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Analysis of Exports, Foreign Direct Investment and Tax Revenue on Economic Growth in Indonesia

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Abstract

This study aims to analyze the influence of exports, foreign direct investment (FDI), and tax revenue on Indonesia's economic growth during the 2020-2023 period. Using secondary data from Statistics Indonesia (BPS) and qualitative methods, this research explores the significant role of these variables in supporting sustainable economic growth. The findings show that exports make a major contribution by providing foreign exchange, increasing production, and creating employment. FDI shows a positive growth trend that drives technology transfer, investment in strategic sectors, and increases in GDP. Tax revenue serves as the main source of development financing, supporting infrastructure, education, and healthcare. Moreover, aspects of international taxation—such as the avoidance of double taxation and the implementation of digital taxes—influence the optimization of state revenue from cross-border activities. This study emphasizes the importance of synergy between export policies, foreign investment, domestic tax administration, and international taxation in ensuring inclusive and sustainable economic growth in Indonesia.

Keywords: *Exports, Foreign Direct Investment, Tax Revenue, International Taxation, Economic Growth.*

INTRODUCTION

Developing countries typically focus on economic growth as a means to achieve national development. Economic growth serves as a benchmark for a country's development progress and is one of the main indicators of successful economic development (Roosmanita & Jhonny Marbun, 2022). Today, Indonesia's economy faces significant challenges and opportunities, especially amid global market dynamics. Economic growth is a key metric for assessing national economic performance. Economic growth not only reflects a country's ability to increase productivity but also underpins strategies for sustainable development.

The three main components directly influencing economic growth are exports, tax revenue, and foreign direct investment (FDI). Exports serve as a primary driver of international trade, contributing not only to foreign exchange earnings but also expanding markets for domestic products. Tax revenue, on the other hand, is the government's main income source for funding infrastructure, education, and healthcare development. Meanwhile, FDI plays a vital role in facilitating technology transfer, creating jobs, and boosting production capacity.

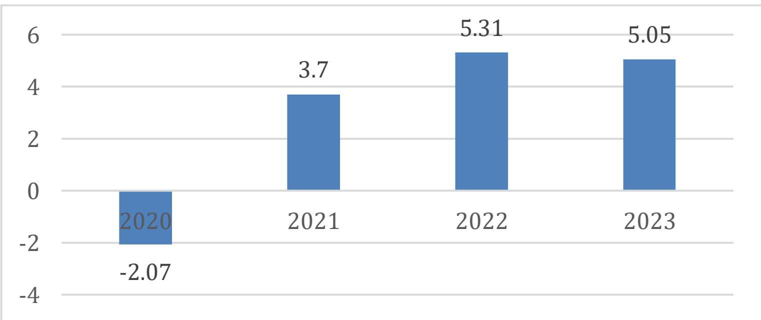

Figure 1. Central Statistics Agency, 2023

According to data from the Badan Pusat Statistik(BPS), Indonesia's economic growth showed dynamic changes between 2020 and 2023. In 2020, the country recorded an economic contraction of -2.07% due to the COVID-19 pandemic. However, through various economic recovery policies, growth rebounded to 3.70% in 2021, 5.31% in 2022, and 5.05% in 2023. This improvement was partly driven by sustained export sector growth, optimized tax revenue, and increased foreign investment (BPS, 2023).

Several studies have examined the impact of these three variables on Indonesia's economic growth. For instance, research by (Lubis et al., 2024) shows that regional tax and levy revenue has a significant positive effect on economic growth.

Additionally, a study by (Ria Wahyuni et al., 2024) found that Exports and Imports collectively have a positive and significant impact on economic growth in North Sumatra.

However, some studies present contrasting findings. (Asrinda & Setiawati, 2022) concluded that FDI has no significant effect on economic growth, while exports show a significantly positive influence.

These differing findings indicate an empirical gap that warrants further research to comprehensively understand how tax revenue, FDI, and domestic investment affect Indonesia's economic growth.

Therefore, this study aims to conduct an in-depth analysis of the impact of tax revenue, foreign direct investment, and domestic investment on Indonesia's economic growth. By understanding the relationship between these variables, it is hoped that effective policy recommendations can be provided to promote sustainable economic growth.

Based on the above discussion, the author is interested in conducting research titled "Analysis of Exports, Foreign Direct Investment, and Tax Revenue on Economic Growth in Indonesia."

LITERATURE REVIEW

2.1. Exports

Exports are the sale of domestically owned commodities to other nations or foreign countries under government regulations, with payment expected in foreign currency and communication conducted in a foreign language (Asbiantari et al., 2023).

According to Sukirno's research cited in (Asbiantari et al., 2023), exports have a positive effect on a country's economic activity, as they represent spending by residents of other countries on domestically produced goods.

2.2. Foreign Direct Investment

Foreign Direct Investment (FDI) is a type of capital investment that is highly sought after in the industrial sector due to strong demand. FDI also represents the first step in development (Putri, 2022).

2.3. Tax Revenue

Tax revenue, according to Hutagaol's research cited in (Ngadiman, 2019) within the journal (Akbar, 2020), indicates that revenue sources can be obtained and continuously developed in accordance with government needs and societal conditions. The state must be present to address the nation's economic problems. Taxes and the state form a unified solution, so that tax revenue can be optimized.

2.4. Economic Growth

Economic growth is defined as the increased capacity of an economy to produce goods and services. It is one of the most crucial indicators for analyzing the economic development of a country (Asbiantari et al., 2023).

Economic growth is defined as a long-term increase in overall output, regardless of whether this increase is smaller or larger than population growth, and whether or not it is accompanied by structural economic changes (Aji et al., 2023).

RESEARCH METHOD

This research uses qualitative methods and utilizes secondary data accessed through the Badan Pusat Statistik (BPS). Qualitative methods involve descriptive research and tend to emphasize analysis. Secondary data refers to information obtained not directly from the research subject, but through other sources. The data analyzed were obtained from the Central Statistics Agency.

RESULTS AND DISCUSSION

Table 1. The Impact of Exports on Indonesia's Economic Growth

Year	Export Value (Billion US$)
2020	163,2
2021	231,6
2022	291,7
2023	258,6

According to data from Statistics Indonesia (BPS), Indonesia's export values fluctuated during the 2020-2023 period. In 2020, exports stood at USD 163.2 billion—the lowest figure in that window. The drop stemmed from the COVID-19 pandemic, which triggered a global economic slowdown, sapped international demand, and disrupted supply chains. In 2021, however, exports rebounded sharply to USD 231.6 billion, mirroring the global recovery and surging commodity prices for coal and crude palm oil (CPO). The momentum carried into 2022, when exports peaked at USD 291.7 billion, lifted by robust demand for energy commodities after the Russia-Ukraine conflict erupted. Yet in 2023, export earnings slipped to USD 258.6 billion as global commodity prices cooled and key trading partners such as China and the European Union slowed.

Exports also exert significant influence on Indonesia's economic growth. As a key component of Gross Domestic Product (GDP), higher exports feed directly into growth through the following channels:

1. Source of Foreign Exchange and Economic Stability
   Exports earn foreign exchange that finances imports of capital goods, raw materials, and other essentials underpinning economic development. A steady inflow of foreign exchange also helps keep the rupiah stable—vital for a healthy investment climate.
2. Increased Production and Employment
   Strong export demand pushes industries to ramp up output, creating jobs across manufacturing, agriculture, and mining. This absorption of labor lifts household incomes and purchasing power.
3. Driving Industrial Sector Growth
   Exports spur the development of industrial sectors, particularly those based on natural resources like mining and plantations. Global demand stimulates investment in these sectors, ultimately impacting overall economic growth.
4. Multiplier Effect on the Economy
   Income generated from exports triggers a multiplier effect in the economy. When exporting companies earn profits, they tend to invest more, boosting economic activity across various sectors.
5. Economic Diversification
   Exports enable economic diversification by reducing reliance on domestic markets. This makes the economy more resilient to shocks, both domestically and internationally.

However, exports are also directly linked to international taxation through:

1. VAT on Exports: In many countries, including Indonesia, exports are exempt from value-added tax (VAT) to enhance competitiveness in international markets. However, exporters must comply with reporting obligations under international tax regulations.
2. Transfer Pricing: In cross-border trade, multinational companies often use transfer pricing policies. This creates challenges for tax authorities to ensure that profits from export activities are not shifted to low-tax jurisdictions (tax havens).
3. International Tax Agreements: Countries sign double taxation avoidance agreements to prevent double taxation on exports and international trade.

EMPIRICAL IMPACT

For example, in 2022, when Indonesia's exports hit a record high of US$291.7 billion, economic growth also rose to 5.31%. This indicatesa significant linkbetween rising exports and economic growth. However, in 2023, the drop in exports to US$258.6 billion contributed to the slowdown in economic growth to 5.05%.

Thus, exports are the main driver of Indonesia's economic growth. To maximize their contribution, the government must promote diversification of export products, increase added value through industrialization, and strengthen competitiveness in global markets.

Table 2. The Impact of Foreign Direct Investment on Indonesia's Economy

Year	Export Value (Billion US$)
2020	163,2
2021	231,6
2022	291,7
2023	258,6

The data above show the trend in realized Foreign Direct Investment (FDI) in Indonesia from 2020 to 2023. In 2020, FDI realization was Rp 413,535.5 billion, forming the baseline for this series. However, foreign investment that year faced major challenges due to the COVID-19 pandemic, which led many investors to postpone or scale back activities amid global uncertainty.

In 2021, FDI realization rose to Rp 447,063.6 billion, an increase of Rp 33,528.1 billion or about 8.1% over the previous year. This uptick signals a global economic recovery after the pandemic, underpinned by mass-vaccination programs and the reopening of economic activity that restored investor confidence.

In 2022, FDI realization jumped significantly to Rp 552,769.0 billion, up Rp 105,705.4 billion or roughly 23.6% compared with 2021. The sharp rise reflects robust growth driven by structural reforms in Indonesia—such as the enactment of the Job Creation Law—and higher investment in manufacturing, renewable energy, and technology sectors.

In 2023, the positive trend continued, with FDI realization reaching Rp 674,923.4 billion, a rise of Rp 122,154.4 billion or about 22.1% over 2022. The increase demonstrates the sustained momentum of foreign investment, propelled by political stability and an increasingly conducive investment climate. Strategic sectors such as infrastructure, mineral downstream processing, and the digital economy have become key magnets for foreign investors.

Investmentforeign capitalcan be beneficial for Indonesia, particularly for national economic development. However, considering the many benefits that can be seen from the influence of foreign investment on Indonesia, there are of course laws applied to reduce any negative impacts that may occur. The law regulated by Indonesia regarding investment is Law No. 25 of 2002 concerning investment. According to existing regulations, the impact of foreign investment can be seen on national economic development. With Indonesia joining countries that engage in international cooperation, this will become a great opportunity for Indonesia to continue developing on the international stage. (Sumarni, 2020)

FDI (Foreign Direct Investment)alsoinvolves cross-border capital flows, which influence international tax policies through:

1. Income Tax (PPh) on Dividends, Interest, and Royalties:
   Foreign investment often generates income such as dividends, interest, and royalties that are taxed in the source country. Double-taxation-avoidance agreements (DTAAs) usually set these tax rates so they do not overburden foreign investors.
2. Tax Incentives
   Governments frequently grant tax incentives to foreign investors, such as tax holidays, import-duty exemptions on capital goods, or reduced corporate income-tax rates.
3. Base Erosion and Profit Shifting (BEPS)
   Foreign investment also entails the risk of base erosion. Many multinationals use complex financial structures to minimise tax liabilities through BEPS mechanisms, thereby reducing tax revenues in the source country.

The data show a consistent upward trend in FDI, indicating that Indonesia is becoming increasingly attractive to foreign investors. With proper management, this investment can serve as a key driver of Indonesia's economic growth.

Table 3. The Impact of Tax Revenue on Indonesia's Economic Growth

Year	Tax Revenue
2020	1.285.136,32
2021	1.547.841,10
2022	2.034.552,50
2023	2.118.348,00

The data above show the development of Indonesian tax revenue from 2020 to 2023. In 2020, tax revenue amounted to IDR 1,285,136.32 billion. a relatively low figure due to the impact of the COVID-19 pandemic that suppressed economic activity and reduced state revenue.

In 2021, tax revenue increased to Rp 1,547,841.10 billion, up by Rp 262,704.78 billion or about 20.4% compared to the previous year. This increase reflects post-pandemic economic recovery, supported by effective fiscal policy implementation and the reopening of economic activities.

2022 saw a significant surge in tax revenue, reaching Rp 2,034,552.50 billion, an increase of Rp 486,711.40 billion or about 31.4% compared to 2021. This rise was driven by a stronger economic recovery, increased exports, and rising global commodity prices that positively impacted the tax revenue base.

In 2023, tax revenue continued to rise to Rp 2,118,348.00 billion, an increase of Rp 83,795.50 billion or about 4.1% compared to the previous year. Despite increasingly challenging global conditions, tax revenue still grew, reflecting the sustainability of stable economic growth.

Tax revenue also plays an important role in driving economic growth in Indonesia. Taxes are the main source of state revenue used to finance various development needs. One significant impact of tax revenue is the financing of infrastructure development, such as roads, ports, and other transportation facilities. Good infrastructure improves connectivity, logistics efficiency, and economic productivity, thereby attracting more investment, including from abroad.

In addition, tax revenue is also closely related to international taxation because:

1. Digital Tax Implementation: With the rise of the digital economy, international taxation now includes digital services such as cross-country trading platforms. This tax covers economic activities that do not involve physical presence in a specific country.
2. Automatic Exchange of Information (AEOI): Indonesia cooperates with other countries to implement AEOI, which allows the exchange of taxpayer data between countries. This ensures that income generated from international activities, including exports and FDI, is reported transparently.
3. Dependence on Cross-Border Taxes: In the era of globalization, taxes from international trade, FDI, and cross-border transactions have become important elements in state tax revenue.

Overall, tax revenuehas a significant influence oneconomic growth through increased government spending, income redistribution, strengthening of strategic sectors, and creation of economic stability. With sound tax administration, these revenues become the main foundation for sustainable economic development in Indonesia.

CONCLUSION

This study shows that exports, foreign direct investment (FDI), and tax revenues, including international tax aspects, play an important role in supporting Indonesia's economic growth. During the 2020-2023 period, each variable provided significant contributions, complemented one another, and helped drive inclusive and sustainable economic growth.

1. Exports

   Exports serve as the main driver of economic growth by providing foreign exchange, boosting national production, creating jobs, and maintaining economic stability. The export fluctuations observed during the study highlight the need to diversify export products and increase value-added through industrialization in order to enhance competitiveness in international markets.

2. Foreign Direct Investment (FDI)

   FDI experienced positive growth, reflecting strong investor confidence in Indonesia's political and economic stability. FDI delivers benefits such as the creation of new jobs, technology transfer, and increased national production capacity. However, optimizing these benefits depends on the direction of government policy in attracting quality investment..

3. Tax Revenues and International Taxation

   Tax revenue is the main pillar financing national development, supporting infrastructure, education, and health, while providing incentives to the private sector to boost investment appeal. In addition, international taxation plays a key role through the management of export VAT, transfer pricing, and digital tax to ensure the state captures optimal revenue from cross-border activities.

This study underscores the importance of synergy among export policy, foreign investment, and tax administration—including the optimization of international taxation—to create sustainable economic growth. The government is expected to keep strengthening strategies in each of these sectors to face global challenges and ensure improved public welfare.

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