The Effect of Investment on Regional Inequality between Provinces in Indonesia 2013-2022
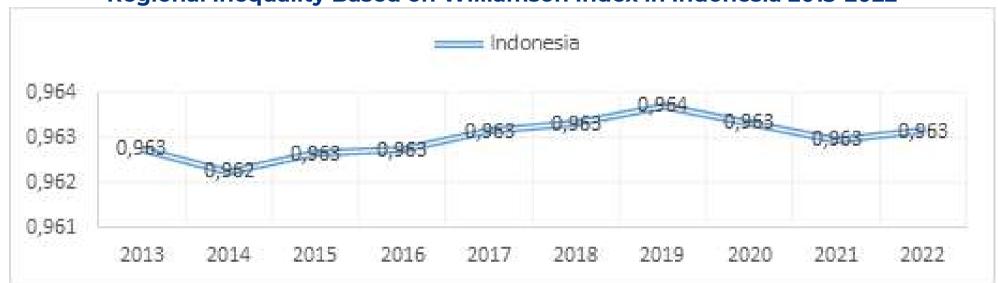
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Background on the Problem

Regional Inequality Based on Williamson Index in Indonesia 2013-2022

Previous research states that investment has a positive effect on regional inequality.
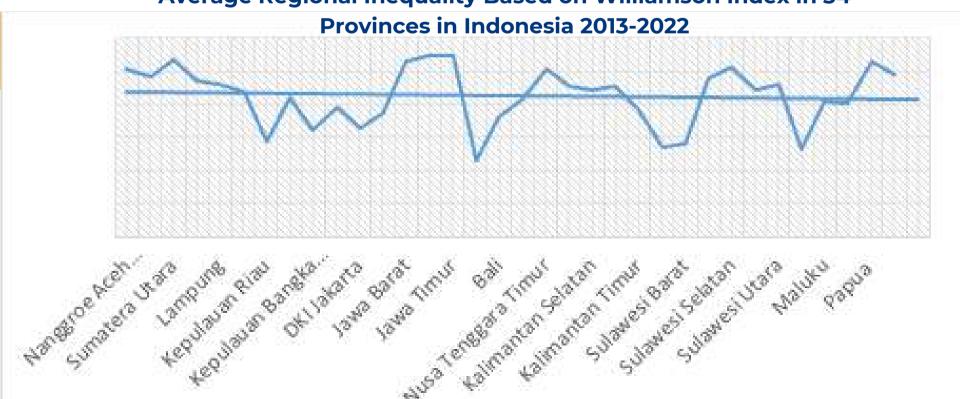
Title: An Analysis of the Impact of Foreign Investment on Regional Disparities: A Case of Malaysia
Researcher: Hasnah Ali et al.
Results: Investment has a positive effect in increasing regional inequality

Average Regional Inequality Based on Williamson Index in 34 Provinces in Indonesia 2013-2022

Previous research that states investment has a negative effect on regional inequality

Title: Analysis of Economic Development Inequality in North Sumatra Province
Researcher: Kiton
Research Result: Investment has a negative and significant effect in reducing regional inequality

Problem Statement

What is the overview of investment, HDI and regional inequality in 34 provinces in Indonesia 2013-2022?

How does investment affect regional inequality in 34 provinces in Indonesia 2013-2022?

How does HDI affect regional inequality in 34 provinces in Indonesia 2013-2022?

Theoretical Framework

Independent Variable (X) Investment

Dependent Variable (Y) Regional Inequality

Control Variables Human Development Index (HDI)

Theory:

Gunnar Myrdal's theory of circular and cumulative causation, where developed regions attract more investment, which in turn accelerates their growth and widens the gap with less developed regions.

Hypothesis:

1. There is an effect of investment on inter-regional inequality
2. There is an effect of HDI on inter-regional inequality

Research Methods

Research Methods
Explanatory method

Research Sample
34 provinces of Indonesia

Research Sample
- Investment realization (domestic & foreign)
- HDI
- Population
- GDP per capita

Data analysis techniques
- Multiple linear regression model with Ordinary Least Square (OLS) method
- Dummy Regression

Research Results

Hypothesis t-test

Variabel	Coefecient	t-Statistic		t-Tabel	Prob	Keterangan
IW	1.258154	32.21691	>	1.697	0.0000	340
X1	4.99E-07	5.434101	>	1.697	0.0000	340
X2	-0.005188	-9.012122	<	1.697	0.0000	340
D1	0.018006	3.559394	>	1.697	0.0004	340
D2	-0.011074	-1.479724	<	1.697	0.1399	340

Effect of Investment on regional inequality
- Probability: 0,000
- coefficient : 4.99 : positive

Effect of HDI on regional inequality
- Probability: 0,000
- coefficient: -0.005 negative

Simultaneous F Test

F Hitung	F Tabel	Sig.
25.79609	2.69	0.000000

Effect of Investment and HDI on regional inequality
- Probability: 0,000

Determination Coefficient Test

	Nilai
R^2	0.235482
Adjusted R^2	0.226353

Effect of Investment and HDI on regional inequality
- R Square: 0.235428

It means that the investment and HDI variables in this study explain 23% of regional inequality.

Conclusion

- Investment and HDI simultaneously affect regional inequality.
- Investment has a positive effect on regional inequality, while
- HDI has a negative effect on regional inequality.

Implications

This study confirms Gunnar Myrdal's theory. Increased investment widens the gap between regions in Indonesia. In contrast, an increase in HDI contributes significantly to reducing inequality. Therefore, to effectively address regional inequality, policies that encourage labor-intensive investment are needed. Due to Indonesia's large population, it is recommended that the right investment is labor-intensive investment. With labor-intensive investment, it is expected that the distribution of investment in Indonesia will be evenly distributed.

Thank You