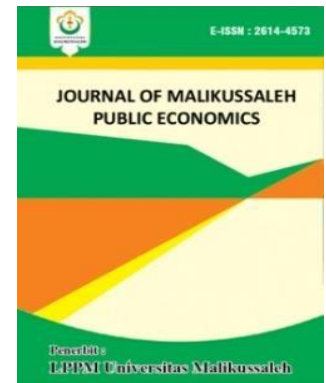# THE EFFECT OF DOMESTIC INVESTMENT, FOREIGN INVESTMENT AND FOREIGN DEBT ON POVERTY IN INDONESIA

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A R T I C L E I N F O R M A T I O N | **A B S T R A C T**

This study aims to analyze the effect of domestic investment, foreign investment and foreign debt on poverty in Indonesia in the short term and long term. The data used in this study is a time series obtained from the Indonesian Central Statistics Agency and the World Bank for the period 1990-2022. The data analysis method uses the Vector Error Correction Model. The study results show that domestic investment has a negative and significant effect on poverty in Indonesia in the short term and long term. Foreign investment has a negative and significant effect on poverty in Indonesia in the short term, but in the long term foreign investment has a negative and insignificant effect on poverty in Indonesia. Foreign debt has a positive and significant effect on poverty in Indonesia in the short term and long term.

1. INTRODUCTION

Poverty has hindered people's abilities to exercise their human rights and acquire access to basic requirements of life. Poverty may be described as someone who struggles to fulfill their own basic needs. This difficulty and incapacity is defined by a lack of revenue to cover basic requirements such as clothes, food, and shelter. Poverty is a complex issue caused by numerous human needs, which may be viewed from a variety of perspectives, including fundamental factors such as a lack of capital, skills, and knowledge, as well as secondary aspects such as social ties (Safitri and Saleh, 2020).

Poverty is one of the issues that any government faces, especially in developing nations like Indonesia, therefore it has become a key priority for the Indonesian government. Poverty is a severe issue in Indonesia, a developing country, because it has an impact on societal well-being. The Indonesian government continues to attempt to eradicate poverty in Indonesia through a number of ways and efforts, however these tactics and measures have proven ineffective. A lot of data on poverty can be used to look at how the government deals with poverty, compare poverty over time and between places, and figure out where the poorest people are looking for work. Between 2017 and 2022, the number of poor people in Indonesia will rise.

Source: Indonesian Central Statistics Agency, 2024
Figure 1. Poverty In Indonesia 2017-2022

According to Figure 1, Indonesia's disadvantaged population is predicted to decrease between 2017 and 2022. The highest poverty rate in 2020 was 27.55 million people. In 2017, the number of people who are disadvantaged fell to 24.79 million by 2019. The Indonesian government's efforts to eradicate poverty led to this decline. However, in 2020, Indonesia's homeless population reached 27.55 million as a result of the Covid-19 outbreak.

The number of disadvantaged individuals in Indonesia is predicted to decrease between 2017 and 2022, however there are considerable discrepancies between locations, both in villages and towns, as well as between islands in Indonesia. Poverty is more frequent in Indonesia's east than in its west and center. The majority of development in Indonesia occurs in western Indonesia, primarily on the island of Java. This uneven growth has created a division in Indonesia, with the eastern part being the poorest.

Aside from the 2020 Covid pandemic, income levels, economic growth rates, and unemployment rates in a nation can all contribute to poverty (Wahyudi and Yuliarmi, 2018). The Indonesian government may adopt equal monetary increases throughout all areas of Indonesia in order to increase individual wages and allow individuals to continue living respectable lifestyles. Aside from promoting quick economic growth, financial progress operations must strive to eliminate or reduce poverty, wage inequities, and unemployment (Yanti & Sari, 2023). The impact of progress may be seen not only in economic growth, development, and income levels, but poverty levels can also be used to assess a country's or region's development and financial advancement (Ichsan & Kurniawan, 2023).

Efforts to enhance economic growth and eliminate poverty in developing countries like Indonesia require large resources. One strategy to accelerate development is to encourage investment. Speculation might be depicted as the use or expenses made by financial backers or firms in the obtaining of capital merchandise and assembling gear to build the capacity to make labor and products for the economy. Better infrastructure will open doors to commercial opportunities, lowering poverty rates, and investment will have an impact on the development process. (Noor, 2015; Safitri and Saleh, 2020).

Investment activities may enable the community to continue to increase financial operations and commercial opportunities within the local community, as well as create community money, so raising the degree of prosperity in the region.
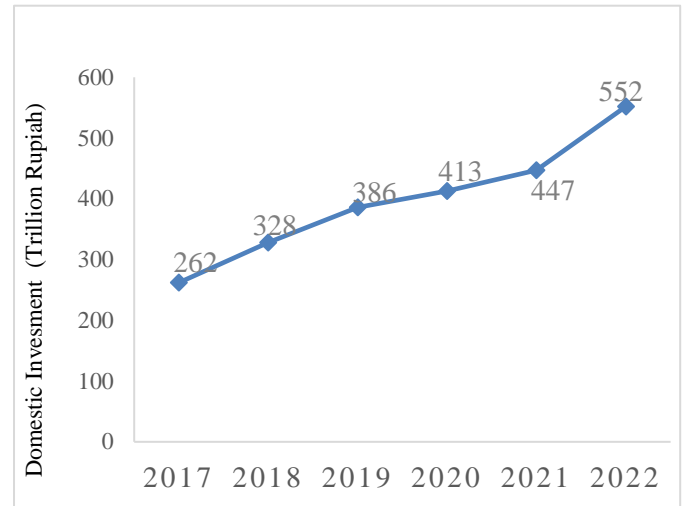
Source: Indonesian Central Statistics Agency, 2024
Figure 2. Domestic Investment Indonesia 2017-2022

Figure 2 depicts Indonesia's domestic investment growth from 2017 to 2022. Indonesia's domestic investment development was driven by a rise in indigenous investors pouring their money into the country. Domestic investment in Indonesia reached 262 trillion rupiah in 2017 and is predicted to expand further, reaching 552 trillion rupiah by 2022.

Capital for investment might come from outside the country, which is known as foreign investment. Foreign investment is a viable option for addressing development capital demands, and foreign firms may assist the government in achieving national objectives.
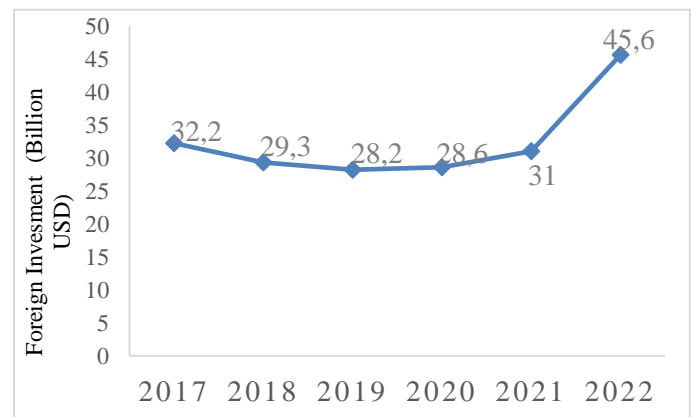
Source: Indonesian Central Statistics Agency, 2024
Figure 3. Foreign Invesment Indonesia 2017-2022

Figure 3 illustrates that foreign investment in Indonesia will increase from 2017 to 2022, but dip in 2018 and 2019. Foreign investment in Indonesia was 32.2 billion USD in 2017, but declined to 28.2 billion USD in 2018-2019. However, it climbed again in 2020, with foreign investment in Indonesia projected to reach $45.6 billion USD by 2022.

According to Tambunan (2018) in (Rahayuningsih et al., 2023), a lack of domestic

financial aid money has hindered government officials from getting international debt to support the present budget deficit. Foreign debt may be considered as a receipt or gift that may be utilized to help a corporation grow and succeed financially. The economy continues to grow, automatically increasing the workforce and decreasing unemployment, hence enhancing people's incomes. Given the advantages, foreign loans are an important source of assistance for Indonesian growth and development (Fadhillah et al., 2021).
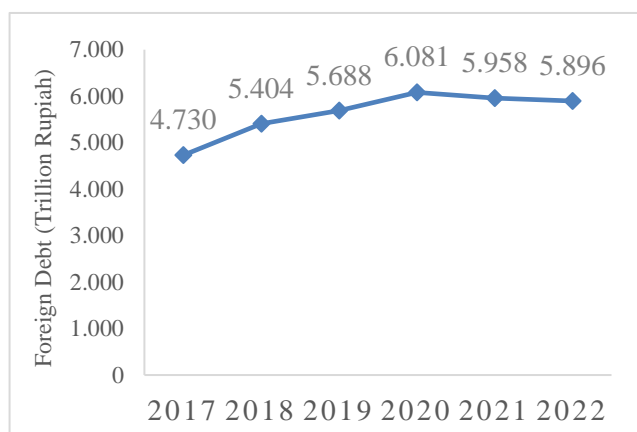
Source: World Bank, 2024
Figure 4. Foreign Debt Indonesia 2017-2022

Figure 1.4 illustrates that Indonesia's foreign debt would increase from 4,730 trillion rupiah in 2017 to 6,081 trillion rupiah in 2020. Indonesia's foreign debt will decrease between 2021 and 2022, totaling 5.896 trillion rupiah in 2022. Foreign debt is incurred not just by the government, but also by the commercial sector, which requires additional funding from outside.

The goal of the study is to find out how local investment, foreign investment, and foreign debt affect Indonesian poverty. In addition, the second section of this study discusses theoretical studies on related variables, the limitations of the study, and the analysis methods described in sections three and four to examine the results and analysis in terms of influences and relationships. The fifth section includes the findings and recommendations for policy.

2. THEORETICAL REVIEW

Poverty

According to Subandi (2016) in his book Development Economics, poverty is the state of persons who do not engage in the framework of thought to consider development because they lack the ability to request components of production. and include. The Indonesian Central Bureau of Statistics defines poverty as a society in which the average monthly per capita consumption is less than the poverty line. Financial poverty is described as a lack of resources that can be utilized to solve life and work challenges, requiring government intervention to alleviate them. Neediness can be portrayed as an absence of fundamental things like food, clothing, safe sanctuary, and drinking water, as well as different wares expected to address individual issues.

Domestic Investment

Domestic Investment is a business movement completed by homegrown monetary entertainers involving homegrown cash an in the area of the Unitary Condition of the Republic of Indonesia, and it tends to be done by the two people and endeavors. Domestic investment is a type of business that includes building, acquiring, or making connections. Investment is defined as the use of capital goods and manufacturing equipment by individuals or organizations to increase the economy's ability to provide jobs and goods (Sukirno, 2015).
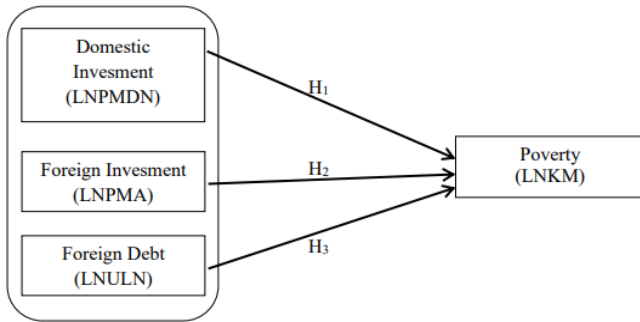
Foreign Investment

The practice of investing capital to conduct business in the Unitary State of the Republic of Indonesia by foreign funds or non-Indonesian individuals using foreign funds is known as foreign investment. In general, foreign investment is an exchange of resources or money that begins with a national organization establishing or building an association in another country to trade financial or capital sources.

Foreign Debt

Bank Indonesia defines foreign debt as the liability of residents domiciled in a monetary region to non-residents. Foreign debt is capital provided by another country (foreign country) that is used to expand capital for domestic purposes in a material sense, even if foreign debt is formally defined as fostering economic growth. Financial progress may be viewed as foreign assistance to the country's economy. Foreign debt is a major source of development funding.

Conceptual Framework

The conceptual framework of this study, which is based on the ideas and investigations discussed earlier, is shown in Figure 5.

Figure 5. Conceptual Framework

This study's conceptual framework discusses the impact of the independent and dependent variables, specifically the impact of domestic investment (LNPMDN), foreign investment (LNPMA), and foreign debt (LNULN) on poverty (LNKM). Based on the conceptual framework above, the variables LNPMDN and LNPMA can be explained, and LNULN will have a negative and substantial influence on LNKM, implying that each of these factors will have a direct impact on the number of impoverished people in Indonesia.

3. RESEARCH METHOD

Poverty, domestic investment, international investment, and foreign debt are the focus of the research. Indonesia is the location of the research. A 33-year time series of secondary data from 1990 to 2022 is used in this investigation. The World Bank 2024 and the Indonesian Central Statistics Agency 2024 provided secondary data.

Operational Definition

The operational definitions of each variable in this study are as follows:

1. Poverty (LNKM)

Poverty is a state in which a person is unable to meet his basic daily necessities and costs below the poverty line. The data used in this study is the number of impoverished individuals of Indonesia's total population in 2024, as reported by the Indonesian Central Statistics Agency.

2. Domestic Investment (LNPMDN)

Domestic investment is undertaken by Indonesians who wish to conduct business on the territory of the Unitary State of the Republic of Indonesia. The data utilized in this study is the realization of domestic investment in billions of rupiah acquired from the Indonesian Central Statistics Agency in 2024.

3. Foreign Investment (LNPMA)

Foreign investment, particularly that made by foreigners who wish to conduct business in the Unitary State of the Republic of Indonesia. The data utilized in this study is the realization of foreign investment in millions of USD obtained from the Indonesian Central Statistics Agency in 2024.

4. Foreign Debt (LNULN)

Foreign debt is defined as debt owed to non-residents and paid in foreign money, products, or services. The statistics utilized include the total amount of publicly guaranteed public sector debt, long-term unsecured private debt, IMF credit utilization, and short-term debt. Data in millions of dollars taken from the World Bank 2024.

Data Analysis Methods

Engle and Granger introduced the Vector Error Correction Model to address the transitory unevenness of large distances. VECM is a Vector Autoregressive (VAR) model designed for use with non-stationary data that has a cointegration bond. Although the VAR model needs all variables to be set at one level, the VECM model does not, require variables to be set at several levels but with cointegration (Ekananda, 2018).

$$\Delta y_t = \alpha e_{t-1} + \beta_1 \Delta y_{t-1} + \beta_2 \Delta y_{t-2} + \ldots + \beta_p \Delta y_{t-p+1} + \varepsilon_t$$

Information

Δy_t : vector of first derivatives of the dependent variable

Δy_{t-1} : dependent first derivative vector with 1st lag

e_{t-1} : error correction term

ε_t : residual vector

α : cointegration coefficient matrix

β_i : coefficient matrix of the dependent variable to -i

Stationarity Test

The purpose of the stationary test is to ascertain and guarantee that the data fluctuate within a normal and stable range. The results of the unit root test are considered to be stagnant if their probability value is less than 0.05. If level testing does not reveal stagnant findings, additional testing will be performed on the first distinct data conditions.

Optimal Lag

Determining the lag time is anticipated to guarantee that the model can be seen dynamically, immersively, and effectively. The lag length is determined by the smallest value of the five criteria, which are sequential modified LR test statistics (each test at 5% level), Final Prediction Error (FPE), Akaike Information Criterion (AIC), Schwarz Information Criterion (SC) , and Hannan-Quinn

Information Criterion (HQ). The asterisk (*) represents the lag with the least value for each criterion.

VAR Stability Test

The drive response capability (IRF) assessment and error difference decay (FEVD) estimates would be invalid if the VAR stability testing results were combined with an unusual error adjustment model prior to further investigation. The VAR model meets the stability requirements if both the root stability test result and the stability test result are less than one. (Ekananda, 2018).

Cointegration Test

Cointegration is based on the idea that combining non-stationary variables reduces the reasons for each study variable's non-stationarity. The presence of cointegration proposes that these factors have a drawn out connection or equilibrium. The observed variables are cointegrated or have a long-term association if the statistical value is greater than the critical value (0.05), and vice versa (Ekananda, 2018)

Causality Test

The causality test is based on the assumption that the possibility of predicting is consistent with causality and that the link between cause and effect is such that an effect cannot arise before a cause (Ekananda, 2018). If both probability values between variables are significant at 5%, the causality test findings indicate a causal or two-way link; otherwise, it indicates a one-way relationship.

4. RESEARCH RESULTS AND DISCUSSION

This analysis draws on secondary data from the Republic of Indonesia's Central Statistics Agency (BPS) and the World Bank. The Vector Error Correction Model was utilized for analysis in Eviews.

Table 1. Stationarity Test Results

Variable	Unit Root	ADF t-Statistik	Critical Value (5%)	Prob.ADF	Keterangan
Poverty (LNKM)	Level	-1,402564	-2,95711	0.5687	Not Stasionary
	1st Difference	-3,799459	-2,963972	0,0073	Stasionary
Domestic Investment (LNPMDN)	Level	-0,433074	-2,95711	0,8915	Not Stasionary
	1st Difference	-6,951134	-2,960411	0,0000	Stasionary
Foreign Investment (LNPMA)	Level	-1,71346	-2,95711	0,4151	Not Stasionary
	1st Difference	-5,550421	-2,960411	0,0001	Stasionary
Foreign Debt (LNULN)	Level	-0,848365	-2,960411	0,7878	Not Stasionary
	1st Difference	-3,217956	-2,960411	0,0284	Stasionary

Source: Data Analysis Results, 2024

Table 1 shows that the variables poverty, domestic investment, foreign investment, and foreign debt are not stationary at the level. Poverty, domestic investment, foreign investment, and foreign debt are all stable at the first difference level, with a probability of less than 0.05 for each variable. It was determined that the data in this investigation employed a stationary first difference level for subsequent data processing.

Table 2. Optimal Lag Results

Lag	LogL	LR	FPE	AIC	SC	HQ
0	51.93084	NA	3.83e-07	-3.423632	-3.233317*	-3.365451
1	66.67596	24.22411	4.25e-07	-3.333997	-2.382422	-3.043091
2	82.30740	21.21411	4.73e-07	-3.307672	-1.594837	-2.784041
3	115.2512	35.29694*	1.74e-07	-4.517944	-2.043850	-3.761589
4	143.1344	21.90819	1.19e-07*	-5.366740*	-2.131386	-4.377660*

Source: Data Analysis Results, 2024

According to Table 2, the five measures have the smallest values at the fourth lag. The value recommended by each basis is the least amount shown by an asterisk (*) following the incentive model for each permit. The lowest model value is usually found at the fourth lag, therefore this study employs the optimal fourth lag to quantify the effect time of each independent variable on the dependent variable.

Table 3. VAR Stability Test Results

Root	Modulus
0.477647 - 0.746018i	0.885828
0.477647 + 0.746018i	0.885828
0.022798 - 0.870113i	0.870411
0.022798 + 0.870113i	0.870411
-0.747693 - 0.408359i	0.851940
-0.747693 + 0.408359i	0.851940
-0.385248 - 0.730119i	0.825524
-0.385248 + 0.730119i	0.825524
-0.758521 - 0.239432i	0.795413
-0.758521 + 0.239432i	0.795413
0.781671	0.781671
-0.112321 - 0.745568i	0.753981
-0.112321 + 0.745568i	0.753981
0.578054 - 0.474358i	0.747771
0.578054 + 0.474358i	0.747771
0.540160	0.540160

Source: Data Analysis Results, 2024

Table 3 shows that all moduli have values less than one and are decreasing. As a result, the data in this study is steady, and the driving reaction ability and the predicted decay of error differences are true.

Table 4. Cointegration Test Results

Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.815562	93.37835	47.85613	0.0000
At most 1 *	0.672084	47.73635	29.79707	0.0002
At most 2 *	0.321685	17.63142	15.49471	0.0235
At most 3 *	0.232696	7.151550	3.841466	0.0075

Source: Data Analysis Results, 2024

Based on Table 4, it shows that all trace statistical values are greater than the critical value of 5%. In none, namely 93.37835 > 47.85613. At most 1, namely 47.73635 > 29.79707. At most 2, namely 17.63142 > 15.49471. At most 3, namely 7.151550 > 3.841466 and all probability values are below 0.05. So it can be concluded that in this research there is a long-term relationship between variables.

Table 5. Causality Test Result

Null Hypothesis:	Obs	F-Statistic	Prob.
LNPMDN does not Granger Cause LNKM	29	1.01302	0.4243
LNKM does not Granger Cause LNPMDN		**3.15717**	**0.0365**
LNPMA does not Granger Cause LNKM	29	2.12529	0.1153
LNKM does not Granger Cause LNPMA		**10.3090**	**0.0001**
LNULN does not Granger Cause LNKM	29	**4.71579**	**0.0076**
LNKM does not Granger Cause LNULN		1.70195	0.1891
LNPMA does not Granger Cause LNPMDN	29	1.08874	0.3888
LNPMDN does not Granger Cause LNPMA		1.48484	0.2443
LNULN does not Granger Cause LNPMDN	29	**6.83552**	**0.0012**
LNPMDN does not Granger Cause LNULN		1.31407	0.2988
LNULN does not Granger Cause LNPMA	29	2.21771	0.1037
LNPMA does not Granger Cause LNULN		0.93038	0.4662

Source: Data Analysis Results, 2024

Table 4.5 shows that there is no reciprocal link between the independent and dependent variables. However, there is a one-way link between the independent and attachment variables. There is no reciprocal association between the domestic investment and poverty variables.

The domestic investment variable does not have a one-way relationship with the poverty variable because the probability value is 0.4243 > 0.05. However, the poverty variable has a one-way relationship with the domestic investment variable seen from the probability of 0.0365 < 0.05.

The foreign investment variable and the poverty variable do not have a reciprocal relationship. The foreign investment variable does not have a one-way relationship with the poverty variable because the probability value is 0.1153 > 0.05. However, the poverty variable has a one-way relationship with the foreign investment variable seen from the probability of 0.001 < 0.05.

The foreign debt variable and the poverty variable do not have a reciprocal relationship. The foreign debt variable has a one-way relationship with the poverty variable because the probability value is 0.0076 < 0.05. However, the poverty variable does not have a one-way relationship with the foreign debt variable seen from theprobability of 0.1891 > 0.05.

Table 6. Short Term VECM Estimation Results

Variable	Coefficient	t-Statistic	t-Table
CointEq1	-0,077059	-3,26702	
C	-0,005316	-0,49161	2,04523
D(LNKM(-1),2)	-0,612879	-3,52324	
D(LNKM(-2),2)	-0,509242	-3,19624	

D(LNPMDN(-1),2)	-0,341905	-2,84528
D(LNPMA(-2),2)	-0,146033	-2,06592
D(LNULN(-1),2)	1,889347	3,21793
D(LNULN(-2),2)	1,241614	2,04782
D(LNULN(-3),2)	1,074848	2,30128

Source: Data Analysis Results, 2024

The CointEq value is negative and significant at 0.05, as shown in Table 6, indicating that the model is accurate. Homegrown interest in slack 1 and unfamiliar interest in slack 2 impact destitution in the close to run, however unfamiliar obligation in slack 1, slack 2, and slack 3 well affects neediness.

Table 7. Long Term VECM Estimation Results

Variable	Coefficient	t-Statistic	t-Table
D(LNPMDN(-1))	-5,304955	-4,72251	
D(LNPMA(-1))	-4,200536	-1,67341	2,04523
D((LNULN(-1))	33,07789	4,67476	

Source: Data Analysis Results, 2024

Table 7 shows that domestic investment has a significant and negative long-term effect on poverty, while foreign investment has a minor and positive long-term effect on poverty and foreign debt has a positive one.

Discussion
The Effect of Domestic Investment on Poverty

Based on the results of the tests, it is possible to infer that domestic investment has a negative and substantial influence on poverty in the near run, since the t-stat value is more than the t-table value (2.84528 > 2.04523). Domestic investment has a negative and substantial long-term influence on poverty, with a t-stat > t-table value of 4.72251 > 2.04523.

This situation emerges because domestic investment capital boosts manufacturing capacity, which creates jobs in the neighborhood. Widespread work possibilities raising people's incomes, lowering poverty.

The Effect of Foreign Investment on Poverty

Based on the results of the tests, it can be inferred that foreign investment has a negative and substantial influence on poverty in the near run, since the t-stat value is more than the t-table value, which is 2.06592 > 2.04523. Foreign investment complements development capital needs and can boost output and societal welfare by absorbing labor.

Foreign investment has a negative and minor long-term influence on poverty, with a t-stat value of 1.67341 < 2.04523. This occurs because foreign investment, in the long run, will bring foreign workers with it since foreign investors trust workers in their home country more for the advancement of the firm they are investing in, resulting in less absorption of local workers.

The Effect of Foreign Debt on Poverty

Based on the findings of the tests, it is possible to infer that foreign debt has a positive and substantial influence on poverty in the near run, as the t-stat value > t-table 3.21793 > 2.04523. Foreign debt has a positive and significant long-term influence on poverty, with a t-stat > t-table value of 4.67476 > 2.04523.

This predicament exists because debt is a burden on both the government and the private sector; In order to alleviate this burden, both the government and the private sector must act. One of the methods that the government and private sector will take is to cut the workforce, raise the prices of products and services in the private sector, and increase government taxes. People's income was lost as a result of this move, and they were unable to purchase basic requirements due to increases in the prices of these products and services, which will eventually lead to increased poverty.

5. CONCLUSIONS AND SUGGESTIONS
Conclusion

Based on the study and discussion results given, the following conclusions may be drawn:
1. Testing the VECM model reveals that domestic investment has a negative and considerable impact on poverty in Indonesia, both short and long term.
2. Testing the VECM model indicates that foreign investment has a negative and considerable impact on poverty in Indonesia in the near run. However, in the long run, foreign investment has a negative and minor impact on poverty in Indonesia.
3. Testing the VECM model reveals that foreign debt has a favorable and considerable impact on poverty in Indonesia in both short and long terms.

Suggestion

Based on the presentation of the data and conclusions, various suggestions can be made, including:
1. The government should prioritize domestic investment to optimize poverty reduction efforts.

2. The government should prioritize the absorption of foreign workers brought in by foreign investors to benefit both investors and recipients of capital, ultimately contributing to poverty reduction in the long term.

3. The government and private sector should exercise caution when taking out foreign loans, as it affects people's income and purchasing power.

4. Future research should include additional variables related to poverty, investigate new phenomena, and broaden the scope of study beyond Indonesia to other parts of the world that have not been previously studied. extensively investigated.

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