.33	2794.2	106172.0
2009	2644.97	8838.8	111559.0
2010	1703.06	2893.6	118718.0
2011	2004.06	5971.0	353150.0
2012	2970.19	6240.1	375920.0
2013	5068.88	10817.2	398720.0
2014	5231.91	6852.4	419570.0
2015	4287.42	17189.9	440960.0
2016	4954.83	14215.1	463770.0
2017	11683.64	20524.4	487530.0
2018	8371.80	17776.9	512770.0
2019	19749.00	5276.1	539510.0
2020	18189.50	13749.0	533750.0

**Source: Central Statistics Agency, 2022**

In 2001, Domestic Investment (PMDN) and Foreign Investment (PMA) contributed IDR 528.64 billion and IDR 422.2 billion to Indonesia's economic growth, which was recorded at IDR 71,908 billion. Furthermore, in 2002, although PMDN increased to IDR 653.03 billion, PMA actually decreased drastically to only IDR 186.2 billion, thus affecting a slight increase in economic growth which reached IDR 75,189 billion. In 2003, PMDN fell again to IDR 413.69 billion, while PMA increased significantly to IDR 693.1 billion, and this contributed to an increase in economic growth recorded at IDR 78,805 billion.

In 2004, domestic investment (PMDN) and foreign investment (PMA) experienced a significant surge, reaching IDR 1,046.03 billion and IDR 935.4 billion, respectively, supporting Indonesia's economic growth to IDR 83,328 billion. Over time, the contribution of PMDN and PMA to the Indonesian economy has shown various fluctuations, with consistent growth but influenced by various external factors.

In 2007, domestic investment (PMDN) surged to IDR 1,672.46 billion, while foreign direct investment (FDI) experienced a significant surge to IDR 3,110.6 billion, boosting Indonesia's economic growth to IDR 99,792 billion. However, in 2008, although FDI remained high at IDR 2,794.2 billion, domestic direct investment (PMDN) declined to IDR 391.33 billion, and economic growth was only recorded at IDR 106,172 billion.

In recent decades, Domestic Direct Investment (PMDN) and Foreign Direct Investment (PMA) have continued to make significant contributions to economic growth, despite fluctuating dynamics influenced by both internal and external factors. Previous studies (Alfaro et al., 2004; Borensztein et al., 1998) emphasized that FDI plays a significant role in driving economic growth in developing countries, particularly when supported by quality institutions, infrastructure, and domestic absorptive capacity.

Nguyen et al. (2021) added that the synergy between PMDN and FDI creates a multiplicative effect that strengthens economic growth in Southeast Asia, including Indonesia. However, most of these studies focus on the national macro level, with few studies analyzing the simultaneous impact of PMDN and FDI at the provincial level longitudinally.

A research gap that has not been widely addressed in the literature concerns the dynamics of the simultaneous relationship between domestic and foreign direct investment (PMDN) and economic growth in a region with diverse economic characteristics such as North Sumatra Province, particularly with long-term data coverage (2001–2020) that includes periods of global crises such as the COVID-19 pandemic. Most previous studies have only partially addressed the contribution of investment, without considering the synergistic interactions between investment types within the context of the regional economy.

This research offers novelty by integrating a two-decade longitudinal analysis of the simultaneous influence of domestic and foreign direct investment (PMDN) on economic growth in North Sumatra Province, while also considering global dynamics affecting investment stability, a topic not widely addressed by previous research. This approach is expected to provide a new perspective in formulating investment policies that are more adaptive and relevant to regional conditions.

Based on the background and identified research gaps, the objective of this study is to empirically analyze the influence of domestic and foreign direct investment (PMDN) on economic growth in North Sumatra Province, both partially and simultaneously, during the period 2001–2020. The results are expected to contribute to policymakers in creating a conducive investment climate and serve as a reference for inclusive and sustainable regional economic development planning.

The results of this study are expected to provide important implications, both theoretically and practically. Theoretically, this research enriches the literature on the dynamics of the relationship between domestic direct investment (PMDN) and foreign direct investment (PMA) on economic growth at the regional level, particularly in the context of an economy vulnerable to global and domestic fluctuations. The approach, which combines two decades of longitudinal data, is expected to serve as a reference for further studies exploring the role of investment as a primary instrument in long-term, data-driven regional economic development. Practically, the results of this study can serve as a foundation for local governments and policymakers in formulating more targeted strategies to create a conducive investment climate, improve bureaucratic efficiency, and strengthen synergies between domestic and foreign business actors. Thus, the economic benefits generated from investment activities can be felt evenly by all levels of society, supporting the achievement of inclusive and sustainable economic growth in North Sumatra Province.

## METHODS

The researchers applied quantitative methods in this analysis, examining the issues of economic growth in North Sumatra. The main focus of the discussion covers several key variables, such as economic growth, Domestic Investment (PMDN), and Foreign Investment (PMA) in the region. The data used in this study was taken from the Central Statistics Agency (BPS) of North Sumatra Province, in the form of secondary time series data covering a 20-year period, from 2001 to 2020.

The author applies a multiple regression analysis method to conduct a multiple regression test between PMDN and PMA variables on economic growth. The research

results will include testing the partial and simultaneous effects between variables using the following regression equation:

$$Y = B_0 + B_1X_1 + B_2X_2$$

Where :

- Y = Economic Growth (GRDP), (Billion Rupiah)  
 X1 = Domestic Investment (PMDN), (Billion Rupiah/year)  
 X2 = Foreign Direct Investment (PMA), (Billion Rupiah/year)  
 B0 = Constant.

B1, B2 = Regression coefficient of each independent variable.

With the decision-making criteria, namely the Partial Test (T Test) =  
 Accept Ho or Reject H1, if the calculated t value < t table or if Sig > 0.05.  
 Reject Ho or Accept H1, if t count > t table or if Sig < 0.05  
 Simultaneous Test (F Test) =  
 Accept Ho or Reject H1, if the calculated F value < F table or if Sig > 0.05  
 Reject Ho or Accept H1, if F count > F table or if Sig < 0.05.

All data processing in this study was performed using SPSS version 25 to ensure the accuracy and validity of the research results. This software allows for more precise and efficient statistical analysis, supporting a better understanding of the relationships between the analyzed variables.

## RESULTS AND DISCUSSION

### Data Analysis Results

The results of the summary model analysis is:

**Table 2. Coefficient of Determination**

Model	R	R Square	Adjusted R Square
1	.906a	.821	.800

Source: Data processed with SPSS 25

Table 2 show a correlation coefficient (R) of 0.906, indicating a very strong relationship between the independent variables, namely Domestic Direct Investment (PMDN) and Foreign Direct Investment (PMA), to the dependent variable of economic growth. Furthermore, the R Square value of 0.821 interprets that 82.1% of the variation in economic growth in Indonesia can be explained by fluctuations in PMDN and PMA during the study period, while the remaining 17.9% is influenced by other external factors not included in this model, such as domestic consumption, exports-imports, monetary policy, and global factors (Gujarati & Porter, 2010). According to Kuncoro (2013), the contribution of investment to economic growth is not only direct, but also strengthens structural competitiveness through job creation, technological improvements, and increased national productivity. In the Indonesian context, PMA is often a catalyst for the modernization of the industrial sector, while PMDN is the main supporter of domestic economic stability (Tambunan, 2011). However, as explained by Mankiw (2018), other macroeconomic variables such as government spending and

national savings also play a significant role in influencing economic growth rates, not captured in this model. Therefore, although the regression model demonstrates a very high determination value, interpretation of the results requires consideration of the possibility of omitted variable bias and external dynamics that comprehensively influence national economic performance. To see the magnitude of the partial influence of each independent variable on economic growth, the results of the multiple linear regression analysis are presented in Table 3.

**Table 3. Multiple Linear Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	88513.366	28568.701		3,098	.007
	Domestic Investment	16,274	4.106	.489	3,964	.001
	PMA	15,572	3,567	.538	4,366	.000

Source: Data processed with SPSS 25

Based on the results of the multiple linear regression analysis shown in Table 3, the following regression equation is obtained:  $Y = 88,513.366 + 16.274X_1 + 15.572X_2$ , where Y is the economic growth variable,  $X_1$  is Domestic Investment (PMDN), and  $X_2$  is Foreign Investment (PMA). The constant value of 88,513.366 indicates that if PMDN and PMA are assumed to be zero, then economic growth remains at 88,513.366, which reflects the influence of other factors outside this research variable on the economy. The PMDN regression coefficient of 16.274 indicates that every one billion rupiah increase in PMDN will contribute to an increase in economic growth of 16.274 billion rupiah, assuming other variables are constant. Meanwhile, the PMA regression coefficient of 15.572 indicates that an additional one billion rupiah of foreign investment will boost economic growth by 15.572 billion rupiah.

This finding aligns with research by Alfaro et al. (2004) which states that FDI plays a crucial role in strengthening a country's productive base, particularly when supported by an efficient domestic financial sector. Furthermore, Borensztein et al. (1998) also assert that FDI has a positive impact on economic growth through technology transfer, provided the recipient country has adequate human resource capacity. In the context of domestic investment, research by Adhikary (2011) shows that domestic investment is a key factor in maintaining long-term economic growth stability, particularly in developing countries. Furthermore, Sahoo et al. (2010) emphasize that the synergy between domestic investment and FDI can create a significant multiplier effect on national output, particularly when supported by a conducive business climate and pro-investment government policies. Therefore, these regression results indicate that both domestic investment and FDI have significant and positive contributions in driving Indonesia's economic growth rate, with relatively balanced influence. To determine the significant influence of each variable partially on economic growth, this can be seen through the results of the t-test presented in Table 4.

**Table 4. T-Test Results**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	88513.366	28568.701		3,098	.007
	Domestic	16,274	4.106	.489	3,964	.001

	Investment					
	PMA	15,572	3,567	.538	4,366	.000

Source: Data processed with SPSS 25

Based on the t-test results shown in Table 4, it is known that the PMDN variable has a t-value of 3.964 which is greater than the t-table value of 1.73961, so H<sub>0</sub> is rejected and H<sub>1</sub> is accepted. This shows that PMDN partially has a positive and significant influence on Indonesia's economic growth at a significance level of 5% ( $\alpha = 0.05$ ). This strengthens the argument that domestic investment is an important foundation in maintaining economic stability and encouraging growth in productive sectors based on local potential, as expressed by Rizki et al. (2023) in their study on green marketing strategies in the agro-industrial sector. Meanwhile, the PMA variable shows a t-value of 4.366 which is also greater than the t-table, so H<sub>0</sub> is rejected and H<sub>1</sub> is accepted, which means that PMA partially has a positive and significant influence on economic growth. This shows that the role of foreign investment in driving economic growth is not only limited to capital additions, but also through increasing production efficiency, strengthening market access, and transferring more advanced technology (Khasanah et al., 2023).

Research by Rizki et al. (2023) in the agro-industrial sector shows that synergy between local capital and market access supported by foreign investment can increase product competitiveness and open up broader business innovation opportunities. This is in line with the findings of Khasanah et al. (2023), who stated that investment factors and integrated marketing strategies are key factors in shaping consumer behavior and increasing demand for agribusiness products in the domestic market. Therefore, the results of this t-test indicate that both domestic and foreign direct investment (PMDN) play a significant role in driving Indonesia's economic growth, which in the context of development policies must be continuously optimized simultaneously and in an integrated manner.

Table 5. F Test Results

	Model	Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	565951992297. 421	2	282975996148. 711	39,118	.000b
	Residual	122975991806. 329	17	7233881870.96 1		
	Total	688927984103. 750	19			

Source: Data processed with SPSS 25

The calculated F value is 39.118 > F<sub>table</sub> 3.59, so H<sub>0</sub> is rejected and H<sub>1</sub> is accepted. Showing that simultaneously between PMDN and PMA have a significant effect on economic growth at a = 5%, indicating that the hypothesis can be accepted.

### PMDN Variables on Economic Growth in North Sumatra

T value<sub>count</sub> 3.964 > T<sub>table</sub> 1.73961, shows that H<sub>0</sub> is rejected so H<sub>1</sub> is accepted. shows that partially there is a positive and significant influence between the PMDN variable on economic growth with a real rate ( $\alpha$ ) = 5% ( $\alpha = 0.05$ ) with N = 20 and independent variables (k) = 2 (db) = nk-1 = 20-1-2 = 17. Explains that the greater the PMDN, the economic growth will continue to increase.

Based on the results of the partial hypothesis test, increased domestic investment has direct impact on economic growth. These results support the hypothesis that domestic investment (PMDN) contributes positively to economic growth in North Sumatra Province. Based on the data used, PMDN in North Sumatra shows a significant

upward trend in recent years. In 2015, the value of PMDN was recorded at 4,287.42 billion, then increased to 11,683.64 billion in 2017, and reached 19,749.00 billion in 2019. Despite a decline in 2020 to 18,189.50 billion, the value of domestic investment has continued to show a positive average increase over the past decade. This increase contributes to continued improving economic growth, as seen in the increase in GRDP from 440,960 billion in 2015 to 533,750 billion in 2020.

This growth shows a consistent positive trend, driven by leading sectors such as agriculture, plantations, manufacturing, and tourism. These sectors are further strengthened by the development of Strategic infrastructure, such as the Medan-Binjai toll road and Kuala Tanjung Port, supports the distribution of goods and services and encourages further investment. However, North Sumatra still faces challenges, including dependence on primary commodities, global price volatility, and growth disparities between regions. To ensure sustainable and equitable growth, a focus on economic diversification, downstream industry development, tourism enhancement, and sustainable environmental policies is essential. Furthermore, strengthening the role of local actors in the marketing chain, as reflected in the importance of farmer satisfaction and expectations regarding market access, is a key factor in maintaining sustainable economic growth based on regional potential (Utari, Eliza, & Yulida, 2023).

This finding is in line with research conducted by (Arta, 2019) which also shows that PMDN has a significant positive influence on economic growth in Central Java. The results of this study are also in line with previous research, namely by (Suprianto et al., 2018), which explains that domestic direct investment (PMDN) has a significant positive influence on economic growth in Indonesia. Furthermore, Yuliani's research also explains that PMDN has a significant positive effect on GRDP in all provinces in Indonesia.

### **The Impact of Foreign Direct Investment (PMA) on Economic Growth in North Sumatra**

$T_{value_{count}} 4.366 > T_{table} 1.73961$ , then  $H_0$  is rejected and  $H_1$  is accepted. shows that partially there is a positive and significant influence of the PMA variable on economic growth with a real rate ( $\alpha$ ) = 5% ( $\alpha = 0.05$ ) with  $N = 20$  and independent variables ( $k$ ) = 2 ( $db$ ) =  $nk-1 = 20-1-2 = 17$ . Then the hypothesis is accepted. Furthermore, this also explains that the increasing PMA makes economic growth continue to increase. Based on the data used in this study, the flow of PMA in North Sumatra shows fluctuations with a significant increasing trend. In 2001, the value of FDI was recorded at Rp 422.21 billion, then increased drastically to Rp 17,189.90 billion in 2015, and reached its peak at Rp 20,524.45 billion in 2017. During the same period, the Gross Regional Domestic Product (GRDP) of North Sumatra also increased, from Rp 71,908 billion in 2001 to Rp 539,510 billion in 2019. This increase in FDI not only strengthens capital flows to the region, but also brings technology, new managerial skills, and strengthens local productivity that can increase employment. As a result, FDI has become one of the main drivers in improving the global competitiveness and economic performance of North Sumatra.

These results are also in line with previous research, namely that researched by (Ugar et al., 2019) There is a significant relationship between the PMA variable and GRDP, which shows that foreign investment plays an important role in driving economic growth in the region. In addition, the second previous study by (Beno et al., 2022) found that foreign direct investment (FDI) has a positive impact on Gross Regional Domestic Product (GDP) in the Yogyakarta region. This is logically explained by the fact that FDI often brings new technology and higher skills into the local economy.

### **The Effect of Domestic Direct Investment (PMDN) and Foreign Direct Investment (PMA) on Economic Growth in North Sumatra**

F value<sub>count</sub> of 39.118 > F<sub>table</sub> 3.59, indicating that Ho is rejected, thus H1 is accepted. The results of the simultaneous test show that PMDN and PMA together have a significant influence on economic growth in North Sumatra. This indicates that both domestic and foreign investment play an important role in increasing economic growth, through complementary contributions. In North Sumatra, PMDN's contribution is seen in the development of local infrastructure and industry, while PMA encourages technology adoption and market expansion. The collaboration of these two types of investment is the main driving force for stronger, more equitable, and sustainable economic growth in the region. Based on the analysis, North Sumatra's economic growth is increasing along with the influx of domestic and foreign investment, which plays a significant role in driving leading sectors such as plantations, manufacturing, and tourism. This increase in investment not only strengthens the regional economy but also has a positive impact on improving the quality of human resources, productivity, and global competitiveness of North Sumatra. With the synergy between PMDN and PMA, the North Sumatra economy is expected to continue to grow inclusively, bringing benefits to the community and improving welfare throughout the region.

In line with (Yuliani et al., 2023), The results of their research show that PMA and PMDN have a positive and significant impact on GRDP in 34 Indonesian provinces in 2019. In addition, research by (Nehemiah & Prasetyia, 2023) Foreign investment as well as domestic investment have a significant positive impact on inclusive economic growth in Indonesia, indicating that both of these investments play an important role in encouraging fairer and more equitable economic development.

## **CONCLUSION**

Based on the research conducted, it can be concluded that PMDN and PMA have a significant influence on the economic growth of North Sumatra. 82.1% of economic growth can be explained by PMDN and PMA variables. This means that between 2001 and 2020, the increase in North Sumatra's PMDN level in infrastructure development and local industry can increase the economic growth of North Sumatra province, and the increase in PMA in the technology and market expansion sectors also has an impact on increasing economic growth in North Sumatra. North Sumatra's economic growth continues to increase along with the influx of domestic and foreign investment, which plays a significant role in driving leading sectors such as plantations, manufacturing, and tourism.

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