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# THE ROLE OF FOREIGN INVESTMENT & IDX COMPOSITE IMPROVING THE ECONOMY IN INDONESIA

Mahirun[1], Chairung Chaikambang[2], Muhammad Rafli Ahliansyah[3], Choliq Sabana[4], Chalimah[5], Anggrainy Putri Ayuningrum[6]

[1,3-6] Faculty of Economics and Business, Universitas Pekalongan, Indonesia
[2] Accountancy Program, Kalasin Business School, Kalasin Rajabhat University, Thailand,
*Email corresponding author: mahirun@yahoo.com

## Abstract

Our research is to test and analyze the effect of foreign investment and IDX composite on gross domestic product by including variables, inflation, Bank Indonesia interest rates, domestic investment, exports, and imports. Quarterly data is used for each variable from the Indonesian Stock Exchange and Indonesian Economic Report for the period 2008 to 2022. Multiple linear regression tests using SPPS software were carried out to test the effect of the independent variables on the dependent variable. The main finding of our research is that foreign investment is the variable that most affects gross domestic product with a positive and significant direction of influence. Another finding is that IDX composite has a positive and significant effect on gross domestic product. Inflation, Bank Indonesia interest rate, export, and import have a positive and insignificant effect on gross domestic product, while the only variable that has a negative effect on gross domestic product is domestic investment, but it is not significant.

Keywords: *gross domestic product; inflation; Bank Indonesia interest rate; IDX composite; foreign investment; domestic investment; export; import*

## INTRODUCTION

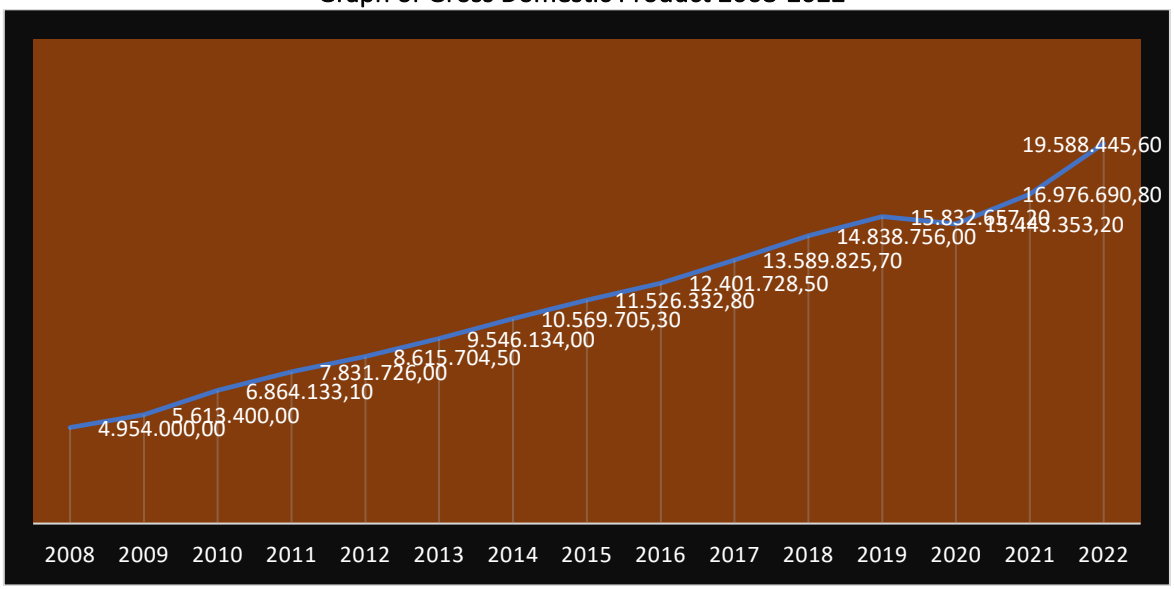
Investment has a central role in macroeconomic theory to increase a country's production capability by encouraging new production techniques (Saghir & Khan, 2012). The neo-classical growth model emphasizes the importance of investment contribution in the process of economic growth (Grier & Tullock, 1989; Barro, 1991; and Barro & Lee, 1993). Based on the Keynesian theory that the output of public investment is an increase in employment that can increase overall demand, and this results in increased public spending that will boost demand and increase productivity (Blinder, 2008). Domestic investment made in developing countries is considered insufficient to promote economic growth due to the gap between capital needs and saving ability. Therefore, foreign investment is needed to increase employment opportunities, fulfill the completeness sources to increase production and encourage exports and transfer technology for development programs and improve people's lives (Osinubi & Amaghionyeodiwe, 2010; and Arif & Shabbir, 2019).

On the other hand, King & Levine (1993) ) state that financial institutions are good predictors of economic growth rates, capital accumulation and productivity. In line with this, Carlin & Mayer (2003) concluded that there is a strong relationship between the structure of a country's financial system and economic growth. While Garretsen et al. (2004) explained that there is a causal relationship between the development of financial markets and economic growth, that the increase in economic growth is equal to 1% determines an increase in the ratio of market capitalization/gross domestic product by 0.4%. Beck et al. (2006) and Bose (2005) also found a positive correlation between capital market development and economic growth. Minier (2003) analyzing the effect of stock market dimensions on economic development found evidence that the positive effect of stock market development on economic growth occurs only in advanced stock markets in terms of turnover,

in the case of underdeveloped stock markets the effect is negative. Ergungor (2006) conveys the economic growth of a country with a more flexible judicial system, capital market development has a strong influence.

Economic development uses the gross domestic product indicator which is a measure of the monetary value of final goods and services purchased by end users and produced in a country within a certain period of time (Callen, 1993). Gross domestic product counts all output produced by a country, consisting of goods and services produced for sale in the market as well as non-market production, such as services provided by the government such as defense or education. Theoretically, gross domestic product is distinguished by three approaches, first, the production approach which is the sum of the value added in each production, where value added is defined as total sales minus the value of inputs into the production process. Second, the expenditure approach sums up the value of purchases made by end users, and third, the income approach sums up the income generated by production. Gross domestic product is one way to calculate national income, so without knowing the increase or decrease in gross domestic product growth it will be difficult to encourage economic growth. Figure 1 presents the movement of Indonesia's gross domestic product for 15 years.

Figure 1
Graph of Gross Domestic Product 2008-2022




Source: *Central Bureau of Statistics*

Over a period of 15 years, the development of Indonesia's gross domestic product has increased significantly, reaching 295.41%. On average, the gross domestic product has increased every year by 10.44%, with the highest increase in 2010 reaching 22.28%, and the lowest in 2020 reaching minus 2.46% (figure 1). Considering this phenomenon, it is very exciting for us to research further based on signaling theory, factors that affect the Indonesian economy with gross domestic product indicators which include monetary policy with inflation and Bank Indonesia interest rate indicators, investment with foreign investment and domestic investment indicators, market sentiment with IDX composite indicators and international trade with export and import indicators. We consider these factors to be very important in improving the welfare of the Indonesian people through increasing gross domestic product.

## LITERATURE REVIEW AND HYPOTHESIS FORMULATION

## 1. Literature Review

### 1.1. Signalling Theory

Akerlof (1970) introduced the concept of signalling for the first time in the context of product and labor markets. Further developments were made by Spence (1973) in signal equilibrium theory, by suggesting that good firms can differentiate themselves from bad firms by sending credible signals about their quality to the capital market. The same signal for a good company cannot be imitated by a bad company, such a signal is said to be a credible signal. The cost of signal for a bad company can be higher than for a good company, so the bad company cannot afford to imitate and give a credible signal. This signaling principle suggests that every action contains information. Ross ( 1977) states that company management with good information ownership will convey information to potential investors so that the company's share price increases.

### 1.2. Investment

Investment is a major component in driving a country's economy. Theoretically, an increase in investment will encourage trade volume and production volume which in turn will expand productive employment opportunities and will increase per capita income, gross domestic product and can improve people's welfare(Istiqomah et al., 2019). Moyo & Roux (2018) argue that Investment is positively correlated with economic growth in the long run, which confirms the theoretical expectation that investment is one of the main drivers of economic growth. Investment is defined as the use of money into financial schemes, stocks or property in the hope of achieving a return, as well as devoting (one's time or energy) to an endeavor in the hope of getting a return (SC & Cheng, 2011). While Hartono (2017) defines investment as a delay in current consumption to be used in efficient production over a period of time.

### 1.3. Indonesia Composite Index

According to the Indonesia Stock Exchange, the IDX Composite is a measure of the performance of all stocks listed on the main board and the development board that shows a statistical measure and reflects the price movement of a set of stocks as a whole. IDX composite is one of the stock market indices used by the Indonesia Stock Exchange. The IDX composite was first introduced on April 1, 1983 as an indicator of stock price movements on the Jakarta Stock Exchange. This index covers the price movements of all common and preferred stocks listed on the Indonesia Stock Exchange. There are two types of stock price indices, the Individual Stock Price Index and the Composite Stock Price Index. The Individual Stock Price Index only shows changes in a company's stock price to measure the performance of a particular stock against its base price, while the Composite Stock Price Index will show the general movement of stock prices listed on the stock exchange to measure whether stock prices have increased or decreased (Anoraga & Pakarti, 2006)

### 1.4. Economic Growth Theory

Economic growth is one of the indicators in determining the success of a country in terms of increasing production of industrial goods, developing infrastructure, increasing schools, as well as increasing production of capital goods and increasing the service sector. Many theories of economic growth have been put forward by economists, some of which are the Harrod-Domar growth theory, the neoclassical growth theory put forward by Solow, and the Schumpeter growth theory. The Harrod-Domar economic growth theory is a growth theory that uses capital accumulation, labor, and resources as factors that affect a country's economic growth, while interest rates are considered constant or fixed (Thong & Hao, 2019). Meanwhile, Solow (1956) argues that interest rates can change or are not fixed, so changes in interest rates will affect the movement of public savings and investment. Using this theory, the combined use of capital accumulation, labour, technology can affect economic growth in developing countries. Another theory that also explains economic growth

is the theory proposed by Schumpeter. Similar to Solow's theory, Schumpeter also considers that capital accumulation is an important factor in determining a country's economic growth, but Schumpeter also emphasizes the role of entrepreneurs in making every innovation in increasing productivity. Economic growth is an increase in production capacity to increase output, and uses the gross domestic product measure, which is defined as the value of a country's goods and services produced in a given year..

## 2. Hypothesis Development

### 2.1. Hypotheses for inflation and gross domestic product

The economy of a country can be analyzed using inflation, about how it affects macroeconomic variables, economic growth, external balance, competitiveness, interest rates, and even income distribution. Inflation also plays a very important role in influencing the mobilization of funds through formal financial institutions (Endri, 2008). Inflation is a dilemma that haunts the economy of every country, its increasing development provides obstacles to economic growth in a better direction. Policies to control and maintain inflation will encourage sustainable economic growth (Dinh, 2020). Research results show that inflation has a negative impact on economic growth (Moyo & Roux, 2018; Živkov et al., 2020; Hoang & Tien, 2021; and Widodo et al., 2022). Other studies show that the inflation rate has a positive impact on economic growth (Kryeziu & Durguti, 2019; and Herlina & Rahmi, 2022). Based on this description, the first hypothesis is formulated as follows:
*H1: inflation has a negative effect on gross domestic product*

### 2.2. Hypotheses for Bank Indonesia interest rate and gross domestic product

Interest rates are the price of loanable funds, the amount of which is determined by the preferences and sources of loans of various economic actors in the market. Interest rates are not only influenced by changes in the preferences of economic actors in terms of lending and borrowing but are influenced by changes in the purchasing power of money, market interest rates or prevailing interest rates change from time to time. There is a tendency for investors to invest their funds in the banking sector when interest rates rise, rather than investing in the production sector, so it can be concluded that low interest rates will be able to increase gross domestic product. This is because gross domestic product is an economic indicator to measure the total value of production produced by all people and companies (both local and foreign) in a country. Interest rates are related to gross domestic product (Tanaka, 2022), and the study of Moyo & Roux (2018) and Widodo et al. (2022) stated that interest rates have a positive impact on economic growth as measured by gross domestic product through savings and investment. Another study shows that interest rates have a negative impact on gross domestic product (Tan et al., 2020). Based on this description, the second hypothesis is formulated as follows:
*H2: Bank Indonesia interest rate has a positive effect on gross domestic product*

### 2.3. Hypotheses for IDX composite and gross domestic product

Capital market development can be used as a measure of a country's overall economic development and reflects macroeconomic conditions. According to Bank Indonesia (2022) one of the indicators that is often used to see the development of the capital market in Indonesia is the IDX composite. IDX composite is an index that uses all listed stocks as a component of the price index calculation and describes the price movements of common stocks and preferred stocks (Tandelilin, 2017). In addition, this index can be used as a mirror of Indonesia's economic conditions. The increase in the IDX composite will increase investor interest in investing, because it will have an impact on the returns received by investors. Increased investor interest in investing in the capital market will improve good economic performance, which is reflected in a country's gross domestic product. The

results showed that gross domestic product is positively influenced by the IDX composite (Barna & Mura, 2010; Edame & Okoro, 2013; and Afrizal & Farlian, 2017), The correlation between IDX composite and gross domestic product is positive and the influence of both can occur reciprocally. Capital market variables such as market capitalization, number of transactions and transaction value all have a positive and significant effect in driving economic growth. It can be argued that capital market development has a positive influence on productivity factors and economic growth (Bolbol et al., 2005). Based on this description, the third hypothesis is formulated as follows:

*H3: IDX composite has a positive effect on gross domestic product*

2.4. Hypotheses for foreign investment and gross domestic product

Foreign investment can stimulate human resource development through training, education, technology transfer, more employment and will have an impact on the household economy (Iqbal et al., 2014). Therefore, if economic growth tends to attract more foreign investment inflows, then various policies to attract foreign investment are no longer needed because they are already supported by increased economic growth. Therefore, efforts must also be made to encourage the potential of other economic sources (Agrawal, 2015). Foreign investment is the main driver of economic growth and development and that foreign investment not only increases capital formation but also improves the quality of capital stock (Evans et al., 2017). Athukorala (2003) emphasizes that there is a close relationship between foreign investment and economic growth. In line with these theories delivered by Ahmed et al. (2008); Suliswanto & Kaluge (2010) and Istiqomah et al. (2019), In their study, they found that foreign investment has a positive and significant effect on gross domestic product. Based on this description, the fourth hypothesis is formulated as follows:

*H4: Foreign investment has a positive effect on gross domestic product*

2.5. Hypotheses for domestic investment and gross domestic product

Domestic investment is an important factor for the development and improvement of economic activity in all countries. Domestic investment is a macroeconomic variable to reduce unemployment, reduce poverty, increase productivity, increase the value of exports which results in an improved trade balance, reduce debt burden and increase economic growth. Shabbir et al. (2020) emphasized that domestic investment is a better source of growth than foreign investment. Meanwhile Romer (1986) and Dahmani et al. (2022) stated the importance of domestic investment in increasing economic growth. This is emphasized by the results of research which states that domestic investment has a positive effect on gross domestic product (Istiqomah et al., 2019, and Javid, 2019). Meanwhile, Bakari & Weriemmi (2022) showed no relationship between domestic investment and economic growth in the long run. Based on this description, the fifth hypothesis is formulated as follows:

*H5 : Domestic investment has a positive effect on gross domestic product*

2.6. Hypotheses for export and gross domestic product

Export is the most important part of international trade, where a very important function of exports is that the country gains profits and national income increases, so that it will increase the amount of output and the rate of economic growth (Risma et al., 2018). Ekanayake (1999) argues that export growth contributes positively to economic growth, while Bahmani-Oskooee & Alse (1993) showed that there is a positive long-term relationship between exports and economic growth and any export promotion strategy will contribute to economic growth. Empirical results show that exports have a positive and significant impact on economic growth (Ahmed et al., 2008; Suliswanto & Kaluge, 2010; Al-yousif, 2010; Mohsen, 2015; and Modi, 2022). Retrieved from Kartikasari (2017) in her research found the effect of exports on gross domestic product is negative but not significant. Based on this description, the sixth hypothesis is formulated as follows:

*H6: Export has a positive effect on gross domestic product*

2.7. Hypotheses for import and gross domestic product

Economic growth is a continuous process, referring to an increase in productive capacity, rising incomes and flows of goods and services. Economists' views cite international trade as a driver of economic growth, with exports considered superior to imports, especially in developing economies. Export growth opens up producers to more competitive markets leading to better productivity gains and efficient resource allocation. Nonetheless, Cetintas & Barisik (2009) and Shirazi & Manap (2004) are of the view that increased demand for imports drives economic growth, thus imports have a positive relationship with economic growth. It can be interpreted that imports have a significant positive effect on gross domestic product (Mohsen, 2015). While the results of other studies explain that imports have a negative and significant effect on gross domestic product (Kartikasari, 2017; and Modi, 2022). Based on this description, the seventh hypothesis is formulated as follows:

*H7: Import has a negative effect on gross domestic product*

## RESEARCH METHODS

1. Data Collection and Sources

Secondary data was used in this study, sourced from the Indonesia Stock Exchange and Indonesian economic reports from 2008 to 2022. Inflation, Bank Indonesia interest rate, IDX composite, foreign investment, domestic investment, export, import, and gross domestic product using quarterly data and is an average of monthly data every three months. Multiple regression tests were used to answer the research objectives with gross domestic product as the dependent variable.

2. Empirical Model

Our study focuses on empirical testing of the variables that includeinflation, Bank Indonesia interest rate, IDX Composite, Foreign Investment, Domestic Investment, Exsport, and Import. The model of the empirical study is presented in figure 2.

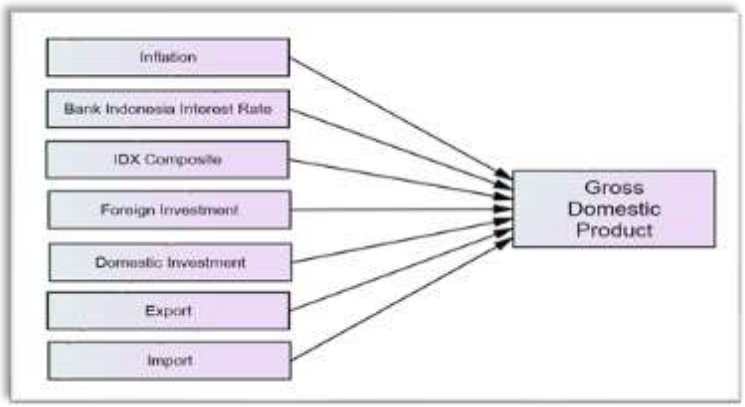



Figure 2.
Empirical Model Research

Both structures formed in figure 2 are structure states the causal relationship of variables Inf, BIrate, IDXc, FI, DI, Exp, Imp with GDP variable. In other words, based on both structures, there are structural equations formed:

$$GDP = \beta_1 Inf + \beta_2 BIrate + \beta_3 IDXc + \beta_4 FI + \beta_5 DI + \beta_6 Exp + \beta_7 Imp + \varepsilon_1$$

Where is :

GDP = Gross Domestic Product
Inf = Inflation
BIrate = Bank Indonesia Interest Rate
IDXc = IDX Composite
FI = Foreign Investment
DI = Domestic Investment
Exp = Exsport
Imp = Import

## RESULTS AND DISCUSSION

On average, inflation reached 4,74% with a high of 11,96%, and a low of 1,43%. For gross domestic product over the 15-year period, the average reached 2,102,001.06, with the highest value of 2,988,636.50, and the lowest value of 505,218.80 (table 1).

Table 1. Descriptive Statistics

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Inflation | 60 | 1.43 | 11.96 | 4.74 | 2.43 |
| Bank Indonesia Interest Rate | 60 | 3.50 | 9.50 | 5.96 | 1.53 |
| IDX Composite | 60 | 1,111.39 | 7,096.49 | 4,695.31 | 1,590.44 |
| Foreign Investment | 60 | 1,055.80 | 97,502.70 | 18,137.99 | 27,175.71 |
| Domestic Investment | 60 | 4,249.74 | 139,616.90 | 55,852.06 | 40,940.81 |
| Exsport | 60 | 7,676.37 | 26,067.49 | 14,804.26 | 3,592.77 |
| Import | 60 | 6,364.57 | 21,101.31 | 13,700.83 | 2,997.07 |
| Gross Domestic Product | 60 | 505,218.80 | 2,988,636.50 | 2,102,001.06 | 717,581.04 |

Source: *Data processed from the results of SPSS*

Pearson correlation matrix among the variables, obtain the results of all variables are not correlated (table 2). Gross domestic product and IDX composite have the highest correlation of 95.50%, while domestic investment and Bank Indonesia interest rate have the lowest correlation of minus 78.30%..

Table 2. Pearson correlation matrix

| Variable | Inflation | Bank Indonesia Interest Rate | IDX Composite | Foreign Investment | Domestic Investment | Exsport | Import | Gross Domestic Product |
|---|---|---|---|---|---|---|---|---|
| Inflation | 1 | | | | | | | |
| Bank Indonesia Interest Rate | 0.820** | 1 | | | | | | |
| IDX Composite | -0.618** | -0.747** | 1 | | | | | |
| Foreign Investment | -0.529** | -0.575** | 0.359** | 1 | | | | |
| Domestic Investment | -0.599** | -0.783** | 0.862** | 0.598** | 1 | | | |
| Exsport | -0.274* | -0.583** | 0.621** | 0.195 | 0.623** | 1 | | |
| Import | -0.229 | -0.502** | 0.675** | 0.084 | 0.556** | 0.908** | 1 | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Gross Domestic Product | -0.616** | -0.733** | 0.955** | 0.445** | 0.832** | 0.580** | 0.629** | 1 |

Source: *Data processed from the results of SPSS*

## Empirical Finding

### 1. Classical Assumption Test Results

The results of the classical assumption test (table 3) show that the data are normally distributed, there is no autocorrelation, there are no symptoms of multicollinearity from all variables, and all variables are not disturbed by heteroscedasticity.

**Table. 3. Classical Assumption Test Results**

| Classical Assumption Test | Result | | | Conclusion |
|---|---|---|---|---|
| Normality Test | Kolmogorov-Smirnov Z | | 0.742 | 0,640 > 0,05 (Data is normally distributed) |
| | Asymp. Sig. (2-tailed) | | 0.640 | |
| Autocorrelation test | Run Test (Durbin-Watson) | | 0.970 | dl :1.3429 du : 1.8804<br>dw = 0.970<br>4 – dw > du (no autocorrelation) |
| Multicollinearity Test | | Tolerance | VIF | VIF value < 10 and Tolerance value > 0,01 (there is no multicollinearity problem) |
| | Inflation | 0.242 | 4.139 | |
| | Bank Indonesia Interest Rate | 0.152 | 6.582 | |
| | IDX Composite | 0.119 | 8.392 | |
| | Foreign Investment | 0.433 | 2.311 | |
| | Domestic Investment | 0.120 | 8.313 | |
| | Export | 0.113 | 8.851 | |
| | Import | 0.109 | 9.212 | |
| Heteroscedasticity Test | | t | Sig. | Sig > 0,05 (all variables do not experience heteroscedasticity disorder) |
| | Inflation | 0.738 | 0.464 | |
| | Bank Indonesia Interest Rate | -0.788 | 0.434 | |
| | IDX Composite | 0.566 | 0.574 | |
| | Foreign Investment | -1.054 | 0.297 | |
| | Domestic Investment | -1.106 | 0.274 | |
| | Export | 0.656 | 0.515 | |
| | Import | -1.880 | 0.066 | |

Source:*Data processed from the results of SPSS*

### 2. Regression Analysis Test Result

The fit model test found that all data in the study can be used to predict the dependent variable, because the significance level is below 0.05 (Table 4).

Table 4. Model Fit Test Results

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 28,240,238,716,929.95 | 7 | 4,034,319,816,704.28 | 98.021 | 0.000[b] |
| | Residual | 2,140,192,047,722.86 | 52 | 41,157,539,379.29 | | |
| | Total | 30,380,430,764,652.80 | 59 | | | |

a. Dependent Variable: Gross Domestic Product

Source: *Data processed from the results of SPSS*

The test results of the influence of each variable on the Indonesia Composite Index variable using the regression test are shown in table 5.

Table 5. Regression Analysis Test Result

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | -171,597.547 | 356,788.344 | | -0.481 | 0.633 |
| | Inflation | 5,719.065 | 22,132.705 | 0.019 | 0.258 | 0.797 |
| | Bank Indonesia Interest Rate | 9,471.950 | 44,344.162 | 0.020 | 0.214 | 0.832 |
| | IDX Composite | 474.486 | 48.108 | 1.052 | 9.863 | 0.000 |
| | Foreign Investment | 4.958 | 1.477 | 0.188 | 3.356 | 0.001 |
| | Domestic Investment | -2.929 | 1.860 | -0.167 | -1.575 | 0.121 |
| | Exsport | 2.132 | 21.871 | 0.011 | 0.097 | 0.923 |
| | Import | 0.310 | 26.747 | 0.001 | 0.012 | 0.991 |

a. Dependent Variable: Gross Domestic Product

Source: *Data processed from the results of SPSS*

The equation obtained from table 5 with the dependent variables gross domestic product (GDP) is :

GDP = 0.019(Inf) + 0.020(BIrate) + 1.052(IDXc) + 0.188(FI) – 0.167 (DI) + 0.011(Exp) + 0.001 (Imp)
Sig = 0.797(Inf) + 0.832(BIrate) + 0.000(IDXc) + 0.001(FI) + 0.121 (DI) + 0.923(Exp) + 0.991 (Imp)

Where is :

GDP = Gross Domestic Product
Inf = Inflation
BIrate = Bank Indonesia Interest Rate
IDXc = IDX Composite
FI = Foreign Investment
DI = Domestic Investment
Exp = Exsport
Imp = Import

2.1. Testing the effect of inflation on gross domestic product

The study found that inflation has a positive and insignificant effect on gross domestic product. This means that an increase in inflation in Indonesia does not affect economic conditions, although at the same time there is a decrease in people's purchasing power. However, an increase in inflation should be of particular concern to the government because it can provide obstacles to economic growth. A well-targeted policy in controlling inflation can encourage sustainable economic growth. Our findings do not support the research that inflation has a negative impact on economic growth (Moyo & Roux, 2018; Živkov et al., 2020; Hoang & Tien, 2021; and Widodo et al., 2022), and also results stating that inflation has a positive impact on economic growth (Kryeziu & Durguti, 2019; and Herlina & Rahmi, 2022)

2.2. Testing the effect of Bank Indonesia interest rate on gross domestic product

Our findings Bank Indonesia interest rate has a positive and insignificant effect on gross domestic product. An increase in the benchmark interest rate is not able to encourage investors and potential investors to invest in the productive sector, but rather invest their funds in financial

institutions with less risk, so that the economic growth rate does not experience a significant increase. In other words, interest rate policy will be more effective if it is low, because then investment interest in the productive sector will increase. Our results do not support the research conducted by Tanaka (2022); Moyo & Roux (2018); and Widodo et al. (2022), and also research that found that interest rates have a negative impact on economic growth as measured by gross domestic product (Tan et al., 2020).

2.3. Testing the effect of IDX composite on gross domestic product

Our finding is that IDX composite has a positive and significant effect on gross domestic product. IDX composite which is an indicator of capital market development and reflects market sentiment is able to increase gross domestic product which is an indicator of Indonesia's economic growth. Capital market conditions are macroeconomic variables and a reflection of good economic conditions. so that an increase in the value of the IDX composite will increase investor interest because the expectation of obtaining a return is higher. This also proves that there is a strong correlation between capital market conditions and economic conditions in a country. Another point that can be made is the positive effect of capital market development on productivity levels, thereby increasing economic growth (Bolbol et al., 2005). Our findings support the research that states IDX composite has a positive effect on gross domestic product (Barna & Mura, 2010; Edame & Okoro, 2013; and Afrizal & Farlian, 2017).

2.4. Testing the effect of foreign investment on gross domestic product

The results of the study found that an increase in foreign investment can significantly increase gross domestic product. Resource development through various research and development activities including technology transfer, as well as the availability of employment is proven to be able to increase economic growth. Countries with limited capital and resource needs require foreign investment as the main driver of the fulfillment of these resources. a stable macroeconomic environment is very important to be a concern to encourage greater foreign investment, especially in the manufacturing and service sectors, including in labor-intensive industries. Our results support the research conducted by Ahmed et al. (2008); Suliswanto & Kaluge (2010) and Istiqomah et al. (2019).

2.5. Testing the effect of domestic investment on gross domestic product

The results of our study found that domestic investment has a negative and insignificant effect on gross domestic product. Domestic investment in our study is not able to drive the economy in Indonesia to reduce unemployment, reduce poverty, increase productivity, and also increase exports. Domestic investment is considered insufficient to drive economic growth because there is a gap between the need for capital and the ability to save. In accordance with Bakari & Weriemmi (2022) which shows there is no relationship between domestic investment and economic growth in the long run. The results of our study do not support studies that state domestic investment has a positive effect on gross domestic product (Istiqomah et al., 2019, and Javid, 2019).

2.6. Testing the effect of export on gross domestic product

Export in our study has a positive but insignificant effect on gross domestic product. The gains in national income obtained from export activities are not able to increase gross domestic product in real terms, so although the contribution is positive, it is not significant. To be able to make a real contribution in the long run, the government needs to take export policies in the form of export promotion to stimulate the business world and the industrial world to produce export-oriented goods and services. Our results do not support the empirical results which state that exports have a positive and significant impact on economic growth (Ahmed et al., 2008; Suliswanto & Kaluge, 2010; Al-yousif, 2010; Mohsen, 2015; and Modi, 2022), and does not support research Kartikasari (2017) which found the effect of exports on gross domestic product is negative but not significant.

2.7. Testing the effect of import on gross domestic product

The results found that imports have a positive but insignificant effect on gross domestic product. The increase in the flow of goods and services from imports is not able to have a real impact on economic growth. The tendency to import can make the productivity of domestic goods and services decline. However, the rapid expansion of imports, particularly imports of intermediate and investment goods, arises as a direct result of accelerated economic development and even economic restructuring. Our results do not support the research conducted by Cetintas & Barisik (2009) who argued that an increase in demand for imports promotes economic growth, thus imports have a positive relationship with economic growth (Shirazi & Manap, 2004; dan Mohsen, 2015). who argued that an increase in demand for imports promotes economic growth, thus imports have a positive relationship with economic growth (Kartikasari, 2017; and Modi, 2022).

## CONCLUSION

### 1. Conclusion

The main finding of our study is that the overall effect of the independent variables on the dependent variable (Gross domestic product) reaches 96,40% (table 6). This proves the correct selection of all independent variables in our study. While the test results found that foreign investment and IDX composite have a positive and significant effect on the gross domestic product. Inflation, Bank Indonesia interest rate, export, and import although have a positive direction but insignificant effect on the gross domestic product, while the domestic investment has a negative and insignificant effect on the gross domestic product.

Table 6. Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | 0.964[a] | 0.930 | 0.920 | 202,873.21 |

Source: *Data processed from the results of SPSS*

### 2. Implication

The results of our research found that economic conditions in Indonesia over a period of 15 years still have a high dependence on foreign investment. This can be understood in the context of a developing country, so the existence of foreign investment is still considered as a way out for the provision of employment, technology transfer, and fulfillment of people's needs for goods and services. However, in the long run, the government needs to take policies to strengthen the capital market, as it is also proven to be a supporting force for economic conditions in Indonesia. On the other hand, efforts to build local production capacity are also needed, not only to limit dependence on exports, but also as a means of utilizing abundant natural resources for export activities to increase national income.

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