

# The Impact of Foreign Direct Investment (PMA), Domestic Investment (PMDN), and Remittances on Per Capita Income in Indonesia

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## ABSTRACT

This study aims to analyze the effect of Foreign Direct Investment (FDI), Domestic Investment (DI), and remittances on per capita income in Indonesia. The study uses panel data from 34 provinces in Indonesia during the 2013–2023 period obtained from Statistics Indonesia (BPS), Bank Indonesia, and the Ministry of Investment/BKPM. The analytical method used is panel data regression with the assistance of EViews 10 software. Model selection was conducted through the Chow test, Hausman test, and Lagrange Multiplier (LM) test, resulting in the Common Effect Model (CEM) as the best model. The results indicate that partially, FDI, DI, and remittances do not have a significant effect on per capita income in Indonesia. Simultaneously, FDI, DI, and remittances also do not significantly affect per capita income. The adjusted R-square value of 0.44% indicates that variations in per capita income are largely influenced by other variables outside the research model. Therefore, the increase in per capita income in Indonesia is not only influenced by investment and remittances, but also by other factors such as human resource quality, infrastructure, and government expenditure.

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## 1. INTRODUCTION

Economic development is essentially a series of planned efforts aimed at sustainably improving people's welfare, including increasing income, expanding employment opportunities, and equitable distribution of development outcomes [1]. In this context, per capita income is one of the most frequently used macroeconomic indicators to measure a country's prosperity, as it reflects the average economic capacity of the population over a given period. Data from

the Central Statistics Agency (BPS) shows that Indonesia's per capita income tended to increase throughout the 2013–2023 period, despite a contraction in 2020 due to economic pressures caused by the COVID-19 pandemic, which had a broad impact on national production and consumption activities [2]. To illustrate the level of economic welfare of the Indonesian people, the development of per capita income in 2023 can be seen in the following figure.

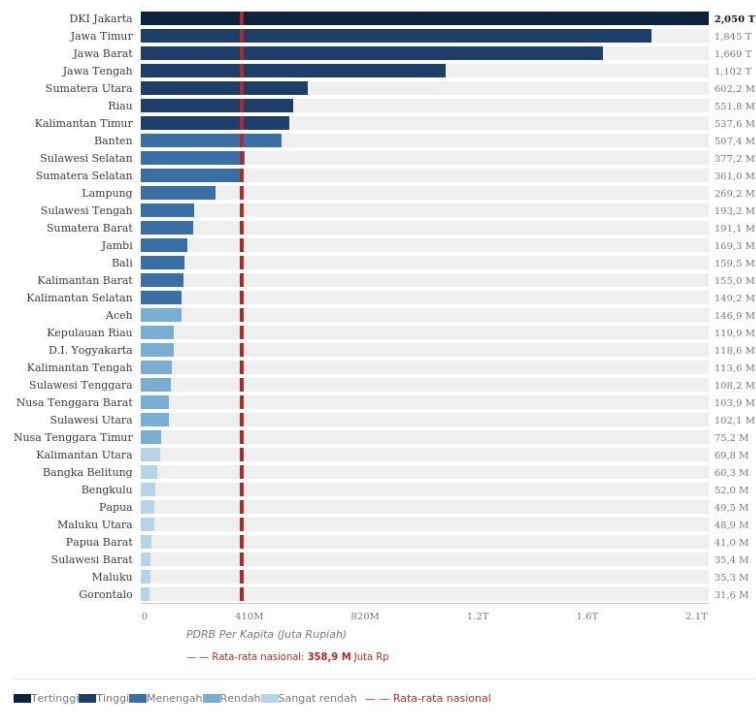


Figure 1. Per Capita Income of Provinces in Indonesia in 2023

The graph shows that per capita income in Indonesia in 2023 still shows significant differences between provinces. Some provinces have relatively high per capita income levels, while others remain at lower levels. This disparity indicates that the level of public welfare in Indonesia is not evenly distributed, requiring various efforts to boost income growth, including through investment and remittance flows.

Within the framework of economic growth theory, particularly the Harrod-Domar theory and the Solow neoclassical growth model, investment is the primary driver of economic growth because adequate capital formation significantly drives the expansion of production capacity [3]. Foreign Direct Investment (FDI) plays a strategic role in the Indonesian economy. FDI not only injects capital into the economy but also brings advanced technology, managerial expertise, and access to international market networks [4]. Numerous empirical studies confirm that FDI has a positive impact on economic growth and public income. Rizky and Agustin (2021) found that increased FDI significantly drives the expansion of national output and expands employment in

Indonesia. Similarly, [5] emphasized that the benefits of FDI are more optimal when supported by a well-developed domestic financial market.

On the other hand, Domestic Direct Investment (PMDN) also plays an equally important role as the backbone of national investment. PMDN reflects the level of domestic investor confidence in the stability and prospects of the Indonesian economy. Increased PMDN directly drives production capacity expansion, creates new jobs, and ultimately increases public income [6]. More broadly, PMDN plays a role in strengthening the national economic base while reducing dependence on foreign capital. Research by [7] shows that PMDN has a positive and significant impact on regional economic growth in Indonesia, primarily through increased sectoral productivity.

In addition to investment, remittances, or the flow of funds sent by Indonesian migrant workers (TKI) from abroad, are also a significant factor influencing the dynamics of per capita income. Remittances provide additional direct income for recipient households, which is generally used to finance consumption,

education, health, and even productive business capital [8]. From the perspective of international fiscal transfer theory, remittances function as a social safety net and a microeconomic stimulus that can stimulate domestic demand [9]. [8] noted that remittances to developing countries, including Indonesia, have been proven to increase people's purchasing power and contribute to sustainable poverty reduction.

In 2022, Indonesia's remittances reached approximately USD 9.6 billion, making Indonesia one of the largest remittance recipients in Southeast Asia [10]. To provide an empirical overview of the development of research variables, the following presents data on per capita income, Foreign Direct Investment (PMA), Domestic Direct Investment (PMDN), and remittances in Indonesia during the period 2013–2023.

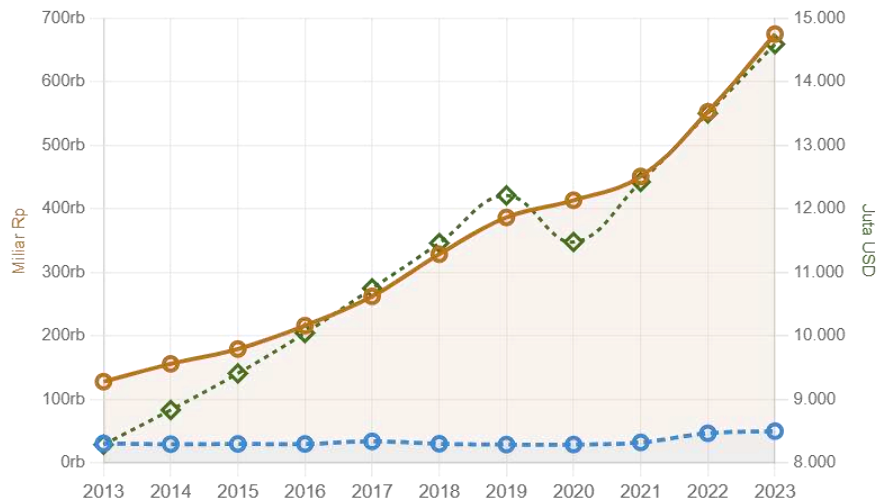


Figure 2. PMA, PMDN, and Remittances in Indonesia 2013–2023

The development of FDI, DDI, remittances, and per capita income in Indonesia during the 2013–2023 period demonstrates complex and interrelated dynamics. External shocks caused by the COVID-19 pandemic in 2020 resulted in a sharp decline in investment realization and national economic growth. The government responded to this situation by issuing various economic recovery policy packages, including accelerating infrastructure spending, simplifying business licensing regulations through the Job Creation Law, and incentive programs to attract foreign and domestic investment [11]. Furthermore, remittance flows have proven more resilient than other capital components, thus continuing to make a significant contribution to the national economy amidst global uncertainty.

Many empirical studies have been conducted on the determinants of per capita income, but most of these studies focus on just one or two variables, either foreign or domestic investment, without integrating

remittances as an independent variable. However, in the context of the Indonesian economy, characterized by high labor mobility between countries, remittances are a component of international capital flows whose role cannot be ignored.

## 2. LITERATURE REVIEW

### 2.1 Investment Theory (Harrod-Domar Model)

The Harrod–Domar theory was developed by Evsey Domar and R.F. Harrod to explain the conditions for achieving long-term economic growth. This theory assumes that the economy operates at full capacity, that savings are proportional to national income, and that the capital-to-output ratio is constant [12].

Investment in this model has a dual role: increasing income

through demand while simultaneously increasing production capacity by increasing capital stock [13]. Furthermore, the core of this theory emphasizes the need for continuous new investment to increase capital stock, in addition to replacing depreciating capital goods, to encourage consistent economic growth [14].

## 2.2 *Foreign Direct Investment (PMA)*

Foreign Direct Investment (PMA) is defined as the activity of investing capital by foreign parties in Indonesian territory, either through full ownership or cooperation with domestic investors (Law of the Republic of Indonesia Number 25 of 2007). Furthermore, PMA is the process of transferring capital from one country to another with the aim of gaining profits through economic activities in the recipient country, while remaining under the control of the capital owner [15].

## 2.3 *Domestic Investment (PMDN)*

Domestic Investment (PMDN) is defined as investment activities carried out by domestic investors using domestic capital sources to conduct business in Indonesia (Law of the Republic of Indonesia Number 25 of 2007). PMDN reflects domestic investors' confidence in the national investment climate and contributes directly to the formation of domestic capital, which is a prerequisite for long-term economic growth [12].

## 2.4 *Remittance*

Remittances are funds sent by workers abroad to their families in their home countries to meet their living expenses [16]. Remittances play a significant

role in increasing household consumption and creating a multiplier effect because these funds are generally spent on domestic products [17]. Furthermore, remittances also contribute to increased capital allocation and strengthening the financial sector (Giuliano, 2005), and have become one of the largest sources of global capital flows due to the high mobility of labor between countries [18].

## 2.5 *Income Per Capita*

Income per capita is the average income of a population, obtained by dividing GDP by the population over a given period. This indicator is commonly used to measure the level of well-being and prosperity of a region, where the higher the per capita income, the greater the purchasing power and consumption of the population. However, this indicator has limitations because it does not reflect the distribution of income between individuals or groups in society. Therefore, it needs to be supplemented with other indicators for a more comprehensive assessment [19].

## 2.6 *Relationship between variables*

### 1. The Influence of Foreign Direct Investment (PMA) on Per Capita Income

Foreign Direct Investment (FDI) is a source of development financing that plays a role in increasing national production capacity. In the Harrod-Domar theory, investment is seen as a key factor driving economic growth through capital formation. FDI inflows can create jobs, increase technology transfer, and expand production activities, potentially increasing per capita income. Furthermore, FDI also contributes to increased

productivity and economic efficiency in recipient countries [1]. Research by [20] shows that FDI positively impacts Indonesia's economic growth by increasing national output and absorbing labor.

**H1:** Foreign Direct Investment (PMA) has a positive effect on per capita income in Indonesia.

#### 2. The Influence of Domestic Investment (PMDN) on Per Capita Income

Domestic Direct Investment (PMDN) reflects the level of domestic investor confidence in the national economic conditions. Increasing PMDN will increase domestic capital formation, which can be used to expand businesses, increase production, and create jobs. In economic growth theory, domestic investment plays a crucial role in increasing regional and national output, ultimately leading to increased public income [12]. Research by [6] also found that PMDN has a positive impact on regional economic growth in Indonesia.

**H2:** Domestic Investment (PMDN) has a positive effect on per capita income in Indonesia.

#### 3. The Effect of Remittances on Per Capita Income

Remittances are the flow of funds sent by migrant workers to their families in their home countries. Remittances can increase household income,

thereby increasing consumption, education, health, and other productive activities. From a development economics perspective, remittances can serve as an alternative source of financing that boosts community welfare and increases household purchasing power [9]. Furthermore, remittances also have a multiplier effect on the domestic economy by increasing demand for goods and services [8].

**H3:** Remittances have a positive effect on per capita income in Indonesia.

#### 4. The Influence of PMA, PMDN, and Remittances on Per Capita Income

Simultaneously, FDI, DDI, and remittances are sources of capital flows that can drive economic growth and improve public welfare. FDI and DDI play a role in increasing production capacity and employment opportunities, while remittances increase household income and public consumption. The combination of these three variables is expected to boost economic activity, thereby impacting per capita income in Indonesia [3].

**H4:** Foreign Direct Investment (PMA), Domestic Direct Investment (PMDN), and remittances simultaneously influence per capita income in Indonesia.

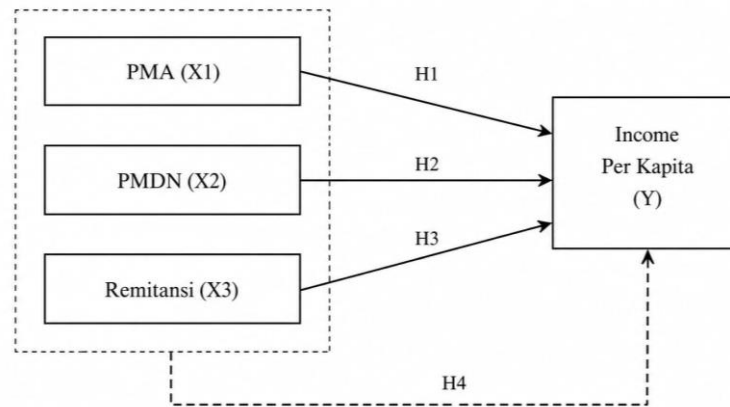


Figure 1: Conceptual Framework

3. METHODS

3.1 Variable Classification

This study uses two types of variables: dependent and independent. The dependent variable is income per capita (IPC), while the independent variables include foreign direct investment (PMA), domestic direct investment (PMDN), and remittances. The classification of the research variables can be explained as follows:

1. Dependent Variable (Y)

A dependent variable is a variable influenced by other variables in the study. The

dependent variable in this study is per capita income (IPC) in Indonesia for the period 2013–2023.

2. Independent Variable (X)

An independent variable is a variable that influences a dependent variable. The independent variables in this study consist of:

- a. Foreign Direct Investment (PMA) (X1)
- b. Domestic Investment (PMDN) (X2)
- c. Remittance (X3)

3.2 Operational Definition of Variables

Variables	Operational Definition of Variables	Unit	Data source
Per Capita Income (IPC)	Average population income obtained from dividing Gross Regional Domestic Product (GRDP) by the population in each province in Indonesia for the period 2013–2023.	Rupiah	Central Bureau of Statistics
Foreign Direct Investment (PMA)	Realization of investment originating from foreign parties invested in Indonesia in each province during the research period.	Rupiah	Ministry of Investment and Downstream/BKPM
Domestic Investment (PMDN)	Realization of investment originating from domestic investors in each province during the research period.	Rupiah	Ministry of Investment and Downstream/BKPM
Remittance	The amount of funds sent by Indonesian workers from abroad to within the country during the research period.	Rupiah	Bank Indonesia

3.3 Analysis Procedure

The analytical method used in this study is panel data regression analysis with the help of EViews software. Panel data combines time series and cross-sectional data, providing more comprehensive and accurate

information in estimating relationships between variables [21].

The stages of analysis in this research were carried out as follows:

- 1. Data collection

The data used are secondary data in the form of annual data on PMA, PMDN, remittances, and per capita income in 34 provinces in Indonesia during the 2013–2023 period obtained from the Central Statistics Agency, Bank Indonesia, and the Ministry of Investment and Downstreaming/BKPM.

## 2. Panel Data Regression Model Selection

The selection of the panel data regression model is carried out through three stages of testing, namely:

- a. Chow test to select the Common Effect Model (CEM) or Fixed Effect Model (FEM).
- b. Hausman test to select the Fixed Effect Model (FEM) or Random Effect Model (REM).
- c. Lagrange Multiplier (LM) test to select the Common Effect Model (CEM) or Random Effect Model (REM) [21].

## 3. Classical Assumption Test

The classical assumption test was conducted to ensure the regression model met the BLUE (Best Linear Unbiased Estimator) requirements. The tests performed included:

- a. The multicollinearity test uses a correlation matrix with a tolerance limit of 0.85.
- b. The heteroscedasticity test uses the Glejser method (Ghozali, 2018).

## 4. Panel Data Regression Analysis

The panel data regression model used in this study is formulated as follows:

$$IPC_{it} = \beta_0 + \beta_1 PMA_{it} + \beta_2 PMDN_{it} + \beta_3 REM_{it} + e_{it}$$

Information:

IPC= Per capita income

PMA= Foreign Investment

PMDN= Domestic Investment

REM= Remittance

$\beta_0$ = Constant

$\beta_1, \beta_2, \beta_3$ = Regression coefficient

e= Error term

i= Province

t= Year of research

## 3.4 Hypothesis Testing

Hypothesis testing is done through:

1. The t-test is used to determine the partial influence of the independent variable on the dependent variable.
2. F test to determine the influence of independent variables simultaneously on the dependent variable.
3. The coefficient of determination ( $R^2$ ) measures the ability of the independent variable to explain the dependent variable.

## 4. RESULTS AND DISCUSSION

### 4.1 Overview of Research Variables After Testing

Based on the results of panel data regression testing using the Common Effect Model (CEM), it is obtained that the variables of Foreign Investment (PMA), Domestic Investment (PMDN), and remittances have different relationships with per capita income in Indonesia for the period 2013–2023.

The Foreign Direct Investment (FDI) variable has a regression coefficient of -108.92, indicating a negative relationship with per capita income. This means that every increase in FDI tends to decrease per capita income, although this effect is not statistically significant. The t-test results show a significance value of  $0.6963 > 0.05$ , indicating that FDI has no significant effect on per capita income. This condition indicates that the realization of FDI in Indonesia has not fully had a direct impact on improving public welfare.

The Domestic Investment (PMDN) variable has a regression coefficient of 13.06, indicating a positive relationship with per capita income. This means that an increase in PMDN tends to increase per capita income. However, statistical test results show a significance value of  $0.6781 > 0.05$ , indicating an insignificant effect of PMDN on per capita income. This finding indicates that domestic

investment has not been able to make a strong contribution to increasing community income during the study period.

Meanwhile, the remittance variable has the largest regression coefficient, at 466.75, with a positive relationship to per capita income. This indicates that increases in remittances tend to be followed by increases in per capita income. However, the t-test results show a significance value of  $0.5242 > 0.05$ , indicating that remittances also have no significant effect on per capita income in Indonesia.

Simultaneously, the F-test results show that PMA, PMDN, and remittances do not significantly influence per capita income with a significance value of  $0.7137 > 0.05$ . In addition, the adjusted R-square value of 0.0044 or 0.44% indicates that the ability of the PMA, PMDN, and remittance variables to explain variations in per capita income is still very low, while the rest is influenced by other variables outside the research model.

4.2 Research Result

1. Model Estimation Method Test

Test	Prob	Hipotesis	Model Terpilih
Uji Chow	0.6306	H0 diterima	Common Effect Model (CEM)
Uji Hausman	0.7646	H0 diterima	Random Effect Model (REM)
Uji Lagrange Multiplier	0.0656	H0 diterima	Common Effect Model (CEM)

Source: Data Processed by Eviews 10

Interpretation of the model test results is as follows:

- a. The results of the Chow test show a probability value greater than 0.05 ( $0.6306 > 0.05$ ). This means that the selected model is Common Effect Model (CEM) compared with Fixed Effect Model (FEM).
- b. The Hausman test results show a probability value greater than 0.05 ( $0.7646 > 0.05$ ). This means that the selected model is the

Random Effect Model (REM) compared to Fixed Effect Model (FEM).

- c. The Lagrange multiplier test results show a probability value greater than 0.05 ( $0.0656 > 0.05$ ). This means that the selected model is the Common Effect Model (CEM) compared to the Random Effect Model (REM).

2. Classical Assumption Test

a. Multicollinearity Test

	PMA	PMDN	REMITANSI
PMA	1.000000	0.644904	0.451165
PMDN	0.644904	1.000000	0.672981
REMITANSI	0.451165	0.672981	1.000000

From the test The multicollinearity above can be seen from the correlation coefficient value of PMA and PMDN of  $0.644904 < 0.85$ , PMA and Remittance of

$0.451165 < 0.85$ , and PMDN and Remittance of  $0.672981 < 0.85$ . Therefore, it can be concluded that it is free from multicollinearity or passes the multicollinearity test.

## b. Heteroscedasticity Test (Glejser)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	769055.0	379510.7	2.026438	0.0434
PMA	-206.9026	276.7307	-0.747668	0.4551
PMDN	-0.024341	31.19901	-0.000780	0.9994
REMITANSI	322.2826	726.4326	0.443651	0.6576

From the results of the h test from the heteroscedasticity test, it can be concluded that the probability of each variable is greater than alpha (0.05), which means that in this regression model there are no problems. Heteroscedasticity or pass test heteroscedasticity.

## 4.3 Panel Data Regression Equation

$$\text{IPC} = 413192.262596 - 108.921863236(\text{PMA}) + 13.0609890499(\text{PMDN}) + 466.748526724(\text{REMITANCE})$$

The panel data regression equation can be explained as follows:

- a. The constant value of 413192.262596 shows that if the PMA, PMDN, and remittance variables are considered constant or have a value of zero, then the per capita income value is 413192.262596.

- b. The coefficient value of the PMA variable is -108.921863236, which means that every one unit increase in the PMA variable will decrease the IPC value by 108.921863236, assuming that other variables are considered constant.

- c. The coefficient value of the PMDN variable is 13.0609890499, which means that every one unit increase in the PMDN variable will increase the IPC value by 13.0609890499, assuming that other variables are considered constant.

- d. The coefficient value of the Remittance variable is 466.748526724, which means that every one unit increase in the Remittance variable will increase the IPC value by 466.748526724, assuming that other variables are considered constant.

## 1. Partial Test (T-Test)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	413192.3	382460.5	1.080353	0.2807
PMA	-108.9219	278.8816	-0.390567	0.6963
PMDN	13.06099	31.44151	0.415406	0.6781
REMITANSI	466.7485	732.0788	0.637566	0.5242

The partial influence of independent variables on dependent variables is as follows:

- a. The t-test results on the PMA variable (X1) obtained a calculated t value of  $0.390567 < t$  table, namely 1.965683 and a sig. value of  $0.6963 > 0.05$ . Therefore, it can be concluded that the PMA

variable partially has no effect on per capita income.

- b. The t-test results on the PMDN variable (X2) obtained a calculated t value of  $0.415406 < t$  table, namely 1.965683 and a sig. value of  $0.6781 > 0.05$ . Therefore, it can be concluded that the

PMDN variable partially has no effect on per capita income.

- c. The results of the t-test on the Remittance variable (X3) obtained a calculated t value of  $0.637566 < t$  table, which is

$1.965683$  and a sig. value of  $0.5242 > 0.05$ . Therefore, it can be concluded that the Remittance variable partially has no effect on per capita income.

## 2. Simultaneous Test (F Test)

R-squared	0.003688
Adjusted R-squared	-0.004412
S.E. of regression	5889730.
Sum squared resid	$1.28E+16$
Log likelihood	-6341.846
F-statistic	0.455268
Prob(F-statistic)	0.713729

The calculated F value is  $0.455268 < F$  table which is  $2.626352$  and the sig. value is  $0.713729 > 0.05$ , so it can be concluded that

PMA, PMDN and remittances do not have a significant effect on income per capita.

## 3. Coefficient of Determination Test (R2)

R-squared	0.003688
Adjusted R-squared	-0.004412
S.E. of regression	5889730.
Sum squared resid	$1.28E+16$
Log likelihood	-6341.846
F-statistic	0.455268
Prob(F-statistic)	0.713729

The adjusted R-square value is  $0.004412$  or  $0.4412\%$ . This coefficient of determination indicates that the independent variables, consisting of PMA, PMDN, and remittances, are able to explain  $0.44\%$  of the per capita income variable, while the remaining  $99.56\%$  is explained by other independent variables not included in this model.

### 4.4 Discussion

#### The Effect of Foreign Direct Investment on Per Capita Income

The partial test results show that FDI has no significant effect on per capita income ( $t$ -test =  $0.391 < t$ -table =  $1.966$ ; sig. =  $0.696 > 0.05$ ). Thus, hypothesis H1, which states that FDI has a positive effect on per capita income in Indonesia, is rejected. This study's findings contradict the Harrod-Domar theory and the research of Rizky and Agustin (2021), which

states that FDI can increase economic growth and public welfare.

However, the results of this study align with those of [22], who found that FDI does not significantly impact economic growth because foreign investment tends to be concentrated in capital-intensive sectors, thus not directly impacting income growth. Furthermore, the uneven distribution of FDI across provinces also means that the benefits of foreign investment are not fully realized.

#### The Influence of Domestic Direct Investment on Per Capita Income

The PMDN variable also did not show a significant effect on per capita income ( $t$ -test =  $0.415 < t$ -table =  $1.966$ ; sig. =  $0.678 > 0.05$ ). Thus, hypothesis H2, which states that PMDN has a positive effect on per capita income, is rejected. This study's results differ

from those of [6], which stated that PMDN can drive regional economic growth.

However, the results of this study align with [23] research, which showed that domestic investment (PMDN) does not significantly impact public income because most domestic investment takes a relatively long time to impact output and public welfare. Furthermore, domestic investment remains concentrated in certain regions, thus failing to increase income evenly.

#### **The Effect of Remittances on Per Capita Income**

Remittances did not significantly affect per capita income ( $t\text{-test} = 0.638 < t\text{-table} = 1.966$ ;  $\text{sig.} = 0.524 > 0.05$ ). Therefore, hypothesis H3, which states that remittances have a positive effect on per capita income, is rejected. This result is inconsistent with [9] theory, which states that remittances can improve community welfare by increasing household consumption and purchasing power.

However, this study's findings align with those of [24], who found that remittances had no significant impact on economic growth because most remittances were used for household consumption, not for productive activities or long-term investment. Furthermore, many remittances still come in through informal channels, so not all of them are recorded in official data.

#### **The Simultaneous Influence of PMA, PMDN, and Remittances**

Simultaneously, the three variables did not significantly influence per capita income ( $F \text{ count} = 0.455 < F \text{ table} = 2.626$ ;  $\text{sig.} = 0.714 > 0.05$ ). Thus, hypothesis H4 which states that PMA, PMDN, and remittances simultaneously influence per capita income in Indonesia is rejected.

This study's findings align with those of [25], which found that per capita income is more influenced by factors such as human resource quality, infrastructure, government spending, and labor productivity than solely by investment and remittance flows. The low adjusted  $R^2$  value in this study also indicates

that many other variables outside the model influence per capita income in Indonesia.

## **5. CONCLUSION**

Based on the results of the Common Effect Model (CEM) panel data analysis in 34 provinces in Indonesia for the period 2013–2023, it was concluded that, partially or simultaneously, the variables of PMA, PMDN, and Remittance did not significantly influence per capita income in Indonesia. This is indicated by the calculated F value (0.455) and all calculated t values that are smaller than the critical value, with an adjusted  $R^2$  value of only 0.44%.

The insignificance of these three variables indicates that per capita income in Indonesia is largely determined by other factors not included in the model, such as government spending, human resource quality, and infrastructure. Therefore, a more comprehensive policy approach and the development of a research model with more comprehensive variables are needed to obtain a more accurate picture of the determinants of per capita income in Indonesia.

## **SUGGESTION**

Based on the research results, the government is expected to improve the quality and distribution of foreign direct investment (PMA) and domestic direct investment (PMDN) so that their impact on public income can be felt more optimally, especially through the development of productive and labor-intensive sectors. Furthermore, the use of remittances needs to be directed towards more productive activities such as business development and household investment, so that they are not only used for consumption. For future researchers, it is recommended to consider the time lag in the PMA and PMDN variables because the impact of investment is generally not immediately felt in the same period, and to add other variables such as government spending, education, infrastructure, and unemployment rates to make research results more comprehensive.

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