

# The Effect of Direct Foreign Investment Realization, Employment and Regional Tax Receiving on Province Economic Growth in Indonesia 2016-2018

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**Keywords:** Foreign Direct Investment, Labor, Local Tax Revenue, Economic Growth

**Abstract:** This study aims to determine the effect of the realization of foreign direct investment, labor and local tax revenue on provinces in Indonesia in 2016-2018. This study uses secondary data with data collection techniques using all reports on the realization of foreign direct investment, labor, local tax revenue and province economic growth in Indonesia registered with Badan Pusat Statistik (BPS) or Statistics Indonesia and Bank Indonesia (BI) for the 2016-2018 period. The research method used is a quantitative method with an analysis of 34 provinces in Indonesia in the 2016-2018 period with a total sample size of 86 samples. Secondary data is processed using SPSS version 26 application. The test results in this study indicate: The realization of foreign direct investment affects the economic growth of provinces in Indonesia; Labor affects the economic growth of provinces in Indonesia; Regional tax revenues have an effect on provincial economic growth in Indonesia; Foreign direct realization, labor and local tax revenue simultaneously have a positive and significant effect on provincial economic growth in Indonesia.

## 1 INTRODUCTION

In a country, a developing economy becomes a problem for a relatively short period of time. Economic growth is one of the important roles for the success of development from one period to the next. Without neglecting the efforts of equity and stability as a developing country, Indonesia continues to carry out development in stages and in a structured manner. According to Rahardja and Manurung (2008) the ideal category of an economy in an area can be seen from the continuous increase in the economy and shows trends and increases every year for a period of one quarter.

Regional economic development shows the efforts made by regional authorities and other stakeholders, including local residents who are able

2018 by 5.17%. The economic growth that exists in each country is certainly supported by the economic growth achieved by each region. The regional economy can be observed for its growth by analyzing the value of Gross Regional Domestic

to stimulate the economic development of an area by creating a network of cooperation to create job opportunities, using existing resources to be managed (Kuncoro, 2004).

An increase in the economy will contribute greatly to welfare which has an impact on the quality of community life. Based on this, economic growth becomes important for every level of society that concerns the overall welfare. Without economic growth, it will cause the economy to stay in place or stagnate which causes the absence of proper welfare for the people of the area.

According to data on economic growth in Indonesia published on the official website of Bank Indonesia, namely [www.bi.go.id](http://www.bi.go.id), Indonesia experienced an increase in economic growth in 2016-2018. It was recorded that in 2016, the Indonesian economy grew by 5.02%, in 2017 by 5.07%, and in Product (GDP), as well as the value of Gross Domestic Product (GDP) as a criterion for the value of GRDP, which is the service and goods sector in an area using production elements owned by the region.

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in a certain year. The level of development progress of an area can be described by the value of GRDP.

The average economic growth of all provinces in Indonesia in 2016 was 5.33%, experienced a decline in 2017 of 0.08% and an increase in 2018 of 3.59%, so that economic growth in 2018 was 5.64%. This shows that there is a phenomenon of fluctuations in the average economic progress of all provinces in Indonesia.

The economic growth is influenced by regional economic development in Indonesia. The development carried out must be able to explore the potential that exists in each region to be managed and developed in order to provide real benefits for the future. The determining factors include human resources, natural resources, culture, and other factors that must be developed optimally. National and regional economic development aims to provide employment opportunities and achieve national and regional economic stability.

The economic growth has a relationship with investment and labor. In implementing the level of economic growth of a region, it will definitely depend on investment activities which are crucial factors in the regional development sector. It aims to provide long-term benefits, if the investment activity increases, it will be aligned with the economic sector of a region in a linear manner.

Investment growth from foreign investment in Indonesia in 2016-2018 published by BPS through the [www.bps.go.id](http://www.bps.go.id) page experienced an ups and downs phenomenon. The total realization of foreign direct investment in 2016 was 28,964.1 million US\$, in 2017 it was 32,239.8 million US\$ and in 2018 it was 29,307.9 million US\$.

Based on the data above, the realization of investment can help economic growth in creating jobs. As for how to find out how much economic growth provinces in Indonesia are able to accommodate the number of workers in order to minimize the number of workers who do not have jobs. Thus, a data-based analysis of workers in each province in Indonesia is needed.

BPS Indonesia publishes labor data in Indonesia through the official website [www.bps.go.id](http://www.bps.go.id). The total working population aged over 15 years in each province in Indonesia in 2016 was 118,411,973 people, in 2017 it was 121,022,423 people, and in 2018 it was 124,004,950 people. The data illustrates that the working population of Indonesia from 2016-2018 has increased. This illustrates that the province's economic improvement in Indonesia has excelled in increasing the number of the workforce each year.

If it is observed that the influence of investment and labor has contributed to producing rapid economic growth in national and regional life. The rapid economic growth is also influenced by local tax revenues because the tax revenues are used to support the development and administration of Indonesia which has the ultimate goal of realizing prosperity for the people of Indonesia.

The country's economy is derived from tax revenues. In Indonesia, taxes are the largest revenue for the state which will later be used in financing development for the welfare of the community, so that taxes are considered an important instrument for the state and society (Sagala & Ratmono, 2015). The regulation on levies is stated in the 1945 Constitution Article 23A Amendment III which reads, "tax levies used for coercive state purposes have been regulated in law". Local tax is a compulsory contribution based on the enforcement of the rules, as a taxpayer.

National income originating from the central or local government is dominated by taxes. In these circumstances, local tax reform can be declared successful if it achieves all of the above indices, namely, being free of KKN, having the ability to realize convenience and accuracy in the tax system, so that it is easy for the public as taxpayers to pay taxes, and the implementation of improving the quality of public services by the government area. In the first index, local government transparency can guarantee maximum implementation of regional tax revenues for the growth of an economy.

In the second and third indexes, in developing an easy and effective local tax system, local governments have unlimited opportunities because they are supported by advances in Technology and Computer Science (ICT). The success of tax reforms from various regions can be seen from the soaring tax revenue which leads to increased economic growth.

Based on the background that has been explained, the researcher is finally interested in raising the title **"The Effect of Realization of Foreign Direct Investment, Labor and Regional Tax Revenue on Provincial Economic Growth in Indonesia in 2016-2018"**.

## 2 THEORETICAL AND LITERATURE REVIEW

### 2.1 Harrod-Domar.'s Theory of Economic Growth

Harrod-Domar theory states that the growth theory explains that one of the important roles in the process of economic growth is investment. This is because investment can have an impact on achieving the amount of revenue and increasing the quality scale of the final output of economic products in the form of capital reserves. A growing and developing economy can be accelerated by creating investment from the mobilization of foreign savings.

### 2.2 Neo-classical Economic Growth Theory (Solow – Swan)

This research is supported by the growth theory developed by Solow and Swan, which explains that there are several aspects of production that affect economic growth, namely aspects of society, workers, and assets and modern information technology. This interpretation is based on the opinion that underlies the classical analysis, namely the level of full use of labor will affect the economy on the ability of capital equipment used over time (Sukirno S, 2000).

### 2.3 Investment and Foreign Direct Investment

Gitman and Joehnk (2005) stated investment shows a means of funds that can be placed in generating positive income or increasing its value. According to Sarwedi (2002) a funding for activities abroad and has potential compared to other funding sources, is foreign direct investment. According to Anoraga (1995) direct investment is a Foreign Investment (PMA), where investors can directly invest in a company. In addition to the nature of foreign direct investment which focuses on the long term, foreign direct investment also affects the absorption of new jobs in the industrial sector.

### 2.4 Labor

Workers are each individual who works in producing goods and services so that their needs are met. The positive impact in stimulating economic growth with the rapid growth and development of society and several things that have a relationship with the

increase in the number of workers. Observing the results of the neoclassical theory developed by Solow and Swan, it was found that workers are mentioned as one of several elements that influence fluctuations in economic growth.

### 2.5 Tax

According to Sumarsan (2010) Tax is a contribution of each individual to the state and is coercive, where taxpayers must pay in accordance with applicable rules (laws) without getting reciprocal results and direct appointments can be made.

### 2.6 Regional Taxes and the Legal Basis of Regional Taxes

Prakosa (2005) stated that, mandatory contributions carried out by individuals or entities to the region, do not receive a direct reply, can be coercive based on rules and laws, are intended for financing the implementation of government activities and regional development, are local taxes. Local taxes are the role of taxpayers in areas listed on individuals and business entities that must be carried out in accordance with legislation, without retaliation and are intended for regional needs for the welfare of the community. According to Prakosa (2005), local taxes are divided into two segments, namely 1) Provincial taxes include taxes on motorized vehicles and vehicles on water, motor vehicle fuel taxes, transfer fees for motorized vehicles and vehicles on water, taxes for taking and utilizing underground water. land and surface water and 2) local taxes, including restaurant taxes, hotel taxes, entertainment taxes, advertisement taxes, street lighting taxes, class c excavation and processing taxes and parking taxes.

### 2.7 Literature Review

Analysis of The Effect of Household Consumption Expenditure, Investment and Labor to Economic Growth: A Case in Province of North Sumatra. The results of his research explain that household consumption, investment and labor have a positive and partially significant effect on economic growth in North Sumatra Province.

The results of the research by Purnamasari, Rostin and Ernawati (2017) which examine the Effect of Investment and Labor on Economic Growth in Southeast Sulawesi Province. The results show that investment and labor as a whole have a significant and positive effect on economic growth in Southeast Sulawesi Province, while partially investment has a

positive and significant effect on economic growth. Bawuno, Kalangi, and Sumual (2015) examined the Effect of Government Investment and Manpower on Economic Growth in Manado City in 2003-2012. The research shows a positive and significant effect of capital expenditure on economic growth. Other results show that labor has a positive and insignificant effect on economic growth.

Mahriza and Amar (2019) in his research on the Effect of Domestic Investment, Foreign Investment, Manpower, and Infrastructure on the Economy in West Sumatra Province. The test results explain that partially there is a significant positive relationship between foreign investment on the economic growth of West Sumatra.

## **2.8 Hypothesis Development**

### **2.8.1 Effect of Realized Foreign Direct Investment on Economic Growth**

Investment activities are strongly related to economic growth. This is because investment is said to be one of several crucial elements in determining economic growth in a province. Harrod-Domar said that the supporting factor in economic growth is investment. In an area in order to increase the rate of economic growth each year, it requires additional investment which becomes a capital reserve. In the following study, the investment variable is indicated by information on the realization value of foreign direct investment from regional foreign investment.

#### **H1: Realization of Foreign Direct Investment Affects Economic Growth**

### **2.8.2 Effect of Labor on Economic Growth**

One of the potential sources in the formation of regional economic growth as a driver and implementer of regional development is the presence of labor. The increase in population in an area is in line with the number of workers. So that the increase in this number is also in line with the increase in production activities. Periodic increase in population is also able to trigger, as well as hinder economic development. According to Todaro (2006), the number of workers will increase if the population also increases. The number of workers when utilized optimally will affect economic growth from one year to the next.

#### **H2: Labor Affects Economic Growth**

### **2.8.3 Effect of Regional Tax Revenue on Economic Growth**

In the past twenty years, local tax reform has taken place in Indonesia. This reform occurred over a period of three periods (Abuyamin, 2015). In the first period, it begins with the enactment of Law of the Republic of Indonesia Number 18 of 1997 concerning Regional Taxes and Regional Levies. The next period, marked by the amendment to the Law of the Republic of Indonesia Number 34 of 2000 and the third period, with the enactment of the Law of the Republic of Indonesia Number 28 of 2009 concerning Regional Taxes and Levies. The purpose of the implementation of the tax reform is to generate regional income in the tax sector which is ultimately utilized for the welfare of the community by increasing economic growth and regional development.

The great potential of tax revenues can encourage economic growth if used appropriately to finance productive and potential development programs which in turn can improve the welfare of the people in Indonesia.

#### **H3: Local Tax Revenue has an effect on Economic Growth.**

### **2.8.4 Effect of Realized Foreign Direct Investment, Labor and Local Tax Revenue on Economic Growth**

The main source of economic growth is foreign investment. Foreign investment activities will result in a growing capital stock. The increase in production power has an effect on increasing the capital stock which is able to increase economic growth and development and encourage the absorption of the labor force. Broadly speaking, economic growth will grow if a lot of investment enters the area (Sarwedi, 2002).

According to Lewis in Todaro (2006) investment activities in the industrial sector as well as the total capital in the modern sector have the effect of economic growth on the absorption of labor, which has a widespread impact on output in the modern sector. These are related to each other.

Local tax revenues are very real in contributing to economic growth, where economic stability can encourage the economic performance of entrepreneurs and increase people's purchasing power. On the one hand, according to Keynes's economic opinion regarding the number of taxpayers, he views taxpayers as a form of market expansion.

Thus, taxpayers make a good contribution to economic growth.

#### H4: Realization of Foreign Direct Investment, Labor and Local Tax Revenue Influence on Economic Growth.

Based on the description of the theoretical study, literature review, and hypothesis development that have been described previously, the research model can be seen in Figure 1:

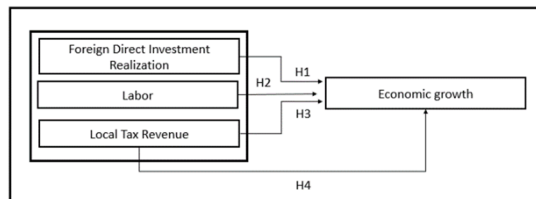


Figure 1: Research Model.

### 3 RESEARCH METHODS

Researchers apply quantitative methods in this study. Researchers use secondary data realization, namely by collecting and analyzing direct report data, labor, regional tax revenues and provincial economic growth in Indonesia in 2016 - 2018 which are available on the [www.bps.go.id](http://www.bps.go.id) and [www.bi.go.id](http://www.bi.go.id) pages.

#### 3.1 Variable Operational Definition

##### Dependent Variable

Researchers use economic growth as a dependent variable influenced by independent variables. He said the rupiah was expected to strengthen to Rp 9,100 per dollar in the Jakarta interbank spot market on Tuesday. As for measuring on a dependent variable that is proscribed by economic growth.

##### Independent Variable

In the study the independent variables used were influential and triggering the dependent variable changes. Independent variables in this case include direct foreign investment, labor and tax revenues. As for operating definition per variable on independent variables as follows:

- 1) Foreign direct investment is the total value of foreign investment realization of provinces in

Indonesia calculated in units of million US\$. The data source is taken from BPS Indonesia with units of million US\$.

- 2) Labor is the total employment of each province in Indonesia which is calculated in units. The data source is taken from BPS Indonesia in units.
- 3) Tax revenue is the amount of regional tax revenue for each province in Indonesia which is calculated in million rupiah (Rp). The data source is taken from BPS Indonesia.

#### 3.2 Data Processing Techniques

Archival basic data used by researchers to collect secondary data obtained through the [www.bps.go.id](http://www.bps.go.id) page, to obtain data on the realization of foreign direct investment, labor and local tax revenues and the [www.bi.go.id](http://www.bi.go.id) website to obtain data on economic growth province. The researcher uses the SPSS statistical version 26 application because this application provides the features needed in research and has a significant level of accuracy when processing data.

### 4 RESULTS

The research data processed in this study is data from all provinces in Indonesia published by the BPS website, namely [www.bps.go.id](http://www.bps.go.id) and BI, namely [www.bi.go.id](http://www.bi.go.id), which publishes reports on the realization of foreign direct investment, labor, tax revenues. regions as well as economic growth reports from 2016-2018. The total population from 2016-2018 was 86 data. Details of the number of samples can be seen in table 1 below:

Table 1: Samples.

| Sample Criteria                         | Amount |
|-----------------------------------------|--------|
| Indonesia's provinces from 2016-2018    | 102    |
| Sample period 2016-2018                 | 102    |
| Outlier data                            | (16)   |
| Total sample data processed in research | 86     |

#### 4.1 Descriptive Statistical Analysis

The description of statistical analysis data in this study is presented in tabular form. The presentation of the data displays the minimum, maximum, mean, and standard deviation of the research data. Below is a descriptive statistical analysis table:

Table 2: Descriptive statistical table.

|       | N   | Min          | Max            | Mean          | Std. Deviation  |
|-------|-----|--------------|----------------|---------------|-----------------|
| PE    | 102 | 0.36         | 10.11          | 5.4138        | 1.49315         |
| IAL   | 102 | 8.00         | 5573.50        | 887.4510      | 1229.92352      |
| TK    | 102 | 273423.00    | 2077988.00     | 356313.08431  | 5058090.44003   |
| PD    | 102 | 206325470.00 | 37538912327.00 | 3672465492.79 | 6712957803.7842 |
|       |     |              |                | 41            | 0               |
| Valid | 102 |              |                |               |                 |

The table above shows that there is no big enough gap between the minimum and maximum values of all ratios, because the average value of each ratio is greater than the inequality value or standard deviation.

## 4.2 Classic Assumption Test

The classical assumption test stage in this study consisted of four types of tests, namely normality test, multicollinearity test, and heteroscedasticity test, and autocorrelation test with the following explanation:

### 4.2.1 Normality Test

Table 3: Normality test table.

| Test Summary          | Sig K-S | Conclusion                   |
|-----------------------|---------|------------------------------|
| Asymp. Sig (2-tailed) | 0,200   | Data is normally distributed |

The results of the normality test with one sample Kolmogorov-Smirnov show that the significance value is 0.200. The results obtained have a significance value  $> 0.05$  so that the variables used are PE, IAL, TK, and PD in this study are normally distributed.

### 4.2.2 Multicollinearity Test

Table 4: Multicollinearity test.

| Model | Collinearity Statistics |       | Conclusion                    |
|-------|-------------------------|-------|-------------------------------|
|       | Tolerance               | VIF   |                               |
| IAL   | 0,993                   | 1,007 | There is no multicollinearity |
| TK    | 0,743                   | 1,345 | There is no multicollinearity |
| PD    | 0,740                   | 1,351 | There is no multicollinearity |

Table 4 shows the results of testing the dependent variable PE, IAL has a VIF value of 1.007 and a tolerance value of 0.993. TK has a VIF value of 1.345 and a tolerance value of 0.743. PD has a VIF value of 1.351 and a tolerance value of 0.740. Based on the test results, all variables do not have multicollinearity, because they have a tolerance value of  $> 0.10$  and a VIF value of  $< 10.00$ . It can be concluded that the regression model does not occur multicollinearity

### 4.2.3 Heteroscedasticity Test

Table 5: Heteroscedasticity Test.

| Variable | Sig   | Conclusion                     |
|----------|-------|--------------------------------|
| IAL      | 0,730 | There is no heteroscedasticity |
| TK       | 0,505 | There is no heteroscedasticity |
| PD       | 0,704 | There is no heteroscedasticity |

Table 5 shows that the probability value of IAL is greater than the significance value of  $0.730 > 0.05$ . The probability value in TK is greater than the significance value  $0.505 > 0.05$  and in PD the significance value is  $0.704 > 0.05$ . So, from the test results above, it can be concluded that the regression model does not occur heteroscedasticity.

### 4.2.4 Autocorrelation Test

The results of the autocorrelation test explain that the DW value is 1.067 which indicates that there is a positive autocorrelation. The results of the autocorrelation test can be seen in table 4.6:

Table 6: Autocorrelation Test Results Prior to the application of the Cochrane Orcutt autocorrelation method.

| Model | R                  | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|--------------------|----------|-------------------|----------------------------|---------------|
| 1     | 0,367 <sup>a</sup> | 0,134    | 0,103             | 0,29859                    | 1,067         |

a. Predictors: (Constant), PD, IAL, TK.

b. Dependent Variable: PE

Based on the test results above that the test results have an autocorrelation problem. These problems can be solved by using the data transformation method. Data transformation is a method to meet the classical assumption test criteria by changing the data measurement scale to another form that still has the same value (Ghozali, 2016). In this study using the

data transformation of Cocharane Orcutt. Cocharane Orcutt is a method to solve the autocorrelation problem by including the lag of the dependent variable as one of the independent variables.

Table 7: Autocorrelation Test Results After the Application of the Cochrane Orcutt Autocorrelation Method

| Model                                   | R      | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-----------------------------------------|--------|----------|-------------------|----------------------------|---------------|
| 1                                       | 0,446a | 0,199    | 0,169             | 0,26151                    | 1,779         |
| a. Predictors: (Constant), PD, IAL, TK. |        |          |                   |                            |               |
| b. Dependent Variable: PE               |        |          |                   |                            |               |

The results of the test using the Cocharane Orcutt after repairing the autocorrelation show in table 7 the dependent variable of economic growth has a DW of 1.779. These results indicate that the dependent variable of economic growth does not have a negative or positive autocorrelation, because the value of Durbin Watson is between 1.5 to 2.5.

### 4.3 Panel Data Regression Analysis

#### 4.3.1 Multiple Linear Regression Analysis Test Results

This study uses two independent variables and one dependent variable, namely economic growth as the dependent variable and the realization of foreign direct investment, labor and local tax revenues are independent variables. This processing uses the SPSS version 26 application with the results of multiple linear regression analysis obtained as follows:

Table 8: Multiple Linear Regression Analysis Test Results.

| Model      | Unstandardized Coefficients | Coefficients Std. Error | Standardized Coefficients Beta | t      | Sig   |
|------------|-----------------------------|-------------------------|--------------------------------|--------|-------|
| (Constant) | 1,148                       | 0,032                   |                                | 35,511 | 0,000 |
| IAL        | 0,078                       | 0,033                   | 0,234                          | 2,342  | 0,022 |
| TK         | 0,060                       | 0,016                   | 0,417                          | 3,619  | 0,001 |
| PD         | 0,031                       | 0,013                   | 0,272                          | 2,351  | 0,021 |

From table 8, it can be seen that the coefficients for the multiple regression equation are as follows:

$$Y = 1,148 + 0,078 \text{ IAL} + 0,060 \text{ TK} + 0,031 \text{ PD}$$

In the above equation, a constant coefficient of 1.148 shows that if the independent variable is

considered non-existent, there will be no increase in economic growth of 1.148. The regression coefficient for the foreign direct investment variable is 0.078, indicating that everyone level increase of the foreign direct investment variable with other assumptions remains, it will increase economic growth by 0.078. The regression coefficient for the labor variable is 0.060, indicating that everyone level increase in the labor variable with other assumptions remains, it will increase economic growth by 0.060. The regression coefficient for the local tax revenue variable is 0.031, indicating that everyone level increase from the local tax revenue variable with other assumptions remains, it will increase economic growth by 0.031.

#### 4.3.2 Partial Test Results (t Test)

Table 9: Partial Test Results.

| Model      | Unstandardized Coefficients | Coefficients Std. Error | Standardized Coefficients Beta | t      | Sig   |
|------------|-----------------------------|-------------------------|--------------------------------|--------|-------|
| (Constant) | 1,148                       | 0,032                   |                                | 35,511 | 0,000 |
| IAL        | 0,078                       | 0,033                   | 0,234                          | 2,342  | 0,022 |
| TK         | 0,060                       | 0,016                   | 0,417                          | 3,619  | 0,001 |
| PD         | 0,031                       | 0,013                   | 0,272                          | 2,351  | 0,021 |

Dependent Variable: PE

The results of the t-statistical test in table 9 on the foreign direct investment realization variable have a positive and significant effect on economic growth. This can be seen from the significance value of the variable (IAL) of 0.022 and the probability value of 2.342 where the value is smaller than its significance ( $0.022 < 0.05$ ), then the IAL variable is accepted. The significance value of the labor variable (TK) is 0.001 and the probability value is 3.619, where the value is smaller than the significance ( $0.001 < 0.05$ ). This shows that kindergarten has an effect on economic growth and has a positive and significant direction. The local tax revenue (PD) variable has a probability value of 2.351 and a significance value of 0.021, which is smaller than its significance ( $0.021 < 0.05$ ), it can be concluded that PD has a positive and significant effect on economic growth.

#### 4.3.3 Simultaneous Significance Test Results (Test F)

The following are the results of the simultaneous significance test of the dependent variable which can be seen in table 4.10, as follows:

Table 10: Simultaneous Test Results.

| ANOVA <sup>a</sup> |                |    |             |   |                   |
|--------------------|----------------|----|-------------|---|-------------------|
| Model              | Sum of Squares | df | Mean Square | F | Sig.              |
| Regression         | 1,378          | 3  | ,459        | 4 | ,000 <sup>b</sup> |
| Residual           | 5,540          | 81 | ,068        |   |                   |
| Total              | 6,917          | 84 |             |   |                   |

a. Dependent Variable: PE

b. Predictors: (Constant), PD, IAL, TK

Table 10 shows the F statistical test has a probability value of  $0.000b < 0.05$ , so it can be concluded that all independent variables together have a positive and significant effect on the dependent variable.

#### 4.3.4 Coefficient of Determination Test Results (R<sup>2</sup>)

The coefficient of determination (R<sup>2</sup>) describes the change in the dependent variable and is explained by the independent variable.

| Model Summary |                    |          |                   |                            |
|---------------|--------------------|----------|-------------------|----------------------------|
| Model         | R                  | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1             | 0,446 <sup>a</sup> | 0,199    | 0,169             | 0,26151                    |

Predictors: (Constant), PD, IAL, TK

The results of the coefficient of determination R square value of 0.199 indicate that the realization of IAL, TK and PD is only influenced by 19.9%, the rest of 80.1% is influenced by other variables outside the variables listed in the study. The factors that influence economic growth are  $Y = C + I + G + (X - M)$ . The explanation of these factors is that Y is national income, C is consumption, I is investment, G is government expenditure, X is exports and M is imports.

## 4.4 Data Analysis

The following is a summary table of test results from this study:

Table 11: Summary of test result

| Hypothesis                                                                          | Result    |
|-------------------------------------------------------------------------------------|-----------|
| H1: Foreign direct investment Realization has significant effect on economic growth | Supported |

|                                                                                                                        |           |
|------------------------------------------------------------------------------------------------------------------------|-----------|
| H2: Labor has significant effect on economic growth                                                                    | Supported |
| H3: Local tax revenue has significant effect on economic growth                                                        | Supported |
| H4: Realization of foreign direct investment, labor and local tax revenue has simultaneously effect on economic growth | Supported |

#### 4.4.1 Effect of Realized Foreign Direct Investment on Economic Growth

Based on the results of the researcher's test in table 4.12, it can be concluded that the realization of foreign direct investment has proven to have a positive and significant effect on economic growth. Investment is the formation of capital that has the opportunity to increase the economy in an area. With the high value of organized investment, it will have an impact on increasing the regional economy. This is linear with the statement of Mankiw, et al (2012) which states that investment can support sustainable economic growth.

This research is in line with the opinion of economists in general stating that investment has a positive relationship with economic growth. The investment factor is the dominant supporting factor for economic growth in a country, especially in Indonesia. Demand and supply are two contributing factors of investment to economic growth. In this regard, the government should take a policy that is intended to increase investment, especially foreign investment. The results of this study are relevant to Purnamasari, et al (2017) which prove the effect of investment on economic growth.

#### 4.4.2 Effect of Labor on Economic Growth

Based on the description of the statistical test described in table 4.12, it shows that there is a positive and significant influence between labor on economic growth. So, it can be concluded that the workforce has a partial positive influence on aspects of economic growth. In a sense, the higher the number of workers, the higher the rate of economic growth.

Research conducted by Todaro (2000) the increase in society and labor is considered to be one of the positive factors that spur economic growth. The high number of workers will increase production. This is also linear with the theory put forward by Solow, where economic growth is influenced by an increase in the number of workers seen from the total population. Population growth becomes a more

dominant aspect in explaining continuous economic growth. The results of this study are supported by Bawuno, et al (2015); Helen, et al (2017); Sari, et al (2016); Heidy (2012); Mahriza and Amar (2019) in general the workforce has a positive and significant influence on economic growth.

#### 4.4.3 Effect of Regional Tax Revenue on Economic Growth

Based on the results of statistical tests, in table 4.12 which have been explained show a significant and positive influence between local tax revenues on economic growth. Viewed from several positive perspectives on the effect of tax revenues on economic growth, it can be analyzed those regulations covering several activities such as the formulation, decision making, assessment and implementation of policies, as well as procedures.

From the previous research Saragih (2018); Gebreegziabher (2018); Stoilova (2017); Adkisson and Mohammed (2014) who globally detect that there is a positive effect of local tax revenues on economic growth. This illustrates that if local tax revenues increase or are above the average value, it will have a positive impact on provincial economic growth in Indonesia.

#### 4.4.4 Effect of Realized Foreign Direct Investment, Labor and Local Tax Revenue on Economic Growth

Based on the results of statistical tests, it shows that IAL, TK, PWD have a significant influence on economic growth. This shows that these three variables significantly affect economic growth. Supported by the results of previous research, namely Purnamasari, Rostin and Ernawati (2017). The impact of high investment will affect the opening of job opportunities which will indirectly absorb labor, so that more and more workers can increase the income generated. The high income will have an impact on the higher taxpayers who make tax payments and will affect local tax revenues in an area. This illustrates, the high level of local tax revenue will affect regional economic growth. Thus, foreign direct investment, labor and local tax revenues have an effect on economic growth.

## 5 CONCLUSIONS

Based on the limitations of the problems that have been described, there are suggestions for further

research, namely as follows: (1) Further research is expected to be able to increase the number of time periods used, so that they can represent the years before and after; (2) Further research, it is better to add other variables that are thought to affect economic growth, such as exchange rates, domestic investment, inflation, and capital accumulation.

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