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The Influence of Investment, Local Original Income and Non-Oil and Gas Exports on Economic Growth

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Abstract: *The purpose of this study was to ascertain how local revenue, investment, and non-oil and gas exports affected economic growth. This study examines economic growth from 2014 to 2023 using data from 34 Indonesian provinces. The selection of the fixed effect model shows that economic growth is highly influenced by investment, local revenue, and non-oil and gas exports. Indonesia's economic recovery is highly dependent on investment in sectors that absorb a lot of labor, ease of business licensing, and security stability so that it can increase local revenue from regional taxes and regional levies. The government must encourage ease of doing business in the regions, reduce levies on mandatory services, regional taxation options between Provinces and Regencies/Cities, and new tax bases.*
Keywords: *Investment, Local Revenue, Non-Oil and Gas Exports, Economic Growth.*

INTRODUCTION

Economic growth depends on an efficient system of resource use adapted to the system adopted to guarantee the application of eco-friendly and clean technology (Amoako et al., 2022). A slowdown in economic growth is linked to rising wealth inequality. Transferring wealth from the wealthy to the underprivileged is essential to achieve sustainable economic growth performance (Policardo & Carrera, 2024).

One tool for boosting economic growth is investment, which provides access to cutting-edge technologies, global trade shows, and festivals in addition to capital resources (Hossain, 2023). Over time, foreign firms' advanced technology and new ideas, knowledge, and business practices are influenced by investment, which has a knock-on effect on the national economy (Chisăgiua, 2015; Agyeman et al, 2022). Developing nations are currently engaged in fierce competition with one another to draw in new investment sources, including foreign direct investment (Abdouli & Hammami, 2016). More foreign direct investment in greenfield projects with cutting-edge technology and complex production techniques can boost domestic employment, establish new businesses, and expand productive capacity—all of which will support the nation's economic expansion (Ai-jun et al, 2023).

Investment realization in Indonesia throughout 2023 reached IDR 1,418.9 trillion, an increase of 17.5% compared to 2022. This investment can absorb a workforce of 1,823,543 people, and exceed the target set by the Government. Investment realization in Indonesia has

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consistently exceeded the strategic plan (renstra) target in the last five years. Investment realization in 2023 consists of foreign investment (PMA) of IDR 744.0 trillion, equivalent to 52.4% of the total realization. Then domestic investment (PMDN) of IDR 674.9 trillion or 47.6. Annually, PMA realization in 2023 grew by 13.7%, while PMDN grew by 22.1%. Based on region, investment realization outside Java throughout 2023 reached IDR 730.8 trillion or 51.5% of total investment and increased by 14.8%. Meanwhile, investment realization in Java was IDR 688.1 trillion or 48.5% and jumped by 20.5%. Based on the business sector, the largest investment realization in 2023 went to The value of the non-machinery, equipment, metal items, and basic metal industries IDR 200.3 trillion (BPS, 2024).

During the Covid-19 pandemic, investment in the industrial sector was in great demand by foreign investors. In 2019, investment realization in the industrial sector was US$ 9,551 million, this investment increased until 2023 to US$ 28,689 million, around 36.34 percent of total foreign investment. Based on BPS data (2024), the realization of The investment is in equipment, non-machinery, metal goods, and the basic metal industry that is most in demand by foreign investors, namely US$ 11,787 million, around 41.08 percent. Then the chemical and pharmaceutical industry ranks second in the realization of PMA investment in the industrial sector, which is US$ 4,805 million, around 16.75 percent. The smallest foreign investment is the realization of investment in the wood industry, which is US$. 157 million, around 0.55 percent of total industrial investment.

Investment in the industrial sector is inversely proportional to other sectors. In 2023, the realization of investment in the agricultural sector (food crops, plantations, and livestock) is US$. 1,945 million, only around 2.46 percent of total foreign investment. While trade investment is US$. 943 million, around 1.20 percent. Worse still, in the fisheries sector, the realization of investment in this sector is only US$. 25 million, only about 0.0325% of all foreign investment. Information and communication technology investment rose after the Covid-19 pandemic. In 2023, the realization of this investment was US$. 5,615 million, approximately 7.11% of all foreign investment. Information technology's ever-increasing speed has contributed significantly to the acceleration of development across a number of industries, especially the digital economy. This condition is also faced with a number of challenges such as geographical location, regulatory uncertainty, and administrative systems.

Regional Original Income (PAD) has the potential to impact economic growth. One source of revenue for a region is regional original income, which is derived from regional potential and is gathered by the regional government in compliance with regional regulations and relevant laws and regulations. Regional Original Income is defined by Law Number 1 of 2022 as regional income derived from regional taxes, regional levies, the outcomes of managing distinct regional assets, and other legally permissible regional original income as defined by laws and regulations. Regional Original Income is intended to give the Regional Government the power to finance the implementation of regional autonomy by regional potential as a decentralization measure, according to Law Number 33 of 2004.

Indonesia is highly dependent on tax levies used for human development and infrastructure development in the region. Tax revenue comes from tax revenue and customs and excise revenue. The amount of tax income realized in 2023 was IDR 1,869.23 trillion, or 102.80% of the goal. Tax revenue realization increased by 8.88 percent. With a contribution of 53.1% of the actual tax collection, the Non-Oil and Gas Income Tax component made the largest contribution to tax revenue. In the meantime, IDR 286.19 trillion, or 95.36 percent of the goal, was realized in customs and excise income. The performance of customs and excise revenue fell by 9.94 percent. The excise component contributed the most to customs and excise revenues, where its contribution reached 77.5 percent of the realization of customs and excise revenues.

Original regional income derived from regional tax revenues increased by 6.6%, and regional tax growth was driven by consumptive tax revenues such as hotel tax, entertainment tax, restaurant tax, and parking tax. If detailed, the amount of hotel tax collected reached IDR 6.05 trillion, restaurant tax IDR 9.86 trillion, entertainment tax IDR 1.46 trillion, and parking tax IDR 909.7 billion. Bali Province is the region that experienced the highest growth, reaching 240.4% to IDR 2.3 trillion. In aggregate, Bali is also the province with the highest growth in regional tax revenues, namely 81.2%. Much higher than other provinces, even when compared to DKI Jakarta, the growth was only 11.8%.

In addition to regional tax revenues, other sources of regional income also experienced growth. First, regional levies, the realization of which reached IDR 5.16 trillion. Regional retribution revenues grew by 4.23%, this retribution was driven by revenue from business service retributions and certain licensing retributions. Second, the results of the separated Regional Asset Management (PKD) reached Rp. 10.05 trillion, growing 3.97% due to an increase in profits distributed to the government for capital participation in Regionally-Owned Enterprises and private companies. Then other legitimate regional original income reached Rp. 36.26 trillion, its growth decreased by 6.5% due to a decrease in the income of the Regional Public Service Agency.

Local government tax and levy revenues are influenced by economic activity and public consumption. The Covid-19 pandemic that has occurred since 2020 has caused a decline in community activity which then reduced economic activity. One of the business sectors affected by the Covid-19 pandemic is the Accommodation, Food, and Beverage Provision sector, which was then followed by a decline in potential local tax revenues, especially hotel tax, restaurant tax, and entertainment tax. The realization of local revenue has remained relatively unchanged in the 2016-2021 period, where on average the portion of provincial government taxes and levies is 40%, city government at 19.8%, and district government at 5.6%.

Empirical research on local revenue has been conducted by previous researchers with various results and findings, namely Lestari and Basuki (2024) showed that regional autonomy authority and policies are implemented by local governments. Local governments can facilitate economic growth and regional development, reduce social inequality, and advance public services more effectively according to the needs of the local community. Nasrullah et al, (2020) proved that regional independence is given the authority to explore financial sources in their respective regions so that they can finance their regional expenditures consisting of routine expenditures (capital expenditures) and capital expenditures. Kurniawan & Arnan, (2023) argue that currently the existence of regional autonomy is intended as the authority of government affairs to allocate its sources of income to accelerate the development of a prosperous society through services and empowerment. The greater the realization of income obtained by the regional government from PAD, the greater the funds that can be channeled into its capital expenditure budget. Bukit et al (2020) proved that the effectiveness of regional income and regional financial efficiency has a positive and substantial impact on capital expenditures. However, capital expenditure is not significantly impacted by regional financial independence. According to Puspita & Komala (2023), there is no correlation between capital expenditure and regional original income or balancing funds, and economic growth has no moderating effect on this relationship. While capital spending has no influence on economic growth, Ismail & Taufik (2023) shown that real regional income and balancing finances have a favorable and considerable impact on economic growth.

In addition to local original income, Exports can also have an impact on economic growth. The process of moving goods from Indonesia's customs area to another nation's customs territory is known as exporting. In 2023, there were five main commodities imported and exported from and to various Indonesian trading partner countries. The most exported commodity by Indonesia is mineral fuels which account for 22.99 percent of Indonesia's total exports. Then exports of animal/vegetable fats and oils amounted to 10.99 percent, exports of iron and steel commodities amounted to 10.32 percent, exports of machinery and electrical equipment amounted to 5.54 percent, and vehicles amounted to 4.31 percent. The most imported commodities are machinery/mechanical equipment which reaches 14.49 percent of total imports, and machinery/electrical equipment and its parts amounted to 11.62 percent. Indonesia's export-import activities in 2023 experienced a decline. In 2022, the export value was US$ 291,904 million, down to US$ 258,797 million in 2023. A decline was also seen in the import sector in 2022-2023, from US$ 237,447 million to US$ 221,885 million.

According to BPS data from 2023, non-oil and gas exports are higher than non-oil and gas imports, but imports of oil and gas are higher than exports of oil and gas. But Indonesia's total trade balance recorded a surplus of US$ 36.93 billion. This achievement shows that Indonesia's trade balance performance remains good amidst the global economic slowdown. Despite a decline compared to 2022, the trade balance surplus in 2023 shows the external resilience of the national economy amidst increasing global risks, including moderation in commodity prices and the economic slowdown of major trading partner countries such as China.

In 2023, Indonesia's export value reached US$ 258.82 billion, or below the export achievement in 2022 which reached US$ 291.90 billion. Although in nominal terms Indonesia's exports have decreased, in terms of volume, Indonesia's exports in 2023 still grew by 8.55%. The slowdown in export value is in line with the moderation in the prices of Indonesia's leading commodities, such as palm oil and coal. In addition, the economic slowdown in several of Indonesia's main trading partner countries also contributed to the slowdown in Indonesia's export value. Throughout 2023, Indonesia's exports were still concentrated in China with a share of 25.66%, the United States with a share of 9.57%, and India with a share of 8.35%. Indonesia's exports to ASEAN and the European Union each had a share of 18.35% and 6.78% of Indonesia's total exports.

Meanwhile, Indonesia's imports throughout 2023 reached US$. 221.89 billion, down around 6.55% compared to 2022. The largest contributor to the slowdown in imports was electrical machinery or equipment and its parts, while mechanical machinery and equipment and its parts contributed to the increase in imports. Similar to exports, in terms of volume, Indonesia's imports still recorded positive growth of 8.04%, in line with the continued strong domestic demand. Sectorally, imports of capital goods and consumer goods recorded positive growth, while imports of raw materials decreased. Indonesia's largest imports are still dominated by China and Japan with shares of 33.42% and 8.84% respectively of Indonesia's total imports.

The growth rate by the balance of payments is a reliable indicator of the rate of long-term growth. Additionally, by classifying imports and exports according to commodities and services, we can get a more accurate measurement of income elasticity, which can be interpreted as a picture of a country's non-price competitiveness (Srdelić & Davila, 2023). Higher levels of fuel exports, capital formation, and expansion of the workforce drive economic growth in the long run. Fuel exports and environmental pollution also have long-term impacts that hinder economic growth (Murshed, 2022). Since they serve as a country's lifeline to sustainability, information technology exports, capital formation, foreign direct investment, and trade openness are essential components in establishing sustainable economic growth for every nation (Zaman et al, 2021). Low-income countries have a much more concentrated export portfolio and economy than high-income countries. Export diversity is an important determinant of growth for low-income countries (Mora & Olabisi, 2022).

LITERATURE REVIEW

The Impact of Investment on Economic Growth

Increased investment contributes to economic growth. More prudent policies may include removing obstacles that impede small businesses from building strong connections, expanding their access to capital, technology, and inputs, and streamlining input sales processes (Abdouli & Hammami, 2016). These undeniable benefits are quickly seen in the country's economy in various effects: renewal of fixed capital, re-specialization of the economy, and increased export potential ultimately stimulate demand and economic development (Chisăgiua, 2015).

Through capital deepening, foreign exchange, technology imports, and general productivity gains, foreign direct investment and human resource inflows can significantly contribute to sustained economic growth (Dankyi et al, 2022). Particularly, inflows of foreign direct investment speed up development initiatives by boosting domestic savings, generating and expanding jobs, integrating with the global economy, transferring cutting-edge technology, boosting productivity, and enhancing local workforce competencies (Anyanwu, 2011). The majority of emerging nations need to make investments in industrialization and encourage growth driven by exports (Zaman et al, 2021; Agyeman et al, 2022).

With cutting-edge technology and complex manufacturing techniques, greenfield investment can establish new businesses, boost productivity, and generate new employment domestically—all of which support the nation's economic expansion (Ai-jun et al, 2023). Rich countries with better access to international finance should grow faster and be less vulnerable to the negative impacts of corruption than developing countries. Reducing corruption has been shown to have a favorable and statistically significant effect on the increase in the investment ratio and the real GDP per capita growth rate (Ciesˊlik & Goczek, 2018). If the relationship between foreign investment and economic growth is unidirectional, this suggests that national income growth can be used as a catalyst to attract foreign investment inflows (Sunde, 2016).

The Effect of Local Original Income on Economic Growth

Regional income is influenced by geographical areas, thus creating income inequality between regions. Regions with high economic growth can generate high regional incomes and vice versa. Coccorese (2024) demonstrates that when local banking markets are more developed, value added growth rates are comparatively greater in areas that receive structural financing. Roberto (2025) demonstrates that areas with higher levels of wealth disparity are typically those with better access to digital technologies. Kacher & Weiler (2023) find that regions with high employee turnover rates experienced slower increases in average household incomes during the global financial crisis recession, but poverty rates declined more rapidly during macroeconomic expansions. The significance of redistributive regional policy is highlighted by Capello (2024). For receiving nations, on the other hand, increased trade integration tends to strengthen intra-country regional income convergence processes, indicating that normative actions to curb rising inequality are unnecessary.

Ignatov (2024) demonstrates how highways boost overall regional income and economic cohesiveness by lowering transportation expenses. Policies pertaining to transport infrastructure have the potential to significantly boost the economy and close the wealth and poverty gaps. In the recently created Indonesian capital, Lestari et al. (2025) investigated the impact of regional financing and road infrastructure on regional economic growth. Road infrastructure and regional economic growth are fully mediated by regional finance. According to Ribeiro et al. (2024), industries like public utility industry services, transportation, financial intermediation, and agriculture all help to lessen regional differences.

Ji et al. (2024) demonstrated that many nations struggle with poverty and income disparity. Compared to urban dwellers and farmers in affluent regions, the income of rural inhabitants, particularly those in impoverished areas, increases more quickly. At the regional level, the proportion of non-agricultural industries and increased agricultural mechanization significantly improves farmer income equality. According to Sudaryanto et al. (2023), boosting high-value agriculture and growing non-farm employment in rural areas are two policies that must be integrated in order to increase rural income and decrease poverty. According to Prasetyo et al. (2023), a number of factors are crucial, such as effective service delivery, transparent governance and accountability systems, levels of regional revenue and capital expenditure, leadership, vision, and mission.

The Impact of Non-Oil and Gas Exports on Economic Growth

The impact of productivity on economic growth is the main focus of the export-driven growth paradigm. Each nation's exports have a unique impact on productivity and economic growth. South America benefited from exports to China, but after China joined the WTO, Mexico, Central America, and the Caribbean suffered. The primary export nature of South American nations is heightened by the expansion of exports to China (Garcia et al., 2022). The South Asian bloc's financial development is drastically impacted by the variety of exports and the wealth of natural resources. In order to increase exports, resources are used effectively by being directed into industrial processes that add value to them (Gyamfi et al, 2023; Garcia et al, 2022).

Because of the productivity gaps between the export and non-export sectors as well as the positive externalities that exports create in the non-export sector, exports boost economic growth. According to theory, the influence increases with the level of technology of export items (Raiher et al, 2017). Long-term environmental quality deteriorates due to energy use and exports, while economic growth and human resources improve. Economic growth has the largest impact on CO_2 emissions, followed by energy consumption, exports, and human resources (Rahman et al, 2021).

Export diversification tends to rise in developing nations as exports rise, while it tends to fall in high-income nations. Depending on the degree of economic growth, transportation costs have different effects on diversification. In underdeveloped nations, export diversification is impacted by transportation costs. In other words, increased transportation costs do not limit high-income nations' capacity to expand their export offerings or boost the export value of their current trading partnerships. However, poor nations suffer from higher variable transit costs in comparison to high-income nations (Mora & Olabisi, 2022). Through technology that benefits other industries, export diversification drives economic growth and enables developing nations to stabilize export revenues in the face of price volatility in global markets (Lederman & Maloney, 2012). Through cross-sectoral technological spillover effects, export diversification promotes economic development and growth and makes structural transformation easier. Export diversification boosts economic expansion in underdeveloped nations (Mania & Rieber, 2019).

Growth rates that are in line with the balance of payments equilibrium are good predictors of long-term growth rates. In addition, by separating exports and imports between goods and services, we can get a more precise measurement of income elasticity, which can be interpreted as a picture of a country's non-price competitiveness (Srdelić & Davila, 2023). Long-term economic growth is driven by increased fuel exports, capital formation, and labor force expansion. Long-term effects of environmental pollution and fuel exports also impede economic growth (Murshed, 2022). As a lifeline to achieving sustainability, information technology exports, capital formation, foreign direct investment, and trade openness are essential components of every nation's sustainable economic growth (Zaman et al, 2021).

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RESEARCH METHODS

The purpose of this study was to ascertain the impact of non-oil and gas exports, local original income, and investment. The Pooled Least Square Method is the technique used to examine the impact of the independent factors on the dependent variable. The Fixed Effect Model, which is used to partially and simultaneously describe the influence between variables, is demonstrated by the Panel Data Linear Regression analysis findings. Secondary data from the Central Statistics Agency covering 34 Indonesian provinces from 2014 to 2024 were used in this investigation.

Table 1. Variables and Operational Definitions

Variable	Operational Definitions and Indicators	Data Source
Investment	The investment data used is Gross Fixed Capital Formation (PMTB) data. In rupiah units per year for the period 2014 to 2023	Central Bureau of Statistics of Indonesia
Local Original Income	Realization of Provincial Government Revenue based on Regional Original Income. In rupiah units per year for the period 2014 to 2023.	Central Bureau of Statistics of Indonesia
Export	The data used is non-oil and gas export data. In US$ units. per year for the period 2014 to 2023	Ministry of Trade of Indonesia
Economic Growth	Gross Regional Domestic Product Growth Rate. In percentage units per year for the period 2014 to 2023.	Central Bureau of Statistics of Indonesia

Source: Processed Data, 2025

By definition, the data employed in this study is quantitative data, that is, data that can be measured in the form of numbers. Panel data from annual reports prepared and released by Indonesia's Central Bureau of Statistics and Ministry of Trade served as the study's source of data.

Specifically, the unit root test is carried out and accommodated in panel data analysis. The unit root test is one of the formal ideas used to assess data stationarity (Gujarati, 2012 and Greene, 2018). David Dickey and Wayne Fuller created the well-known unit root test, often known as the Augmented Dickey-Fuller (ADF) Test. The Dickey-Fuller procedure has been tested over time as a powerful tool that seems to provide good results in various applications.

The regression model that uses panel data is the panel data regression model (Gujarati, 2012 Pesaran, 2015). The use of panel data can increase the number of observations and therefore, more degrees of freedom in the estimation and can contribute to reducing collinearity between explanatory variables and allow for more extensive testing of competing model specifications (Biorn, 2017 ; Greene, 2018). The correlation between explanatory variables in a regression equation is often stronger over time than between individuals.

To ascertain the nature of the relationship between two variables, namely between the independent variable x and the dependent variable y, panel data regression analysis is used. Put differently, the purpose of panel data regression analysis is to ascertain the shape of the functional relationship between experimental data and y = f (x), panel data regression analysis can be carried out between an observation variable with a quantitative treatment. Biorn's (2017) panel data regression analysis can handle problems that cannot be solved if only standard unidimensional data are available. The linear regression model is the single most useful tool in the econometric kit (Greene, 2018). The linear regression model consists of a series of assumptions about how the data set will be generated by the underlying "data generation process". The relationship between the dependent variable and a group of independent variables will be ascertained by the theory.

RESULTS AND DISCUSSION

Stationary Unit Root Test

The results of the stationary unit root test using the Augmented Dickey-Fuller (ADF) test method. The criteria are if the ADF-Fisher Chi-square probability value $<\alpha$ 0.05 or 5 percent then the data is considered stationary, but if the ADF-Fisher Chi-square value$>\alpha$ 0.05 or 5 percent then the data is considered non-stationary.

Table 2. Results of the Stationary Unit Root Test at the First Difference level

	First Difference		
Variable	ADF-Fisher Chi-square	Statistic	Information
Economic Growth	0,0000	221.400	Stationer
Investment	0,0002	116.668	Stationer
Local Original Income	0,0000	251.394	Stationer
Non-Oil Exports	0,0000	246.121	Stationer

Source: Data processed by eviews 13, 2025

A stationary unit root test at the first difference level was required to ensure that all variables were stationary because the results of the unit root test using ADF-Fisher showed that not all variables were stationary at the level, with the exception of the economic growth variable and the non-oil and gas export variable. After conducting the stationary unit root test, the model determination test was continued using panel data linear regression.

Results of the Model Estimation Selection Test

According to the Redundant Fixed Effect Test results, the Fixed Effect Model is more appropriate than the Common Effect Model since the probability of the Cross-section Chi-square is 0.0000 $<\alpha = 0.05$. When estimating panel data, the Fixed Effect Model is a better option than the Random Effect Model, as the Hausman Test results indicate that the probability value of the Cross-section Random is 0.0000 $<\alpha = 0.05$. The Fixed Effect Model is the model utilized in this study to explain how the independent variable affects the dependent variable because both tests yield the Fixed Effect Model's conclusion.

The results of the Fixed Effect Model test show that the suitability of the post-estimation or post-test hypotheses with the expectations of the pre-estimation hypothesis supported by relevant theories shows that the relationship between variables between pre-estimation and post-estimation is appropriate so that the theoretical plausibility requirements of the research are met. With a probability value (F-statistic) of 0.0000, which is less than the research error of 5%, the Accuracy of the Estimates of the Parameters test demonstrates that the Investment Variable, Local Original Income, and Non-Oil and Gas Exports have a substantial impact on Economic Growth. The standard error of the explanatory ability test is less than ½ β, indicating that the research model has a good capacity to explain the connections between the economic events under study. The post-estimation model shows that the Investment, Local Original Income, Non-Oil, and Gas Export variables can simultaneously explain positive contributions to Economic Growth. The Indonesian economy continues to grow strongly and stably in a slowing and uncertain global economic situation. Despite starting from a high base in 2022, the Indonesian economy still managed to record strong economic growth of 5.05 percent in 2023. Identification of the impact of the global economic slowdown was responded to more quickly through policy packages issued by the government. In 2023, global economic growth is projected to slow significantly, the Indonesian economy recorded a very good consistent growth trend, supported by strong domestic demand activities, especially consumption and investment activities.

In the last decade, the trend of Indonesia's long-term economic growth has tended to grow in the range of 5 percent. This condition is caused by the phenomenon of continued slow growth considering the absence of new sources of economic growth. One of the factors driving economic growth in Indonesia is seasonal activities such as elections, Ramadan, celebrations of various religious holidays, and school holidays are considered unable to increase economic growth. The dominance of growth driven by seasonal factors indicates structural problems, one of which is sluggish productivity in various sectors that has been going on for several years.

On the other hand, although it is still the largest sector in the Indonesian economy, the contribution of the processing sector to economic growth has continued to decline as its growth rate has been consistently below the national average. The manufacturing sector is recorded to grow by 3.95% in 2024. The utilization of production capacity in the manufacturing sector only reached 71.15%, the lowest in the last 1.5 years. This condition further strengthens the indication of premature deindustrialization in Indonesia. The new government needs to address structural issues strategically to ensure medium and long-term growth expansion. Without structural transformation in the near future, it is likely that the Indonesian economy will continue to rely on seasonal factors to grow and potentially need a bigger boost just to be able to grow by 5%.

Increased public consumption, investment, and government spending are the main driving factors for Indonesia's economic growth in the future. However, the World Bank warns of the continuing downward trend in household consumption in the East Asia and Pacific region, including Indonesia, which is reflected in the slowing growth in retail sales and imports compared to the era before the Covid-19 pandemic. In addition, the World Bank also highlighted the contribution of Indonesia's manufacturing exports which are still low to the economy, and private investment which still needs to be increased.

Investment has a positive and significant impact on economic growth in Indonesia.

The realization of investment in Indonesia is quite encouraging, but there are still many things that need to be fixed, especially the licensing issue. Investment permits in Indonesia still take a long time, even months. There are two major problems currently being faced by regions. One of them is the problem of spatial planning or suitability of spatial utilization activities (KKPR). Almost half of the regions in Indonesia have not completed their KKPR regarding building permits (IMB) which are now replaced with a new term, namely building approval (PBG). Fast completion of permits should be more important than changing names. Regional heads throughout Indonesia must immediately resolve these two problems. Currently, investment is almost evenly distributed in Indonesia. Investment outside Java reaches 53 percent with a value of IDR 1,207 trillion from a target of IDR 1,200 trillion.

In 2023, the growth of Gross Fixed Capital Formation (PMTB) or investment was recorded at 4.4%, growing by 3.9 percent compared to 2022. Acceleration of the completion of National Strategic Projects, Government capital expenditure activities, and the construction of the Indonesian Capital City (IKN) maintained positive investment performance. The private sector also played a role in driving investment in 2023, as shown by the realization of PMA and PMDN which were able to grow to double digits of 13.7% and 22.1%, respectively.

Increasing infrastructure conditions, excellent macroeconomic performance, and maintained socio-political stability are crucial factors in maintaining business actors' confidence to invest. The increase in investment was followed by an increase in the manufacturing sector which grew by 3.95 percent. Industries related to downstream, such as the basic metal processing industry and the non-metallic mining industry, also grew strongly. The food and beverage industry, which is the largest contributor to the manufacturing sector, grew by 5.53 percent (Ministry of Finance, 2024).

The development of Special Economic Zones (SEZs) as new centers of economic growth in the regions of Indonesia, encourages equitable development, and at the same time creates jobs. Transformation of SEZ development policies by emphasizing orientation towards the realization of SEZs that can build added value on mastery of technology and human resources through the development of Health SEZs, Education SEZs, Digital Economy SEZs, and Maintenance Repair and Overhaul (MRO) SEZs. The implementation of convenience facilities in SEZs has been increasingly smooth since In lieu of Law Number 2 of 2022 about Job Creation, Law Number 6 of 2023 concerning the Stipulation of Government Regulation. This has a positive impact on the competitiveness of SEZs as investment destinations. The challenges faced by Special Economic Zones are the utilization of Tax Holidays, immigration or employment issues, and land issues, as well as challenges related to licensing through the Online Single Submission (OSS). Licensing integrated into the online single submission (OSS) risk-based approach (RBA) still needs improvement. Not all local governments in Indonesia can prepare Detailed Spatial Planning (RDTR) and Building Approval (PBG). The government must intervene from the budget side by allocating a special post for the preparation of RDTR and PBG in the regions.

Indonesia is the country most vulnerable to the negative effects of regional head elections and presidential elections because historically it has always resulted in polarization among the community, thus triggering uncertainty for the business world. In a survey conducted by the World Economic Forum (WEF) 2023 on Chief Communications Officers (CCO), the results were that 41 percent viewed economic uncertainty caused by inflation and economic recession as a problem in business expansion. The investment will be easily realized if the Indonesian government provides easy business licensing and security stability.

One tool for boosting economic growth is investment, which not only expands capital resources but also provides access to cutting-edge technologies, global trade shows, and festivals (Hossain, 2023). Over an extended period, foreign firms' sophisticated technology and innovative business concepts, knowledge, and practices are influenced by investment, which eventually affects the nation's economy (Chisăgiua, 2015).

Regional Original Income has a positive and significant impact on Economic Growth in Indonesia.

According to government regulation no. 35 of 2023 concerning general provisions for regional taxes and regional levies, regional autonomy is implemented in accordance with regional potential and decentralization is implemented using regional original income, which is derived from regional taxes, regional levies, the profits of regionally owned businesses, and the management of separated regional assets.

In 2023, the realization of Regional Original Income (PAD) experienced a significant increase in the Regional Tax side, especially in regional taxes on consumption. The same thing also happened on the spending side, the realization of absorption increased compared to 2022 as a result of improved performance in various types of spending and recording of spending. On the other hand, support for strengthening regional apparatus through the education and training budget for Regional Civil Service Apparatus is quite good, but suspected that not all regions have met the minimum education and training budget mandated by the provisions of laws and regulations, namely 0.16% for districts/cities and 0.34% for provinces.

Regional taxes are a source of income in regions that are increasing and dominate the components of Regional Original Income (PAD). In 2023, regional taxes reached 76.9 percent, regional levies 2.5 percent, separated regional financial management results 5.3 percent and other legitimate income reached 15.3 percent. When compared to 2022, the realization of regional tax revenues of 77.73 trillion (2022) increased by 14.1 percent to 88.70 trillion (2023). Regional levies also experienced growth of 7.5 percent. However, Compared to 2022, the outcomes of distinct regional financial management and other legitimate income declined by 18.61 percent and 24.20 percent, respectively.

This increase in regional taxes came from consumer taxes, namely Hotel Tax, Entertainment Tax, Restaurant Tax, and Parking Tax, which showed an increase in the tourism sector which could increase regional economic growth. The most significant regional taxes came from the regions with the most dominant tourism sector, namely in the Bali region, where hotel tax revenues reached 863.4 percent, then East Nusa Tenggara, and DI Yogyakarta as areas with tourist destinations that are widely visited by the public during national holidays, religious holidays, Eid holidays, Christmas and New Year. In addition, other components of Regional Taxes that also increased were Rural and Urban Land and Building Tax (PBB-P2) reaching 68.2 percent, Motor Vehicle Fuel Tax reaching 27.2 percent, and Advertising Tax reaching 17.7 percent.

The contribution of Regional Taxes and Regional Levies per island has quite high diversity, where for the province the highest range is in Java with a figure of 49.4% and the lowest is in Papua with a contribution of 6.1%. In the Bali region, the contribution of regional taxes and regional levies of the district government is on average 15.9%, while in the Papua region the average contribution is 1.0%, there is quite a large gap. The same gap occurs in urban areas, regional taxes and regional levies are 5.5% in the Maluku region and 32.6% in the Bali region. The Covid-19 pandemic has caused regional original income, most of which comes from hotel activities, to decrease drastically by up to 60%.

Many factors cause the contribution of regional original income to vary greatly, including the potential of objects and taxpayers in each region, the level of tax payment compliance, and/or the capability of local governments to investigate regional levies and taxes. Law No. 1 of 2022 pertaining to the Central and Regional Financial Relations seeks to increase local taxing power by encouraging ease of doing business in the regions, reducing levies on mandatory services, regional taxation options between Provinces and Regencies/Cities, and new tax bases (Central-Regional Tax synergy). Lestari and Basuki (2024) show that the authority and policies of regional autonomy are implemented by the regional government. Regional governments can facilitate economic growth and regional development, reduce social inequality, and advance public services more effectively according to the needs of the local community. Nasrullah et al, (2020) prove that regional independence is given the authority to explore financial sources in their respective regions.

Kurniawan & Arnan (2023) contend that the more money the regional government can allocate to its capital expenditure budget, the more revenue it may realize from PAD. However, Ismail & Taufik (2023) demonstrate that capital expenditure has no influence on economic growth, whereas actual regional income and balancing finances have a positive and considerable impact. Additional empirical research demonstrates that capital expenditure is positively and significantly impacted by regional revenue and financial efficiency (Bukit et al 2020; Puspita & Komala 2023).

Previous empirical research has shown that regional income is influenced by geographical areas, thus creating income inequality between regions. Roberto (2025) shows that areas Higher levels of income disparity are typically found in areas with more access to digital technology. Kacher & Weiler (2023) found that areas with high employee turnover rates experienced slower increases in average household income during the global financial crisis recession, but poverty rates declined more rapidly during macroeconomic expansion. Capello (2024) shows the importance of redistributive regional policies, no normative action is needed to reduce the increase in inequality. Coccorese (2024) proves that regions When the local banking market is more developed, the value added growth rate of those getting structural financing is comparatively larger. Ignatov (2024) demonstrates that initiatives pertaining to transportation infrastructure can produce significant economic advantages and lessen the disparity in income between affluent and impoverished areas. Road infrastructure and regional economic growth are fully mediated by regional finance, as demonstrated by Lestari et al. (2025).

Many nations struggle with poverty and income inequality. Compared to urban dwellers and farmers in affluent regions, the income of rural inhabitants, particularly those in impoverished areas, increases more quickly. Ji et al. (2024); Sudaryanto et al. (2023); Prasetyo et al. (2023). Public utility industrial services, financial intermediaries, transportation, and agriculture are some of the industries that help to lessen regional disparities (Ribeiro et al 2024).

Non-Oil and Gas Exports Have a Positive and Significant Impact on Economic Growth in Indonesia.

Indonesia's export performance in early 2023 recorded quite good growth, increasing by 16.37% with an export value of USD 22.31 billion. This growth was supported by an increase in exports of both oil and gas and non-oil and gas commodities, which each increased by 65.03% and 13.97%. Several main commodities that had a positive impact were precious metals and jewelry/gems as well as rubber and rubber goods. Exports to major trading partner countries also continued to record strong growth. Non-oil and gas product exports to China increased by 49.4%, accounting for 25.2% of total non-oil and gas exports. Non-oil and gas exports to India (6.5 percent of total non-oil and gas exports) and the ASEAN area (18.9 percent of total non-oil and gas exports) come next, which grew by 17.5% and 30.5% annually (Ministry of Finance, 2023).

In 2023, Indonesia's export value reached USD. 258.82 billion, although in nominal terms Indonesia's exports decreased compared to 2022 by USD. 291.90 billion, the export volume grew by 8.55 percent. The decline in export value was caused by the economic conditions of trading partners in the destination countries. In addition, changes in the prices of leading commodities such as palm oil and coal also contributed to the decline in Indonesia's export value. The main destination countries for Indonesia's exports are still concentrated in China (25.66%), the United States (9.57%), India (8.35%), ASEAN (18.35%), and the European Union (6.78%). Throughout 2023, Indonesia's trade balance recorded a total surplus of USD. 36.93 billion. The trade balance surplus shows the external resilience of the national economy amidst increasing global risks, including moderation in commodity prices and economic slowdowns in major trading partner countries such as China (Ministry of Finance, 2024).

Amid the current global economic conditions, Indonesia's export performance has been able to show good performance, Indonesia's export value reached USD. 22.33 billion (May 2024), an increase of 2.86%, consisting of oil and gas exports of USD 1.42 billion and non-oil and gas exports of USD 20.91 billion. The trade balance surplus was supported by a non-oil and gas sector surplus of USD 4.26 billion. Of the ten commodities with the largest non-oil and gas export values, almost all commodities experienced an increase, with the largest increase in electrical machinery and equipment and its parts of USD 263.6 million (up 26.66%).

Meanwhile, only animal/vegetable fats and oils decreased by USD 268.0 million (down 14.32%).

Indonesia's non-oil and gas export value reached US$. 204.21 billion (October 2024), an increase of 1.33 percent compared to the previous year of US$ 201.23 billion. There are several non-oil and gas products with an increase in export value of more than 1 billion US dollars compared to the same period in 2023, namely precious metals and jewelry/gems, which increased by 1.68 billion US dollars, iron and steel goods 1.54 billion US dollars, copper and its products 1.09 billion US dollars, and cocoa and its processed products 1.03 billion US dollars.

The global economic slowdown has had a significant impact on national exports. The Indonesian government needs to prepare strategic steps to anticipate a decline in exports in the coming year by encouraging the sustainability of natural resources downstream, increasing the competitiveness of national export products, and diversifying the main trading partner countries. Lederman & Maloney (2012) prove that export diversification allows developing countries to maintain export earnings in the face of global market price volatility and serves as a catalyst for economic expansion by utilizing technology that benefits other industries. Then, Mania & Rieber (2019) discovered that export diversification can help emerging nations' economies grow.

The slowdown in global economic growth occurs along with the threat of a global recession caused by 4C, namely economic recovery from Covid-19; climate change, currency, and conflict. For this reason, there are nine strategic steps taken by the Indonesian government to increase non-oil and gas exports, namely First, optimizing increased exports to export lever countries and products that have a major impact on national non-oil and gas exports. Second, forming a Rapid Reaction Team that integrates the internal team of the Ministry of Trade in synergy with trade representatives. Third, sharpening the program in the form of an Action Plan that will be monitored and evaluated periodically on a monthly basis. Fourth, improving coordination, innovation, and synergy, between trade representatives, Indonesian Embassies, ministries or other institutions, local governments, domestic business actors, and business actors in accredited countries, in order to develop exports. Fifth, accelerating the completion of international trade negotiations with major and non-traditional trading partner countries and initiating free trade agreements with major partner countries that do not yet have an FTA. Sixth, implementing a counter-trade mechanism with certain potential countries. Seventh, promoting trade-related policies in Indonesia and explaining them in a single narrative to business actors. Eighth, assisting business actors who experience trade barriers by accredited countries. Ninth, strengthening trade diplomacy in terms of trade security over trade policies in accredited countries that hinder the export of Indonesian products in destination countries.

Each nation's exports have a unique impact on productivity and economic growth. Economic growth is accelerated by export expansion. Productivity realizes the indirect impact, whereas the national income accounting identity has the direct influence (Garcia et al., 2022). Resources are utilized efficiently by diverting them into productive activities that create added value to resources to leverage increased exports (Gyamfi et al, 2023). Because of the productivity gaps between the export and non-export sectors as well as the positive externalities that exports create in the non-export sector, exports boost economic growth. According to theory, the influence increases with the level of technology of export items (Raiher et al, 2017). The makeup of the export agenda determines how exports impact economic growth. Since exports make up a portion of a nation's GDP, they have a direct impact on economic growth; hence, higher exports translate into higher product sales (Balassa, 1978). Higher product growth will result from exporting more advanced goods than from exporting less advanced ones. These products' production has a greater potential to produce knowledge, greater productivity, and economies of scale (Crespo-Cuaresma & Wörz, 2005).

CONCLUSION

The purpose of this study was to ascertain how local revenue, investment, and non-oil and gas exports affected economic growth. The realization of investment in Indonesia is quite encouraging, but there are still many things that need to be fixed, especially licensing issues. Investment permits in Indonesia still take a long time, even months. The investment will be easily realized if the Indonesian government provides easy business licensing and security stability.

The contribution of Regional Taxes and Regional Retributions per island has quite high diversity, where for provinces the highest range is in Java with a figure of 49.4% and the lowest is in Papua with a contribution of 6.1%. There are many factors that cause the contribution of local revenue to vary greatly, including the potential of objects and taxpayers in each region, the level of tax payment compliance, and/or the ability of local governments to explore Regional Taxes and Regional Retributions.

The slowdown in global economic growth occurs along with the threat of a global recession caused by 4C, namely economic recovery from Covid-19; climate change, currency, and conflict. The global economic slowdown has a major impact on national exports. The Indonesian government needs to prepare strategic steps to anticipate the decline in exports in the coming year by encouraging the sustainability of natural resources downstream, increasing the competitiveness of national export products, and diversifying the main trading partner countries.

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