The Influenceof Government Spending to the provinces'Gross regional Domestic product (GRDP) in Indonesia

By Nur Feriyanto

THE INFLUENCEOF GOVERNMENT SPENDING TO THE PROVINCES' GROSS REGIONAL DOMESTIC PRODUCT (GRDP) IN INDONESIA

Nur Feriyanto[*]

Abstract: *This study aimed to analyze the influenceof GovernmentSpending (GS), Foreign Direct Investment (FDI), Domestic Investment (DI), and NumberofLabor (L)to the Provinces" Gross Regional Domestic Product (GRDP) in Indonesia.The analysis method used was panel data regression analysis with data from thirty-three provinces in Indonesia from 2007 to 2014. The best models used in this study is a fixed effect. The results indicate that Government Spending and Number of Labor partially have positive and significant effects for GRDP in Indonesia. But Domestic Investment and Foreign Direct Investments partially have not significant effect to GRDP. Taken together the variables Government Spending, Domestic Investment, Foreign Direct Investments, and Number of Laborhave a significant effect on the GRDPof provinces in Indonesia.*

Keywords: *Government Spending, Domestic Investment, Foreign Direct Investment, Labor, GRDP*

INTRODUCTION

Increased in Gross Regional Domestic Product (GRDP) is always be development goals of region in a country. The successful of development can be described by the GRDP continues to increase. Neither is happening in the provinces in Indonesia that are always working hard through by economic policy to continue to increase the value of GRDP province from time to time.Many economic policies to increase their GRDP through increased government spending, increased investment both Foreign Direct Investment or the Domestic Investment as well as increase in the number of labor. In other case, efforts to improve these variables need to be assessed its impact on the GRDP, would have a positive and significant impact or have no effect on the GRDP. The results of these studies required to underpin economic development policies in the provinces in order to effectively improve its GRDP.

Government Spending in a country or region is essentially reflects a form of government regulation. When the government established a policy that increased

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government spending with the form of buying goods and services, then it will be an influx of a number of costs to be incurred by the government to implement the policy. Impact of increasing government spending from GRDP are drawn by expenditure process that undertaken by the government which subsequently led to an increase in aggregate demand.

The development of government spending in each of the provinces on Indonesia in period 2007-2014 can be observed in **Figure 1**, has shown that Jakarta Provincial in highest ranks in government spending, followed by West Java (Jawa Barat), East Java (Jawa Timur), Central Java (Jawa Tengah), East Kalimantan (Kalimantan Timur), Aceh , Papua, and other provinces. The large of government spending are reflect capabilities of each province in the region to dealing of requirements or government policy. Government spending of Java Island provinces in Indonesia are dominated a provinces that sign in major groups of great spending, such as the Province of Jakarta, West Java (Jawa Barat), East Java (Jawa Timur) and Central Java (Jawa Tengah). The condition is outpacing government spending provision provinces outside Java.
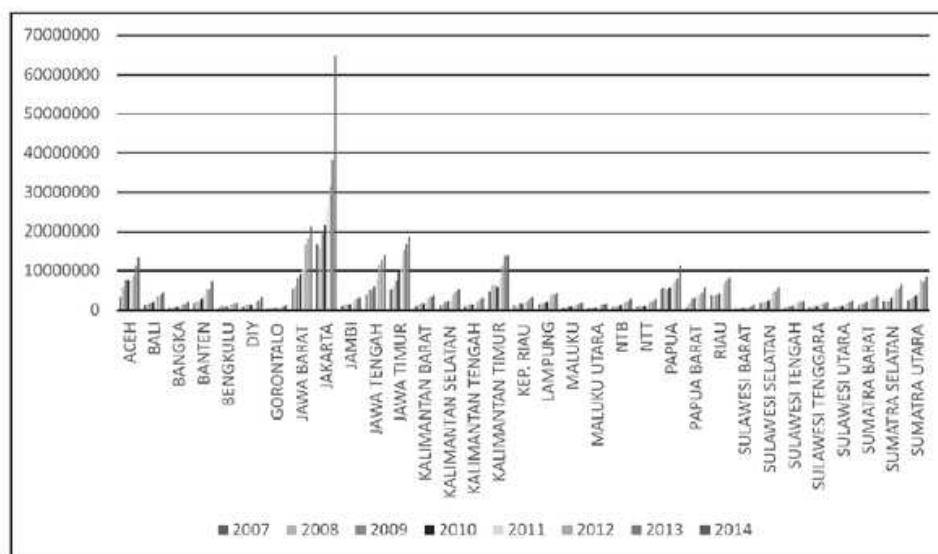
Figure 1: Government Spending Provinces in Indonesia (Million Rupiah), 2007-2014

Research of correlation between government expenditure and economic growth ever undertaken by Govindaraju et al. (2011) has conducted in Malaysia during the period 1970-2006, using the method of Wagner and Keynesian hypothesis found that total of Malaysian government spending has a Granger causality to real GDP

and has a positive and significant correlation. Malaysia government spending most of which are in the education sector, through the sector that government expenditure can stimulate higher economic growth because it can attract foreign students from entry to Malaysia. As a consequence, governments regulation and international agencies need to continue to encourage the promotion of the field of education and training in order to attract more students to study in Malaysia so as to boost economic growth.

Investment requirements for an economy is inevitable, because investment can be funded the infrastructure build are needed to support the economy can be realized. Development of investment consisting of the planting of domestic investment and Foreign Direct Investment (FDI) in Indonesia each year has increased. Domestic investing activity to do business in the territory of the Republic of Indonesia by a domestic investor using domestic capital. Domestic investment can be done by individuals, business entities of State, and/or the State government who makes an investment in the territory of the Republic of Indonesia.

Domestic Investment is a type of investment that is essential for the growth of the national economy, because domestic investment is the ability possessed by a country in providing a source of investment for the economic progress in the country. When domestic investment a great country then the countries dependence on the outside of the required investment will be reduced, because the country is able to provide the required investment from domestic sources alone. Benefit of domestic investments as general investing will be able to bring these countries moving towards technological advancement. The technological advances achieved by the country, especially in the processing industry will be able to bring this sector towards specialization and of course can result in cost savings in the production of a wider scale. In addition, rising of domestic investment will increase production output through investment in capital goods and increasing the use of labor, so it helps the country or the region in solving the problem of high unemployment rates and increase labor force that happens all the time in a country or region.

By rising of regional or national output can influence increase regional or national income so that in addition will be able to solve the problem of inflation that occurred in the region or the country through extra supply products so that the availability of such products to cover demand for the product in the market. If there is excess supply over its demand that it be used to export the products it produces to foreign markets. In other case, increasing national income will also be able to improve the condition of balance of payments deficit and to pay off foreign debt. As for efforts to be made to promote capital formation for increased domestic investment among them the raise national income, reducing consumption levels, and promoting government savings and public savings.

The provinces in Indonesia which have large domestic investment during 2007 to 2014 of whom were East Java (Jawa Timur), West Java (Jawa Barat), Jakarta, East Kalimantan (Kalimantan Timur), Central Java (Jawa Tengah), Banten, Riau, South Kalimantan (Kalimantan Selatan) and South Sumatera (Sumatera Selatan), as illustrated in **Figure 2**. Domestic reflect domestic capabilities in providing funds for development in the region. Provinces in Java is still dominated with large domestic investment provinces among East Java, (Jawa Timur), West Java (Jawa Barat), Central Java (Jawa Tengah) and Banten. This suggests that the ability to collect and through public savings and local governments in Java is quite strong, so as to provide funds in the domestic capital large enough. In addition, local investors' confidence in the ability of investment services and economicpotential in Java is quite high so as to attract owners of funds (investor) domestic to invest their funds in the form of physical investment in the provinces in Java.
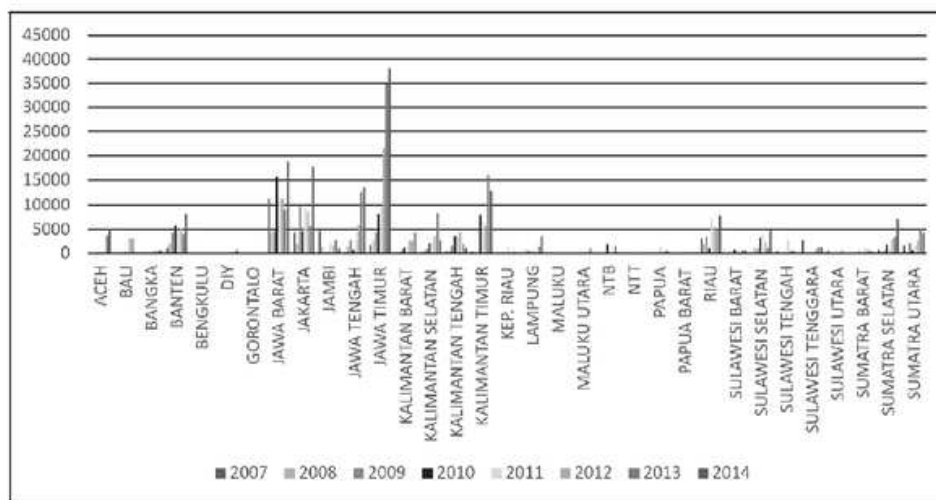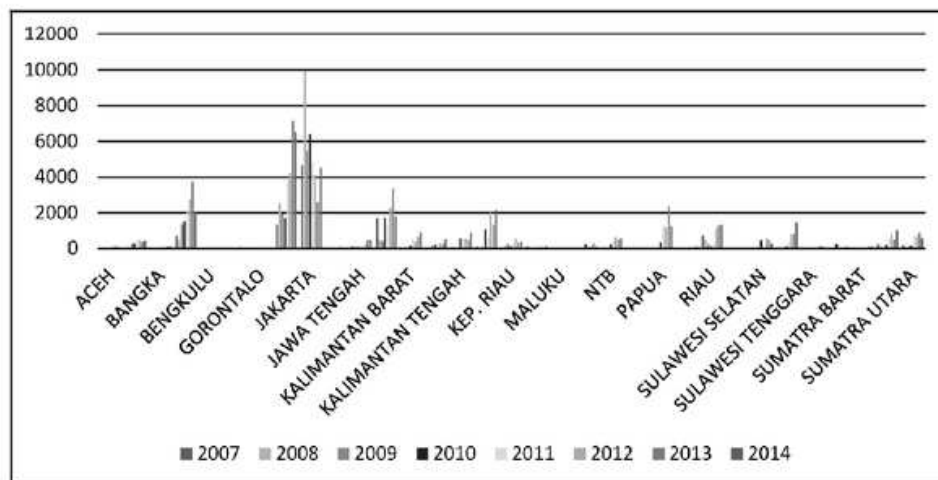

Figure 2: Domestic Investment in Indonesian Provinces (in Billion Rupiah), 2007-2014

In addition, other types of domestic investment that exist in a country is a Foreign Direct Investment or FDI. Foreign Direct Investment is a form of investment from outside the country are realized in the form of build, acquire or purchase firm. In emerging country as Indonesia, two type investment both domestic and FDI have regulated in Law Number 25 of 2007 on Investment. In this Act referred to the Foreign Investment is investment activity to conduct business in the territory of the Republic of Indonesia, made by a foreign investor, either using foreign capital and joint venture with adomestic investor (Article 1, paragraph 3 of Law No. 25 of 2007 on Investment).

Foreign Direct Investment or FDI apart fromhaving a permanent nature also applies to long-term. Foreign Direct Investment them also can provide benefits in technology transfer as Foreign Direct Investment brings technology is more up to date and advanced from outside the country where the location of FDI, encourages the transfer of management skills from abroad to a country so that it can improve work productivity and efficiency and so as to increase competitiveness, capable of creating new jobs for the new investments could create additional new labor. FDI developments in Indonesia's provinces during seven years start from 2007 until 2014 has reflected in **Figure 3**. The provinces that have large FDI value are West Java (Jawa Barat), Jakarta, Banten, East Java (Jawa Timur), Papua, East Kalimantan (Kalimantan Timur, the Middle Sulawesi (Sulawesi Tengah) and Riau.

Figure 3: Foreign Direct Investment in Indonesian Provinces (in Million USD), 2007-2014

Some research has focused on investment discussion, both of domestic and foreign are related economic growth or GDP has interesting findings result to observe, such as research Shawa and Shen (2013), which concluded that there is a causal relationship between FDI and GDP in Tanzania. Recommendations of researchers to ragainst the Tanzanian government is the government needs to pay attention to multinational companies that invest in the country because it will greatly affect the results in an increase in GDP of Tanzania. Easiness of service as part of creating a favorable investment climate is needed to attract foreign investors and asked to invest their funds in the form of physical FDI in the country.

Base on Issa Batarseh and Eddien Ananzeh N. (2014), their study has found a significant negative relationship between domestic and foreign direct investments

to economic growth in Jordan. While the study of Liu and Sarfraz (2015) and Chien (2012) found that FDI significant positive effect on GDP in Pakistan and Vietnam. In Pakistan, Liu and Sarfraz (2015) found for his research results that despite the obstacles of investment is still perceived by foreign investors as the infrastructure is minimal, transportation, communications, gas and electricity are inadequate, but investors are quite satisfied with the investment climate in the country, and intends to continue to extend their investment. It is associated with pretty good service by the government of Pakistan, as well as investment prospects are perceived both by the foreign investors.

In another emerging countries research about investment, Chien (2012), which conducts research in Vietnam found that foreign investment and registered in the country of Vietnam has increased very significantly, after the Vietnamese government published the investment law in 2005 and joined the WTO in 2007. Another factor that is essential for the entry of foreign investment in Vietnam is the provision of information and infrastructure development. Improved two things that cause foreign investment in Vietnam increased and economic growth come up quite high.
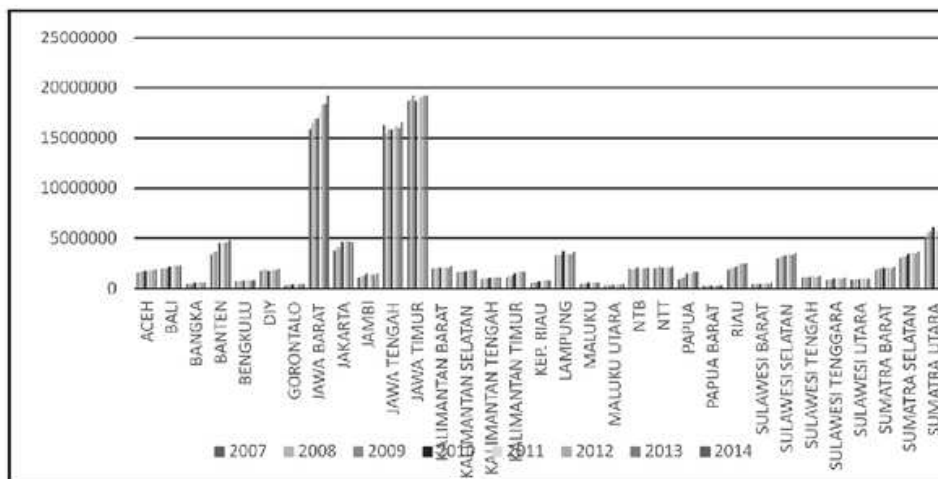

Figure 4: Number of Labor in Indonesian Provinces, 2007-2014

Many countries have problems in the unemployment rate because of limited employment and always the new workforce. Increasing the number of labor (L) are most likely to be a solution of one problem in a region or a country because it will be able to lower the unemployment rate. In addition, increasing numbers of labor in each province will also be able to have an impact on the increase in output is generated and this has an impact on increasing the GDP provinces in Indonesia.

During 2007 until 2014, provinces in Indonesia which has a large number of labor such as East Java (Jawa Timur), West Java (Jawa Barat), Central Java (Jawa Tengah), North Sumatera (Sumatera Utara), Jakarta, Banten, Lampung and South Sulawesi (Sulaweis Selatan), as shown in **Figure 4**.

The study of correlation between the number of labor with economic growth made by Maitahetal. (2015) in Belgium and the Czech Republic by using analysis method of time series ARIMA model. In his study result, Maitah et.al found a significant positive correlation between the number of people working with Gross Domestic Product (GDP) and correlation also occurs otherwise. His research is based on the theory that Arthur Okun states that if unemployment fell 1 percent, the GDP would grow by 2 per cent, in other words if the number of employed persons rose GDP will also rise. Recommendations researchers is the Government of Belgium and the Czech Republic need to focus on increasing the number of people working, and viceversa because of the increase in GDP can be projected to absorb more labor, so the two things that need to be considered together.

Gross regional domestic productis used as anindicator of the performance of a province. When the value of GDP in a large province and has a positive growth, it can besaid that the province's economy is performing well. During 2007 until 2014 the provinces in Indonesia which has a valueof GDP is grea tand experienced a positive growth in the provinces of Jakarta, East Java (Jawa Timur), West Java (Jawa Barat), North Sumatera (Sumatera Utara), East Kalimantan (Kalimantan Timur), Riau, Banten, and South Sulawesi (Sulawesi Selatan), as depicted in **Figure 5**.
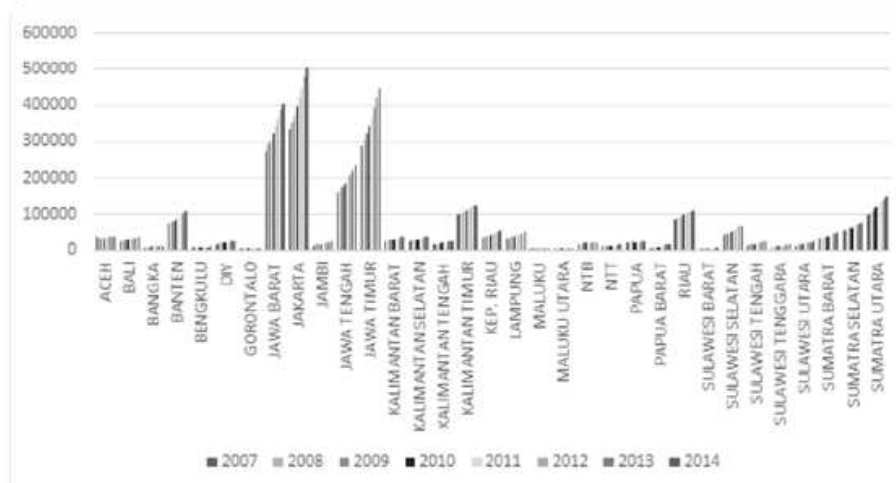
Figure 5. Gross Regional DomesticProduct (GRDP) in Indonesian Provinces (in Bilion Rupiah), 2007-2014

LITERATURE REVIEW

Related to government spending, Ahmad (2015) has conducted research on the relationship between oil revenues, government spending and economic growth in Oman during the period of 1971-2013. By using multivariate cointegration test methods and test Johnsosn stationary VAR, his study identified that three macroeconomic variables consisting of oil revenues, government spending, and the Gross Domestic Product (GDP) has long-term causal relationship. In addition, it was also found that oil revenues and government expenditure has a positive and significant relationship to GDP. Government expenditure in Oman has generally come from oil revenue sources that were shown to positive affect for government expenditure, then the government expenditure will positively affect the GDP of Oman.

Using of oil revenues, public expenditure, and economic growth variable in Nigeria, during the period of 1980-2012 , Aregbeyen & Kolawole (2015) found similar results in his study. One of great revenue source in Nigerian cames from oil sector and state revenues from the oil sector is then used as a source of government expenditure. The results showed that the positive effect of government expenditure on economic growth in the country, so the researchers gave suggestions to the government to increase its share of the oil and increase public expenditure in order to increase economic growth in Nigeria.

Asghar *et al.* (2011) study, he conducted a study of the relationship of government spending in the social sector and economic growth in Pakistan during the period of 1974-2008. The study found that government expenditure, especially in the social sector has contributed positively for economic growth in Pakistan. But a different result occurs in government expenditure in sudsidy and laws, namely the variables negatively affect economic growth. Therefore researchers provide policy recommendations that government expenditure in the social sector needs to be improved in order to boost economic growth, while government expenditure in subsidies need to be reduced because it automatically can cause inflation. Reallocation of government expenditure need to be considered again in order to boost economic growth.

Base on Ibukun-falayi & Owoola (2015) research in Nigeria for the period 1970-2012 by using OLS find the conclusion that government expenditure in public companies and significant positive effect on economic growth. This condition means public companies are able to offer more employment opportunities, in addition to the advantages of a public company is also a state revenue. Recommendations issued by these researchers is the Nigerian government should be able to increase government expenditure, especially in the formation of a new public company that offers more jobs.

Relating to investment, Leanand Tan (2011)in their research on Malaysia found that long-term investments consist of domestic and foreign investments have

cointegration with economic growth. Related also on his study concluded that the domestic investment have negatively affect for economic growth while foreign investment has positive influence on economic growth in Malaysia. It can happen because foreign investors remain concern about the issue of economic growth, while local investor sentiment towards investment decisions in their own country. In other words, the growth of foreign investment in a country still depends on the characteristics of the countries where these investments, among which note is the quality of institutions, trade openness, technology support, and human resources available.

In other side, Tan and Tang (2016) has conducted research on the causal relationship between domestic investment and foreign investment, trade, interest rates, and economic growth in the five ASEAN countries. The study found over the long term there is a causality between domestic and foreign investment, in addition to domestic and foreign investment may cause economic growth to be increased. So the government in the five ASEAN countries need to encourage both foreign and domestic investment in order to increase growth ekonomi. Bayar (2014) have also investigated the effects of domestic and foreign, to economic growth in Turkey over the period 1980-2012. By using cointegration test and VECM models - Autoregressive Distributed Lag the study found that there is a causal relationship between the long term economic growth, FDI and domestic investment. In addition, it also found a negative effect of foreign investment on economic growth while domestic investment positive effect. The negative effects of foreign investment on economic growth is caused by incoming investment is in the form of privatization of the assets already owned by the public sector through the acquisition of the asset. Therefore, the Turkish government must implement policies to attract foreign investment in the form of new investment is not a privatization of existing assets.

Base on another country, Sultan and Haque (2011) found the conclusion that domestic investment has contributed significantly to economic growth, while exports and foreign investment did not contribute by using cointegration test Johnson and performed on India from the period 1970-71 through 2007-2008. Domestic investment on India has a positive contribution to economic growth as domestic demand of the country is very tow. The concentration of government towards domestic demand needs to be improved in the form of planting new domestic investment, in order to boost economic growth higher.

In other study that discuss about foreign direct investment, Gaikwad and Fathipour study (2013) found that foreign direct investment positive effect on GDP in India. Sarode (2012) much more detail later found that foreign direct investment positive effect on GDP Capital Account, and the negative effect on GDP current account. Nosheen (2013) using cointegration analysis investigates the impact of foreign direct investment (FDI) on the growth (which diproxy with GDP) for Pakistan. In this study the effect of GDP as the dependent variable (dependent)

while foreign direct investment considered as independent variables. The data used in this analysis, from 1980 to 2010 and results analysis showed that there is a long-term relationship between FDI and GDP.

Positive and significant correlation between foreign direct investment (FDI) and economic growth was also found by Kisswani *et al.* (2015) in Estonia, and the Journal & Kosztowniak (2014) in Poland. Impact of FDI to GDP ratio was found to be positive although the effect is not too strong. According Kosztowniak, inappropriate influence was caused by the percentage of FDI to GDP is still very low, so the effect is still marginal to economic growth

Nayyar (2014) also found the same thing that labor has give positive effect on economic growth or GDP. Through his analysis of labor, Nayyar said that a growing number of jobs and number of labor will have an effect on increasing economic growth and decline in economic inequality. Nayyar also provide an analysis that labor costs represent a cost for the employer, but it becomes income for workers, so that the growth of corporate profits and growth in labor costs should be complementary, not substitutive. In another sense corporate profit growth will create jobs while increasing the number of labor will boost profit growth, it is equally well when drawn toward macroeconomic in example between number of labor and gross domestic product.

(A) Hypothesis

1. Government Spending has significant positive effect on GRDP
2. Foreign Direct Investement has significant positive effect on GRDP
3. Domestic Investment has significant positive effect on GRDP
4. The number of Labor has significant positive effect on the GRDP
5. In samecondition, GovernmentSpending, ForeignDirect Investment, Domestic Investment, and Number of Labor are together give simultaneously significant effect to GRDP.

ANALYSIS AND OUTCOMES

This study uses data from thirty-three provinces in Indonesia. Estimation model of GRDP uses data from 2007 to 2014 (a period of eight years) which resulted in a total of 223 observation data. Specifications model constructed in research are using the GDRP function = f (Government Spending, Foreign Direct Investment, Domestic Investment, Number of Labor).

Selection of the best model in panel data analysis starts by conducting statistical tests to select the best model among the common, fixed and random effect through several stages. The first stage perform statistical tests to choose a common and fixed effect models, the results are presented in Table 1. Based on the F-test and
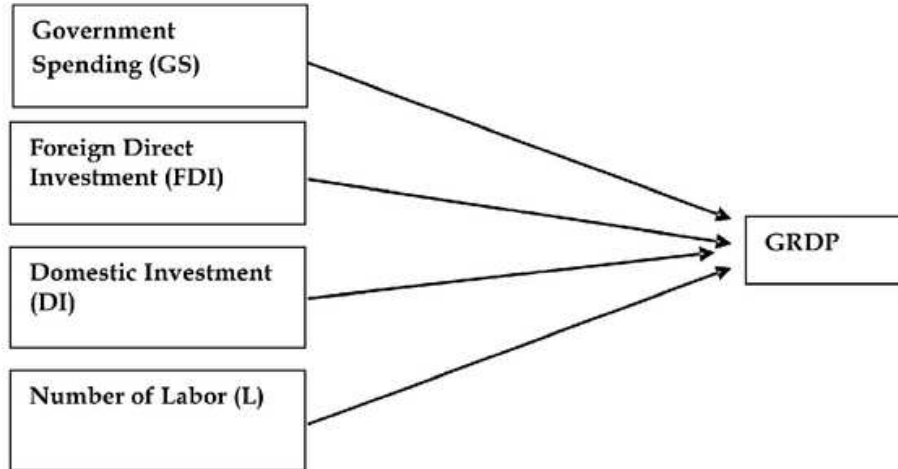
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┌─────────────────────┐
│ Government          │
│ Spending (GS)       │
└─────────────────────┘

┌─────────────────────┐                          ┌──────────┐
│ Foreign Direct      │                          │ GRDP     │
│ Investment (FDI)    │                          └──────────┘
└─────────────────────┘

┌─────────────────────┐
│ Domestic Investment │
│ (DI)                │
└─────────────────────┘

┌─────────────────────┐
│ Number of Labor (L) │
└─────────────────────┘
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Figure 6: Research Framework

chi-square statistic, it shows that the fixed effect model is better than the model common effect.

Table 1
Result of Redundant Fixed Effects Tests

Redundant Fixed Effects Tests			
Test cross-section and period fixed effects			
Effects Test	Statistic	d.f.	Prob.*
Cross-section F	571.504782	(32,186)	0.0000
Cross-section Chi-square	1025.439014	32	0.0000

Note: Ho: Common model is true; Ha: Fixed effect is true. * = Ho is rejected at 0.05 significance level, fixed effect is better than common model

The second stage perform a statistical test to choose between the fixed effect model and random effect, which results are presented in Table 2. The results of Hausman test shows that the fixed effect model that is appropriate for this analysis.

Table 2
Result of Hausman Test: Fixed and Random Effects

Correlated Random Effects - Hausman Test			
Test cross-section random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.*
Cross-section random	105.018844	4	0.0000

Note: H0: Random effects is true; Ha: Fixed effects is true. * = H0 is rejected at 0.05 significance level, fixed effects is better than random effects

The results of an empirical assessment data using Fixed Effect Model are as follows:

Table 3
Regression results - Dependent Variable: GRDP

Independent Variables	Coefficient		t-statistic
Constant	2.984827		4.073933
Log GS	0.292979		24.14319 [a]
Log FDI	0.631338		1.020642
Log DI	-0.002445		-0.88920
Log L	0.222100		4.036927 [a]
R2		0.998725	
Adjusted R^2		0.998478	
F statistic		4045.961 [b]	

Note. [a], [b] = significant at 0.01 and 0.05 significance level respectively

$LogGRDP_{it} = \beta_0 + \beta1\ logGSit + \beta_2 logFDI_{it} + \beta_3 log\ DI_{it} + \beta_4 logL_{it} + e_{it}$

$Log\ GRDP = 2,984827 - 0,292979\ logGS + 0,631338\ logFDI - 0,002445\ logDI + 0,222100\ logL$

$R^2 = 0,998725\ N = 223\ F\text{-stat} = 4045,961$

1. **Coefficient of Determination**: From the results of the regression that has been done, the value of R-Squared is 0.998725, or 99.87%. This suggests that the variation of the independent variables are able to explain the variation of the dependent variable and the remaining 0.13% explained by other variables outside the model.

2. **F - Statistic Test (Feasibility Model Test)**: Beside regression result, the result of F-count equal to 4045.961 and the F-table by 2.41 with a significance level á = 0.01. The value obtained by the numerator (k-1) or 5-1 = 4 and denumerator (n-k) or 223-5 = 218. The calculations show that value of F count is larger than F table that is make H0 be rejected, so it can be concluded that variable independen has together covering Government Spending, Foreign Direct Investment, Domestic Investment and Number of Labor have significant effect on the dependent variable (GRDP).

3. **T-statistic Test**

   a) *Government Spending Variable:* Base on analysis result has shown that the probability of t-count value is equal to 0.0000, while α = 1, or 5 percent. The regression results indicate coefficient government spending amounted to 0.292979. The probability t is smaller than α = 1 percent and can be conclude H0 be rejected, which means government spending has a significant positive effect on GRDP constant prices of 2000. The meaning of the numbers coefficient equal to 0.292979 government spending is when government spending rise 1 percent, the GRDP of constant prices 2000 increased by 0.292979 percent.

This results are consistent with previous results studies that have been conducted by Ahmad (2015), Aregbeyen & Kolawole (2015), Asghar et al. (2011), Govindaraju et al. (2011), as well as Ibukun-falayi & Owoola (2015) which found that government spending variable positive and significant impact on Gross Domestic Product (GDP).

b) *Foreign Direct Investment Variable*: Base on analysis results, probability of t-test value equal to 0.9373, while α = 1, or 5 percent. Probability of t-count is greater of α = 1, or 5 percent, can conclude that failing to reject H0, which means the planting of foreign direct investement does not affect for Gross Regional Domestic Product in constant prices of 2000. This condition indicates that the planting of investors of foreign direct investment who do not yet sufficient and appropriate location on the kind businesses that can contribute significantly to the income of the provinces in Indonesia.

c) *Domestic Investment Variable:* The analysis result has known that value of t-test probability is 0.3750, while α = 1, or 5 percent. Because the probability t is greater than α=1, or 5 percent, thereby failing to reject H0, which means that domestic investment has no effect on Gross Regional Domestic Product in constant prices of 2000. Domestic Investment does not affect the Gross Regional Domestic Product is showed that value of the investment or type of domestic investment yet sufficient and less precise on those businesses that have an influence on the output value in contributing to regional income.

d) *Number of Labor Variable:* Value of Probability t-test base on analysis result is 0.0001, while α = 1, or 5 percent. Number of Labor coefficient (L) is 0.222100. Because the probability of t-count is smaller than α = 1 percent can be conclude that H0 is rejected, which means the Number of Labor is positive significant effect on the GRDP on constant prices of 2000. This means that when the number of labor (L) rose 1 percent, the GDP at 2000 constant prices increased by 0.222100 percent.

This study agrees with analysis results of research that has been done by (Maitah *et al.* 2015) and (Nayyar 2014) which found that the amount of labor and significant positive effect on economic growth as represented by GDP or GRDP. A number growing of labor cause output result has rose significantly and this affects regional income (GRDP) or income country (GDP). The rise in the GRDP of provincial or GDP of a country in a period from the previous period will be referred to as economic growth

PROVINCE'S INTERCEPT COEFFICIENT IN INDONESIA

Base on analysis result of using Fixed Effect analysis in this study showed that every province in Indonesia has a different coefficient of the intercept. This indicates

that the model Fixed Effect ableto describe the different behavior of each province. Provinces that have a positive intercept means that the province has the GRDP is higher than the GRDP average of provinces through out Indonesia.

Table 4
Province's Intercept Coefficient in Indonesia

No.	Provinsi	Intercept Coefficient
	Positive	
1	DKI Jakarta	4.536545
2	Jawa Timur	4.346310
3	Jawa Barat	4.294889
4	Jawa Tengah	3.867472
5	Kalimantan Timur	3.832097
6	Sumatera Utara	3.780877
7	Riau	3.759542
8	Banten	3.639337
9	Kepulauan Riau	3.436671
10	Sumatera Selatan	3.354812
11	Sulawesi Selatan	3.185445
12	Sumatera Barat	3.120710
13	Lampung	2.943356
14	Kalimantan Barat	2.876793
15	Kalimantan Selatan	2.849300
16	Bali	2.778240
17	Sulawesi Utara	2.678042
18	Sulawesi Tengah	2.618770
19	Kalimantan Tengah	2.605238
20	Daerah Istimewa Yogyakarta	2.604527
21	Aceh	2.594204
22	Jambi	2.463125
23	Nusa Tenggara Barat	2.448103
24	Bangka	2.330770
25	Sulawesi Tenggara	2.294850
26	Papua	2.277198
27	Papua Barat	2.186961
28	Nusa Tenggara Timur	2.089475
29	Bengkulu	1.984569
30	Sulawesi Barat	1.708326
31	Maluku	1.376258
32	Gorontalo	1.235316
33	Maluku Utara	1.199048

Source: Result of Eviews Calculations

CONCLUSION AND POLICY IMPACT

Analysis results of this study found that domestic and foreign investments partially not significantly affect PDRB. But Government Spending (GS) and Number of Labor (L) are partially give positively effect to GRDP provinces in Indonesia. Together variables GS, Domestic Investment, FDI, and Number of Labor positive influence on GRDP provinces in Indonesia.

A policies that the government should do to improve its GRDP is increase continously government spending because it has the highes tcontribution among other variables. When government spending are growing greater, it is can be impact for more greater government activities are funded by it self. In addition, government spending anincreasingly large can impact on growing of output and employment that would result in the increase of local revenue and economic growth provinces in Indonesia. So, allocation and using of government spending must be planned base on preparation, use and control of its budget. Accurancy of allocation and use of funds in government spending will greatly influence the effectiveness of governments pending to revenue (provincial) in Indonesia.

An increase in GRDP can not be separated from the number of labor, when number of labor more greater there will be able to increase production output and this condition can be affected regional income (GRDP) or income country (GDP). The rise in the GDP of a province or a country's GDP in the period from the previous period is referredt o as economic growth.

Government must continously improve investment climate in his country, although both foreign direct investment and domestic investment are partially proved in this study did not have a significant effect on GRDP. The combination of enhancement government spending,FDI, domestic investment, and the number of labor rise have a positive contribution to the increase in GRDP. The government can make positive changes to improve the investment climate in each province by simplifying the licensing process by utilizing technology so it can speed up the completion of permitting and licensing cost minimization to continue to boost investment.

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