

CHAPTER I

INTRODUCTION

A. Background

Economic growth refers to the process of improving a country's economic situation over time. A country's economy is said to be growing when its level of economic activity exceeds that of the previous era (Yunianto, 2021). A country's ability to generate products and services continues to grow as production factors rise in quantity and quality. Economic growth is one indicator of a country's prosperity, and it is influenced by a variety of elements such as labor, capital, and technical advancement. Economic growth is also influenced by the quantity (quantity) and quality of labor, which is influenced by several things, such as education and health (Nugroho, 2014).

The Regional Domestic Product (GRDP) growth rate is a metric used to assess economic growth in a particular region or province. Gross Regional Domestic Product (GRDP), which is calculated using both prevailing and constant prices, is an important indication of a region's economic situation throughout time. GRDP is effectively the amount of added value produced by all business units in a region, or the amount of final value of goods and services produced by all economic units in the area (Oktaviana & Amalia, 2018) .

The relationship between economic growth and GRDP is very close. When a region experiences economic growth, its GRDP will increase. This

increase in GRDP can be caused by various factors, such as greater investment, increased labor productivity, technological innovation, and increased consumption and exports (Solow, 1956). For example, if a region receives large investments in the manufacturing sector, this will not only increase production capacity but also create new jobs. An increase in people's income from this sector will boost domestic consumption, which in turn could drive growth in other sectors such as trade and services. All of these activities will be reflected in the increase in GRDP.

In Islam, the concept of economic growth is not only measured from quantitative aspects such as increasing GRDP, but also from aspects of justice, social welfare, and blessings in wealth distribution. This is in line with the view that good economic growth must include social justice and empowerment of all levels of society.

فِي امْشُوا فَاذْلُوقُوا الْاَرْضَ لَكُمْ جَعَلَ الَّذِي هُوَ

النُّشُورُ وَاِلَيْهِ رُزُقِهِ مِنْ وَكُلُوا مَنَّاكِهَا

Translation:

“It is He who made the earth tame for you – so walk among its slopes and eat of His provision – and to Him is the resurrection.”

As mentioned in Surah Al-Mulk (67:15), Allah SWT teaches mankind to make the best use of the resources He has provided. This verse can be used as a moral basis that every individual and the government

have the responsibility to manage resources efficiently to achieve common prosperity.

Riau Province has quite complex and diverse economic dynamics in each district/city. Based on data on the economic growth rate from 2018 to 2022, it can be seen how the GRDP of each region contributes to the overall economic growth of this province.

The economic growth rate of Riau Province for the period 2018-2022 from each district in the Riau Province area can be shown as follows:

TABLE 1.1

Riau Province's Economic Growth Rate for the 2018-2022 Period Based on Constant Prices (Percentage)

Economic Growth Rate					
Regency/City	2018	2019	2020	2021	2022
Dumai	5,3%	5,6%	-1,0%	6,0%	6,4%
Pekanbaru	5,4%	6,0%	-4,4%	5,2%	6,8%
Kepulauan Meranti	4,0%	2,6%	0,4%	2,6%	3,2%
Bengkalis	-1,7%	-1,9%	-3,3%	0,5%	2,2%
Indragiri Hilir	3,6%	4,2%	0,4%	4,4%	5,3%
Indragiri Hulu	3,5%	3,8%	-0,1%	-10,3%	5,0%
Kampar	1,9%	3,9%	-0,9%	3,5%	4,8%
Kuantan Singingi	4,7%	4,6%	1,0%	3,8%	4,8%
Pelalawan	3,6%	3,9%	2,2%	4,1%	4,4%
Rokan Hilir	-7,1%	4,2%	0,4%	3,9%	2,6%
Rokan Hulu	4,2%	4,9%	1,5%	5,0%	5,0%
Siak	1,1%	1,5%	-0,1%	2,3%	3,8%
Average	2%	4%	0%	3%	5%

Source: BPS Riau 2023

Based on Table 1.1, Riau Province's economic growth shows significant fluctuations from 2018 to 2022. In 2018, the average growth was only 2%, but in 2019 there was a significant increase with an average

of 4%. The COVID-19 pandemic in 2020 brought a significant negative impact, causing average economic growth to stagnate at 0%. In 2021, the economy began to recover, with average growth rising to 3%. This recovery continued until 2022 when economic growth again rose to 5%. Overall, the long-term trend shows economic recovery and improvement in Riau Province, despite several years of poor or stagnant growth, especially in 2020.

According to Malthus that population growth will accelerate if it surpasses the Gross Regional Domestic Product (GRDP), which grows more quickly than the ability for economic development (Nanga, 2005). Therefore, population growth needs to be curbed or stopped, as continuing on the current path will lead to unemployment. Harrod-Domar offers an alternative viewpoint in (Adisasmita, 2013), wherein speculation serves a dual economic purpose by promoting monetary development and societal utility. The Neo-Classical perspective holds that the rate of economic growth is driven not by consumer demand but by technological advancement and the expansion of the supply of inputs associated to manufacturing. The output of products and services in an economy is influenced by the productivity of labor and capital as inputs. To meet demands and avoid injustices in the age of decentralization and regional autonomy, budgetary capacity might be reinforced. Using capital is one tactic to increase revenue.

In addition, domestic revenue is the main source of economic development, consisting of taxes, natural resource management results, and SOEs (Eko, 2012). Meanwhile, foreign sources usually come in two ways: foreign investment and foreign aid, which consist of loans, debt, and foreign grants (Purba, 2020). Investment, as an accumulation of capital, is one of the benchmarks of economic growth. Investment plays an important role in building economic growth and is a strong foundation for quality and sustainable development at both the national and regional levels.

Investment, as an accumulation of capital, is one of the benchmarks of economic growth. Investment plays an important role in building economic growth and is a strong foundation for quality and sustainable development both at the national and regional levels. Generally, there are two main categories of investments, investments made by foreign entities and investments made by the public and private sectors. PMDN (Domestic Investment) is an investment made by the government and the private sector, while PMA (Foreign Investment) is an investment made by foreign parties. The investment will increase production capacity, which has an impact on the final product. Higher levels of output will result in higher economic growth.

TABLE 1.2

Investment Development from 2018-2022 in Riau Province

Investment	
Year	Total Investment
2018	RP 22,896,027,800,000
2019	RP 41,802,756,500,000

Investment	
Year	Total Investment
2020	RP 49,640,781,480,000
2021	RP 53,050,421,820,000
2022	RP 82,504,976,395,000

Source: DPMPTSP

The data presented on investment in Riau Province from 2018 to 2022 provides an interesting picture of the investment landscape in the region. A noticeable upward trend was seen throughout the period analyzed, signaling an increase in investor confidence in the province's economic prospects. The continued increase in annual investment is an indication of a favorable business climate and attractive investment opportunities in Riau.

The most dramatic surge in investment occurred between 2021 and 2022, with large capital injections into the provincial economy. This significant increase indicates the convergence of various factors, including government policies, infrastructure development, and industry-specific incentives, which have collectively stimulated investor interest. The cumulative investment figure of Rp250,324,823,795,000 five years underscores the substantial economic impact of this investment inflow.

This strong and stable economic growth provides a positive signal for the development of business and industry in the region and reflects the great potential that Riau has to continue to grow in the future. Overall, this data illustrates the tremendous economic growth and investment in Riau

over the past five years, pointing to the region as one of the important centers of economic growth in Indonesia.

Labor is also a factor that affects the output of a region. A large labor will be formed from a large population (Sari, 2016). In essence, labor is a human resource that can be used to advance a region. Active community involvement in producing the required amount and quality of work can improve community welfare. Population growth affects economic development both positively and negatively. Population growth increases the number of workers, but if job opportunities are not proportional to population growth, then unemployment will also increase. As a result, welfare does not increase along with economic expansion.

TABLE 1.3

Development of Labor, and Regional Expenditure from 2018 – 2022 in Riau Province

Year	Labor	Regional Expenditure
2018	3.108.398	Rp.20,348,351,393,738
2019	3.186.222	Rp.23,897,923,771,458
2020	3.226.825	Rp.22,497,022,102,161
2021	3.294.616	Rp.22,138,301,524,900
2022	3.313.818	Rp.24,196,100,000,000

Source: BPS Riau 2023

The number of Riau Province's labor continues to increase consistently from 2018 to 2022. The number was 3,108,398 in 2018 and increased to 3,313,818 in 2022. This trend shows positive progress in Riau's economy and labor market (Table 1.3).

The labor that affects economic growth is in terms of quantity and quality. Several things, such as education and health, will affect the quality of labor, with education considered to be the most important in determining human quality (Nugroho, 2014). This is because higher education has the potential to improve an individual's ability to acquire the necessary knowledge and skills in the industry, which in turn results in increased efficiency and productivity in the workplace.

سَعَى مَا إِلَّا لِلْإِنْسَانِ لَيْسَ وَأَنْ

Translation :

“And that there is not for man except that (good) for which he strives”

In Surah An-Najm (53:39), Allah SWT explains that humans will only get results from what they strive for. This is relevant to the role of labor in the economy. Qualified and productive labor is one of the main pillars in driving economic growth. Human resource development through education and training is an important long-term investment.

Likewise, regional expenditure is one of the factors that affect economic growth. According to Keynesian theory, the amount spent on government, investment, net exports, and consumption determines the increase in national income. Thus, in Keynes's view, demand for regional expenditure, exports and imports, investment, and consumption must all increase in order to boost economic growth determined by rising national incomes.

Regional expenditure in Riau increased consistently from 2018 to 2022. In 2018, regional expenditure was recorded at Rp20.3 trillion. This figure rose to Rp23.9 trillion in 2019. The upward trend continues with regional expenditure reaching Rp22.5 trillion in 2020. In 2021, regional expenditure decreased slightly to Rp22.1 trillion, but increased again in 2022, reaching Rp24.2 trillion. Overall, the data contained in Table 1.3 shows that the Riau local government has consistently increased its spending, reflecting efforts to improve development and public services in the area.

To encourage economic growth, various factors such as investment, labor, and regional expenditure are often the main focus in economic policies. The Solow-Swan Theory, often referred to as the Solow Growth Model, discusses economic growth, focusing primarily on the role of capital accumulation (investment), population growth (labor), and technological progress in the long run. John Maynard Keynes In his book *The General Theory of Employment, Interest, and Money* (1936), Keynes argued that government spending can stimulate economic growth, especially during periods of recession. Keynes argued that government spending can increase aggregate demand, which in turn can increase output and employment.

However, the impact of these factors on economic growth is not always uniform across regions. Previous studies have shown varying

results depending on the context and specific characteristics of each region.

Investment, as one of the important variables, is known to have a positive and significant impact on economic growth in several regions, such as in Bali Province (Wahyuni, 2014) and Batam City (Ningsih & Sari, 2018). In these regions, investment directed at infrastructure development and increased production has been shown to be able to drive significant economic growth. Conversely, in areas such as Pelalawan Regency (Astuti, 2017) and North Sulawesi (Mamuane, 2021), investment does not have a significant impact on economic growth. This is likely due to the allocation of investment concentrated in sectors that have less impact on the local economy.

Labor is also an important variable in the analysis of economic growth. In some areas, labor makes a positive and significant contribution to economic growth, especially when supported by adequate education and skills. However, in areas such as Manado City (Bawuno, 2015), the contribution of labor to economic growth is insignificant due to the low level of education and skills of workers, as well as the mismatch between jobs and the skills they have.

In addition, regional expenditure as one of the fiscal instruments of local governments also shows varying impacts on economic growth. In some areas, such as Surabaya City (Cahyono, 2017), regional expenditure has proven to be significant in driving economic growth, especially when

allocated wisely and focused on productive activities. However, in other areas such as Mimika Regency (Taher & Tuasela, 2019), regional expenditure does not have a significant impact because the allocation of funds is not on target or is used more for less productive routine expenses.

Based on the diversity of these results, it is important to understand how investment, labor, and regional expenditure affect economic growth in each region, including in Riau Province. Given the important role of these three variables in economic policy, this study aims to analyze the effect of investment, labor, and regional expenditure on economic growth in Riau Province.

TABLE 1.4

Potetial Natural Resources in Riau Province

Resource Potential	Product
Mineral Resources	Oil and Gas
Forest Product	Logs, Plywood
Plantation Product	Coconut, Palm Oil, Rubber
Agriculture Product	Rice, Corn

In addition, Riau Province is one of the provinces in Indonesia which is rich in potential natural resources (SDA). This province has a wealth of forest products, mineral resources, and river resources that are suitable for large power plants. If it is utilized properly, it will create good economic growth in Riau. The purpose of this study is to determine how investment,

labor, and regional expenditure are interrelated in relation to the dependent variable, namely economic growth of Riau Province. This research is expected to provide a clearer picture of what factors play a significant role in driving economic growth in this region, as well as provide appropriate policy recommendations to improve people's welfare through sustainable economic growth.

Based on the background described above, the title of this research is **“The Effect of Investment, Labor Force, and Regional Expenditure on the Economic Growth of Riau Province”**

B. Problem Statement

Based on the description of the background, the formulation of the problem in this study:

- a. How does the value of Investment affect economic growth between 12 Regencies/Cities of Riau Province?
- b. How does the number of workers affect economic growth between the 12 Regencies/Cities of Riau Province?
- c. How does Regional Expenditure affect economic growth between the 12 Regencies/Cities of Riau Province?

C. Research Objectives

The purpose of this research is to find out:

1. Analyzing the effect of investment value on Riau Province's Economic Growth.
2. Analyzing the effect of the number of workers on the economic growth of Riau Province.
3. Analyzing the effect of Regional Expenditure on Economic Growth of Riau Province.

D. Problem Limitations

The limitation of this study is only to examine the effect of Investment, Labor, and Regional Expenditure on Economic Growth with the analysis in this study, the variable used Economic Growth as a related variable (*dependent variable*) while the independent variable is Investment, Labor, and Regional Expenditure. This study uses *time series data* from the 2018-2022 period between 12 regencies/cities in Riau Province.

E. Research Benefits

The benefits of the results of this study can be used as:

1. Input for the Riau Provincial Government in taking policies to be able to improve better economic development in the future.

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2. This research is expected to be used for future research materials and can provide benefits and add insight for those who read it.