The Investment Effect on Prosperity in Indonesia with Economic Development as an Intervening Variable

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Abstract

Indonesia is rich with natural resources, which attract investors. However, it has not impacted an insufficient level of prosperity, as shown by a low level of education and income per capita. The study aims to determine the effect of investment as measured by Global Competitive Index (GCI) as the independent variable, Human Development Index (HDI) as the dependent variable on prosperity, and Gross Domestic Product (GDP) as an intervening variable to measure economic development. The research used a descriptive quantitative framework, supported by data from books, journals, and other online sources. The data were analyzed with a linear regression statistical model using SPSS.25. The results indicate that investment has no significant direct effect on prosperity, yet, it has a significant indirect effect on prosperity through economic development. The current imbalance in economic and education progress illustrates that today’s development is against Islamic principles, e.g., divinity, justice, and sustainability. These principles are the keys to solving the problem of prosperity in Indonesia. Thus, to increase prosperity, the government needs to increase public access to economic development by improving education and health facilities, especially in rural areas, and the independence of the people to manage the country’s wealth.

Keywords: Divinity, Investment, Justice, Prosperity, Sustainability
A. Introduction

Prosperity is the virtuous ideal of the founding fathers of Indonesia, as outlined in the foreword of the 1945 Constitution. It mentions that the state controls all the nation's wealth which aims for the prosperity of the citizens. Discussions related to prosperity have been carried out at various levels, both at national and international governmental levels, scientists, and community institutions. However, prosperity is still considered a dream, especially for people living in developing countries, including Indonesia. Prosperity can only be achieved when each Indonesian citizen believes and becomes pious, as in surah Al A'raf, verse 96, "And had the people of the dwellings believed and been pious, we would have surely opened for them the blessings from the sky and from the earth, but they denied, and We, therefore, seized them on account of their deeds."

With the development of human civilization, its meaning has developed as well. Prosperity is not only limited to meeting economic needs but extends to primary, secondary, and tertiary needs, including political needs. These result in prosperity that cannot only be quantified by the population's income per capita. Moreover, it has to measure Human Development Index (HDI). HDI dimensions determine how easily people can access the needed infrastructures, earned income, health, education, etc. The measurement components include age, knowledge, quality of life, and decent living standard. Thus, HDI can better describe the level of prosperity in a country. The development of HDI in the last ten years is depicted in the following graph.¹

The graph shows HDI increased between 2010 to 2019. However, it is moving linearly, as seen in the Indonesian HDI table for the last five years.

**Table 1.**
**Growth of HDI Variables in 2015-2019**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>HLS</td>
<td>12,6</td>
<td>12,7</td>
<td>12,9</td>
<td>12,9</td>
<td>13</td>
</tr>
<tr>
<td>PPP</td>
<td>10,2</td>
<td>10,4</td>
<td>10,7</td>
<td>11,1</td>
<td>11,3</td>
</tr>
<tr>
<td>RLS</td>
<td>7,8</td>
<td>8</td>
<td>8,1</td>
<td>8,2</td>
<td>8,3</td>
</tr>
<tr>
<td>UHH</td>
<td>70,8</td>
<td>70,9</td>
<td>71,1</td>
<td>71,2</td>
<td>71,3</td>
</tr>
</tbody>
</table>

The table above shows several variables of the Indonesian population, such as school length expectations, purchasing power parity, average school length, and life expectancy. They have increased in a linear direction over five years. According to UNDP, Indonesia's HDI is ranked 6th among ASEAN countries. It is under Singapore, Brunei Darussalam, Malaysia, Thailand, and the Philippines. Indonesia is also ranked 111th out of 189 countries in the world. It shows that the Indonesians' level of prosperity is way behind its neighboring countries. It contrasts with the country's great potential, for instance, its
strategic location, abundant natural resources, and diverse human and cultural resources. These factors allow Indonesia to become a developed country.\(^2\)

The government needs domestic and foreign investors to maximize this potential. Global Competitive Index (GCI) influences a country's capacity to attract investors is influenced by Global Competitive Index (GCI). The better the ranking, the more investors to come.\(^3\) In 2019, Indonesia obtained 64.63 point, which placed it in 50\(^{th}\) rank globally. Nevertheless, it decreased from its 2018's rank.\(^4\) The Indonesian Chamber of Commerce stated that in the last 10-20 years, investment in Indonesia is still dominated by foreigners, although domestic investments continue to increase.\(^5\)

The decline in competitiveness is caused by corruption, government bureaucratic inefficiency, limited infrastructure, low access to financial institutions and products, inflation, policy instability, low labor ethics, tax rates, limited skilled workforce, tax policy, foreign exchange regulation, low public health facilities, crime rate, limited innovation, and strict labor regulations.\(^6\)

Most of these problems come from human capital. Hence, the Indonesians themselves need to realize that all of their actions will be held accountable, as mentioned in the hadith "Remember, every one of you is a leader and will be held accountable for his leadership…." Another acute problem the country faced was corruption, which is considered an extraordinary crime. Corruption is against sharia and is unlawful, as a hadith narrated by Imam At-Turmuodzi

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\(^3\) Tamilla Curtis, et. al., “Effects of Global Competitiveness on Global Competitiveness, Human Development, and Corruption on Inward Foreign Direct Investment,” Embry-Riddle Aeronautical University, 2013, 1–23, p.1


"The prophet of Muhammad (PBUH) curses those who offer bribes and those who accept them." Table 2 illustrates the development of GCI in the last ten years.

<table>
<thead>
<tr>
<th>Year</th>
<th>Competitive Global Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>60.85</td>
</tr>
<tr>
<td>2011</td>
<td>63.28</td>
</tr>
<tr>
<td>2012</td>
<td>62.42</td>
</tr>
<tr>
<td>2013</td>
<td>62.71</td>
</tr>
<tr>
<td>2014</td>
<td>64.71</td>
</tr>
<tr>
<td>2015</td>
<td>65.28</td>
</tr>
<tr>
<td>2016</td>
<td>64.57</td>
</tr>
<tr>
<td>2017</td>
<td>63.48</td>
</tr>
<tr>
<td>2018</td>
<td>64.93</td>
</tr>
<tr>
<td>2019</td>
<td>64.62</td>
</tr>
</tbody>
</table>

Source: processed/Word Economic Forum

GCI affects economic development and is indicated by the Gross Domestic Product (GDP) level. The research supports by Wilson Rajagukguk. The result shows technological competitiveness, capacity, cost, and demand statistically and significantly affect economic growth in developing countries. Based on statistical data, the cumulative growth rate of GDP has decreased since 2010. From 2014 to 2019, it has experienced linear growth, as shown in Figure 2.

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The 1945 Constitution and Pancasila develop the concept of democracy, which is in line with the Indonesian social and cultural environment. The concept brings out development based on wills, needs, and abilities, which are carried out for the benefit of the Indonesian people. Thus, development and democracy will strive to humanize humans.\(^8\) Hence, investors must be able to increase development, which results in increased prosperity\(^9\). Based on a study by Rini Sulistiaiawati, investment had no significant effect on economic growth in Indonesia. In addition, economic growth had no significant effect on people's welfare.\(^10\) A study by Firdaus Jufrida et al. illustrates that foreign investment is not significantly correlated yet constructive influences the nation's economic growth. In contrast, domestic investment has a significant relationship and


positively affects Indonesia’s economic growth. Therefore, the authors are interested in examining the relationship between investment and prosperity with economic development as an intervening variable. The research aims to provide input to the Indonesian government in making investment and economic development policies that will increase the nation’s prosperity.

B. Theoretical Concepts

1. Prosperity

In the narrow sense, prosperity is a condition where a person has enough money and has no debt. However, prosperity is an economic concept that is broader and more complex. First is the availability of adequate employment opportunities and opportunities for workers to develop and receive training and education. The second are opportunities for everyone to innovate and be creative to produce quality products and services. Next, the education system provides opportunities for children to think critically and confidently realize their dreams. Finally, the health protection system aims to treat and prevent disease and create a healthy and sustainable environment. The concept of prosperity has various aspects; therefore, measuring based on GDP per capita is considered a failure because it cannot measure prosperity adequately. GDP per capita is measured by adding up all gross domestic products divided by the total population without considering the element of equity (a small proportion of people control most of the product) and class differences between the rich and the poor.

In 1990, the Pakistani economist Mahbub ul Haq introduced the concept of the Human Development index (HD Index) to measure development among individuals to improve their life quality. A broader HD Index measurement

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covers economic, health and education, and political aspects to reflect actual prosperity. The prosperity indicator is mainly based on the ability to encourage freedom in various aspects, including political, economic (obtaining and choosing jobs and freedom to conduct business), opportunities for increasing welfare, better life expectancy and health, access to education, better living standard, and participation in policymaking. The HDI index has encouraged countries worldwide to compete in improving their ranking. HDI rankings are grouped into three categories, such as, high (up to 0.800), intermediate (0.500–0.799), and low (less than 0.500). Hence, the concept of prosperity has two dimensions, e.g., outer and inner dimensions. Additionally, it can only be achieved through faith and the fulfillment of physical needs. Imam Al-Ghazali states that a country will be strong and capable of providing security and well-being for its people when religion is used as the country's foundation.

2. Investment

Investment is generally defined as providing capital or valuable assets to obtain future profits in a project or institution. Investment ranges from money to goods market. It affects various sectors in the business cycle, which impacts Gross Domestic Product (GDP), monetary policy, capital markets, and long-term economic growth. Tax policy is a factor that greatly influences investment because the government and people's involvement in establishing tax laws are particularly important. Investment plays an essential role in generating the country's economy because capital growth can increase national income or GDP. In Arsyad, Harrod-Domar develops Keynes's theory where investment is the key to creating income and increasing production capacity.

Several investment models that become investment alternatives are loans or Foreign Direct Investment (FDI), political alliances, and long-term project

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14 Ibid., p.252
15 Ibid., p. 86
18 Ibid., p.82.
financing based on sharing benefits in economic, health, and education infrastructure development following recipient government policies. An intensive political alliance currently carried out is China’s Belt and Road Initiative (BRI) between China and some Arab countries.\textsuperscript{19} FDI is the highest investment activity, which aims to build long-term interests by domestic companies. \textsuperscript{10\%} company ownership by foreign investors is a part of FDI. FDI has increased since the globalization of the capital market and the implementation of the World Trade Organization's (WTO) decisions. Three things that influence investors' consideration for investing in other countries are resource commitment, control, and risk. The risk includes a tentative business environment, industrial, and business fluctuation. An alternative to control ownership risk is via FDI.\textsuperscript{20} Based on the United Nations Conference on Trade and Development (UNCTAD), FDI is determined by three main variables; first, government policies, such as, trade, taxation, privatization, and macroeconomics (inflation and exchange rates); second, business, like, incentives and investment, and third, economy, for instance, resource availability, market size, and efficiency.

The benefits of FDI for receiving countries are technology, skills, and knowledge (intangible assets) transfer. Enny Sri Hartati, a researcher at the Institute for Development of Economics and Finance (INDEF), states that the government needs to make complex bureaucratic improvements to meet the industry needs and to issue appropriate pro-investment policies for it is necessary to improve Indonesia's rank in Global Competitiveness Index (GCI). Increasing GCI will boost investment, which is based on Curtis's research, plays a determining factor in FDI.\textsuperscript{21}


\textsuperscript{20} Tamilla Curtis, “Effects of Global Compe\textsuperscript{21}tiveness, Human Development, and Corruption on Inward Foreign Direct Investment.”

\textsuperscript{21} Ibid., p.15
GCI is measured using 12 criteria: institutions, information and communication technology, infrastructure, macroeconomic stability, labor availability, product marketing, financial system, health, market size, skills, dynamism, and innovation ability. GCI is suitable for providing a comprehensive explanation of the interrelated and mutually reinforcing factors and for boosting the country's productivity and competitiveness in bringing in investors. Competitiveness is the country's capacity to innovate and create a competitive advantage by using its resources. Competitiveness will improve the economy and create prosperity. The Diamond Model shows that competitive advantage is determined by five interrelated factors: firm strategy, structure, rivalry, related supporting industries, demand, and conditions.\textsuperscript{22}

The role of government in creating competitive advantage is particularly important by providing facilities, reassurance, and policies that encourage industrial competitiveness. The support can be tax policies, incentives, education, and strengthening other supporting factors.\textsuperscript{23} In 2019, Investment Coordinating Board concluded that another government policy is to build infrastructure and human resource development supported by technology. Human resources development is a key factor for successful foreign and local investment, which education can only achieve. Consequently, Islam requires humans to seek knowledge, as narrated in a hadith, "Whoever takes a path in search of knowledge, Allah will make easy for him the path to heaven" (Muslim, no. 2699).

3. Economic Development

In the foreword of the 1945 Constitution, the nation's wealth is aimed at the prosperity of Indonesians. Hence, it indicates that economic development should provide equal welfare. It also agrees with the objectives of economic

development activities from the Islamic perspective. According to Suntana, the activities should first revive the human factor, which can motivate individuals to create and improve their economic conditions. Second, the activities should reduce wealth concentration via land reform and small and micro-enterprises development, as mentioned in surah 59 verse 7 "As for gains granted by Allah to His Messenger from the people of ‘other’ lands, they are for Allah and the Messenger, his close relatives, orphans, the poor, and ‘needy’ travelers so that wealth may not merely circulate among your rich ..." Third, the activities need to restructure the public economy and strengthen the effectiveness and efficiency of spending. Next, the activities need to deal with financial restructuring by developing the marginalized and a financial system based on the profit-sharing principle. Finally, through institutional reform and proportional policy changes, the activities need to undertake structural change.

Suntana also states that the basis for economic development policies is *tawhid*, justice, and sustainability. *Tawhid* provides a fundamental recognition that economic resources on earth belong to Allah; thus, they must be accessible to all human beings. The principle of justice becomes the basis of justice in the form of equal opportunity to manage and maintain economic resources. Managing these resources is based on the awareness that the next generation also has the right to utilize them; therefore, it must be preserved well and carried out efficiently.

Gross Domestic Product (GDP) measures the government's success in implementing economic development. GDP is the amount of value-added output produced by a country, including goods and services, in a year. There are three approaches to calculating GDP in Indonesia. First of all, the production approach calculates the output of various production units (9 business fields). Next, the income approach calculates the remuneration received by the production factors involved. Finally, the expenditure approach calculates all components of final demand for the private non-profit sector, household

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consumption, government consumption, and net exports. A study by Maqin and Sidharta explains that increasing GDP boosts per capita income and improves people's purchasing power, and enhances government budgets for health and education. Thus, the Human Development Index intensifies.

C. Result Methodology

The study used a descriptive quantitative framework to explain the influence of independent and dependent variables. The independent variable was an investment, measured by GCI (X), and the dependent variable was prosperity, measured by HDI (Y). The mediating variable was economic development as measured by the 2010 years' GDP cumulative growth rate. The study used secondary data sources, such as, books, journal articles, websites, reports, and other online sources. The data used in this study were from 2010 to 2019. Data analysis used to find the relationship between variables was carried out using a linear regression statistical model via SPSS 25. The hypothesis is there is an influence between the independent variable, GCI, and the dependent variable HDI, either directly or indirectly through the GDP intervening variable.

D. Result and Discussion

The results are shown respectively, based on data analysis via linear regression statistical model.

1. GCI effect on GDP


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<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>27.776</td>
<td>4.378</td>
<td>6.344</td>
<td>.000</td>
</tr>
<tr>
<td>GCI</td>
<td>-.351</td>
<td>.069</td>
<td>-.875</td>
<td>-5.104</td>
</tr>
</tbody>
</table>

Dependent Variable: GDP

The regression coefficient value is -0.351 with a significance of 0.001 smaller than 0.005, which states that the GCI variable has a significant effect on GDP in a negative direction.

2. GDP effect on HDI

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>84.275</td>
<td>3.416</td>
<td>24.668</td>
<td>.000</td>
</tr>
<tr>
<td>GDP</td>
<td>-2.768</td>
<td>.626</td>
<td>-.842</td>
<td>-4.422</td>
</tr>
</tbody>
</table>

Dependent Variable: HDI

The regression coefficient value is -2.768 with a significance of 0.002, smaller than 0.005, which means that the GDP variable has a significant effect on HDI in a negative direction.

3. GCI effect on HDI with GDP as an intervening variable

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>6.817</td>
<td>19.845</td>
<td>.344</td>
<td>.740</td>
</tr>
<tr>
<td>GCI</td>
<td>.980</td>
<td>.312</td>
<td>.744</td>
<td>3.146</td>
</tr>
</tbody>
</table>

Dependent Variable: HDI

The indirect effect of GCI on HDI through GDP as an intervening is \(-0.351 \times -2.768 = 0.96\)
The regression coefficient value of 0.980 with a significance of 0.014 greater than 0.005 explains that GCI directly affects HDI and is not significant in a positive direction. Still, GCI has a significant indirect effect on HDI through GDP as a mediation. Thus, GDP mediates the GCI to HDI relationship of 0.96.

4. Discussion

a. Investment influences economic development

The research results indicate that investment significantly affects economic development, but in a negative tendency with a coefficient value of -0.351. Consequently, any increase in investment declines Indonesia's economic development by 0.351. The finding is similar to a study by Sulistiawati. It proves that investment negatively affects the economic growth in many provinces in Indonesia.

Economic growth is influenced by various variables, for instance, labor quality and technology mastery. As discussed above, the Indonesian population's low average level of education affects the mastery of technology and the quality of the workforce. Thus, the Indonesian people cannot absorb the increase in investment, so it cannot increase GDP.

As reported by medcom.id, the Ministry of National Development Planning explains in 2019, as many as 4.3 million Indonesian students, or 6% of all school children, dropped out of school. The level of education in Indonesia is generally only up to the junior high school level. In addition, about 9% of high school graduates can complete college. These problems are mainly caused by economic conditions, especially in rural areas. It then causes the people to have low economic development. Most villagers only work in the informal sector or become low-level employees with limited incomes.

The condition was worsened by the trade war between America and China and Japan and South Korea, which caused an economic slowdown in

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those countries. According to BNI economist Ryan Kiryanto, the economic slowdown in any developed country will hamper Indonesia's economic growth by 0.32% since the countries are the main trading partners for Indonesia. Indonesia's economic growth has experienced a negative growth rate despite its investment improvement.

b. Economic development disturbs prosperity

Economic development has a significant effect on prosperity as measured by HDI in a negative direction with a coefficient value of -2.76. It shows that each increase in economic development decreases the level of prosperity of the Indonesian people, amounting to 2.76. Indonesia's Gini ratio is 0.382, including a low gap. The National Team for the Acceleration of Poverty Reduction (TNP2K) states that 1% of rich Indonesians control 50% of national assets. It causes an increase in GDP enjoyed by only a few people. It causes most people to have limited access to the economy, education, and health, so the life expectancy of the Indonesian people is also low. Such development contradicts Islamic principles based on divinity, justice, and sustainability.

Prosperity can only be achieved when humans are devoted to Allah, in the form of realizing that humans are caliphs on earth—using the wealth that Allah has been given to greater goods and not to be piled up on one person or one group. Human being has the right to work and process natural resources for the prosperity of present and future generations. Government policies that do not take sides with the people and ensure equitable distribution of wealth

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30 “Badan Pusat Statistik.”
will nourish corruption and collusion, which are the causes of the poor economic development of Indonesian.

c. The Effect of Investment on Prosperity with Economic Development as an Intervening Variable.

Investment does not directly determine prosperity; however, investment has a significant indirect effect on prosperity over economic development. The findings explain that investment growth can increase prosperity by 0.96 because of economic development. The increase in GCI is mainly determined by the availability of skilled workers, health facilities, efficient business processes, healthy competition, and encouraged community innovation. Foreign investment encourages technology transfer, increases intangible assets, and increases employment opportunities. Hence, it will improve the community's productivity and enhance GDP and per capita income. As a result, it will increase the community's ability to obtain higher education and health services to extend life expectancy. It will increase the HDI of the Indonesian people.

The results comply with the study by Bucher, which presents a significant correlation between GCI, HDI, GDP per capita, and competition in the tourism industry. The study by Tamila et al. similarly explains that FDI increases the economy of countries under study. Additionally, GCI and HDI are closely related. The HDI measurement indicator is part of the GCI measurement indicator. These findings also Porter's diamond model theory which illustrates that competitiveness will increase economic development and prosperity.

E. Conclusion and Recommendations

From the explanation, it can be concluded that there are the various types of education. The challenge faced is that in the process of socializing and

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providing the multicultural education policies in the national curriculum, it is necessary to involve all of the appropriate stakeholders at both the macro and micro levels in the whole education system. This is also related to the lack of the understanding, large variations in interpretation of meaning and rejection due to the interests of several stakeholders, especially in the current era of autonomy, namely by Human Resources (Educators) who are not ready and the lack of understanding of the concept of multiculturalism which has become the main obstacle. In addition, the materials and resources must be free from biases, such as social class, gender, ethnicity, religion, and urban bias. Thus, the authors of sources and materials, need the multicultural perspective.

The results indicate that investment indirectly influences prosperity in Indonesia. The investment will affect prosperity by increasing economic development. Economic development which adheres to Islamic principles will be fairly carried out. Economic resources must pay attention to their sustainability since they belong to all generations, especially future generations. This study also indicates that ignoring the three aspects will lessen economic development or level of prosperity.

Some variables that mediate the relationship between GCI and PMI have not been included; hence, subsequent studies should include other variables. In addition, the writers recommend that the government enhance economic development policies that comprise as many stakeholders as possible in society, especially the lower-class members, to create an inclusive economy and equitable access to development. The government needs to improve public access to education and health to stimulate better resources in Indonesia. It is essential since increased investment can boost the economy and create prosperity as mandated in the 1945 Constitution. Also, it is in line with the Islamic teaching, which mentions that wealth on earth belongs to Allah; therefore, it must be fairly and efficiently used for the benefit of human beings.

The government also needs to focus on improving the quality of human resources in Indonesia. Education aims to improve technology-based and
innovation-based skills through better access to job training centers. The role of higher education institutions is directed not only as a center for knowledge development but also as a center for skills and entrepreneurship training. In the long run, the Indonesian workforce has qualifications that meet the needs of the labor market. It is necessary to boost GDP to increase income per capita, contributing to the nation's prosperity and Indonesia's global competitiveness index.

F. Research Limitations

The research is limited in some aspects. First of all, the data series used is limited to the last ten years (2010-2019). Moreover, the GCI data used (2010-2016) is the result of passing on a scale of 1-7 to 0-100. Thus, it may potentially reduce the accuracy of the research results. Secondly, the study only uses limited investment and economic development variables to assess their effects on prosperity. In contrast, other factors that have not been examined may influence prosperity.

References


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