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Research Article

DETERMINANTS OF GROSS REGIONAL DOMESTIC PRODUCT AND ITS IMPACT ON COMMUNITY WELFARE IN JAVA ISLAND

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Abstract

The relationship between Foreign Investment, Domestic Investment, Poverty, Minimum Wage, Local Original Income To Regional Domestic Product And The Impact Of Gross Regional Domestic Product On Community Welfare, With A Period Of 2010-2021 For 6 Provinces In The Java Archipelago. The analysis technique uses Ordinary Least Squares Regression (OLS) with the selection of the best model through theChow Test and the Hausman Test with the results being Fixed Effect Model. In order for the model to be precise and valid, A Classical Assumption Test is carried out. . From the selected model, it was found that Foreign Investment, Domestic Investment, Provincial Minimum Wage, Local Original Income had a significant and positive effect on Gross Regional Domestic Product with an inelastic relationship and Poverty had a significant and negative effect. While the Gross Regional Domestic Product has a significant and positive effect on people's welfare. The amount of variation of the variables Foreign Investment, Domestic Investment, Poverty, Minimum Wage, Local Original Income Affects the Gross Regional Domestic Product is 89.81 percent and the rest is influenced by variables that are not studied in this study.

Keywords: Foreign Investment, Domestic Investment, Wages, Poverty, Local Original Income, Gross Regional Domestic Product And Human Development Index.

INTRODUCTION

Indonesia's Economic Development has made significant progress since independence, although it is still faced with various challenges and problems. Indonesia is able to achieve rapid economic growth, reduce poverty rates, and improve the welfare of its people. Based on the traditional paradigm of economic development as the sustainable growth of a country's gross domestic product. According to Kuncoro (2010), economic development focuses on increasing the gross regional domestic product of a province, region, or city. The modern paradigm of economic development is seen from the increasingly even distribution of income, reduction of poverty and reduction of unemployment. This perspective has led to a paradigm shift in development, which according to Kuncoro (2010) development should be seen as a multidimensional process. Some economists still adhere to the foundation of economic growth put forward by Solow and tend to conclude that growth is determined by factors outside the economy and does not depend on whether or not economic policies are strongly implemented. While Jhingan (2000), the factors that affect economic growth are economic factors and non-economic factors. economic factors that affect economic growth include natural resources, human resources, capital resources, and expertise or entrepreneurship. Noneconomic factors include socio-cultural conditions that exist in society, political conditions, and institutions and systems that develop and operate. Rapid economic growth does not necessarily lead to equal distribution of income, in economic development there is a kind of compromise between high economic growth and income equality. When economic development is more oriented towards income equality, it takes a relatively long time for economic growth to reach a high growth rate.

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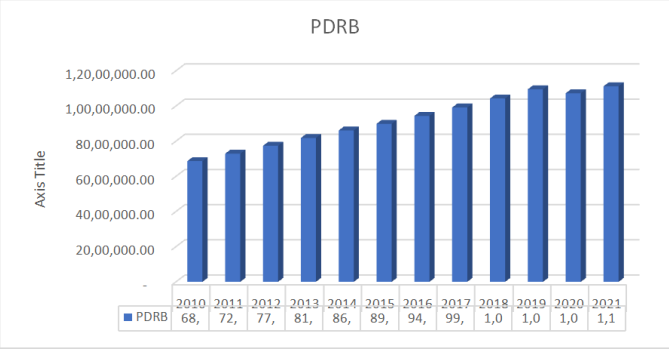
Conversely, If development is more oriented towards high growth rates, income distribution inequality becomes greater (Kuncoro, 2010). Gross Regional Domestic Product is the sum of all final goods and services or all added value produced by a region over a certain period of time (1 year), Arta (2013). The following is an overview of the development of Indonesia's gross regional domestic product value in the past 12 years.



Source: BPS 2023, Processed

Figure 1. Development of Indonesia's gross regional domestic product for the 2010-2022 Period

From Figure 1 above, it can be seen that the acquisition of indonesia's Gross Regional Domestic Product 2010-2021 as a whole has increased where in 2010 it was 6,864,133.13 billion rupiah and in 2019 it was 10,949,155.40 billion rupiah, due to the covid-19 pandemic, the development of Indonesia's gross regional domestic product decreased to 10,722,999.30 billion rupiah, but again increased to 11,120,077.90 billion rupiah in 2021. Factors that affect the value of Gross Regional Domestic Product are Domestic Investment (DI), Wages, Local Original Income, Foreign Direct Investment, Third Party Funds AndIslamic Banking Financing, Unemployment And Poverty. This is in line with the results of research from (Sugianto *et al.,* 2021), (Yolanda & Cicih, 2018), (Darwanti *et al.,* 2021),

(Harjanto *et al.,* 2021)and (Yolanda *et al.,* 2021). After examining the factors that affect the value of Gross Regional Domestic Product above, The condition of the Gross Regional Domestic Product will have an impact on Human Development or Human Development Index. The Human Development Index is one of the indicators that can be used to measure the success rate of Human Quality Development. The Human Development Index was first introduced by the United Nations Development Programme (UNDP) in 1990. The Human Development Index is built through a basic three-dimensional approach namely longevity and healthy living, knowledge and decent living standards. To measure the dimensions of longevity and healthy living, life expectancy indicators at birth are used. Furthermore, to measure the knowledge dimension, a combination of indicators of expected length of schooling and average length of schooling are used. And to measure the dimensions of the standard of living worth using indicators of purchasing power.

LITERATURE REVIEW

Gross Regional Domestic Product is one of the indicators used in measuring the economic value of a region or region. Gross Regional Domestic Product describes the value of all goods and services produced by economic sectors within a region within a given period of time. The calculation of Gross Regional Domestic Product can be based on the added value produced by each sector of the economy, based on the income received by the factors of production and based on the total final expenditure in the economy. The 3 methods should be balanced and reflect the magnitude of the value Gross Regional Domestic Product within a region or country. While (Case & Fair, 2007) expressed GRDP can be calculated in two ways. (1) Sums all total expenses for the final product over a period of time. (2) Summing up the income, wages, rent, interest, and profit - received by all factors of production in producing the final product. The value of Gross Regional Domestic Product can be influenced by Investment, Household Consumption, Net Exports/Imports, Infrastructure, Labor Productivity, Technology, Government Policies and economic and social risks faced by a country.

Foreign Direct Investment is an investment made by a foreign party**.** Investment is an investment in a business, with the aim of increasing the wealth of a company or business entity. another definition of investment is goods purchased by an individual or business to supplement its capital stock(Mankiw,2010). And (Todaro, 2000), meanwhile investment is considered as a resource that will be used to increase income and consumption in the future. Investment has an important role in determining the amount of output and income. With the greater investment, it is expected to encourage economic growth in allocating existing resources. According to (Rofii and Ardyan, 2017), there is a positive relationship between investment formation and economic growth in a country. Research results from (Mykytiuk *et al.,* 2020)which states that foreign direct investment is one of the sources of growth in a country's Gross Domestic Product. (Nguyen *et al.,* 2021) And (Setyowati, 2023)states That Foreign Direct Investment has a positive effect on Gross Regional Domestic Product.

Domestic investment is an investment activity to do business in the territory of the unitary state of the republic of Indonesia carried out by domestic investors using domestic capital. Provisions Regarding Investment are regulated in law No. 25 of 2007 concerning investment. Investment in the country has an important role in the economic development of a country. This investment can increase production, create jobs, boost economic growth, and improve people's welfare. This is in line with research from (Feriyanto *et al.,* 2019) and (Istiqomah *et al.,* . While (Adi and Dewi, 2020) And (Fitriady, Silvia, &; Suriani, 2022)states the insignificance of the relationship between Domestic Investment and Gross Regional Domestic Product.

Poverty can be viewed from two points of view: absolute poverty and relative poverty. Absolute poverty and relative poverty are concepts of poverty that refer to material wealth related to the standard of living of a person or family. These two terms refer to the social differences that exist in society based on the distribution of income. (Stiglitz, 2005)explaining that poverty has many meanings, concluding that poverty is a condition that society wants to avoid. Poverty has a very strong relationship to economic growth, if the economy in a high country can decrease poverty on the contrary, if the regional economy is low then poverty will rise, (Anwar &; Fatmawati, 2018). Poverty can affect gross regional domestic product, research suggests (Wulandari, Narmaditya, Prayitno, Ishak, &; Asnan, 2019)which states the form of relationship that occurs is negative for the short term. Other studies that discuss are: (Bado *et al.,* 2023).

Wages, according to (Mankiw, 2007) can affect labor productivity. While the provincial minimum wage is known as the minimum wage set by the government or the competent authority for workers in a particular region or region. The Provincial Minimum Wage is the lowest amount payable to workers for any given hour worked or period worked. The Provincial Minimum Wage is usually set by the government based on social, economic, and fair considerations, with the aim of protecting workers' rights, preventing labor exploitation, and maintaining workers' welfare levels. In addition, the provincial minimum wage aims to provide workers with a decent minimum standard in terms of adequate wages. This will have an impact on the value of the Gross Regional Domestic Product, the study suggests (Abdullah & Hasbiullah, 2023), (Maysari, 2022), (Herlina & Permata Rahmi, 2022) and (Saputri and Usman, 2020).

Local Revenue is regional revenue derived from regional taxes, regional levies, results of regionally owned companies, results of segregated regional wealth management and other legitimate local original revenues. According to Law Number 33 Of 2004 Concerning Financial Balance Between The Central Government And Regional Governments (2004) article 1 point 18,Regional Original Revenue is revenue obtained by regions collected based on the regulations of each region in accordance with laws and regulations(Mardiasmo, 2009). The Original Income of this region can affect the Gross Regional Domestic Product, this is stated by (Rasid and Waluyo, 2012), (Agustina and Hadi, 2021), (AKHADI, 2021) and (Arum Sari *et al.,* 2022).

Community Welfare according to UNDP measured based on calculations *Human Development Index* (HDI). This Index Is formed by 3 (three) basic dimensions, namely: (1) health dimension (health index), (2) knowledge dimension (knowledge index) and (3) decent standard of living dimension (expenditure index). Community Welfare can be influenced

one of which is the Gross Regional Domestic Product, this is stated by the results of the study (Chaironi and Aji Prakoso, 2022), (Maulana, Economics, Business, &; Malikussaleh, 2022) and (Ichsan and Nila Pindri Saputri, 2023). Meanwhile (Susanto, 2021) And (Suhartono, 2022)states that Gross Regional Domestic Product (GRDP) has no impact on hdi.

RESEARCH METHODOLOGY

This study uses panel data, namely cross section 6 provinces on the island of java and time series: 12 years (2010 – 2021). The research method used is the quantitative method, where according to (Sugiyono, 2017) that quantitative methods because research data are in the form of numbers and analyzed using statistics. the variables in this study are independent variables are Foreign Investment (X_1), Domestic Investment (X_2), Number Of Poor People (X_3), Provincial Minimum Wage (X_4). Local Original Revenue (X_5). And the dependent variables are Gross Regional Domestic Product (Y) And Community Welfare / HDI (Z). The data analysis used in this study is a regression estimation panel data to measure the effect of Foreign Investment, Domestic Investment, Provincial Minimum Wage and Local Original Revenue on Gross Regional Domestic Product and its impact on community welfare in 6 provinces on the Island Of Java. To achieve the research objectives, data analysis in this study will be carried out through econometric models with the help ofthe*EviewsProgram Version 10*with the following stages:

1) Descriptive Statistics

Descriptive statistics are statistics that function to descriptive or describe the object under study through sample or population data as it is without conducting analysis and making conclusions that apply to the public (Sugiyono, 2017).

2) Classical Assumption Test

According to (Basuki and Prawoto, 2017) the normality test is basically not a condition of BLUE (*Best Linear Unbias Estimator*), But normality is included in one of the conditions of classical assumptions. In addition, autocorrelation usually occurs with data *time series* because it is concentually data *time series* is the data of one individual observed in a span of time (Nachrowi, 2006). And The Test Results Produced in this study are norm data, there are no heteroscedacity problems, multicollinearity and autocorrelation.

3) Granger Causality Test

Causality *Granger* is a test used to see the causality or reciprocal relationship between two research variables so that it can be known whether the two variables statistically influence each other which has a two way or reciprocal relationship, has a unidirectional relationship or there is absolutely no relationship that affects each other (Gujarati, Porter, Mardanugraha, Warhani, &; Mangusong, 2015). And the results of the study obtained that there was no causality relationship from the relationship of each variable.

4) Panel Data Model Regression

In the panel data regression estimation technique, There are four models used, namely the OLS model pooledtype Fixed Effect Least Square Dummy Variable (LSDV), Model Fixed Effect within-group, and Model Random Effect (Gujarati Et Al, 2015). While (Basuki and Prawoto, 2017) states that there are three models used in panel data regression, namely the model with the OLS Method, The Model Fixed Effect, and Model Random Effect. In General, there are three panel data regression estimation techniques, namely Common Effect Model, Fixed Effect Model and Random Effect Model. Panel models can be formulated as follows:

$$Yit = B_0 + B_1 Xit + Mit; I = 1, 2, ...,N; T = 1, 2, ...,T \quad ..... (1)$$

Where:
N = Number of *Cross Section* (6 Provinces)
T = Number of Time Series (2010-2021)
N X T = Amount of Panel Data

5) Selection of the best panel model

To Determine and select the right panel data model from the three existing panel data regression estimation models, several tests are needed including: a) Chow *Test (Common* Effect Vs Fixed Effect Model), b) Hausman Test (Fixed Effect Model (FEM) Vs Random *Effect* Model (REM)), c) *Lagrange Multiplier(LM) Test*(*Model Common Effect* Vs. *Random Effect Model).*

6) Hypothesis Testing

a) Test F

The F Test is a test to see the effect of all independent variables on the dependent variable. The F test basically shows whether all the independent variables included in the model have an influence together on the dependent variable (Ghozali, 2016).

b) Test T

The t-test is used to determine how far the independent variable partially has an individual influence on its dependent variable. This t-test aims to test the regression coefficient individually. in the t-test, the value seen is the t-count value (t-statistic). The calculated t-value (*t-statistic*) is used to partially test the effect on the dependent variable.

7). Regression Analysis

According To (Kuncoro, 2010) regression is a process of systematically estimating what is most likely to happen in the future based on past and present information so that errors can be minimized. Regression is also defined as an attempt to predict future changes. So, regression is about curiosity what happens in the future to contribute to determining the best decision. the regression function model is:

The Multiple Linear Regression *Equation* is as follows:

a) Model I Regression Equation

$$Y = f(X_1,X_2, X_3, X_4,X_5)$$
$$Y = B_0 + B_1X_1 + B_2X_2 + B_3X_3 + B_4X_4 + B_5X_5 + E_t$$

b) Model II Regression Equation

$$Z = f(Y)$$
$$Z = B_0 + B_1Y + E_t$$

8) Coefficient of Determination (R2)

The coefficient of determination R_2measures how far the model is capable of explaining the variation of the independent variable (Gujarati *et al.,* 2015). R^2can be calculated by the formula (Winarno, 2009)

$$R^2 = \frac{ESS}{TSS} = 1 - \frac{RSS}{TSS}$$

RESULT AND DISCUSSION

Java Island is surrounded by waters, where geographically, the location of Java Island is directly adjacent to The Indian Ocean to the South, Bali Strait to the East, Sundastrait to the West and the Java Sea to the North. Java Island has an area of about 126,700 km^2 with a population of about 160,293,748 people. And the number of population makes Java Island the Island with the largest and most populous population in Indonesia. Java Island is divided into six provinces, namely, DKI Jakarta province, West Java province, Central Java province, Yogyakarta di province, East Java province, Banten province.

A. Descriptive Statistical Analysis

The descriptive analysis in this study is used to determine the general picture of Gross Regional Domestic Product and the factors that influence it in Java Island In 2010-2021. here is an overview of the Human Development Index and the factors that influence it.

Table 1. Descriptive statistical results

	Y	X_1	X_2	X_3	X_4	X_5	Z
Mean	146294.3	4166.567	27484.00	2724939.	392.3492	3.36E+10	79.08750
Median	146372.8	4115.350	16662.10	2900000.	373.9800	3.53E+10	79.29500
Maximum	174941.7	6429.300	62094.80	4276350.	498.2900	5.19E+10	81.11000
Minimum	111528.9	2591.100	4598.500	1118009.	312.1800	1.29E+10	76.31000
Std. Dev.	22606.76	986.8798	21729.15	1037697.	54.49380	1.19E+10	1.621762
Skewness	-0.105587	0.695149	0.387729	-0.195963	1.014402	-0.271161	-0.323176
Kurtosis	1.623662	3.539943	1.438182	1.876365	3.251942	2.048681	1.771717
Jarque-Bera	0.969451	1.112233	1.520306	0.708081	2.089760	0.599560	0.963225
Probability	0.615866	0.573432	0.467595	0.701847	0.351734	0.740981	0.617786
Sum	1755531.	49998.80	329808.0	32699268	4708.190	4.04E+11	949.0500
Sum Sq. Dev.	5.62E+09	10713249	5.19E+09	1.18E+13	32665.31	1.57E+21	28.93122
Observations	72	72	72	72	72	72	72

Source: Research Results

Based on the table above, data from all variables are normal with skewness values ranging between -2 and 2 (Ghozali, 2016a). The variation of the data used is low which is described by a standard deviation value smaller than the mean value. The Jarque-Berastatistics reveal that the data is normally distributed considering the probabilty value is greater than α = 5%.

B. Panel Data Regression Analysis

Based on the test results of the data model selection, the selected panel is the Fixed Effect Model. the following is an explanation of the panel data regression model obtained:

Table 2. Fixed effect models

Variable	Model 1			Model 2		
	Coeff	ONE	Prob	Coeff	ONE	Prob
Ln. GRDP						
C	5.416482	0.537943	0.0000			
Lnx1?	0.013645	0.006426	0.0378			
Lnx2?	0.014950	0.004597	0.0019			
Lnx3p?	0.272279	0.031925	0.0000			
Lnx4?	-0.104025	0.038144	0.0083			
Lnx5?	0.085679	0.032771	0.0112			
Ln IPM						
C				2.30778	0.06110	0.0000
Lnp GRDP?				0.18817	0.00582	0.0000
_JAKARTA--C	0.968796			-0.173266		
_JABAR--C	-0.211370			0.020558		
_JATENG--C	-0.262323			0.035367		
_YOGYA--C	-0.363434			0.156259		
_JATIM--C	0.070303			-0.038549		
_BANTEN--C	-0.201972			-0.000370		
R-Squared	0.898360			0.889540		
Adjusted R-Squared	0.898091			0.888574		
F-Statistic	3713.789			1024.842		
Prob(F-Statistic)	0.000000			0.000000		

Source: Diolah Eviewss Version 10

Based on table 5 above after selecting the best model through the Chow and Hausman Tests, where the best model of model 1 and model 2 is the Fixed Effect Model. Model 1 obtained the panel data regression equation as follows:

$$LnY = 5.416482 + 0.013645 \ln X_1 + 0.014950 \ln X_2 + 0.272279 \ln X_3 - 0.104025 \ln X_4 + 0.085679 \ln X_5.$$

The results of the equation show that overall the variables of Foreign Investment, Domestic Investment, Provincial Minimum Wage, Regional Original Income have a significant effect on Gross Regional Domestic Product in the form of an inelastic relationship. Meanwhile, the number of poor people has a regression value of - 0.104025 Meaning that if the value of the variable poverty mining is 1 unit, then the value of Gross Regional Domestic Product decreases by 0.104025 and the form of the relationship that occurs between Poverty and GRDP is significant, negative and inelastic (the value of the poverty coefficient is smaller than one (E < 1)).
model equation 2 of the model obtained a simple linear regression equation as follows:

$$LnZ = 2.307782 + 0.188169\ LnY$$

The results of the equation show that the regression value of (C) Is 2.307782 meaning that if the welfare variable does not change / constant, then the value of community welfare(Y) is 2.307782. And the regression value of Y is 0.188169, meaning that if the value of the variable Welfare (Z) is 1 unit, then the value of Welfare increases by 0.188169 and the form of the relationship that occurs between Gross Regional Domestic Product (Y) and Welfare (Z) is significant, positive and inelastic, (the value of the coefficient of Gross Regional Domestic Product is smaller than one). Based on table 5 above, it can also be known the prediction of the potential of provinces that produce the highest Gross Regional Domestic Product owned by Jakarta. The economy of DKI Jakarta in 2020, although declining, is still high among other provisions, it is still supported by the growth of several main business fields, namely the processing industry, wholesale and retail trade and motor vehicle repair, construction, and information and communication.

In addition, DKI Jakarta is the capital of the country with a high level of economic activity. The highest potential human development index from provinces in Java Island is Yogyakarta Province. Not too much population growth but high economic activity due to a high tourism visit as well, so as to reduce poverty and unemployment, and people's welfare is guaranteed. High development indices can be reflected by income inequality, low inequality of health education. This F test to see the simultaneous effect of the independent variable on the dependent variable in a regression model 1 is shown by F statistics 3713.789 with a probability value of 0.000000 < 0.05, which means that the variables of Foreign Investment, Domestic Investment, Provincial Minimum Wage, Number of Poor People and Local Original Income on Gross Regional Domestic Product. And model 2 is F calculate 1024.842 and the probability value is 0.000000 so the conclusion is reject H_0Whichmeans that Gross Regional Domestic Product simultaneously or together affects Welfare. To measure how far the model's ability to explain variations in the dependent variable is shown by (1) For model 1 the *R-Squared* Value of 0.898360 thus shows that the dependent variable can be explained by the independent variable by 89.84% and the remaining 10.16% is explained by variables outside this research model. In addition, an *Adjusted R-Squared* value of 0.898091 was obtained so that the *dependent variable was influenced by the* independent variable by 89.81% and the remaining 10.19% *was influenced by* other variables that were not used in this study. (2) Model 2: *R-Squared* value of 0.889540 thus showing that the dependent variable can be explained by the independent variable of 88.95% and the remaining 11.05% is explained by variables outside this research model. In addition, an *Adjusted R-Squared value* of 0.888574 was obtained so that the dependent variable was influenced by the independent variable by 88.86% and the remaining 11.14% was influenced by other variables that were not used in this study.

Conclusion

This study aims to see an overview of the determinants of Gross Domestic Product In Java and its implications on public welfare. The results econometrically illustrate that the variables Foreign Investment, Domestic Investment, Provincial Minimum Wage, Number Of Poor People and Local Original opinion have a significant effect on Gross Regional Domestic Product and Gross Regional Domestic Product have a significant effect on Human Development which is proxied from the Human Development Index. The direction of the relationship that occurs is unidirectional (positive) unless the number of poor people is in the opposite direction (negative). The above picture is expected for regional policymakers to reduce the decline in poor population to reduce the decline in Gross Regional Domestic Product. The relationship between poverty and Gross Regional Domestic Product is complex, and there are many variables that can influence this dynamic. In relation to other factors that affect the Gross Regional Domestic Product above, it is expected that policy makers, especially local governments, must pay attention to the increase in Gross Regional Domestic Product must be enjoyed by all people equally. Therefore, the policy formulation made must be based on regional economic policies and the need for cooperation between the government, the private sector,ngos, and society as a whole. For more thorough and extensive research results, further research is needed by adding other factors that affect the gross regional domestic product.

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