

## Poverty and Foreign Investment and their impact on HDI in West Java Province (2010-2022 period)

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### Abstract

*This research aims to analyze the relationship between poverty and foreign investment (PMA) and its impact on the Human Development Index (HDI) in West Java Province during the 2010-2022 period. The research method uses a descriptive-analytical approach by collecting economic, social and investment data from official sources. The results of the analysis show that there is a correlation between the level of poverty and foreign investment in West Java. Economic growth achieved through FDI has had an impact on reducing poverty levels, but the pattern of distribution of wealth and economic benefits is still a challenge. Apart from that, this research also evaluates the positive and negative impacts of FDI on the Human Development Index in the region. The findings of this research can contribute to the understanding of the complexity of the relationship between poverty, foreign investment and human development at the regional level. Policy implications are suggested to improve the effectiveness of PM economic benefit distribution).*

**Keywords:** Poverty, Foreign Investment (PMA), Human Development Index (HDI), West Java

### INTRODUCTION

West Java Province is a significant economic center in Indonesia, but it faces complex challenges related to poverty and foreign investment. The period from 2010 to 2022 is crucial for understanding the economic and social dynamics of this region. This research aims to investigate the relationship between poverty, foreign investment, and their impact on the Human Development Index (HDI) in West Java Province. The search results provide some relevant studies on poverty, HDI, and investment in Indonesia, but none of them specifically address the impact of poverty and foreign investment on HDI in West Java Province during the specified period. Therefore, a more detailed study or access to specific data on poverty and foreign investment is necessary to comprehensively analyze their impact on HDI in West Java Province.

The period from 2010 to 2022 has witnessed significant socio-economic changes in West Java, particularly concerning the increase in foreign investment. A fundamental question arises regarding the extent to which foreign direct investment can serve as a solution to the pervasive poverty across various segments of the population. The development of the Human Development Index in Indonesia and West Java province over the last 5 years is as follows:

Table 1. Indonesian Human Development Index and West Java province

No	Year	Indonesia	West Java
1	2017	70,81	70,69
2	2018	71,39	71,30
3	2019	71,92	72,03
4	2020	71,94	72,09
5	2021	72,29	72,45

Sumber: (www.bps.go.id, 2022)

Based on table 1 above, it can be seen that Indonesia's HDI and West Java's HDI are not that different. Is at a high level. research conducted by (Berthalina, 2014) conducted research aimed at identifying factors that influence the Human Development Index (HDI) in West Java Province using a regression approach. which aims to identify factors that influence the Human Development Index (HDI) in West Java Province using a regression approach. The study conducted by (Suryani & Sartika, 2021) aims to determine the factors that influence the Human Development Index (HDI) in West Java using the panel data regression method . The results of this research show that factors such as education, health and the economy have a significant influence on HDI in West Java. However, this study does not specifically discuss the impact of foreign investment or other factors that may influence HDI in the province. Based on the description above, in this research, we try to look at the factors that influence fluctuations in the value of the Human Development Index, namely Poverty and Foreign Investment. Data from these two variables are as follows:

Table 2 Poverty and Foreign Investment in Indonesia and West Java Province

No	Tahun	Indonesia		West Java	
		Poverty (Juta)	FDI (Juta US\$)	Poverty (Ribuan)	FDI (Juta US\$)
1	2017	26,58	32239,8	4168,4	5142,9
2	2018	25,67	29307,9	3615,8	5573,5
3	2019	24,79	28208,8	3399,2	5881,0
4	2020	27,55	28666,3	3920,2	4793,7
5	2021	26,50	31093,1	4195,3	5217,7

Sumber: (www.bpjs.go.id, 2022)

Based on table 2 above, it can be seen that poverty, both in Indonesia as a whole and in West Java, is still an economic problem that needs serious attention from the government. According to (Suhendi & Astuti, 2023; Syofya, 2018) poverty level has a significant effect on HDI. Likewise, the problem of foreign investment in both Indonesia and West Java is still very small and needs to be increased further.

## LITERATURE REVIEW

### Human Development Index

The Human Development Index (HDI) is an indicator used to measure the level of human development in a region or country. HDI tries to provide a more holistic picture of human welfare than just using economic parameters alone. HDI was first introduced by the UN Development Program in 1990 as a more comprehensive development measuring tool. HDI measures human development achievements based on a number of basic components of quality of life, such as long and healthy life, knowledge, and a decent life.

HDI consists of three main dimensions that reflect the basic aspects of human life, namely long and healthy life, knowledge, and a decent life (Yektiningsih, 2018). The dimension of long and healthy life is measured by life expectancy, the knowledge dimension is measured by a combination of literacy rates and school participation rates, while the dimension of a decent life is measured by purchasing power. HDI consists of three main dimensions that reflect basic aspects of human life, namely:

1. **Health:** Measured by life expectancy at birth. High life expectancy reflects the good quality of health services and sanitation. Life expectancy is an estimated average of the number of years that can be lived and reflects "long life" and "healthy living." This indicator can be interpreted as a tool to evaluate the government's performance in improving health status, and low life expectancy in an area must be followed by health development programs, social programs,

environmental health, nutritional adequacy, and poverty eradication programs (<https://dinkes.gunungkidulkab.go.id>, 2022).

2. **Education:** Education is measured by two indicators, namely average years of schooling and school participation rate. Average years of schooling measures the number of years a person spends completing formal education, while the school participation rate measures the percentage of the school-age population who participate in formal education. This indicator reflects the level of access and participation in the education system (Statistik, n.d.)
3. **Income:** Income is measured by real income per capita. Real income per capita is the total gross national income (GNP) of a country divided by its population and adjusted for inflation. Although it does not capture all economic inequality, income is still considered an important factor in individual well-being

### Poverty

Poverty is a condition where individuals or groups do not have access to or are unable to fulfill the basic needs for a decent life, such as food, clothing, shelter, education and health services. Poverty can be relative or absolute depending on the context and standard of living applied. Some causes of poverty include: 1) Less job opportunities available; 2) Lack of education, science and knowledge; 3) There is a conflict or riot; 4) Lack of material.

Poverty can be caused by a scarcity of means of meeting basic needs or difficulty in accessing education and employment. Although it is widely accepted that poverty and unemployment are the result of laziness, the United States, for example, has millions of people who lack welfare or public assistance plans, but still fail to get above the poverty line.

### FDI (Foreign Direct Investment)

FDI (Foreign Direct Investment) is an investment made by individuals, companies or the government of a country in the economic sector of another country. FDI occurs when foreign investors gain direct control over assets or businesses in the investment destination country. This may include purchasing shares, establishing a subsidiary, or other direct investment. In FDI (Foreign Direct Investment), foreign investors have direct control over businesses or assets in the investment destination country. This is different from an investment portfolio where investors only own shares or securities without having direct control (Hindrayani, 2013). FDI is an investment made by individuals, companies or the government of one country in the economic sector of another country. FDI occurs when foreign investors gain direct control over assets or businesses in the investment destination country. This may include purchasing shares, establishing a subsidiary, or other direct investment.

Foreign Direct Investment (FDI) is investment or direct investment from foreign parties which is usually carried out for a longer period of time and reflects the investor's long-term commitment to the success and growth of business in the destination country (Hanifah $\alpha$ , 2017). Foreign Direct Investment (FDI) often brings the transfer of technology, management and skills from the country of origin to the destination country. This can have a positive impact on economic development and increasing industrial competitiveness in the recipient country. Technology transfer is the movement of data, designs, inventions, materials, software, technical knowledge, or trade secrets from one organization to another. Technology transfer is part important part of the technological innovation process, promoting scientific and technological research and related skills and procedures throughout the world. Long-term investments can also have a positive impact on economic development and increasing industrial competitiveness in recipient countries

## METHOD

This research uses quantitative methods with multiple regression testing tools. The data used comes from BPS, the data taken is poverty data and PMA values in West Java taken in the 2010-2022 time period. This research uses a model

$$Y = a + bX_1 + cX_2 + e$$

Where:

Y = Human Development Index (HDI)

X<sub>1</sub> = number of poor people

X<sub>2</sub> = amount of PMA

a,b,c, = constant

e = other things outside the research

## RESULTS AND DISCUSSION

### a. Descriptive Statistics

Based on the results of data processing with evIEWS 10, the following descriptive statistical results were obtained:

Table 3. Descriptive Statistics

Date: 11/123  
Time: 07:27  
Sample: 1 78

	PEND_MISKIN	PMA	IPM
Mean	218965.5	7.71E+12	70.67346
Median	179980.0	3.58E+12	69.38000
Maximum	499100.0	4.14E+13	82.46000
Minimum	45900.00	5441800.	64.35000
Std. Dev.	132573.5	1.00E+13	5.213403
Skewness	0.744770	1.469446	0.980287
Kurtosis	2.693133	4.372571	2.766752
Jarque-Bera	6.360467	28.93286	12.66932
Probability	0.041576	0.000001	0.001774
Sum	14451720	5.09E+14	5512.530
Sum Sq. Dev.	1.14E+12	6.50E+27	2092.827
Observations	66	66	78

The lowest poor population is in Depok at 45,900 people, the highest is in Bogor at 499,100 people with an average of 218,965 people. The average foreign investment is 7,710,000,000,000 rupiah, with the lowest value of 5,441,800 rupiah in Kuningan and the highest value in Bekasi, namely 41,400,000,000,000 rupiah. Meanwhile, the average HDI is 70.67 with the lowest HDI value of 64.35 in Cirebon, still in the medium category and the highest value of 82.46 in Depok.

### b. Multiple Linear Regression Equation

Meanwhile, the results of data processing regarding the multiple regression equation obtained the following results:

Table 4. Results of Multiple Regression Equations

Dependent Variable: IPM  
Method: Least Squares  
Date: 11/16/23 Time: 07:39  
Sample (adjusted): 1 76  
Included observations: 66 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	74.68896	1.048464	71.23655	0.0000
PEND_MISKIN	-2.19E-05	3.74E-06	-5.866467	0.0000
PMA	1.56E-14	4.95E-14	0.315569	0.7534
R-squared	0.356789	Mean dependent var		70.01015
Adjusted R-squared	0.336369	S.D. dependent var		4.889983
S.E. of regression	3.983552	Akaike info criterion		5.646614
Sum squared resid	999.7274	Schwarz criterion		5.746144
Log likelihood	-183.3383	Hannan-Quinn criter.		5.685943
F-statistic	17.47303	Durbin-Watson stat		0.169587
Prob(F-statistic)	0.000001			

Based on table 4 above, the multiple regression equation is obtained as follows:  $Y = 74.69 - 2.19E-5X_1 + 1.56E-14X_2$ . The multiple regression equation contains the following meaning:

- If poor population = 0 and PMA = 0 or poor population and a. a. If the poor population = 0 and PMA = 0 or the poor population and PMA do not change then the HDI = 74.69.
- If the poor population increases by 1 unit, then the HDI decreases by -2.19E-5 units
- If PMA increases by 1 unit, then HDI increases by 1.56E-14 units
- The number of poor people and PMA together have a significant effect on HDI, this is indicated by a probability (F-statistic) of  $0.000001 < 0.05$
- Poor people have a significant effect on HDI, this is shown with a probability of  $0.0000 < 0.05$ . Poor population is also negatively related to HDI.
- PMA has no effect on HDI, this is indicated by a probability of  $0.7534 > 0.05$ . PMA is positively related to HDI

## CONCLUSION

Based on the discussion of the results, several conclusions can be drawn as follows: The number of poor people and PMA together have a significant effect on HDI in West Java. Poor people have a negative relationship and have a significant effect on HDI in West Java. PMA has a positive relationship and has no effect on HDI in West Java. It was found that there is a complex relationship between poverty levels and foreign investment in West Java Province. Although economic growth through FDI can have a positive impact on poverty reduction, the distribution of economic benefits is still a major concern. Evaluation of the impact of FDI on the Human Development Index shows that there is potential for increasing HDI through economic growth driven by foreign investment. However, it should be noted that this impact may vary depending on the extent to which the distribution of economic benefits is equitable.

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