

DETERMINANTS OF FOREIGN INVESTMENT ON ECONOMIC GROWTH IN NORTH SUMATRA PROVINCE



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Abstract

This study aims to look at the determinants of foreign investment on economic growth in North Sumatra province from 2011 to 2023. The variables of foreign investment determinants are inflation, minimum wage, and labor. Data collection techniques using secondary data, namely annual reports published by the government, data analysis techniques using panel data tests, model suitability tests, panel data regression common effect models (CEM), multicollinearity tests, heteroscedasticity tests, t-tests, F tests, and determination coefficients processed with Eviews 9 software. The results of this study indicate that the determinants of foreign investment partially with the inflation variable do not affect economic growth, the minimum wage variable has a negative and significant effect on economic growth by 1.58 percent, the labor variable has a positive and significant impact on economic growth by 1.25 percent and simultaneously the determinants of foreign investment have a positive and significant effect on economic growth with a contribution of 35.16 percent.

Keywords: Determinants, Foreign Investment, Inflation, Minimum Wage, Labor, Economic Growth

INTRODUCTION

Economic growth in North Sumatra had touched 5.22 percent in 2019, but in the following year it decreased, seen in 2020 experiencing a significant decline of -1.07 percent until in 2021 it increased again, namely by 2.61 percent, in the following year it increased by 4.73 percent and in 2023 it was at 5.01 percent. when viewed from the explanation of the data presented, North Sumatra province has continued to increase over the past 3 years. Increased economic growth in North Sumatra has not been able to contribute to the national scale. It is necessary to find ways to increase economic growth in North Sumatra province so that it can contribute to economic growth on a regional and national scale.

Conventional economic theory, according to the Harrod-Domar theory, an extension of Keynes' theoretical analysis, analyzes the conditions necessary for the economy to grow and develop steadily in the long run. The Harrod-Domar growth model is built on the experience of developed countries, Harrod-Domar gives a key role to investment in the process of economic growth, especially regarding the dual role that investment has. First, investment creates income which is the impact of supply, and second, investment enlarges the production capacity of the economy by increasing the capital stock which is the impact of supply (Lira Zohara, 2021).

Various indicators can be a benchmark in a country's economic growth such as available capital, state revenue, per capita income, the number of workers, the inflation rate, and the reduction of poverty levels in the country (Wahyuni, 2024). Limited capital resources are one of the problems faced by developing countries in implementing economic development. The lack of capital leads to low productivity which results in low community income. This situation will continue until there is an effort to increase investment in boosting economic growth to a high level. One way to fulfill the need for investment is through investment (Saragih, 2024).

Harrod-Domar's investment theory emphasizes the role of investment in the process of economic growth, because, by creating income, it will expand the production capacity of the economy by increasing capital investment. Investment (I) is defined as a change in the

availability of capital (K) which is denoted by ΔK , then, I is equal to ΔK . Capital (K) has a direct relationship with total output (Y) (Nadya & Aimon, 2020).

While according to Islamic economist Heidar Naqvi, growth in the Islamic framework includes moral-spiritual and material aspects of human life, First, the general Islamic demand to guarantee and secure the distribution of income (prosperity) fairly and set limits in a feasible growth rate, and second, maintain equality between generations. Because capital formation must be balanced with the formation of strong human resource capital which is a long-term investment (Gunawan, 2020).

Some investments come from overseas and domestic sources. Meanwhile, according to its nature, investment is divided into direct investment and indirect investment. Indirect investment is investment that enters through the money market where this investment tends to be short-term and less stable, while direct investment enters through the real sector which is usually a long-term commitment. As for the nature of foreign direct investment, this type of investment is what is needed to increase sustainable economic growth.

Foreign direct investment plays an important role in the development of both developed and developing countries, and Indonesia in particular. Indonesia is a developing country in various aspects of development. The purpose and direction of national development is to try to realize a just and prosperous society, where a just and prosperous society will be realized through development in various fields, including the economic sector (Laurensius, 2018).

Indonesia has implemented regional autonomy rules since 2004, with the provision that each region receives policy delegation from the central government. This policy allows regions to organize their government including economic activities in accordance with their respective capabilities and objectives. This authority also applies to foreign direct investment activities.

Foreign direct investment as a form of capital for the economy is expected to continue to increase and be evenly distributed throughout Indonesia. This is a step to equalize development in each region. The launch of a policy to simplify the bureaucracy increased

the ease of investing in Indonesia. This policy also applies to the province of North Sumatra to develop the economy in its government area.

Foreign direct investment in North Sumatra province consists of three sectors, namely: Primary sector (Forestry, Fisheries, Mining, Food Crops, Plantation, Livestock). Secondary sector (machinery industry, electronics, medical instruments, electrical equipment, precision, leather goods and footwear, rubber and plastics, wood, motor vehicles and transportation equipment, paper and printing, chemicals and pharmaceuticals, basic metals, metal goods, non-machinery and equipment, food, non-metallic minerals, textiles. Tertiary sector (hotel and restaurant development projects, construction, electricity, gas and water, trade and repair, housing, industrial estates and offices, transportation, warehouses and telecommunications).

Foreign direct investment in North Sumatra province in 2023 seen from the total sector of 781 projects has decreased from 2019 of 805 projects. Based on table 1.1, it can be seen that overall, in 2019 to 2023 foreign investors invest more in projects in the tertiary sector, North Sumatra has the potential to attract foreign investors to invest in North Sumatra through the primary and secondary sectors.

In the primary and secondary sectors, North Sumatra has strategic projects to invest in. The primary sector of North Sumatra has many areas that have the potential to open plantation land by planting plants that have high selling value such as coffee, oil palm, tea, rubber, and others. North Sumatra also has strategic locations for investors to invest in the secondary sector, such as the Sei Mangke Special Economic Zone (KEK), Medan Industrial Estate (KIM), and Humbang Hasudutan Food Estate.

Based on empirical studies from previous research conducted by (Nantwi & Erickson, 2019) found that there is a significant positive impact of foreign investment on economic growth in the South American country region. But it is not in line with research conducted by (Dinh et al., 2019) which says that the impact of foreign investment on economic growth in developing countries is not always positive, because it depends on the characteristics of the investment generated from the foreign investment.

From empirical studies conducted by previous researchers, there are differences of opinion about the effect of foreign investment on economic growth in a region, many factors affect foreign investment that can increase economic growth.

According to research by (Wibawa & Permada, 2021), the factor that affects foreign investment in economic growth is Inflation. Inflation can affect economic stability in a region because it can reduce production. Decreased production will not be offset by decreased demand for goods due to high inflation rates in a region. Inflation has a positive impact on foreign investment activities in the form of high investment costs. The cost of investment will be cheaper if the inflation rate of a region is low and will increase foreign investment in a region.

Inflation has an important role in an economy, the inflation rate can be used to measure price stability in the economy. Inflation that tends to be unstable will create uncertainty for economic actors in making decisions. Low and stable inflation can provide certainty for economic actors and society (Batubara et al., 2023).

According to (Asab & Al-Tarawneh, 2018) conducting research in Jordan found that investment can be influenced by inflation when the inflation rate reaches a threshold of 10 percent, inflation affects the decline in production value. This results in an increase in the value of inflation will make the price of goods soar, so that it will reduce people's purchasing power.

The next factor that affects foreign investment on economic growth is the minimum wage. According to research by (Sanusi et al., 2019), wages have a significant positive effect on foreign investment. This indicates that wage behavior is a consideration for foreign investment inflows. High wage levels not followed by high productivity can reduce foreign investment. with the affordability of the minimum wage in a country can attract foreign investors to invest in a country so that they can employ the workforce in that country.

The minimum wage increases every year in accordance with the Governor's decree which is seen based on economic and employment conditions including purchasing power parity variables, labor absorption rates, and median wages. There are two types of minimum wages, namely provincial minimum wage (UMP) and district minimum wage (UMK). The

provincial minimum wage (UMP) is set by the governor while the district minimum wage (UMK) is set by the governor with a submission made by the regent or mayor. UMP and UMK set by the Governor become the basic reference by companies to provide wages to their workers in an area.

The high and low wages in a region affect investors' investment decisions, this is because some investors sometimes choose areas with lower wage levels to maximize their profits. According to (Hintošová et al., 2018), research in European economies (Poland, Czech Republic, Hungary, and Slovakia) stated that foreign investors are attracted by the quality of labor, including labor wages represented by higher gross wages in the host country. Higher wages are often associated with better infrastructure and a stable macroeconomic context. Foreign investors prefer to invest in countries with these characteristics. Another factor that can affect foreign investment in increasing economic growth is labor. According to research by (Syaikhu & Haryati, 2018), investment in a region is also determined by the availability of labor. If an area has a lot of labor, it will encourage investors to invest.

The existence of labor does not make it difficult for investors to find human resources that will be used as production factors in investment activities. Vice versa, if the number of labor force available in a region is small, it will reduce investment in the area. Investors will be more likely to be interested in investing in places with high productivity that can later provide greater profits. Labor is those who have or are working, who are looking for work and who carry out other activities such as attending school and taking care of the household (Batubara et al., 2022).

Meanwhile, according to research by (Putri & Satrianto, 2023), labor has a negative and significant effect on investment opportunities in fast-developing and fast-growing regions, depressed developed regions, rapidly developing regions compared to relatively underdeveloped regions. With the increasing number of labor working in fast-developing and fast-growing regions, it determines the region's chances of getting investment.

North Sumatra is a province that has the fourth largest population in Indonesia, which is 15.2 million people. Of this number, 10.51 million people (68.68%) of the population of North Sumatra are in the productive age group (15-64 years) and as many as 4.79 million people

(31.32%) are in the unproductive age group (BPS, 2023). By having a population in the productive age group of 10.51 people, North Sumatra has a large number of workers to work.

Foreign investment is one of the efforts to increase economic growth in North Sumatra province. Getting investment from foreign investors is not easy, many factors become the benchmark for foreign investors to invest. The author will examine the determinants of foreign investment to increase economic growth in North Sumatra by focusing on the variables studied are inflation, minimum wage, and labor in North Sumatra province.

REVIEW OF LITERATURE

Economic Growth Theory

Economic growth measures the achievement of an economy's development. From one period to another, a country's ability to produce goods and services will increase. This increased ability is due to an increase in the factors of production both in quantity and quality. Investment will increase capital goods and the technology used is also growing. In addition, the labor force increases as a result of population development along with their increasing education and skills (Nujum & Rahman, 2019).

According to Sukirno 2011, in (Rusniati & Agustin, 2018), economic growth is the development of economic activity that occurs from time to time and causes real national income to grow. The economic growth rate shows the percentage increase in real national income in a given year when compared to real national income in the previous year.

Based on the definitions of several opinions above, it can be concluded that economic growth is the process of changing the state of the economy that takes place on an ongoing basis which aims to produce an additional amount of production from economic activities that will become income for the community. Economic growth can also be interpreted as an increase in a country's ability to produce goods or services for its population.

Based on a summary of opinions from various economists across time, it can be concluded that the factors of economic growth are: (1) Natural resources are a major factor

in economic growth, Indonesia is known as a biodiversity country in the world which means that biodiversity is very abundant. (2) Human Resources as the controller of the direction of a country's progress. Quality human resources are determined by productive people who act as organizational drivers, both in companies and in organizations. (3) Cumulative Capital is the process of expanding the stock of artificial real capital in the form of equipment, machinery, and buildings. For capital accumulation or capital formation, if capital accumulation increases over some time, only the relationship between capital accumulation or economic growth can be measured, i.e. total investment (total investment) minus depreciation.

Economic growth is a process of continuous change in the economic condition of a country towards a better situation from one period to the next, there are several benchmarks in seeing economic growth, including (1) National Income, (2) Capital Income (3) Labor and Unemployment, (4) Welfare State (5) gross regional domestic product.

The most important difference between the concept of growth in Islam and conventional growth lies in the principles used, in Islam, the element of spirituality (religion) is a top priority. The meaning of religion here is the religious teachings manifested in the Qur'an and the sunnah of the Apostle. Although the principle of growth (economy) in Islam is based on the Qur'an and al-Hadith, it does not detail the details concerning technical issues, but only explains globally which includes basic instructions, rules, principles, and important branches that are specific, because economic problems include human problems that can change according to the environment and times, while technical problems are resolved through human efforts (ijtihad) according to environmental conditions and times (Gunawan, 2020).

Foreign Direct Investment Theory

Foreign Direct Investment is an international capital flow in which companies from one country establish or expand in another country. Therefore, there is not only a transfer of resources but also an imposition of control over the company abroad. part of the long-term support by one country to another in the fields of management, joint ventures, technology transfer, and expert consulting (Kruger 2000 in (Mahadiansar et al., 2021).

Foreign investment consists of private foreign investment, which is investment made by private parties (not the government) in countries other than the home country of the capital owner, and government/ national foreign investment, which is investment from one country to another country by the government of the country that owns the capital (Suhendro & Siregar, 2019).

Investment is also interpreted as a pattern of efforts to seek sustenance that is approved by Allah, this is what is meant by *maqashid al-syari'ah* in Islamic economic activities.² The term investment comes from Latin, namely *investire* (wearing), while in English it is called investment, invest is the basic word of investment which means planting. In Islamic investment, other elements determine the success or failure of an investment in the future, namely the provisions and will of Allah. In this case, Islamic investment is all forms of *muamalah* activities that are not only oriented towards material gain but are also strongly influenced by social factors (the welfare of the people) and Sharia factors (compliance with sharia provisions). Sharia investment is a sacrifice of resources in the present to get greater results in the future, either directly or indirectly while remaining based on comprehensive sharia principles (*kaffah*) (Fathullah, 2018).

Inflation Theory

According to Bank Indonesia, inflation arises due to pressures from the supply side (cost-push inflation), from the demand side (demand-pull inflation), and inflation expectations. Bank Indonesia's monetary policy is aimed at managing price pressures originating from the aggregate demand side (demand management) relative to supply-side conditions. Monetary policy is not intended to respond to rising inflation caused by surprise and temporary factors that will disappear by themselves over time.

According to Keynes, the quantity of money does not affect the level of total demand, because the economy can experience inflation even though the quantity of money is constant. If the money supply increases, prices will rise which causes an increase in the demand for money for transactions, thus raising interest rates. This will prevent the increase in demand for Investment and will soften Inflationary pressures. According to Keynes, the really

important demand inflation is that generated by government expenditures, especially those related to war, and large investment programs in social capital.

Monetarist theory argues that inflation is caused by expansionary monetary and fiscal policies, so that the money supply in society is excessive, causing excess demand for goods and services in the real sector. Inflation can be reduced by suppressing excess demand through contractionary monetary and fiscal policies, controls on wage increases, and the elimination of subsidies on foreign exchange rates (Yunus et al., 2019).

The types of inflation according to experts based on its nature, cause, and source are as follows: (1) Types of inflation by its nature (a) Creeping Inflation Usually this inflation is characterized by a low inflation rate (less than 10% per year). (b) Galloping Inflation This inflation is characterized by a considerable increase in prices (usually double-digit or even triple-digit) sometimes runs in a relatively short time and has an accelerating nature. (c) Hyper Inflation This inflation is the most severe as a result, prices rise 5 to 6 times. people are not willing to save money. The value of money declines sharply so that it wants to be exchanged for goods, the circulation of money is accelerating, and prices are rising in an accelerated manner. Usually, this situation arises when the government has a budget deficit.

(2) Types of inflation by cause (a) Demand-pull inflation This inflation arises because the public demand for various goods is too strong. This inflation stems from an increase in aggregate demand while the cost of production rises. (b) Cost-push inflation This inflation is characterized by rising prices and falling production. This situation usually starts with a decrease in aggregate supply as a result of an increase in production costs. (3) Types of inflation by source or cause (a) Demand-pull inflation. This inflation occurs when the corporate sector is unable to quickly serve the public demand that exists in marketing. The problem of a shortage of goods will prevail and this will push up the prices. This inflation usually occurs when the economy reaches full employment and economic growth is rapid.

(b) Cost-push inflation Cost-push inflation is a problem of rising prices in the economy caused by an increase in the cost of production as a result of rising raw material prices or rising wages. The increase in production costs will push firms to raise prices, even though they have to take the risk of facing a reduction in demand for the goods they produce.

(c) Inflation in imports This inflation occurs due to an increase in prices caused by an increase in the price of imported goods used as raw materials for domestic production.

In the Islamic economic system, inflation is not a major problem for the economy in aggregate, as the currency is stabilized by the use of dinar and dirham. A decline in value is still possible, when the value of the gold that supports the dinar's face value declines, partly due to the discovery of large quantities of gold, but this is highly unlikely.

According to Islamic economists, inflation is very bad for the economy because: It disrupts the function of money, especially the savings function, the function of prepayment, and the function of the unit of account. Weaken the spirit of saving and the attitude towards saving the people. Increases the propensity to spend, especially on non-primary and luxury goods. Directing investment in non-productive things, namely the accumulation of wealth such as land, buildings, precious metals, and foreign currency at the expense of productive investments such as agriculture, livestock, mining, industry, trade, transportation, services, and others (Parakkasi, 2018).

Al-Maqrizi stated that inflation is a natural phenomenon that has afflicted the lives of all people throughout the world since ancient times until now. According to him, inflation occurs because prices generally increase and continue. At this time, the supply of goods and services is scarce and consumers, because they need it, have to spend more money for the same amount of goods and services (Fadilla, 2017).

Wages

In the theory of wages according to the increase in marginal product, it states that to maximize profits, entrepreneurs use factors of production in such a way that each factor of production used to receive is rewarded with the value of the increase in the marginal product of the factor of production. Employers hire some employees in such a way that the value of a person's marginal product gain is equal to the wage received by that person (Fadli et al., 2023).

A minimum wage is a minimum monthly receipt given as a form of compensation from employers to employees for work or services that have been or will be performed which

are expressed in money and determined based on agreements or laws and regulations and are paid or based on employment agreements between employees and employers including benefits, either for the employee himself or including his family. The determination of the minimum wage in Indonesia is carried out every year based on the need for a decent living by taking into account productivity and economic growth. Decent living needs are the needs of single workers/laborers to be able to live a decent life physically for the needs of one month. Determination of the minimum wage of the Province, Regency / City is determined by the Governor with a submission made by the Regent or Mayor.

Wages are also part of the result of the creation of the labor market. Afzalurrahman (2000) in (Hijriah & Adiba, 2019), say that wages are the price paid by workers for their services in the production of wealth, like other factors of production, labor is rewarded for its services, in other words, wages are the price of labor paid for its services in production. Islam guides in seeking His bounty through work by always adhering to the rules of Islamic sharia, meaning by not seeking sustenance in haram ways and results. Halal work will produce halal wages as well. This unity reminds us of the essence of work as a form of worship that expects His pleasure, so in Islam, the results of work can be interpreted not only in the form of wages but also in the acquisition of blessings.

Islam is better known for calling this wage or reward for services with the term *ujrah*, especially in *fiqh muamalah* in the *ijarah* chapter. The aspect of *ujrah* includes giving compensation for taking advantage of an item, such as a house, clothes, and others as well as giving compensation for a job done by someone, such as a waiter, the first type leads to renting and the second is more towards employment.

Labor

Economic development is greatly influenced by the relationship between humans and other factors of production as well as the nature of humans themselves. What we mean by “human resources” here is the population as a whole. In terms of population as a factor of production, not all people can act. Only the population in the form of labor (human power) can be considered as a factor of production. Labor is the population that works and enters working age with a lower limit of 15 years of age and an upper limit of 65 years of age.

Labor consists of two categories, namely the labor force and non-labor force (Putri & Satrianto, 2023).

Labor is the population in working age (aged 15 - 64 years) or the total population in a country that can produce goods and services if there is a demand for their labor, and if they are willing to participate in these activities. Intellectual capital is a form of resource management that can support company performance. Labor has a very dominant role in launching business activities. People are required to have expertise so that they can do a production activity well, if they do not have expertise, they should do training. If the workforce is well educated to become a professional workforce that has skills and abilities in production activities, the work done will be good. For labor that already has skills, the workforce may be more productive and innovative.

Labor as an actor in work activities now has a fairly broad meaning. In the past, it may still be limited to being defined as production capital that is utilized by the physical human being alone which is beneficial for business continuity. But now it does not only include physical activities that can be utilized and called labor but as a whole human resources are classified as labor because, in addition to physical activities, it also includes non-physical abilities such as ideas and creativity. The main purpose of working is to fulfill the basic needs of life, such as halal ownership and fulfillment of basic human needs to be able to live sustainably (Hijriah & Adiba, 2019).

In detail, the term labor is included in the term human resource where all human attributes or abilities that can be contributed to enable the production of goods and services. This definition further expands our view of the meaning of labor which has elements within it such as intellect, skills, honesty, piety, responsibility, and others. Work and labor in Islam is an obligation for people who can achieve success and even have their glory which has been written in the Qur'an (Hijriah & Adiba, 2019).

Islam views work as an element of production based on the concept of *istikhlaf*, where humans are responsible for prospering the world and are also responsible for investing and developing the wealth mandated by Allah to cover human needs, while labor is all efforts and efforts made by the limbs or mind to get proper rewards. The unity of work and labor in

managing Allah's mandate responsibly and being able to produce something that brings benefits or *maslahah*.

Based on this theory, the hypotheses presented in this study are as follows:

H₁= It is suspected that the inflation variable has a positive and significant effect on economic growth in North Sumatra.

H₂= It is suspected that the minimum wage variable has a positive and significant effect on economic growth in North Sumatra.

H₃= It is suspected that the labor variable has a positive and significant effect on economic growth in North Sumatra.

H₄= It is suspected that inflation, minimum wage, and labor variables have a positive and significant effect on economic growth in North Sumatra.

Based on the explanation of theory and hypothesis development, here is the framework of thinking in this study.

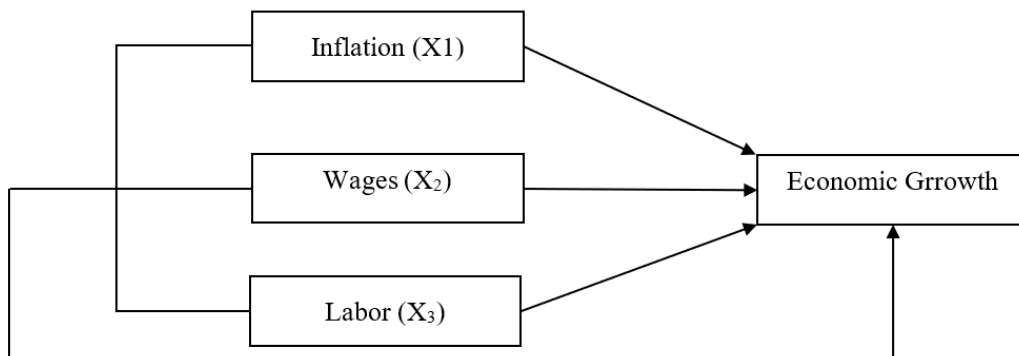


Figure 1.
Conceptual Framework

RESEARCH METHOD

The research was conducted using quantitative research methods. It is said to be quantitative because the data examined in this study are in the form of numbers collected based on reports on economic growth, inflation, minimum wages, and labor from 2011 to 2023 from cities in North Sumatra Province.

The sampling technique used in this study is Satisfying Sampling. with the criteria of districts and cities that have data reports on economic growth, inflation, labor force, and annual minimum wages published by the Central Bureau of Statistics of North Sumatra. The measurement of inflation value in North Sumatra consists of a combination of 5 CPI cities, namely Medan City, Sibolga, Pematang Siantar, and Padang Sidempuan, Gunung Sitoli. Gunung Sitoli City has just joined in 2020, therefore, the research data that will be studied is only 4 cities in North Sumatra province, namely Medan, Pematang Siantar, Sibolga and Padang Sidempuan in 2011 to 2023.

Quantitative data presentation and analysis techniques carried out using statistical tests, data that have been collected through internet downloads from relevant agencies are presented in tables. The data analysis method used is panel data with research data processed using Microsoft Excel 2019 and Eviews 9 software.

Each variable's operational definition in this study is:

$$\text{Economic Growth} = \text{Inflation} + \text{Wages} + \text{Labor}$$

- | | |
|-------|--|
| EG | Economic growth rate data for Medan, Sibolga, Pematang Siantar, and Padang Sidempuan, published by the North Sumatra Central of Statistics from 2011 to 2023, expressed in percent. |
| INF | Inflation rate data for Medan City, Sibolga, Pematang Siantar, and Padang Sidempuan, from 2011 to 2023 expressed in percent. |
| Wages | Minimum wage data for the cities of Medan, Sibolga, Pematang Siantar and Padang Sidempuan published by the North Sumatra Central Bureau of Statistics from 2011 to 2023 are expressed in rupiah. |
| Labor | Labor force data of Medan City, Sibolga, Pematang Siantar, and Padang Sidempuan, published by the Central Bureau of Statistics of North Sumatra from 2011 to 2023 are expressed in people. |

This research uses a panel data test which is a combination of times series and cross section data. The time series data in this study uses annual data, namely from 2011 to 2023.

The cross-section data in this study are from four cities in North Sumatra province, namely Medan City, Pematang Siantar City, Padang Sidempuan City, and Sibolga City.

RESULTS AND DISCUSSION

Panel Data Regression Estimation Results

Table 2.
Common Effect Model Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.215588	1.136671	6.347998	0.0000
X1_INF	0.095375	0.115589	0.825122	0.4138
X2_WAGES	-1.58E-06	3.92E-07	-4.034189	0.0002
X3_LABOR	1.25E-06	6.18E-07	2.020777	0.0494

Source: Processed data by Eviews 9 (2024)

From the results of multiple linear regression tests, the regression model can be obtained as follows:

$$EG = 7.22 + 0.095 * X1_INF - 1.58 * X2_WAGES + 1.25 * X3_LABOR$$

Based on the above equation, the research results can be interpreted as follows:

The constant value in this research equation is 7.22, meaning that if the foreign investment factor (inflation, district minimum wage, and labor) is 0, then economic growth is 7.22.

The coefficient of the foreign investment factor with the inflation variable (X1) of 0.095 explains that with every increase in inflation (X1) by 1, the value of economic growth (Y) has increased by 0.095.

The coefficient of the foreign investment factor with the district minimum wage variable (X2) of -1.58 explains that every increase in the district minimum wage (X2) by 1, economic growth will decrease by 1.58.

The coefficient of the foreign investment factor with the labor variable (X3) of 1.25 explains that every increase in labor (X3) by 1, economic growth will increase by 1.25.

Classical Assumption Test

According to (Basuki & Prawoto, 2017), not all classic assumption tests in the Ordinary Least Square (OLS) method must be carried out on panel data regression, only multicollinearity and heteroscedasticity are required, so the results of the classic assumption test in this study are:

Multicollinearity Test

Multicollinearity testing is done to see if there is a regression found whether there is a correlation between the independent variables. A good regression model should not occur in multicollinearity, provided that the coefficient value between variables < 0.85 , the data passes multicollinearity and if the coefficient between variables > 0.85 , the data does not pass multicollinearity. The following are the results of the multicollinearity test.

Table 4.
Multicollinearity Test

	X1_INF	X2_WAGES	X3_LABOR
X1_INF	1.000000	-0.395785	-0.079219
X2_WAGES	-0.395785	1.000000	0.245721
X3_LABOR	-0.079219	0.245721	1.000000

Source: Processed data by Eviews 9 (2024)

From the results of the multicollinearity test, the coefficient value between variables is < 0.85 , it can be concluded that the research data carried out passes the multicollinearity test.

Heteroscedasticity Test

The heteroscedasticity test aims to test whether, in the regression model, there is an inequality of variance from the residuals of one observation to another. This study uses the park test, the provisions in the park test are to see a significant value > 0.05 , then there is no heteroscedasticity in the study, if the significant value < 0.05 then there is heteroscedasticity.

Table 5.
Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.951721	1.851493	-1.054134	0.2976
X1_INF	-0.112763	0.188280	-0.598910	0.5523
X2_WAGES	2.84E-07	6.38E-07	0.444880	0.6586
X3_LABOR	-4.19E-07	1.01E-06	-0.416689	0.6789

Source: Processed data by Eviews 9 (2024)

From the results of the heteroscedasticity test data with the park test, it can be seen The independent variables have a probability value above 0.05, so heteroscedasticity does not occur.

Test the Hypothesis

Table 7.
Multiple Linear Analysis, Partial Test, F Test, and R-Square Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	7.215588	1.136671	6.347998	0.0000
X1_INF	0.095375	0.115589	0.825122	0.4138
X2_WAGES	-1.58E-06	3.92E-07	-4.034189	0.0002
X3_LABOR	1.25E-06	6.18E-07	2.020777	0.0494
Test F	7.953222			
Prob (F-Statistic)	0.000240			
R Square	0.339			
Dependent variables	EG			

Source: Processed data by Eviews 9 (2024)

Discussion

The discussion in this study will explain the determinants of foreign investment in North Sumatra province from 2011 to 2023. With research variables of inflation (X1), minimum wage (X2), and labor (X3). The description of the hypothesis of the study is based on the data analysis that has been done. For further explanation, it can be explained as follows:

The Effect of Inflation (X1) on Economic Growth (Y)

Based on the results of partial testing of the effect of inflation (X1) on economic growth (Y), the t_{count} is 0.825 while the t_{table} is 1.680 and the test form is $0.825 < 1.680$ while the probability value is $0.41 > 0.05$, meaning that H_0 is accepted and H_a is rejected. From these results, it is concluded that partially there is no influence and no significance of the determinants of foreign investment from the inflation variable on economic growth in North Sumatra province.

This is in line with research conducted by (Rahmawati, 2022), which examines the factors that influence foreign investment on economic growth in Indonesia, from the results of his research he found that inflation is not a factor of foreign direct investment in influencing economic growth in Indonesia. However, in contrast to research conducted by (Barorah et al., 2019), research on the factors of foreign investment on economic growth in ASEAN countries states that inflation has a negative and significant effect on economic growth, which means that any increase in inflation will affect economic growth in ASEAN countries.

Research on foreign investment factors with inflation variables does not affect economic growth in North Sumatra province, this can be seen in the inflation in North Sumatra Province of 2.25 percent but has not been able to convince foreign investors to invest in North Sumatra. This follows Friedman's Theory (money and monetarism theories) says in the long run inflation is caused by the amount of money growth and is not influenced by economic growth.

Effect of MSE (X2) on Economic Growth (Y)

Based on the results of partial testing of the effect of the minimum wage (X2) on economic growth (Y), the t_{count} is -4.034 while the t_{table} is 1.680 and the test form is $-4.034 > 1.680$ while the probability value is $0.002 < 0.05$, meaning that H_0 is rejected and H_a is accepted. From these results, it is concluded that partially there is a negative and significant effect of foreign investment determinants of the minimum wage variable on economic growth in North Sumatra province for the period 2011 to 2023. The result of the coefficient

value of -1.58, it can be concluded that with every increase in the district minimum wage by 1 percent, economic growth in North Sumatra has decreased by 1.58 percent.

This research is in line with research conducted by (Kamis & Yusuf, 2023), who researched the determinants of foreign investment in ASEAN countries the results of their research stated that the foreign investment factor with the minimum wage variable has a negative and significant effect on economic growth, which means that any increase in minimum wages will reduce economic growth in ASEAN countries. In contrast, research conducted by (Hintošová et al., 2018) conducted research on the determinants of foreign direct investment in European economic countries which had a positive and significant effect on economic growth.

In this study, the foreign investment factor with the district minimum wage variable has a negative effect on economic growth in North Sumatra province. In line with Adam Smith's theory, the wage level is high and increases if the demand for labor grows higher than the amount of labor supply. This means that a need for proper calculation in setting the district minimum wage to attract foreign investors to invest in North Sumatra province.

The Effect of Labor (X3) on Economic Growth (Y)

Based on the results of partial testing of the effect of labor (X3) on economic growth (Y), the tcount is 2.020 while the ttable is 1.680 and the test form is $2.020 > 1.680$ while the probability value is $0.049 > 0.05$, meaning that H_0 is rejected and H_a is accepted. From these results, it is concluded that partially there is an influence and significance of the determinants of foreign investment from the labor variable on economic growth in North Sumatra province for the period 2011 to 2023. The coefficient value of 1.25 means that every 1 percent increase in labor will increase economic growth by 1.25 percent.

In line with research conducted by (Dziemianowicz et al., 2019) conducted research on foreign investment location factors case studies in Poland with the results of labor research having a positive and significant effect on economic growth in Poland. In contrast to research conducted by (Putri & Satrianto, 2023), states that foreign investment factors with labor variables have a negative effect on economic growth in Indonesia.

In this study, the foreign investment factor with the labor variable has a positive effect on economic growth in North Sumatra, meaning that the available labor force in North Sumatra can attract investors to invest so that the available workforce can increase the economic growth of North Sumatra Province, this is in accordance with Adam Smith's theory which states that the demand for labor is determined by the capital stock and the level of community output. Therefore, the growth rate of labor demand is determined by the rate of demand for capital accumulation and the rate of economic growth.

Effect of Inflation (X1), Minimum Wage (X2), and Labor (X3) on Economic Growth (Y)

Based on the results of the F test, it is known that the Fcount value is 7.953 while the Ftable is 2.82 with a probability value of $0.00024 < 0.05$. It can be concluded that the determinants of foreign investment with inflation, minimum wage, and labor variables have a significant effect on economic growth in North Sumatra province for the period 2011 to 2023. The result of the coefficient of determination is 0.3516, meaning that the research variables can explain the determinants of foreign direct investment with inflation, minimum wage, and labor variables affecting economic growth in North Sumatra province by 35.16 percent. While 64.84 percent is influenced by other variables of foreign investment factors that are not included in the study.

CONCLUSION

Based on the results of the t-test obtained tcount of $0.825 < t$ table of 1.680 with a probability value of $0.41 > 0.05$, meaning that H_0 is accepted and H_a is rejected, meaning that the determinants of foreign investment with inflation variables have no effect and are significant to economic growth in the province of North Sumatra.

Based on the results of the t-test obtained tcount of $-4.034 > t$ table of 1.680 with a probability value of $0.0002 > 0.05$, it means that H_0 is accepted and H_a is rejected, meaning that the determinant of foreign investment with the minimum wage variable has a negative and significant effect on economic growth in the province of North Sumatra, provided that

if the minimum wage increases by one percent, it will reduce the value of economic growth by 1.58 percent.

Based on the results of the t-test obtained tcount of $2.020 > t$ table of 1.680 with a probability value of $0.0494 < 0.05$, it means that H_0 is rejected and H_a is accepted, meaning that the determinants of foreign investment with labor variables have a positive and significant effect on economic growth in the province of North Sumatra, provided that if labor is 1 percent, it will increase economic growth by 1.25 percent.

Based on the results of the F test, the Fcount is $7.953 > F$ table of 2.82 with a probability value of $0.00024 < 0.05$, meaning that H_0 is accepted and H_a is rejected, meaning that the determinants of foreign investment with inflation, minimum wage, and labor variables simultaneously have a positive and significant effect on economic growth in the province of North Sumatra.

Based on the test results, the coefficient of determination (R^2) obtained a value of 0.3516, meaning that the determinant of foreign investment with inflation, minimum wage, and labor variables contributed 35.16 percent to economic growth, while the remaining 64.84 percent was influenced by foreign investment factors outside the variables studied in this study.

For the government, the results of this study are expected to be one of the various references for the government to find out the determinants of foreign investment in increasing economic growth, especially in North Sumatra province. For the Community, this research can provide information so that people will know and recognize the factors of foreign investment on economic growth in North Sumatra province. For further researchers to further discuss the determinants of foreign investment on economic growth by adding other variables such as market size, exchange rates, interest rates, and others related to the topic of discussion of researchers.

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