

Investment in the Business Sector and Subsidies in stimulating Indonesian Consumption and Economic Growth

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Abstract

This study aims to examine investment in the business sector and subsidies to encourage consumption and economic growth in Indonesia. This study uses secondary data from world banks and processed regression using the moving average autoregression method. We find that the dominance of investment in the business sector in Indonesia comes from foreign funds, which puts pressure on domestic companies and investors who rely on the informal sector so that increased investment puts pressure on the backbone of the Indonesian economy, namely micro, small and medium scale enterprises.

Keywords: Investment, Indonesia, Subsidies

JEL Classification: C0, J24, J64

Background

Indonesia is a country with a large population and has resulted in a fairly high absorption of the domestic market. The absorption of the domestic market can be increased through subsidies. Subsidies can serve as a stimulant for increased consumption. When consumption increases, there is a demand signal that attracts investors to invest and participate in increasing production (Carden, 2019).

Production is an effort to add products. Where an increase in production means an increasing number of goods and services produced in the country. This encourages the absorption of labor, resulting in an increase in income in the community. When people's income increases, there is an increase in consumption which encourages demand growth and becomes a stimulus for increased production which has an impact on economic growth (Lödding et al, 2017).

This study aims to examine investment in the business sector and subsidies to encourage consumption and economic growth in Indonesia. We have a provisional hypothesis or conclusion that consumption creates fever and is driven by subsidies so that it has the impact of increasing expectations in the minds of investors which results in increased investment which in turn encourages economic growth.

Literature review

Production is one way to improve people's welfare. Because by producing, there is absorption of labor so that income is formed on the side of the community and an increase in production presses prices and

encourages an increase in wages so that general welfare can be achieved, namely the cheaper general prices, increased product quality and increased community income (Schoenmaker & Schramade,2018).

Investment in the business sector is an effort to increase production by adding capital to the production factor. To increase production, the product must be absorbed by the market. And the domestic market which absorbs a high product in the form of consumption attracts investors to invest and participate in efforts to increase production, which is known nationally as gross domestic product (Oqubay & Lin,2020).

Subsidies are an effort to increase absorption by helping poor people to consume and meet their needs for a better life. The increase in consumption through subsidies should increase with a multiplayer effect that encourages transactions and consumption in society so as to create fever growth which becomes a stimulus for increased production that encourages economic growth (Rauch,2019).

Research methods

This research studies investment in the business sector and subsidies in boosting consumption and economic growth in Indonesia. This study uses secondary data from world banks and processed regression using the moving average autoregression method with the following equation:

$$GDP_t = C_t + \beta_1 I_{t1} + \beta_2 G_{t2} + \beta_3 CO_{t3} + e_t$$

Where,

GDP = Gross Domestic Product

C = Constant

I = Investment in the Business Sector

G = Subsidies

Co = Consumption

e = Error Term

All financial data is calculated in USD.

Results and Discussion

The estimation results are as follows:

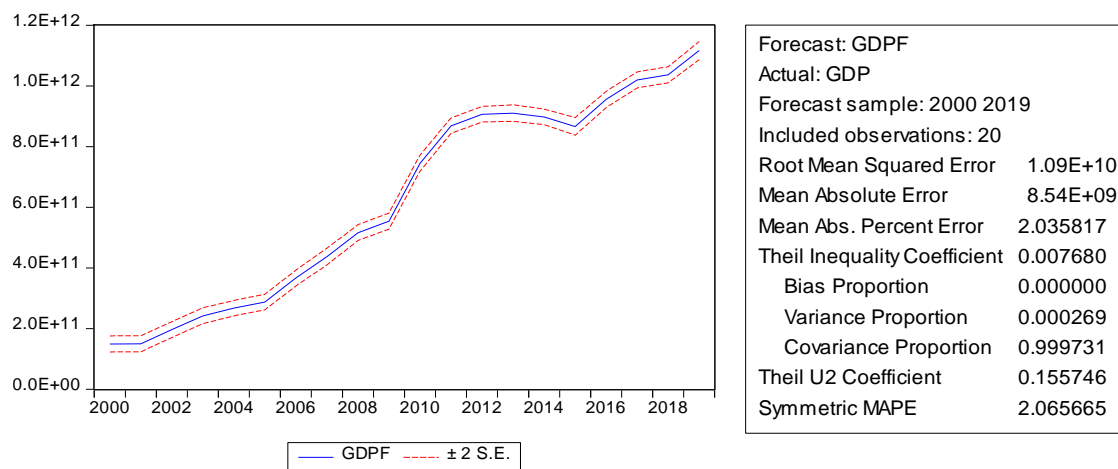
$$GDP = -12148235607.7 + 1.31803551598*CO + 1.86595323936*G - 2.20479080894*I$$

From the estimation results, consumption and subsidies are positively related so that they have an impact on increasing economic growth. However, investment in the business sector has a negative relationship. This indicates that the dominance of investment in the business sector in Indonesia comes from foreign funds, so that it presses domestic companies and investors who rely on the informal sector so that increased investment puts pressure on the backbone of the Indonesian economy, namely micro, small and medium scale enterprises. Table 1 illustrates the estimation results as follows:

Table 1. Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.21E+10	1.01E+10	-1.204781	0.2458
CO	1.318036	0.159915	8.24209	0
G	1.865953	1.052548	1.772796	0.0953
I	-2.204791	1.215939	-1.813241	0.0886
R-squared	0.998924	Mean dependent var		6.24E+11
Adjusted R-squared	0.998722	S.D. dependent var		3.39E+11
S.E. of regression	1.21E+10	Akaike info criterion		49.45281
Sum squared resid	2.35E+21	Schwarz criterion		49.65196
Log likelihood	-490.5281	Hannan-Quinn criter.		49.49169
F-statistic	4951.805	Durbin-Watson stat		1.007819
Prob(F-statistic)				0

Based on the estimation results described in Table 1, it can be seen that the R-square is quite high, namely 0.998924 so that the quantitative calculation results show a 99% level of truth. Figure 1. Shows the forecast for economic growth in Indonesia

Figure 1. Forecasting Economic Growth in Indonesia

From the results of these forecasts, it can be seen that economic growth in Indonesia is experiencing very rapid growth by paying attention to Investment in the Business Sector and Subsidies in Encouraging Indonesian Consumption and Economic Growth in the forecasting process in Figure 1. Based on the results of estimates and forecasting, it can be seen that the dominance of investment in the business sector Indonesia comes from foreign funds so that it puts pressure on domestic companies and investors who rely on the informal sector so that increased investment puts pressure on the backbone of the Indonesian economy, namely micro, small and medium scale enterprises.

Conclusion

The dominance of investment in the business sector in Indonesia comes from foreign funds, which puts pressure on domestic companies and investors who rely on the informal sector, so that increased investment has put pressure on the backbone of the Indonesian economy, namely micro, small and medium scale enterprises.

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