# THE EFFECT OF INVESTMENT ON ECONMIC GROWTH WITH EXPORTS AS A MODERATING VARIABLE

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***Abstract***

*This research is quantitative research with an exploratory approach, namely an approach that uses a number of previous studies as the main reference for finding elements of Novelty and Research Gap in this article. The data used in this research is secondary data that researchers obtained from the annual Central Statistics Agency reports from 2014-2024. The data used was analyzed using the smart PLS 4.0 analysis tool with the hypothesis formulation below. The result in this article show the investment variable has a positive relationship and a significant influence on economic growth. This is because the P-Values value is positive and is below the 0.05 significance level, namely 0.003. This is because large investments can improve all lines that can boost growth, both in terms of industry, education, health, and so on. Apart from that, in the second row of the third table, the Path Coefficient above shows that the Export variable can moderate the influence of the Investment variable on Economic Growth due to the same thing, namely the direction of the positive relationship of P-Values and is below the significance level of 0.05, namely 0.000, which is more significant than the direct test of 0.003. . In this way the first and second hypotheses in the research can be accepted and proven.*

***Keywords:*** *Investment, Econmic Growth, Exports*

## 1. INTRODUCTION

Investment or often called capital investment is the purchase of capital goods and equipment in production to increase the power of a business entity in the production of goods and services needed in a country's economy (Nawangsari, 2019). There are three types of investment short term, medium term and long term. Investment according to (Mankiw, 2007)is defined as purchasing goods by individuals or companies in order to increase their capital reserves. Investment is one component of Gross Regional Domestic Product (GRDP). Investment has two functions, namely the function of non-residential investment and residential investment, which includes the function of income and interest rates (Mankiw, 2011). Additional income can encourage larger investment amounts. This is because a higher interest rate will reduce interest in investment (Santoso et al., 2020).

Harrod-Domar in his theory states that capital formation is necessary to grow a country's economy. This additional capital is considered as expenditure which can later improve a country's economy in producing goods and can also increase demand in society. This is what underlies the investment needed by a country in the economy which is called the "engine of growth". Harrod-Domar in (Felisya & Arifin, 2022)also explains that investment has a double influence on the economy in the long term. Investment has an influence on the development of a country's national production and on aggregate demand. Investment is also used as a basis for implementing economic development to increase the utilization of labor in production (Nugraha & Tjahjawati, 2018).

Classical growth theorists assume that capital accumulation is a mandatory condition for a country's economic development. This is because economic development is expected to increase a country's national income. In other words, capital investment can increase national income. Some economists also believe that investment is an important factor in the growth and economic development of a country (Hikmah & Rustam, 2020).

In Indonesia itself, investment began to enter in 1952 during the era of the first Ali Sastroamdjojo Cabinet. Furthermore, in 1958 Law No. 78 of 1958 concerning Foreign Investment was issued (Wicaksono, 2017). Currently, investment in Indonesia has a dual role in efforts to encourage economic growth, namely creating job opportunities and equitable economic development. This is based on Indonesia's investment map which can make Indonesia a developed country. The Indonesian government realizes how important it is to prioritize improving infrastructure so that the investment and business climate in Indonesia becomes more attractive to investors (Hidayat, 2011).

The government (Government of the Republic of Indonesia, 2019) issued Government Regulation Number 24 of 2019 concerning Providing Incentives and Facilitation of Investment in the regions. It is hoped that this Government Regulation will be a breakthrough in increasing economic growth by increasing investment and also ease of doing business (Wijaya, 2021). Therefore, Indonesia is one of the promising countries for investment or foreign investment. The Indonesian government has also determined priority sectors for investment, including infrastructure, agriculture, tourism, industry, maritime and industrial areas, and the digital economy (Septian, 2022).

Based on the explanation above, researchers believe that low and high investment can influence economic growth. Economic growth is a development in economic activities that causes an increase in goods and services produced by society and also an increase in society's prosperity (Arifin, 2019). Economic growth is a process in which there is an increase in the national income sector which is characterized by an increase in the per capita income of society . According to (Handayani et al., 2016), economic growth can be said to have increased if the Gross Domestic Regional Product (GRDP) also increases every year. Economic growth measures the increase or decrease in a country's economy in a period. Economic growth describes an economy that has progressed and achieved a better level of social welfare. On the other hand, economic growth describes the economic problems being experienced by a country or region.

According to the basic theory of economic growth, namely Neo Classical from Solow-Swan (1956) in (Arifin, 2019) the government has no role in economic growth, whether taxes or spending. Economic growth itself can only be influenced by the stock of capital, technology and labor which has an exogenous nature. Endogenous growth theory explains that investment is in the form of physical capital and human capital. These two capitals have an important role in determining long-term economic growth. Modern growth theory explains economic growth with the characteristics of this theory which believes that the government has an important capacity in the economy, especially in overcoming free market failures. One of the figures in modern growth theory is Harrod-Domar (Yusuf et al., 2020)who stated that investment expenditure not only influences aggregate demand (AD) but also influences aggregate supply (AS) by using the influence of investment on production capacity.

There are a number of studies showing ((Ghufran Riziqurrahman, 2016); (Lutfi Amelina Dewi, 2022); (Wicaksono, 2017); (Astuti, 2018); (Lutfi Amelina Dewi, 2022) & (Kholis et al., 2016) & (Kholis et al., 2016). In contrast to the six studies above, this study adds export variables as a moderating variable which is believed to strengthen the influence of the investment variable on economic growth..

## 2. RESEARCH METHODS

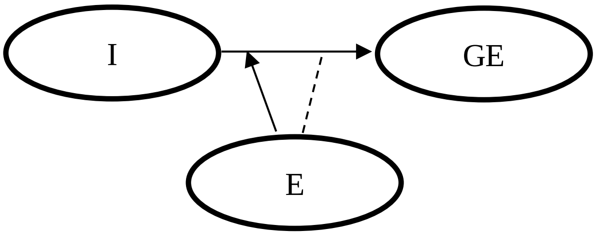


**Figure 1**
Model

**Noted:**
I : Investment
EG: Economic Growth
E: Exports

The first image of the research model above shows that the aim and objective of this article is to analyze the influence of investment on economic growth and whether the export variable can strengthen the influence of investment on economic growth (Jonathan Sarwono, 2016). This research is quantitative research with an exploratory approach, namely an approach that uses a number of previous studies as the main reference for finding elements of Novelty and Research Gap in this article (Manzilati, 2017). The data used in this research is secondary data that researchers obtained from the annual Central Statistics Agency reports from 2014-2024 (Nabila Khaerumuda & Hotman Tohir Pohan, 2023). The data used was analyzed using the smart PLS 4.0 analysis tool with the hypothesis formulation below (Yulianti et al., 2022).

**Hypothesis:**
H1: The Influence of Investment on Economic Growth
H2: Exports Can Moderates The Influence of Investment on Economic Growth

## 3. RESULT AND DISCUSSION

### Validity Test

From the research methodology above, it can be concluded that there are several stages that must first be passed before answering the main objective of this article/researcher's assumptions which are used as hypotheses, namely the validity test stage, the reliability test stage, and the coefficient test stage. The following are the results of the validity test in this article (Sarstedt et al., 2014):

**Table 1**
Validity Test

| Variable | Loading Factor | Noted |
|---|---|---|
| Investment | 0.892 | Valid |
| Economic Growth | 0.922 | Valid |
| Exports | 0.945 | Valid |

**Valid** > 0.70

**Reliability Test**

After ensuring that the data published by the Central Statistics Agency from 2004 to 2024 is valid, the next stage is a reliability test. The reliability testing stage aims to ensure that the variables used in this research are reliable. The following are the results of the reliability test in this research (Ghozali, 2016):

**Table 2**

Reliability Test

| **Variable** | **Composite Reliability** | **Cronbach Alfa** | **Noted** |
|---|---|---|---|
| Investment | 0.889 | 0.841 | Reiiable |
| Economic Growth | 0.921 | 0.881 | Reliable |
| Exports | 0.942 | 0.902 | Reliable |

Reliable > 0.70

**Path Coefisien**

Proving the researcher's assumption which is used as a hypothesis in this research if the Investment variable can have a positive relationship and a significant influence on Economic Growth and the Export variable can moderate the influence of this variable must be proven in the Path Coefficient stage. The following are the results of the Path Coefficient in this research (Hair, 2010):

**Table 3**

Path Coefisien

| | **Variable** | **P-Values** | **Noted** |
|---|---|---|---|
| **Direct Influence** | I-> EG | 0.003 | Accepted |
| **Indirect Influence** | E* I-> EG | 0.000 | Accepted |

Significant Level & Accepted < 0.05

The first third row of the path coefficient table above, especially in the testing column, directly shows that the researcher's assumptions which were used as hypotheses in this article have been answered symbolically. The interpretation of this symbolic answer is that the investment variable has a positive relationship and a significant influence on economic growth. This is because the P-Values value is positive and is below the 0.05 significance level, namely 0.003. These results are in line with a number of previous studies, namely (Ghufran Riziqurrahman, 2016); (Lutfi Amelina Dewi, 2022); (Wicaksono, 2017); (Astuti, 2018); (Lutfi Amelina Dewi, 2022) & (Kholis et al., 2016) & (Kholis et al., 2016). This is because large investments can improve all lines that can boost growth, both in terms of industry, education, health, and so on. Apart from that, in the second row of the third table, the Path Coefficient above shows that the Export variable can moderate the influence of the Investment variable on Economic Growth due to the same thing, namely the direction of the positive relationship of P-Values and is below the significance level of 0.05, namely 0.000, which is more significant than the direct test of 0.003. In this way the first and second hypotheses in the research can be accepted and proven.

## 4. CONCLUSION

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