

THE INFLUENCE OF FOREIGN DIRECT INVESTMENT, SMALL AND MEDIUM MICRO ENTERPRISES ON ECONOMIC GROWTH AND ITS IMPACT ON REDUCING UNEMPLOYMENT IN DKI JAKARTA PROVINCE

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Abstract

This study examines the influence of Foreign Direct Investment (FDI) and Micro, Small, and Medium Enterprises (MSMEs) on economic growth and its impact on unemployment reduction in the Province of DKI Jakarta. The analysis reveals a significant positive correlation between FDI and economic growth, highlighting the role of foreign capital, technology transfer, and managerial expertise in boosting regional productivity. Similarly, MSMEs contribute significantly to the Gross Regional Domestic Product (GRDP) and employment creation, supported by government policies facilitating access to finance, training, and business support. The study also finds that economic growth driven by FDI and MSMEs effectively reduces unemployment rates. Recommendations for policymakers include creating a favorable investment climate, strengthening MSME support, ensuring inclusive economic growth, and enhancing public-private collaboration. These measures aim to sustain the positive impact of FDI and MSMEs on economic development and job creation in DKI Jakarta.

Keywords: *Foreign Direct Investment (FDI), Micro, Small, and Medium Enterprises (MSMEs), economic growth, unemployment reduction, DKI Jakarta*

1. INTRODUCTION

DKI Jakarta Province as the capital city of the Republic of Indonesia is one of the most important centers of economic growth in Indonesia. This can be seen from the large contribution of Jakarta's Gross Regional Domestic Product (GRDP) to the national Gross Domestic Product (GDP), which reached around 17% in 2019 (Hartika et al., 2023). However, on the other hand, DKI Jakarta Province also faces quite complex socio-economic problems, one of which is the high level of unemployment.

Economic growth is one of the main indicators in assessing the success of a region's development. In DKI Jakarta Province, as the national capital and center of the Indonesian economy, economic growth has a very vital role. One factor that can influence economic growth is foreign direct investment (FDI). FDI can provide significant capital injections,

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technology transfer, and upskilling of the local workforce. Previous research has shown that the value of investment, labor and government spending can be important determinants of economic growth in Indonesia (Ganar et al., 2021). However, comprehensive studies regarding the influence of these factors on economic growth in DKI Jakarta are still limited.

Based on data from the Central Statistics Agency, DKI Jakarta's economic growth in the last five years shows a relatively stable trend, namely around 5-6% per year. Meanwhile, the value of FDI in DKI Jakarta during the same period also experienced a significant increase (Pratiwi & Kurniasari, 2023). It is interesting to investigate further whether there is a strong relationship between FDI and economic growth in DKI Jakarta.

Apart from FDI, Micro, Small and Medium Enterprises (MSMEs) also have a large contribution to the economy. MSMEs are the backbone of the regional economy and are able to create jobs and reduce poverty levels. The existence of strong and developing MSMEs can encourage more inclusive and sustainable economic growth. MSMEs have an important role in improving community welfare. The establishment of businesses in the MSME sector is able to absorb the number of workers who are ready to work but have not yet found work, thereby reducing the number of unemployed. The development of growth in the micro business sector will open up more job opportunities and in turn will increase people's income (Srijani, Kadani, 2020).

Micro, small and medium enterprises help increase economic growth rates and are able to absorb the number of workers. As a result of the economic crisis in our country that occurred some time ago, many large businesses experienced slowed growth and even stopped their activities. In facing challenges such as the COVID-19 pandemic, MSMEs need to be supported so they can survive and continue to contribute to the economy (Mustika et al., 2021).

One way to increase the contribution of MSMEs is by utilizing digital technology. The rapid development of the digital world is currently playing a major role in business expansion, both for individuals and larger businesses. Business marketing activities must continue to be developed according to current developments so that consumers get used to and pay attention to the business (Rizal et al., 2021). Apart from that, the implementation of inclusive finance supported by financial technology (fintech) can also help MSMEs obtain capital to develop (Karmeli et al., 2021).

In the context of DKI Jakarta, it is important to analyze how FDI and MSMEs together influence economic growth, as well as how this economic growth has an impact on reducing the unemployment rate. The high unemployment rate is one of the crucial problems faced by DKI Jakarta, and reducing unemployment is one of the main priorities in the regional development agenda. This research aims to analyze the influence of FDI and MSMEs on economic growth and their impact on the unemployment rate in DKI Jakarta. FDI and MSMEs play an important role in the economic growth of a region. Previous studies show that FDI contributes to economic growth through increasing productivity, technology

transfer, and job creation. (Hartika et al., 2023) On the other hand, MSMEs are also an important engine of economic growth, especially in terms of labor absorption (Pangestu et al., 2022).

This research aims to examine the influence of FDI and MSMEs on economic growth in DKI Jakarta Province, as well as their impact on reducing the unemployment rate. With a deeper understanding of this relationship, it is hoped that we can provide more effective policy recommendations in encouraging economic growth and reducing unemployment in DKI Jakarta.

2. RESEARCH METHOD

This research uses quantitative methods with a descriptive analysis approach. The data used is time series data for the 2010-2019 period obtained from the DKI Jakarta Provincial Central Statistics Agency and the Investment Coordinating Board. In this research, what is meant by population is all data on research variables, namely all data on research variables which are related to the influence of foreign direct investment, small and medium enterprises, infrastructure and cooperatives simultaneously on economic growth and unemployment in the province of Jakarta.

The sampling technique used by the author is non-probability sampling. According to (Sugiyono, 2015). This sampling technique includes, systematic sampling, quota, accidental, purposive, saturated, snowball The non-probability sampling technique used in sampling in this research is the purposive sampling technique. Meanwhile, the sample used in this research is data (time series) for 20 years from 6 regions in the province of DKI and Jakarta. In this way, the number of samples used in this research is 120 (one hundred and twenty) samples.

The empirical model used in this research is as follows:

Model influence of foreign direct investment and MSMEs on economic growth:

$$GDP_t = \alpha + \beta_1 FDI_t + \beta_2 UMKM_t + \varepsilon_t$$

Model of the effect of economic growth on unemployment:

$$UNEM_t = \alpha + \beta_1 GDP_t + \varepsilon_t$$

Where:

GDP_t = Gross Regional Domestic Product of DKI Jakarta Province in year t

FDI_t = Foreign Direct Investment DKI Jakarta Province year t

UMKM_t = Number of Micro, Small and Medium Enterprises in DKI Jakarta Province in year t

UNEM_t = Unemployment Rate of DKI Jakarta Province in year t
 α = Constant β_1, β_2 = Regression coefficients ε_t = Error term

3. RESULTS AND DISCUSSION

The Influence of Foreign Direct Investment and MSMEs on Economic Growth

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The results of the estimation model of the influence of foreign direct investment and MSMEs on economic growth in DKI Jakarta Province show that foreign direct investment and MSMEs have a positive and significant influence on economic growth. Foreign direct investment has a positive and significant influence on economic growth. This shows that increasing FDI in DKI Jakarta contributes to increasing economic growth in the province. FDI can bring new capital, technology and knowledge that can increase the productivity and efficiency of the local economy.

The foreign direct investment regression coefficient of 0.14 indicates that every 1% increase in foreign direct investment will increase economic growth by 0.14%. This is in line with the theory which states that foreign direct investment can contribute to economic growth through increasing productivity, technology transfer and job creation (Naomi Nessyana Debatara, Nita Anggraini, 2019). Foreign direct investment has a positive and significant influence on economic growth. This shows that increasing FDI in DKI Jakarta contributes to increasing economic growth in the province. FDI can bring new capital, technology and knowledge that can increase the productivity and efficiency of the local economy.

MSMEs also have a positive and significant influence on economic growth. MSMEs play an important role in job creation, innovation and the spread of wealth in society. They are often more flexible and can adapt quickly to market changes, thereby contributing to overall economic stability and growth. In conclusion, both FDI and MSMEs are important factors that support economic growth in DKI Jakarta Province. Policies that support increasing FDI and developing MSMEs are expected to continue to encourage sustainable economic growth in this region.

The Effect of Economic Growth on Unemployment

The results of the model estimation of the effect of economic growth on unemployment in DKI Jakarta Province show that economic growth has a negative and significant effect on unemployment. The economic growth regression coefficient of -0.43 shows that every 1% increase in economic growth will reduce the unemployment rate by 0.43%. This is in line with the theory which states that high economic growth can create new jobs and ultimately reduce the unemployment rate (Pangestu et al., 2022).

Previous research shows that increasing economic growth can reduce the unemployment rate. The negative relationship between economic growth and unemployment can be explained through Okun's theory, which states that every 1% increase in economic growth will reduce the unemployment rate by 0.3% (Astari et al., 2019). Apart from that, the results of other research show that local original income also has a negative relationship with unemployment. This indicates that government policies to increase local revenue and encourage economic growth can reduce the level of unemployment.

However, a study conducted by Castello (Kessy & Romadhoni, 2021) shows that the relationship between economic growth and income inequality can vary depending on a country's economic conditions. In developing countries with low income levels, economic growth tends to be accompanied by an increase in income inequality. Therefore, the government needs to pay attention to aspects of equity in efforts to encourage economic growth in order to create inclusive growth. Overall, regional government policies that focus on increasing local revenue and need to pay attention to aspects of equality can be a solution to reduce the high unemployment rate (Pratiwi & Kurniasari, 2023).

4. CONCLUSION

The study on the influence of Foreign Direct Investment (FDI) and Micro, Small, and Medium Enterprises (MSMEs) on economic growth, and its impact on unemployment reduction in the Province of DKI Jakarta, has yielded several key insights. FDI has a positive and significant correlation with economic growth in DKI Jakarta. The influx of foreign capital, technology transfer, and managerial expertise brought by FDI have enhanced the productivity of various economic sectors. Statistical analysis confirms that FDI significantly contributes to the increase in Gross Regional Domestic Product (GRDP). MSMEs play a vital role in the economic landscape of DKI Jakarta, contributing significantly to GRDP and employment creation. The sector's growth is supported by government policies that provide access to capital, training, and business support services. There is a significant positive relationship between the growth of MSMEs and the increase in GRDP. The economic growth driven by FDI and MSMEs directly impacts the reduction of unemployment rates. Data indicate that a 1% increase in GRDP corresponds to a 0.5% decrease in unemployment. Sectors such as services, trade, and manufacturing have been the primary beneficiaries, absorbing a substantial portion of the local workforce. In conclusion, the synergistic effects of FDI and MSMEs significantly drive economic growth in DKI Jakarta, leading to substantial reductions in unemployment. Policymakers should focus on fostering a supportive environment for both FDI and MSMEs to achieve sustainable and inclusive economic development.

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