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# The Impact of Global Trade on People Welfare in Indonesia

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## ABSTRACT

This study examines the relationship between free trade and the welfare of the Indonesian population. The aim of the study is to provide an overview of the development of international trade and investment and its impact on the development of Indonesian people's welfare using panel data from 2017-2022, and the statistical analysis technique used is path analysis. The results of the analysis show that foreign investment has a significant positive influence on economic growth. Apart from that, non-oil and gas exports have an influence, but oil and gas exports do not have an influence on economic growth. Furthermore, oil and gas imports have an influence, but non-oil and gas imports do not have an influence on economic growth. The results also show that domestic investment, foreign inversion, oil and gas exports and non-oil and gas exports, as well as oil and gas and non-oil and gas imports do not have an influence on the welfare of the Indonesian people, the only variable that has an influence on welfare is a domestic investment. Thus, it can be concluded that free trade has an impact in the form of increasing the welfare of the population.

**Keywords:** Domestic Investment, Exports, Imports, Economic Growth, Prosperity

## INTRODUCTION

Welfare is a number of satisfactions that a person obtains from consuming the income they receive. However, the level of welfare itself is something that is relative because it depends on the amount of satisfaction obtained from consuming that income. The level of welfare of a household can be seen clearly through the amount of income received by the household concerned. Considering that accurate income data is difficult to obtain, the approach that is often used is the household expenditure approach or the purchasing power of the household concerned. If purchasing power decreases, the ability to fulfill various life needs decreases so that the level of welfare decreases (BPS, 2011). Furthermore, the Central Statistics Agency (BPS, 2011) states that a household can be said to be prosperous if: a. All physical and spiritual needs of the household can be met according to each household's level of living. b. Able to provide the means to develop a prosperous life based on Pancasila and the 1945 Constitution.

According to the Central Statistics Agency (2022), to measure the fulfillment of living needs, indicators of people's purchasing power for a number of basic needs are used which are seen from the average amount of expenditure per capita as an income approach which represents development achievements for a decent life. Development essentially aims to build independence to achieve a prosperous society, both in cities and villages. Village development aims to provide opportunities for regional and rural capabilities as the backbone of the regional and national economy. National prosperity will be achieved if provincial prosperity is achieved. Prosperity will be achieved if there is a good economic climate at the provincial level. Economic progress at the provincial level will be achieved if the district has sufficiently advanced and developed economic activities.

Global trade, which includes the export and import of goods and services, is an important aspect of the economy in every country. Global trade can establish and create economic relationships that mutually influence one country with another, as well as the traffic of goods and services that will shape trade between countries. The aim of global trade is to improve the welfare of people in a country. Relationships that influence each other between one country and another can be created due to the existence of domestic and foreign economies, one of which is the exchange of goods and services between countries. In general, international trade is a means of exchanging international goods and services. In the last fifty years, international trade has grown and developed

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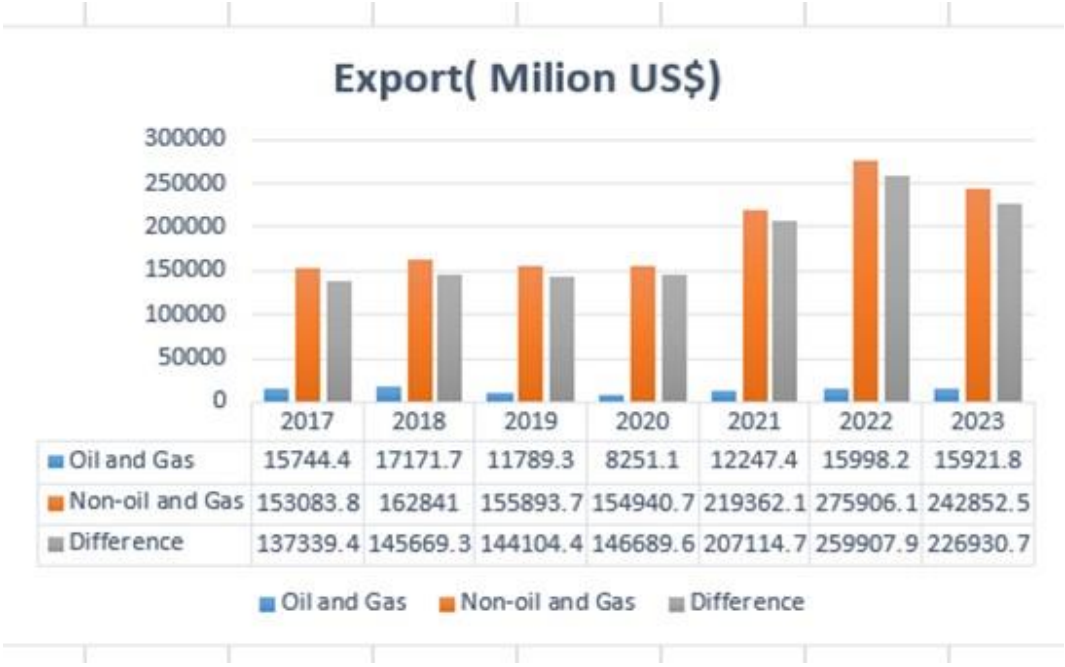
drastically and in large sizes. This is due to the cooperation carried out by various countries to eliminate trade protection and the desire to promote free trade in goods and services

International trade is an important element of the globalization process. Opening trade with various countries in the world will provide benefits and bring domestic economic growth, both directly in the form of an impact on the efficient allocation of resources, and indirectly in the form of increasing investment levels. Every form of barrier and protection is a source of distortion in international trade that must be avoided and eliminated. In 1995 the world trade organization WTO (World Trade Organization) was formed. The WTO plays a major role in promoting free trade in the globalization process. The main objective of establishing the WTO is to encourage and develop trade liberalization and provide a safe world trading system. Besides that, the WTO plays a major role in implementing every rule that has been stipulated in every world trade agreement such as the Uruguay Round Second and the GATT (General Agreement on Tariffs and Trade) agreement. Trade includes the delivery of goods and services as well as machines that will encourage or involve investment so that trade and investment cannot be separated. In the China and ASEAN region, CAFTA was officially formed after the signing of the China-Asean Free Trade Area agreement in 2007 in the Philippines and was realized in a new agreement starting in early 2010.

One of the most important factors that drives economic growth is investment, because investment itself is a source of economic growth alongside government spending, consumption and net exports. Indonesia is one of the countries in Asia that has abundant population and natural resources, thus attracting foreign investors. In line with this, Indonesia has 6 attractive factors for investment in Indonesia, a). Political, legal and policy stability, b). The largest population in Asean and no. 4 in the world, c). Rapid growth of new middle class, d). Abundant natural resources, e). Potential investment in new and renewable energy, f). The largest carbon reserves in the world (Ministry of Investment, 2023). Furthermore, Foreign Investment (PMA) and Domestic Investment (PMDN) have become important sources of financing for developing regions and are able to make a significant contribution to development. As a component of capital flows, PMA is considered a relatively stable capital flow compared to other capital flows, for example portfolio investment and foreign debt. This is in accordance with the Investment Law no. 25 of 2007 states that one of the objectives of carrying out investment, both direct and indirect PMDN (Domestic Investment) and PMA (Foreign Investment).




| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|---|---|
| Oil and Gas | 15744.4 | 17171.7 | 11789.3 | 8251.1 | 12247.4 | 15998.2 | 15921.8 |
| Non-oil and Gas | 153083.8 | 162841 | 155893.7 | 154940.7 | 219362.1 | 275906.1 | 242852.5 |
| Difference | 137339.4 | 145669.3 | 144104.4 | 146689.6 | 207114.7 | 259907.9 | 226930.7 |

Figure 1. Development of Oil and Gas Exports versus Non-oil and Gas

The development of Indonesia's HDI from year to year shows a positive trend in line with the increasing level of income per capita in society, as well as education and health. In 2022, Indonesia will obtain an HDI score of 0.713, entering the category of countries with a high human development index. The score has increased compared to 2021, and is the best record since the start of the pandemic in 2020. In 2022 Indonesia obtained an

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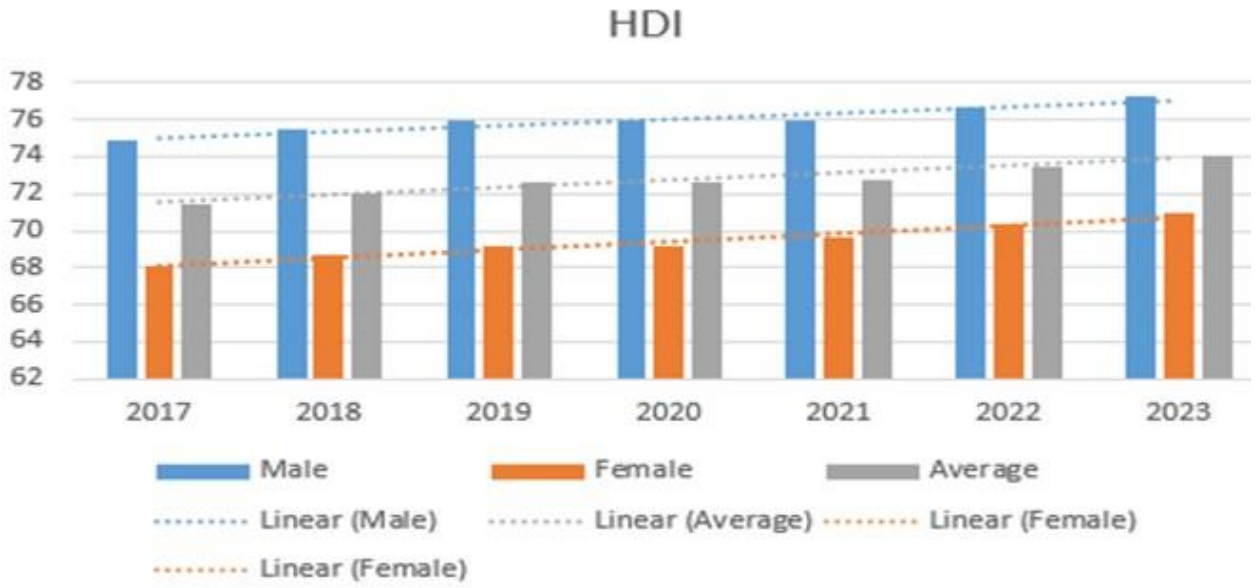
HDI score of 0.713, entering the category of countries with a high human development index. The score has increased compared to 2021, and is the best record since the start of the pandemic in 2020. However, Indonesia's HDI score in 2022 is still below the pre-pandemic level, which had reached 0.718 in 2021. Indonesia's HDI score in 2022 is still below the pre-pandemic level, which had reached 0.718 in 2019. The Central Statistics Agency (2021) reported that during the year from 2010-2022, Indonesia's HDI increased by an average of 0.77 percent per year, where this increase was experienced in all dimensions of long and healthy life, knowledge and a decent standard of living. In the dimension of longevity and healthy living, babies born in 2022 have the hope of living up to 71.85 years, an increase of 0.28 years compared to those born in the previous year.

In the knowledge dimension, the expected length of schooling for the population aged 7 years and over increased 0.02 years compared to the previous year, from 13.08 to 13.10 years, while the average length of schooling for the population aged 25 years and over increased 0.15 years, from 8 .54 years to 8.69 years in 2022. The dimension of decent living standards measured based on average real per capita expenditure (adjusted) increased by 323 thousand rupiah (2.90 percent) compared to the previous year.




Gambar 2. Perkembangan HDI Pria dan Wanita tahun 2017-2023

Social welfare is a systematic, directed and planned change effort carried out for the vision and mission of national development. Implementation of social welfare in the form of social services to meet the basic needs of society. Communities that have low poverty, unemployment and crime rates, and have a high rate of acceptance of life and a high number of people who can read can be said to have high social welfare (Setiawan, 2019). On the other hand, high levels of poverty, unemployment, crime and similar problems are an indication of low levels of social welfare.

Central Statistics Agency (2023) data shows that Indonesia's HDI has experienced a positive increase from year to year without any fluctuations, even though Indonesia experienced a pandemic which reached its peak in 2020. Thus, it can be concluded that human development in Indonesia is proceeding without significant obstacles.

Based on its region, Jakarta will be the province with the highest HDI in 2023. The Indonesian capital recorded a HDI score of 82.46 points or very high status, while the lowest is Papua. On the other hand, the province with the lowest HDI is Papua, with a score of 62. 25. The striking differences between these two regions reflect that equitable human development is still far from expectations. Figure 2 also shows gender development where the HDI for men is still higher than the HDI for women. This fact shows that both in terms of gender and in terms of region, both show disparities in human development in terms of gender and region. Furthermore, the Central Statistics Agency (2022) shows that the province with the best quality human development is Jakarta as already mentioned, followed by DI Yogyakarta and third is East Kalimantan. Meanwhile, the three provinces that rank last are Papua, followed by West Papua and then East Nusa Tenggara. Domestic investment, especially in the three provinces, does not contribute much to economic growth (BPS, 2023), while it is known that domestic

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investment is a characteristic of a nation's independence. Indonesia's domestic investment has not gone according to expectations because many peripheral areas are left behind, which cannot invest in line with expected economic growth. This can affect the level of welfare of the population.

Figure 3. shows that the research attempts to examine in detail the relationship between free inflammation and the level of welfare of Indonesian society as measured by the HDI (Human Development Index). It is hoped that Indonesia will gain benefits that can improve the welfare of the Indonesian people, both directly and indirectly, resulting from international inflammation and domestic economic growth. Where growth is expected to be driven by foreign investment, exports and reverse imports of oil and gas and non-oil and gas which can have an impact on improving the welfare of society as a whole.

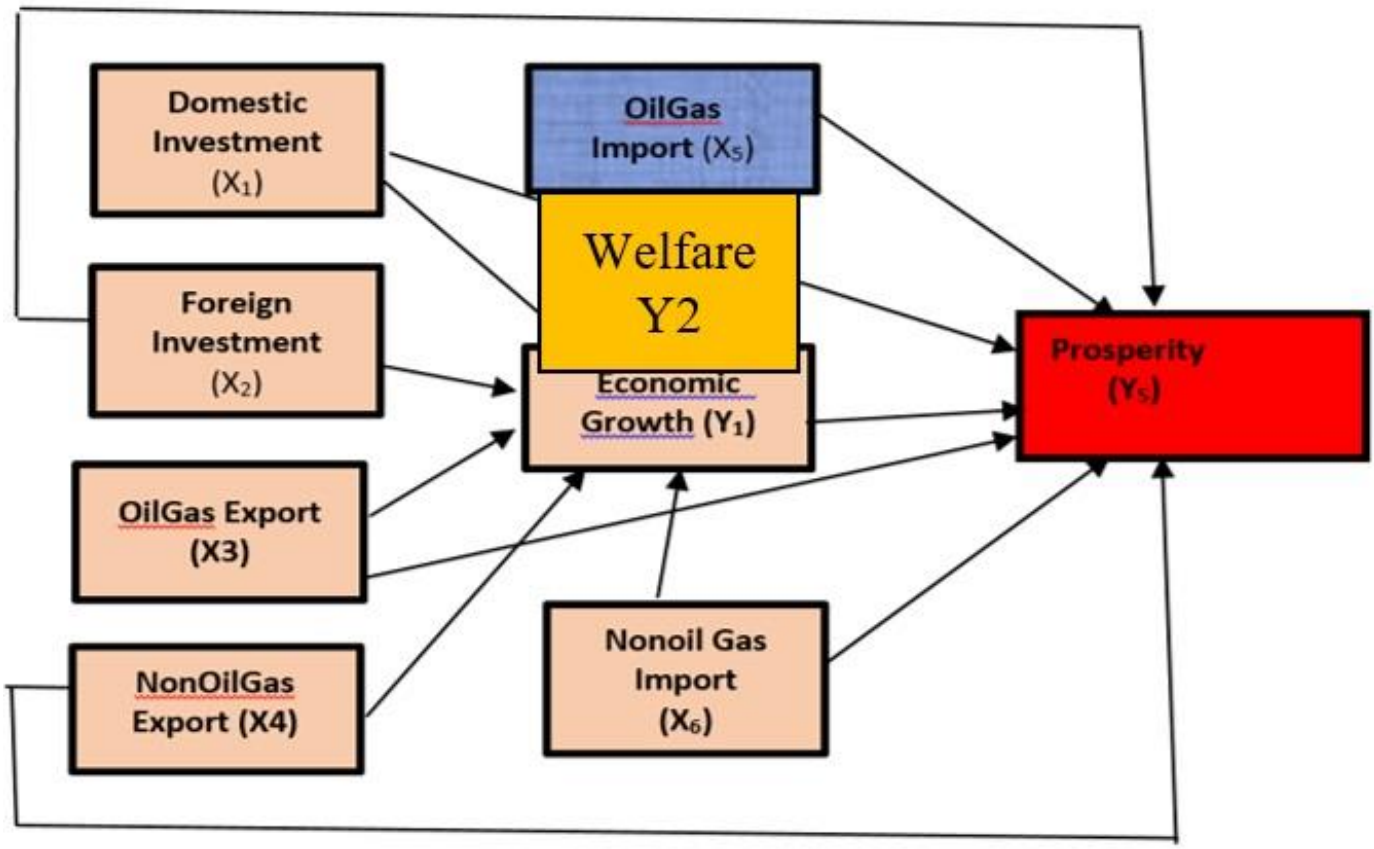


Figure 3. Framework

Based on previous information, it is known that the most prominent gap is welfare as measured by HDI which shows a positive trend, but poverty continues to fluctuate and has even increased from 2019. So there are complex problems in this gap. One of the factors that can be used as a solution to the problem is increasing international trade activities which include increasing non-oil and gas exports and limiting imports as well as increasing investment, especially domestic investment, which is expected to have a more real impact on welfare (meaning HDI rises, poverty falls consistently or people's purchasing power increases).

## LITERATURE REVIEW

### Welfare

According to law no. 52 of 2009 states that a prosperous family is a family formed based on a valid marriage that is able to meet the spiritual and material needs of a decent life, is devoted to God Almighty, has harmonious, harmonious and balanced relationships between members and between the family and society and environment. Prosperous families are fewer than pre-prosperous families, the per capita income of pre-prosperous families is lower than prosperous families, the income of prosperous and pre-prosperous families is higher than poverty criteria. The percentage of food expenditure of underprivileged families is greater than that of prosperous families, the nutritional knowledge of mothers from pre-prosperous families is lower than that of prosperous

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families, the nutritional status of toddlers from prosperous families is better than the nutritional status of toddlers from pre-prosperous families. In relation to consumption behavior in the family, it specifically highlights the altruistic behavior of some family members from an economist's perspective on consumption behavior in the family. Altruistic family members carry out a series of sacrificial behaviors that lead to increased welfare for other members of the family. Welfare has a broad understanding, including Quality of Life (Living Conditions Subjective Well-being), Social Cohesion (Inequalities, Disparities, Exclusion and Social capital and Sustainability (Natural Capital and Human Capital) (Noll, 2014).

Welfare can be reflected by the Human Development Index (HDI) which describes the position of a country compared to other countries in the level of social welfare, namely human development, including development in the social, economic and educational fields, so that Human Development Index (HDI) analysis can describe the level of welfare achieved a country.

**International Trade**

The Concept of Specialization International trade between two countries can take place because each country wants to take advantage of the benefits generated by international trade itself, namely specialization. The concept of specialization was used by David Ricardo in 1817 to show benefits in international trade. Each country must specialize in commodities that can be produced efficiently for export to other countries, importing commodities that cannot be produced efficiently from other countries. So that this concept can be better understood, the following examples are used of two countries, Thailand and Indonesia with two different commodities, for example rice and cement. Principle of Comparative Advantage As previously stated, export and import trade between countries occurs not because one country has an absolute advantage over other countries, but because one country has a comparative advantage.

Absolute advantage is the ability of a country to produce more goods than other countries using the same amount of input. Comparative advantage is the ability of a country to produce goods at a cheaper opportunity cost than other countries. In calculating opportunity costs, we must look back at previous graphs of the production possibilities frontier. For example, the opportunity cost lost if Thailand specializes in producing 100 tons of cement is not producing 200 tons of rice. Mathematically, 1 ton is worth the same as 2 tons of rice (200/100 tons). On the other hand, the lost opportunity cost if Indonesia specializes in producing 80 tons of cement is not producing 80 tons of rice. Mathematically, 1 ton of cement is worth the same as 1 ton of rice (40/40 tons). International trade is different from domestic trade. Domestic trade that takes place within a country has almost no barriers whatsoever. This is different from international trade. There are at least two major obstacles that prevent international trade from continuing smoothly, namely the problem of economic protectionism by developed countries (through several tools: embargoes, tariffs, quotas), and the problem of exchange rates.

International trade, the process of exchanging goods and services will involve many countries. Problems will arise if certain domestic group interests object to the ongoing international trade. To protect the interests of domestic groups from threats to the flow of goods and services from abroad, the state will counter this with political policies in the form of implementing tariffs and quotas. This is what is known as protectionism. If every country in the world has different protective policies, then this will become an obstacle to the ongoing international trade process. To answer various international trade problems, various international economic theories have been developed. In fact, specifically after World War II, international institutions were formed which were expected to be able to overcome these international economic problems. There are four main economic institutions which are expected to become the cornerstones of the world economy, namely: 1. GATT (General Agreement on Tariffs and Trade). 2. Bretton Woods exchange rate system. 3. International Monetary Fund (IMF). 4. World Bank (World Bank).

Even though various theories have been developed and various international institutions have been established, in reality the problem of international trade is still a nightmare, especially for poor countries and developing countries like Indonesia. In fact, many parties are increasingly suspicious of the existence of these international institutions. This institution is considered to have been established only as a cover to preserve the imperialism of advanced industrial countries against poor and developing countries rather than as a solution to realizing a just world economic order.

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**Economic Growth**

Economic growth is an increase in the long-term capacity of the country concerned to provide various economic goods to its population. A strong economy is reflected in high economic growth. The economic growth of a country can be influenced by the existence of an open economic system (Todaro and Smith, 2013). Next according to Adam Smith explained that economic growth is a process of combining population growth with technological progress. In line with David Ricardo, he stated that economic growth is a process of attraction between two forces, namely "the law of diminishing returns" and technological progress. Apart from that, proponents of classical economic growth theory really prioritize liberal or laissez faire principles, where all economic activities are expected to be free without any government interference, in this case supporting economic openness, both trade openness and financial openness. The linear growth theory stages of growth theory developed by Rostow, also formulates development patterns through 5 stages including 1) Modern economic stage; 2) Take-off precondition stage; 3) Take off stage; 4) stage towards maturity and 5) stage towards high consumption. Furthermore, the economic growth theory according to Harrod–Domar also explains the same thing, to achieve a steady level of economic growth in a country's economy lies in the active role of investment Jingan (2014). Harrod-Domar stated that the level of investment in a country can make a major contribution in encouraging economic growth, especially. On the basis that investment has two major objectives in the economy, namely as a source of income and capital to increase production capacity.
The mathematical model used by Solow is the Cobb-Douglas function with the equation:

$Y = AK^{\alpha}L^{\beta}$ , $\alpha+\beta=1$

Where: Y = Total production, A = Technology level, K = Capital or total capital stock and L = Number of workers. This equation can be linearized to obtain:

$$\ln Y = \ln A + \alpha \ln K + \beta \ln L$$

Next, by differentiating this equation regarding K and L, growth is obtained

$$\frac{dY}{Y} = \alpha \frac{dK}{K} + \beta \frac{dL}{L}$$

Furthermore, Solow's basic model can also be written, if at technology is also known to be developing at year t then the growth of Neo Classical can be written as (Doepke, M., at al. 1999)

$$\ln Y_t = \alpha \ln A_t + \alpha \ln L_t + (1-\alpha) \ln K_{t-1}$$

Thus, growth between the years t and t + k, where k is some positive integer.

$$\ln Y_{t+k} - \ln Y_t = \alpha(\ln A_{t+k} - \ln A_t) + \alpha(\ln L_{t+k} - \ln L_t) + (1-\alpha)(\ln K_{t+k-1} - K_{t-1})$$

So, it can be seen that growth is the elasticity of capital times its growth plus the elasticity of labor plus the growth of labor. There is a level of economic growth that comes from 3 sources, namely capital accumulation, increasing the number of workers and improving technology.

Neoclassical economic growth theory is known as the Solow growth model. This model was built to determine how the influence of capital stock growth, labor force growth, and technological progress interact in the economy, as well as how they affect the output of goods and services in a country as a whole. According to Solow's theory, there are several things that can be done to stimulate economic growth. Increasing the savings portion will increase capital accumulation and accelerate economic growth. Apart from that, increase appropriate investment in the economy, both in physical and non-physical forms. Encouraging technological progress can increase income per worker so that providing opportunities for innovation in the private sector will have a big influence on economic growth. Technological advances, many economists view this component as the most important. Technological progress in its simplest form, technological progress occurs due to improvements in old ways of completing work that was previously carried out traditionally (Cypher and Dietz, 2004). In the development process, economic growth, science and technological development have a broader role besides

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capital as recommended by endogenous growth theory (new growth theory). Science and technology can be the main input to encourage desired economic growth with the assumption that technology is not only exogenous but endogenous.
Endogenous growth theory which attempts to explain that the sources of growth are increased capital accumulation in a broad sense. Capital in this case is not only physical but also non-physical in the form of science and technology. This technological development will develop innovation thereby increasing productivity and leading to increased economic growth. New discoveries originate from the learning by doing process, which can give rise to new discoveries that increase production efficiency. This efficiency can increase productivity. So, in this case the quality of human resources is a factor that influences economic growth. The endogenous growth model emphasizes human capital and research and development (R&D), the main drivers of economic growth.

The Method

This type of the research is quantitative, take the type of study of comparative causality that processes numerical data that can be calculated using statistical formulas. The data analysis technique used in this study is path analysis which estimates of the direct and indirect influence of exogenous variables on endogenous variables. This study uses secondary data, namely data that is already available and collected by other parties and it was panel data. The data was taken from the Indonesia Central Statistics Agency (BPS) and The Indonesian Ministry of Trade and the Ministry of Investment which covers 34 provinces in Indonesia in the 2017-2022 period, although Indonesia currently consists of 37 provinces, data requirements have not been met. The statistical analysis technique used is path analysis using the Amos 18 statistical application program.

Based on the conceptual relationship in the framework of thinking, mathematically functional relationships can be written as

Y1 = f (X1, X2, X3 X4, X5, X6) .....(3.1)

Y2= f (X1, X2, X3, X4, X5, X6, Y1) .....(3.2)

whereas:

X1 = domestic investment (domestic investment, IDR)

X2 = foreign investment (direct investment from abroad, United States dollars)

X3 = oil and gas exports (US dollars)

X4 = non-oil and gas exports (US dollars)

X5 = Oil gas imports (United States dollars)

X6 = non-oil gas import (purchase of non-oil gas from abroad, United States dollars)

Y1 = economic growth (increase in the number of goods and services, %)

Y2 = welfare (people welfare in this case measured by HDI)

The structural equation can be rewritten:

$$\ln Y_1 = \alpha_0 + \alpha_1 \ln X_1 + \alpha_2 \ln X_2 + \alpha_3 X_3 + \alpha_4 \ln X_4 + \alpha_5 \ln X_5 + \alpha_6 \ln X_6 + \mu_1 \quad \ldots\ldots\ldots\ldots (3.3)$$

$$\ln Y_2 = \beta_0 + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 X_6 + \beta_7 Y_1 \mu_2 \ldots\ldots\ldots (3.4)$$

By substituting equation (3.3) into equation (3.4), we get the equation

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$$\ln Y_2 = \beta_0 + \beta_1 \ln X_1 + \beta_2 \ln X_2 + \beta_3 X_3 + \beta_4 \ln X_4 + \beta_5 \ln X_5 + \beta_6 X_6 + \beta_7 (\alpha_0 + \alpha_1 \ln X_1$$

$$+ \alpha_2 \ln X_2 + \alpha_3 \ln X_3 + \alpha_4 \ln X_4 + \alpha_5 \ln X_5 + \alpha_6 \ln X_6 + \mu_1)$$

$$\ln Y_2 = (\beta_0 + \alpha_0 \beta_7) + (\beta_1 + \alpha_1 \beta_7) \ln X_1 + (\beta_2 + \alpha_2 \beta_7) \beta_2 \ln X_2 + (\beta_3 + \alpha_3 \beta_7) X_3 +$$

$$+ (\beta_4 + \alpha_4 \beta_6) \ln X_4 + (\beta_5 + \alpha_0 \beta_5) \ln X_5 + (\beta_6 + \alpha_0 \beta_6) \ln X_6 + (\beta_6 \mu_1 + \mu_2) \ldots\ldots \quad (3.5)$$

Take

$$\beta_0 + \alpha_0 \beta_7 = \varphi_0; \quad \beta_1 + \alpha_1 \beta_7 = \varphi_1; \quad \beta_2 + \alpha_2 \beta_7 = \varphi_2; \quad \beta_3 + \alpha_3 \beta_7 = \phi_3$$

$$\beta_4 + \alpha_4 \beta_7 = \varphi_4; \quad \beta_5 + \alpha_5 \beta_7 = \varphi_5; \; \beta_6 + \alpha_6 \beta_7 = \varphi_6$$

So, equation (3.5) can be written

$$\ln Y_2 = \varphi_0 + \varphi_1 \ln X_1 + \varphi_2 \ln X_2 + \varphi_3 X_3 + \phi_4 \ln X_4 + \varphi_5 \ln X_5 + \varphi_6 \ln X_6 + \mu_3$$

## RESEARCH FINDINGS

Paying attention to the results of data processing (Figure 5), it turns out that to get a good model, education cannot be included as one of the four variables that influence beef production. Thus, there are only 3 variables that influence production (contrary to Figure 3) so that regression equations can be formed (the bottom part of the equation shows the probability or significant level).

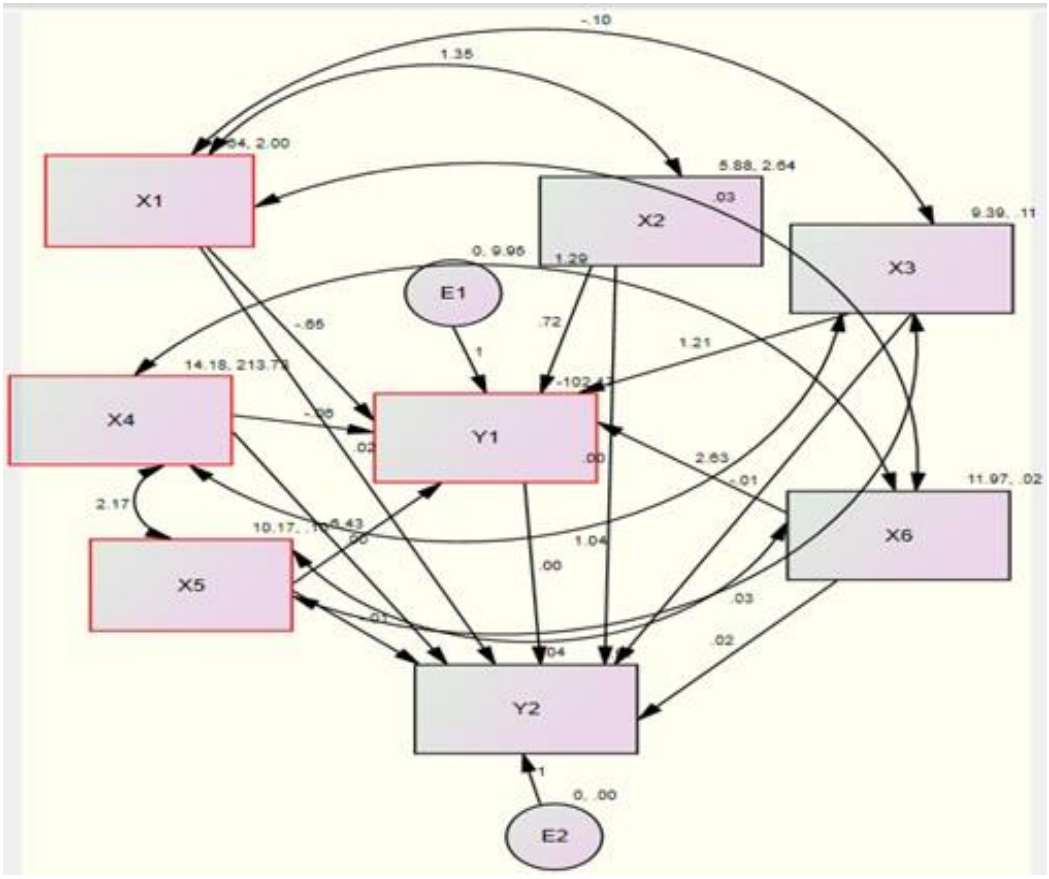


Figure 4. Variable Coefficients untuk Pertumbuhan Ekonomi dan Prosperity

Recourse: Amos 18 data processing results.

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In accordance with the proposed framework (Figure 3), which shows the existence of a relationship (both direct and indirect), data processing in this study uses the Amos program package, so that estimation results are obtained (Figure 5).

**Estimates (Group number 1 - Default model)**

**Scalar Estimates (Group number 1 - Default model)**

**Maximum Likelihood Estimates**

**Regression Weights: (Group number 1 - Default model)**

| | | | Estimate | S.E. | C.R. | P |
|---|---|---|---|---|---|---|
| EconomicGrowth | <--- | NonOilGasImport | 2.631 | 4.069 | .647 | .518 |
| EconomicGrowth | <--- | OilGasExport | 1.209 | .806 | 1.499 | .134 |
| EconomicGrowth | <--- | DomesticInvest | -.650 | .191 | -3.412 | *** |
| EconomicGrowth | <--- | ForeignInvest | .722 | .159 | 4.539 | *** |
| EconomicGrowth | <--- | NonOilGasExport | -.057 | .019 | -3.034 | .002 |
| EconomicGrowth | <--- | OilGasImport | 6.427 | 1.810 | 3.551 | *** |
| Prosperity | <--- | NonOilGasImport | .023 | .061 | .383 | .702 |
| Prosperity | <--- | NonOilGasExport | .000 | .000 | -.362 | .717 |
| Prosperity | <--- | DomesticInvest | .022 | .003 | 7.599 | *** |
| Prosperity | <--- | OilGasExport | -.009 | .012 | -.774 | .439 |
| Prosperity | <--- | ForeignInvest | -.003 | .002 | -1.268 | .205 |
| Prosperity | <--- | EconomicGrowth | -.001 | .001 | -.813 | .416 |
| Prosperity | <--- | OilGasImport | -.007 | .028 | -.240 | .810 |

Figure 5. Intercept, Elasticity and Probability (P) of Regression Weight.

Resource: Amos 18 Data Processing Results.

**Intercepts: (Group number 1 - Default model)**

| | Estimate | S.E. | C.R. | P | Label |
|---|---|---|---|---|---|
| EconomicGrowth | -102.172 | 36.960 | -2.764 | .006 | |
| Prosperity | 3.973 | .562 | 7.067 | *** | |

Figure 5. Scalar Estimates of Welfare

Resource: Amos 18 data processing results.

## RESULT AND DISCUSSION

### Model fit test

Chi-square statistic, as stated earlier, is the most fundamental test to measure overall fit, it is very sensitive to the size of the sample used. The model is considered good if the Chi-square value is small. The smaller the value, the more feasible the research, meaning that the more it describes the match between the variance of the sample taken and the research population. The results of data processing that have been carried out using the AMOS 18 program are as shown in Table 1.

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Table 1. Goodness of Fit Index,

| No. | Goodness of Fit Measure | Cut-off Criteria | Estimation (Cut-off Value) | Fit Situation |
|---|---|---|---|---|
| 1 | Chi-Square (Significance Probability ppp) | Smaller the better ≤0.05\leq 0.05≤0.05 | 4.308 (0.744) | Fit |
| 2 | RMSEA (Root Mean Square Error of Approximation) | ≤0.05\leq 0.05≤0.05 | 0 | Fit |
| 3 | NFI (Normed Fit Index) | ≥0.95\geq 0.95≥0.95 | 0.995 | Fit |
| 4 | IFI (Incremental Fit Indices) | ≥0.95\geq 0.95≥0.95 | 1.003 | Fit |
| 5 | CMIN/DF (Minimum Sample Discrepancy Function) | ≤2.00\leq 2.00≤2.00 | 0.615 | Fit |
| 6 | TLI (Tucker Lewis Index) | ≥0.95\geq 0.95≥0.95 | 1.016 | Fit |
| 7 | CFI (Comparative Fit Index) | ≥0.95\geq 0.95≥0.95 | 1 | Fit |
| 8 | Hoelter's Index | ≥200\geq 200≥200 | 778 | Fit |

Sumber: Malkanthie, 2015; Wan, 2002. and Amos Result

The estimation results shown in Figure 2 can be written as a regression equation in the form of natural logarithm

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| $\ln \hat{Y}_1 = -102.172 - 0.650 \ln X_1 + 0.722 \ln X_2 + 1.209 \ln X_3 - 0.057 \ln X_4 + 6.427 \ln X_5 + 2.631 \ln X_6$ ....(3.6) | | | | | | | |
| Sig.: | 0.006 | 0.000 | 0.000 | 0.134 | 0.002 | 0.000 | 0.518 |
| $\ln \hat{Y}_2 = 3.973 + 0.022 \ln X_1 + 0.722 \ln X_2 - 0.009 \ln X_3 + 0.0000 \ln X_4 - 0.007 \ln X_5 + 0.023 \ln X_6 - 0.001 \ln Y_1$ … (3.8) | | | | | | | |
| Sig.: | 0.000 | 0.000 | 0.205 | 0.439 | 0.717 | 0.810 | 0.702 | 0.416 |

Based on equations (3.6) and (3.8) or the estimation results, it is known that an increase in domestic investment causes a real decrease in economic growth at the confidence level α= 0.05%. In contrast to foreign investment which shows a positive influence on economic growth, with an elasticity of 0.72. So, if foreign investment increases by one% it will cause an increase in economic growth of 0.72%. This significance level is to meet the confidence level α= 0.05%. Thus, it is clear that the influence of domestic investment on economic growth clearly contradicts commonly known theories, namely the Harrod-Domar Theory, the theory of exogenous economic growth and also endogenous economic growth, if investment is equated with capital.

However, domestic investment should be a source of economic growth, considering that income is the same as expenditure Y= C+I +G+ X-M. This fact is in accordance with (Yedder, N. at al., 2023) which states that national investments are not considered as a source of economic growth in the country of North Africa over this extended period and suffer from a miserable economic organization and many problems in terms of political and economic instability. Likewise (Kambono & Marpaung, 2020) also shows that domestic investment has no influence on economic growth in Indonesia. On the other hand, it is also shown that foreign investment has a significant influence on economic growth, thus matching the results of this research for the domestic investment and foreign investment variables. Namun demikian secara umum investasi total (Domestic and foreign) menunjukkan pengaruh terhadap pertumbuhan ekonomi (Suprapti, at al., 2022).

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Looking at the influence on health, the results of this study show that domestic investment is the only variable among the 7 variables included in the model that has an influence on prosperity at a confidence level of α= 0.05%. The size of the elasticity in this relationship is 0.02, meaning that if domestic investment increases by 1%, it will have an impact on increasing the welfare of the population by 0.02%. So, the nature of elasticity is small inelastic, however this variable plays a very high role in improving the welfare of the Indonesian population as measured by HDI.

Oil and gas exports do not have a significant influence on economic growth at the confidence level α= 0.05%. On the other hand, non-oil and gas exports have a negative effect on economic growth at the confidence level α= 0.05% with an elasticity of -0.06, meaning that if non-magical exports increase by 1% it will reduce economic growth by 0.06%. Furthermore, this variable does not have a positive impact on increasing the welfare of the population. This fact contradicts the confusing research by (Tubagus, at al., 2023) which found that oil and gas exports have a significant effect on economic growth. Meanwhile, non-oil and gas exports have a significant effect on economic growth.

The results of this research show, as shown in equations (3.6) and (3.8), that oil and gas imports have a significant positive influence on economic growth but not on the welfare of the population. The effect of these exports on economic growth is very real at the confidence level α= 0.05%. with an elasticity of 6.43, which means it is elastic, meaning that the percentage increase in imports is greater than the percentage increase in GDP or economic growth is smaller than the growth in oil and gas imports. Contrary to oil and gas imports, non-oil and gas imports do not have a positive impact on economic growth or the level of welfare of the population.

Economic growth, which is significantly influenced by domestic and foreign investment, as well as non-oil and gas exports and oil and gas imports, apparently has no effect on prosperity. This fact is again in line with research conducted (Suprapti at al. 2023) which states that economic growth has no influence on HDI or prosperity in Bekasi Regency. It is known that economic growth does not always lead to an increase in people's capabilities both in terms of the economy and in terms of education and health (HDI indicators) because this growth could be caused by being capital intensive or labor intensive. If it is capital intensive that drives economic growth then equality will not increase as expected. As is known, investments that encourage economic growth may produce growth that is not of high quality, meaning that the growth created cannot encourage employment as expected.

## CONCLUSION AND RECOMMENDATION

### Conclusion

Based on the analysis and the results of the previous discussion, the following conclusions are drawn:

Indonesia memilki perdagangan bebas dengan banyak negara di dunia, namun belum memberikan manfaat sesuai dengan harapan yang ditunjukkan rupiah masih terdepresiasi terus atau penduduk belum mencapai kesejahteraan yang diharapkan. The research results show that foreign investment has a very real positive influence on economic growth, but domestic investment has a negative influence on economic growth. Non-oil and gas exports have a real negative influence, but oil and gas exports do not have a real influence on economic growth. Oil and gas imports have a real positive influence, but non-oil and gas imports have no influence on economic growth. All variables included in the model, namely domestic investment, foreign inversion, oil and gas exports and non-oil and gas exports, as well as oil and gas and non-oil and gas imports do not have an influence on the welfare of the Indonesian people, the only variable which has an influence on welfare, namely domestic investment.

### Recommendation

The suggestions to be put forward based on the discussion and conclusions that have been stated, among others: It is highly recommended that foreign investment be increased further, because this investment can encourage economic growth, by providing ease of licensing and security guarantees in running the business. Imports of oil and gas encourage economic growth; however, the government should be careful in importing because it is believed that imports will drain foreign exchange. It is appropriate that domestic investment continues to be

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developed by providing greater opportunities for provinces that are lagging behind by increasing Village Fund assistance or transferring village assistance from communities with a higher per capita income to provinces with a lower per capitate influence of domestic investment has a very large influence on the welfare of the Indonesian people, so it is hoped that the government and private sector will pay special attention to increasing the investment, especially domestic investment so that it can encourage economic growth which will ultimately increase human development.

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