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Reviewing the Role of Investment in the West Kalimantan Border

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ABSTRACT

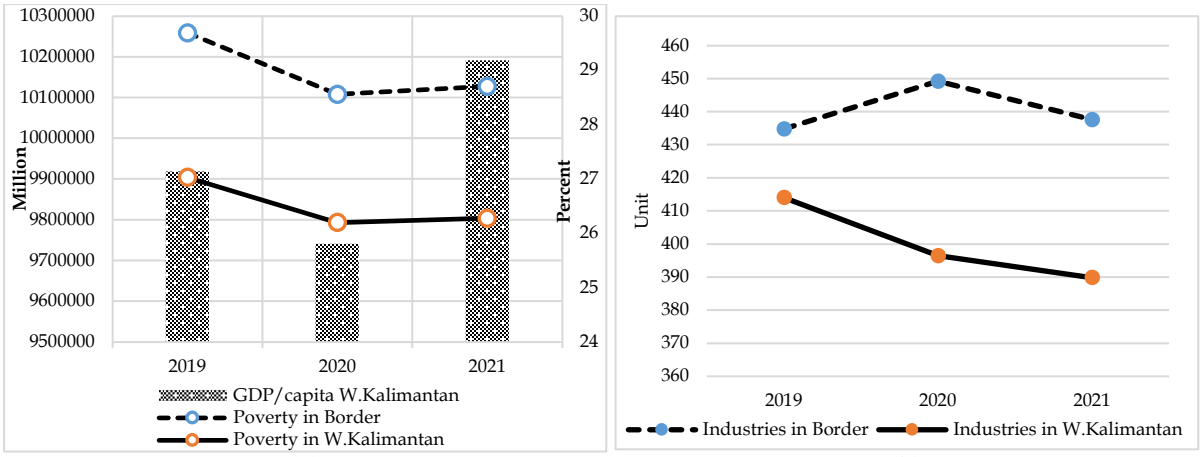
The development of border areas that is rampantly carried out by the government, in addition to reducing regional disparities, also improves regional economic performance as one of the efforts made by the government is through PMA (foreign direct investment) and PMDN (domestic investment). Furthermore, the role of this investment is evaluated to see the extent of its success in the area's economic performance. The study had two objectives; first, to know what variables affect the reduction of the poverty rate and increase in GDP per capita in the border area of West Kalimantan covering five districts, namely Sambas, Bengkayang, Sanggau, Sintang, and Kapuas Hulu. The independent variables used in this study are the realization of PMA and PMDN investment, the number of industries, and the absorption of labor in the industrial sector. Using secondary data for 2019-2021 and Panel Data Regression analysis, it can be seen that only employment in the industrial sector influences increasing GDP per capita and decreasing poverty rates. Meanwhile, the realization of PMA and PMDN investment, as well as the number of industries, did not significantly influence. The second objective of this study is to determine which investment is better based on the Forecasting Method. The Naive Method shows that PMDN investments have a smaller MSE value and a lower MAPE value than PMA investments. It means that PMDN investment is more feasible to be used as an option for future funding development in border areas.

1. Introduction

Border area development has begun to be widely carried out since President Jokowi spawned nine development priorities known as Nawacita in 2014. Through Nawacita, the development of suburban and border areas that were previously underdeveloped is expected to be able to become developed and developing areas (Brunet-Jailly, 2012),(Prasetyo et al., 2013). The development in the border area are pretty dynamic. The government's paradigm shift in regional development impacts the construction of cross-border posts, road infrastructure, and bridges, increasing development funds and coordination between ministries and institutions. Nevertheless, it is undeniable that this paradigm shift in development has not yielded significant results (Rahim et al., 2022). The regional development performance seen through the Human Development Index (HDI), Gini index, Gross Regional Domestic Product (GDP), and the number of poor people is no better than other districts that do not get special programs such as border areas. The considerable potential of the area is compared with the progress of regional development. Until now, the economic condition of the border area is still relatively lagging compared to development in other regions in the same province. There is even a development gap compared to neighbouring countries. The expectation of developing a border area is to eliminate development disparities (Taena & Afoan, 2020), (Wu, 2001). This condition is generally caused by the limited availability of socio-economic facilities and infrastructure such as transportation, telecommunications, settlements, trade, electricity, clean water, education, and health. Limited socio-economic facilities and infrastructure in the border area cause a lack of investment activities, low job creation, and low quality of human resources (Uttama, 2014).

One of the ways the government increases development in border areas is not only through regular funding such as DAU (General Allocation Transfer Fund), DAK (Special Allocation Transfer Fund), and DBH (Profit Sharing Fund) but also through investment, both by foreign (PMA) and domestic (PMDN) investment. For the border region itself, investment has a significant meaning. In addition to increasing the region's economic capacity, it also impacts the fiscal capacity of the region (Ma'ruf, 2012). Arsyad explained that investment has three objectives, namely (1) opening up vast employment opportunities, (2) creating reliable regional economic stability, and (3) developing a base for fairly diverse economic activities (Arka & Yasa, 2015). The basic concept of investment in the border region is directed at increasing productivity in the aggregate. Policy support from the central and local governments is needed. To achieve this, some of the main requirements for investment are (1) maintaining regional security, (2) a stable economy, (3) adequate infrastructure, and (4) a competent workforce (Priyarsono, 2017), (Deonandan, 2019).

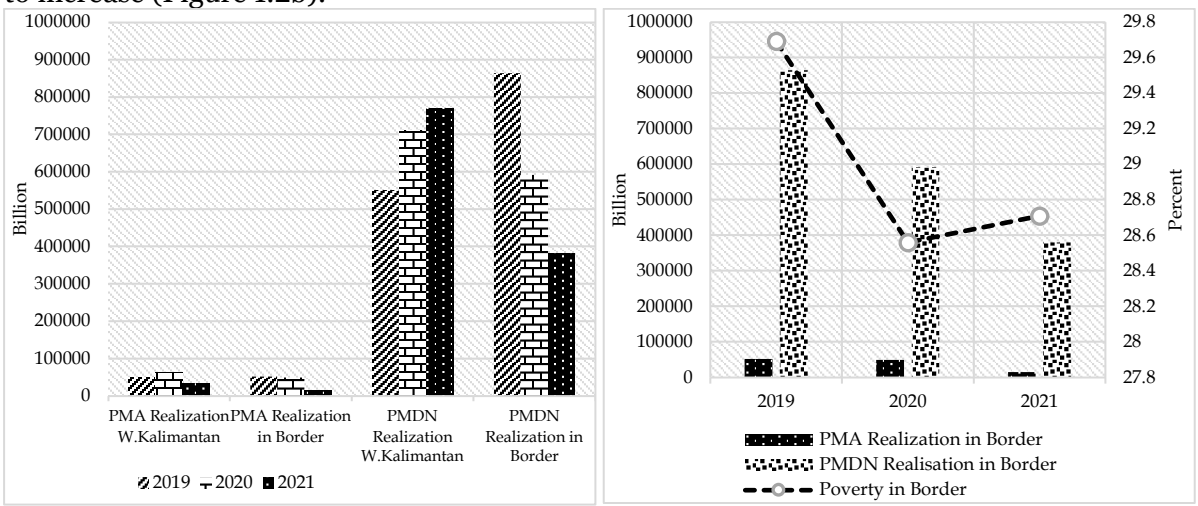
West Kalimantan is one of Indonesia's provinces with a land border with Malaysia and has five directly adjacent districts, namely Sambas, Bengkayang, Sanggau, Sintang, and Kapuas Hulu (Rahim et al., 2021). The five districts play an essential role in the development of the border area. However, it can be seen that the development of border areas in West Kalimantan has not shown satisfactory results (Rahim et al., 2022), (Yani et al., 2022). West Kalimantan's GDP per capita throughout 2019-2021 is quite volatile, as well as poverty. GDP per capita decreased by 1.3% in 2020 but increased by 4% in 2021. Meanwhile, poverty in the border area in 2019-2020 experienced a significant decrease of 3.9% but again increased by 0.5% in 2021 (Figure 1.1a). The increase in GDP per capita in West Kalimantan was also not followed by an increase in the number of industries. The industry continued to decline by 3% (Figure 1.1a). For borders, industries seem to be more numerous than in West Kalimantan. After increasing by 3.2% in 2020, in 2021, it experienced a decrease of 2.6% (Figure 1.1b). The existence of industry is expected to be able to increase GDP and reduce poverty.



(a) (b)

Figure 1.1 GDP per capita, number of poor people, and Number of industries

The realization of foreign (PMA) investment in West Kalimantan, as one of the sources of development funding, was recorded to have experienced an average decline of 3%, and its value was far below the realization of domestic (PMDN) investment. The amount of domestic investment realization of West Kalimantan on average of 15% is quite encouraging in that year, although the value is fluctuating (Figure 1.2a). For the border, the realization of foreign investment is small. Throughout the year, it has decreased by an average of 17%. While the realization of the border domestic investment was initially quite encouraging, with a value of Rp. 8 billion in 2019, there was an average decrease of 15% every year. So in 2021 it was only worth Rp. 4 billion. The realization of foreign (PMA) and domestic (PMDN) investment in this border area was initially expected to have a significant ability to reduce poverty, but in fact, this has not been able to be realized. Investment every year decreases, and poverty also tends to increase (Figure 1.2b).



(a) (b)

Figure 1.2 Realization of foreign (PMA) – domestic (PMDN) West Kalimantan and Border Area

Based on the explanation above, the question arises, how does an investment affect increasing GDP per capita while reducing poverty in border areas then, because investment has a vital role as one of the sources of development funding for the West Kalimantan border area, which is more important in the future between foreign investment and domestic investment.

2. Literature Review

Economic growth and investment in the industrial sector

The economic growth of a region is highly dependent on its economic performance. Regarding regional development, Rustiadi explained that the performance indicators of a region are not only the increase in GDP and the decrease in poverty but also the reduction in regional disparities (Rustiadi & Saefulhakim, 2018). This is in line with Solow's theory, namely that investment and savings, population growth, and technology affect the level of economic output and growth. The higher the level of investment, the higher the expectation of increased economic growth (Janků et al., 2020), (Tsiang, 1964). To realize steady economic growth, the government invests massively in the industrial sector through foreign and domestic investment (Baransano et al., 2016). The expectation is, the investment will increase the number of industries and be able to attract a greater number of workers, thereby automatically increasing people's income and reducing poverty (Sall & Burlea-Schiopoiu, 2021), (Adams, 2009). Indonesia has also built industrial centers in the region as part of realizing the prosperity of the people in the area (Afrimadona et al., 2019) The construction of industrial centers derived from foreign and domestic investment has more or less helped to increase GDP and reduce poverty. Although there is not necessarily an improvement in regional economic performance, in the long run, this condition shows significant results (Rendon, 2022).

Land border areas

Bappenas (National Development Planning Agency) defines a land border area as a geographical area facing neighboring countries on the mainland, where residents living in the region are united through socio-economic and cultural relations with the scope of a specific administrative area after there is an agreement of the bordering country. The development of the border area is essential because there are regional and interstate relations that have different administrative and political systems so that several principles of relationship are contained, namely the principle of equality, non-recognition, principles of defense and security, cooperation, sustainability, legal certainty and expediency (Haselsberger, 2014). The development of border areas that have been outlined through policies and various programs has two objectives, namely (1) to maintain the territorial integrity of the country and (2) to improve the welfare of local communities through economic potential (Irsan et al., 2017). In order to achieve these two goals in the border area, this area needs to be used as a growth center. Functionally, the border area that is the center of growth will be a location or concentration center for business groups that are dynamically interconnected and become a stimulant for other regions. Geographically, the growth center should be a center of attraction for other surrounding areas and have facilities for the economic development of its territory.

Poverty, GDP per capita, and investment

The government's success in reducing the poverty rate and increasing the GDP per capita shows success in economic development performance. Poverty, defined as the inability to meet the minimum standard of living, is expected to fall every year. On the contrary, the GDP per capita, which is an increase in people's income, is expected to increase yearly (Maulid et al., 2021). Results showed the causality relationship between these two variables (Mariyanti & Mahfudz, 2016). High poverty and low GDP per capita often stem from low capital formation or lack of investment stimulation (Winanto, 2019). Based on Law no. 25/2007, investment is divided into two, foreign and domestic investments, which influence increasing GDP per capita while reducing poverty. Positive investment can increase the number of workers, increase GDP and ultimately reduce poverty (Nzobo, 2021). Some of the government's efforts related to high investment growth are the ease of permits and investment/business activities throughout Indonesia, the provision of investment infrastructure (Nuraini et al., 2021), and the establishment of special investment zones such as National Strategic Zones, Special Economic Zones, and Industrial Estates. All of these government efforts are also carried out in the border area. The government noted that there are four investment potentials in border areas, namely (1) agriculture, plantations, forestry, and animal husbandry, (2) tourist areas, (3) marine and marine product cultivation, and (4) mining.

3. Research Method

This study was conducted using secondary data with observation year 2019-2021. The location of the research is the border area of West Kalimantan, covering five districts, namely Sambas, Bengkayang, Sanggau, Sintang and Kapuas Hulu.

Panel Data Regression

The effect of one or several predictors on a response variable with a data structure in panel data is carried out using Panel Data Regression. This data is a combination of cross-section and time series data (Agusalim et al., 2019). Then, to evaluate the development of an area, the regression of panel data is considered the most appropriate analytical tool (Feyisa et al., 2022). The following table describes the predictors and response variables used in this study are:

Table 3.1 Response Variables and Predictors

	Variables	Description
Response	GDP per capita (Y_1)	Income per capita society based on constant prices 2010
	Poverty (Y_2)	Number of poor people
Predictors	PMA Investment (X_1)	The amount of investment realization in foreign investment
	PMDN Investment (X_2)	The amount of investment realization in domestic investment
	Number of industries (X_3)	Number of industries
	Number of TKSI (X_4)	The number of workers in the industrial sector

The equation used in this study are:

The effect of investment and industry on poverty

$$\text{Ln } Y_2 = \theta_0 + \theta_1 \text{Ln } X_{1it} + \theta_2 \text{Ln } X_{2it} + \theta_3 \text{Ln } X_{3it} + \theta_4 \text{Ln } X_{4it} + \varepsilon_{it} \quad \text{.....(1)}$$

The effect of investment and industry on GDP per capita

$$\text{Ln } Y_1 = \beta_0 + \beta_1 \text{Ln } X_{1it} + \beta_2 \text{Ln } X_{2it} + \beta_3 \text{Ln } X_{3it} + \beta_4 \text{Ln } X_{4it\,it} + \varepsilon_{it} \quad \text{.....(2)}$$

Forecasting

Forecasting techniques are a form of application of various qualitative and quantitative approaches to making decisions. This technique aims to foresee future circumstances by finding and measuring some important free variables and their effect on the observed non-free variables (Reserve, 2014). The forecasting carried out aims to see and compare the best options between foreign (PMA) or domestic (PMDN) investments for development in the border area. The forecasting technique is using the Naive Method, a simple method through observation of the past of a series of numbers to obtain a forecast for the future (Dhakal, 2017). The magnitude of the degree of deviation in this method is:

Mean Absolute Error (MAD)

$$\text{MAD} = \Sigma \left[\frac{At-Ft}{n}\right] \quad \text{.....(4)}$$

Mean Square Error (MSE)

$$\text{MSE} = \Sigma \left[\frac{(At-Ft)^2}{n}\right] \text{MAD} = \Sigma \left[\frac{At-Ft}{n}\right] \quad \text{.....(5)}$$

Mean Absolute Percentage Error (MAPE)

$$\text{MAPE} = \left(\frac{100}{n}\right) \Sigma \left[\frac{At-Ft}{n}\right] \text{MAD} = \Sigma \left[\frac{At-Ft}{n}\right] \quad \text{.....(6)}$$

Where:

At = Observation data of t period
Ft = Forecasting of t period
n = amount of data

4. Analysis Results

The effect of investment and industry on poverty

Harrod and Domar emphasized that investment has a very strategic position in the economic development of a country or region. If a country or region wants steady state growth characterized by full capacity production growth, there must be an increase in investment in

order for there to be an increase in demand and supply (Blume & Sargent, 2015). On the other hand, poverty is the inability to meet basic human abilities, such as food, housing, and health education. Poverty is a complex problem influenced by many interrelated factors, such as income levels, people's purchasing power, investment, the number of industries and the absorption of labor in the industrial sector, and government policies that favor society. Due to the limited ability of the government to alleviate poverty, the role of investment becomes crucial in a region's economic development, solving poverty through employment and local taxes (Jesuit & Sych, 2012), (Mustaqimah et al., 2018).

This study shows that the four independent variables can explain the poverty reduction model are 0.578 or the coefficient of determination R^2 is 57.8%. Only the amount of TKSI absorption has a significant influence on poverty reduction. Every 1% increase in TKSI absorption can reduce poverty by 0.969%. Meanwhile, investment through foreign investment, domestic investment, and the number of industries are seen to have not had a significant effect on reducing poverty in border areas (Table 4.1). This employment has been shown to reduce unemployment and poverty (Seetanah et al., 2009). In the long term, the greater the labor force absorbed, the lower the poverty rate. If the absorption of labor is not balanced with a decrease in the poverty rate, then the quality of available employment needs to be improved through improvements in team member wage levels, an increase in the amount of investment, and an increase in the number of industries in the border area.

Table 4.1 The effect of investment, the number of industries, and TKSI on poverty

Variable	Coefficient	Std Error	t-Stat	Prob
C	-11.7253	4.314032	-2.71796	0.0216
PMA Investment	-0.0115	0.068515	-0.16787	0.87
PMDN Investment	0.135611	0.17231	0.787015	0.4495
Number of Industries	0.258777	0.332648	0.777931	0.4546
Number of TKSI	- 0.969913	0.297093	3.264679	0.0085***
R-squared				0.578164
Durbin-Watson stat				2.406253
Prob(F-statistic)				0.051971

Note: ***: α = 0.01

Local governments have developed various programs for workforce development and capacity building in collaboration with the private sector and other state owned enterprises (Modes & Hidayah, 2021). However, the absorption of labor in the industrial sector is still relatively small in the border area. This negligible absorption is due to the small number of industries, and the small number of these industries is due to the small amount of foreign and domestic investment. This cycle continues to occur, so it requires maximum participation and government policies that can invite investors.

The effect of investment and industry on GDP per capita

Economic growth, characterized by an increase in the GDP per capita, is a benchmark for the economic achievement of a region (Fitriady et al., 2022). Many factors influence the increase in GDP, including import exports, taxes, industrial activities, and investment (Anggriawan et al., 2019). Even the endogenous growth theory explains that investment in physical capital and human capital plays a role in determining economic growth. Foreign and domestic investment ultimately spearheaded the increase in GDP per capita (Sutawijaya, 2010).

The results of this study showed that the four independent variables could explain the model are 0.941 or the coefficient of determination R^2 is 94.1%. Foreign (PMA) investment, domestic (PMDN) investment, and the number of industries proved unable to increase PRDB in the border area. Only the variable number of TKSI has a significant ability to increase GDP per capita. Every 1% increase in TKSI can increase per capita GRDP by 1.16% (Table 4.2). It shows the importance of more significant employment in border areas for an increase in GDP per capita. Foreign (PMA) investment also positively affects increasing GDP per capita, but it is not significant. It is in line with Tsaurai's research, namely that investments that are too

small and not proportional to the need for the economic development of a region will not be able to impact the economy positively (Tsaurai, 2015). In the long run, investment (both foreign and domestic) will be able to increase the number of industries, increase employment and be able to increase GDP in an area, including border areas (Radulescu et al., 2019).

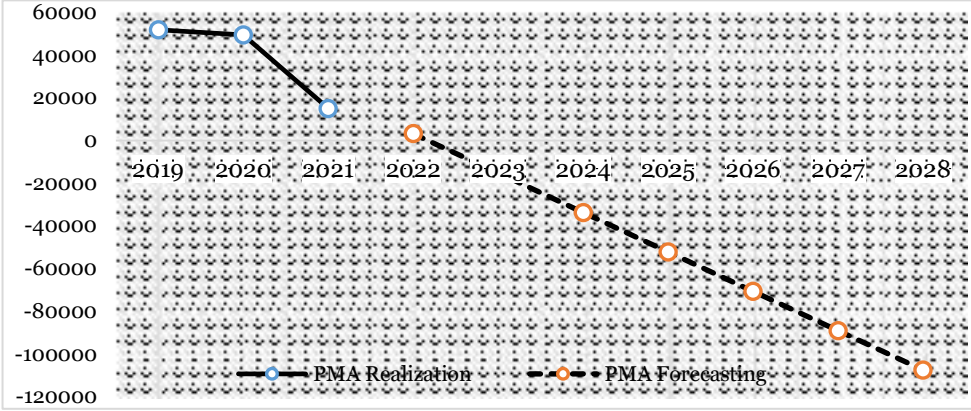
Table 4.2 The effect of investment, the number of industries and TKSI on GDP per capita

Variable	Coefficient	Std Error	t-Stat	Prob
C	2.248798	1.630018	1.379616	0.1978
PMA Investment	0.001954	0.022838	0.085563	0.9335
PMDN Investment	-0.00295	0.056692	-0.05195	0.9596
Number of Industries	-0.06205	0.106746	-0.58132	0.5739
Number of TKSI	1.161577	0.097649	11.89546	0.0002***
R-squared				0.941712
Durbin-Watson stat				3.171243
Prob(F-statistic)				0.000004

Note: ***: α = 0.01

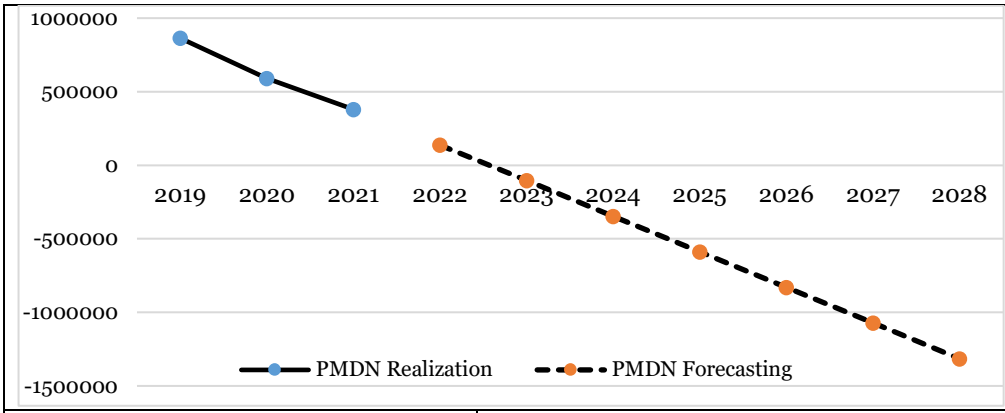
Investment Forecasting

The Naive model is the most frequently used method of forecasting technique. This method considers that the forecasting of the next period is equal to the actual value of the previous period. The forecasting results on the foreign (PMA) investment showed a MAD value is 1845.450, MSE is 59655.53 and MAPE is 61,059 % (Figure 4.1a). Meanwhile, in domestic (PMDN) investment, the MAD value is 242077.6, MSE is 59541. 40 and MAPE is 23,923 % (Figure 4.1b). If referring to Arnita, a smaller MSE shows a better model (Arnita, 2020). Then if compared between MSE of foreign (PMA) and MSE of domestic (PMDN), it is seen that the value of MSE in domestic (PMDN) investment is smaller. It means the domestic (PMDN) investment forecasting model is better than the foreign (PMA) investment. In forecasting calculations, smaller MAPE values indicate smaller deviations (Kumila et al., 2019). So when compared to the MAPE value in domestic (PMDN) investment of 23,923% and foreign (PMA) investment of 61,059%, it shows that domestic (PMDN) investment has a smaller deviation. Based on this comparison, in the future, domestic (PMDN) investment will be the best choice for development in the border area of West Kalimantan.



MAD	18452.450
MSE	59655.53
MAPE	61.059

(a)



MAD	242077.6
MSE	59541.40
MAPE	23.923

(b)

Figure 4.1 Investment Forecasting Results (a) PMA and (b) PMDN

5. Conclusion

The development of the West Kalimantan border area has interests that must be carried out immediately. The government has also carried out the investment of foreign (PMA) and domestic (PMDN) as one of the funding capitals for development in border areas. The follow up to this investment is the development of several industries so that the efforts to absorb labor in the industrial sector also become more prominent. This effort is expected to reduce the number of poverty and increase GDP. The reduction in the number of poverty and the increase in GDP is one of the great goals of development, not only the local government but also the central government.

The results of this study show that foreign (PMA) investment, domestic (PMDN) investment, and the number of industries do not have a significant influence on reducing the poverty rate. On the contrary, absorbing a high number of workers in the industrial sector can reduce poverty. For the increase in GDP per capita, the number of workers in the industrial sector can also show significant results. Foreign (PMA) investment, domestic (PMDN) investment, and the number of industries have not significantly influenced the increase in GDP per capita. One of the potential reasons why these two investment models haven't been successful in reducing poverty and raising GDP per capita is because their values are too small and not match yet the needs of development in the border region, which leads to the emergence of a limited number of industries. There are few industries present since it is believed that the value of these two investment models is insufficient and not yet adequate to meet the needs of development in the border region.

In the future, forecasting results show that when compared between foreign (PMA) and domestic (PMDN) as an alternative to development funding, domestic investment in border areas provides better certainty than foreign investment. Domestic (PMDN) investments have been shown to have a lower deviation value and a lower error rate. So local and central governments need to provide convenience for domestic investors to invest in border areas.

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