**Domestic Direct Investment Effect Toward Indonesia's Economic Growth In Capital Expenditures As a Moderating Variable: Islamic Economic Perspectives**

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**ABSTRACT:**

This research aims to look at the influence of Domestic Direct Investment (DDI) to Economic Growth in Indonesia (GDP) with Capital Expenditures as moderating variable in the hope proved to strengthen connections dependent variable on the dependent variable. We used data panel with 9 years of observation (2010-2018) and 30 provinces in Indonesia, based on purposive sampling method. This research used secondary data and analyzed using MRA (Moderated Regression Analysis). The research proves that, Indonesia is a developing country with good economic growth, and in the last two years of economic growth in Indonesia has been consistent in achieving economic growth above 5% and can be said to be in a state of stedy growth. There are many factors that can affect the growth of Indonesia's economy, one of which is an investment in the country. In this study, DDI actually proven negative effect on economic growth in Indonesia, it was because of them is worth the investment in the country is still low when compared with foreign investment and investment out of the country, and greater fluctuations in value realization of these investments annually. Moderate capital expenditure has proven to strengthen and change the direction of the relationship between the DDI to the GDP, due to the realization that capital spending is focused in the development of infrastructure and other infrastructures are expected to increase investment interest received in Indonesia.

***Keywords*:** DDI, MRA, Stedy Growth.

**PRELIMINARY**

Economic growth is the key policy issues for economic research (Thurik, Wennekers, 1999: 27). Sundrum (1986: 40) states, during the first fifteen years after independence, Indonesia's growth performance was considered very bleak. Indonesia was described as 'chronic drop-out' of world growth. Based on the data (BPS, 2019), Indonesia's economic growth in quarter-I 2019 compared with first-quarter 2018 (yoy) grew 5.07% increase compared to the previous achievements which stood at 5.06%, where the growth was supported by all business sectors such as services, information, transport, trade and so on, in terms of the production of the highest growth by business sector services Company amounted to 10.36%. Gross Domestic Product (GDP) at current prices price is reached Rp.3782,4 trillion at constant prices reached Rp.2650 trillion. Indonesia as a developing country basically there during the growth and development both in terms of infrastructure, education, health, and others included in the economic sector.

Source: BPS.go.id, processed

**Picture 1**

**Indonesia's Economic Growth through GDP**

Increased economic growth is characterized by an increase in real national income and reflect the increased purchasing power, consumption, production to meet consumption needs that improve people's living standards (Jaeni.dkk, 2016: 693). Increase production activities to meet the needs of the community, becoming one of the characteristics of economic growth, economic growth is explained by Harrod Domar revealed that the conditions necessary to ensure that every year a country's ability to generate will continue to rise is the capital formation that is good for realize steady economic growth, or is said to be in a state of growth stedy growth (Sukirno, 2015: 256).

Capital requirements of each country not only be met from the government budget obtained from national income, although Indonesia itself often experience the actual budget deficit could hamper economic growth. Therefore, other sources that support the capital requirements including the private sector that can be realized in the form of investment, both private investment domestic (DDI) and or foreign private investment (FDI) should continue to be encouraged by the government, especially Indonesia, to mengisis gap of capital that happened (Rizky, et al., 2016: 9).

Both types of investment mentioned above, as a whole is growing from year to year. In the realization of the investment reported by the news website, the hard work of the government in encouraging foreign investment and domestic sector got good results. Throughout the year 2018 realized investment grew 4.1% to Rp.721,3 trillion from the previous year amounted to only Rp.678,8 trillion, although this amount only reached 94.3% target, amounting to Rp.765 trillion. In detail DDI grew by 25.3% to Rp. 328.6 billion from the previous year, the number reached 114% of the target, amounting to Rp.287 trillion. While FDI declined by 8.8% to Rp 392.7 trillion from the previous year and only touched the figure of 82.35 from Rp 477.4 trillion targeted (Katadata.co.id: January 2019).

*Domestic Direct Investment*(DDI), otherwise known Domestic Investment (DCI) has an important role in supporting economic growth in Indonesia alone. The investment objectives stated in Law No. 25 Year 2007 Article 3, paragraph (2) states that the implementation of investment among others; increase national economic growth; create jobs; promote sustainable economic development; improve the competitiveness of national business world; increase the capacity and capability of national technology; encourage the development of community economy; The potential economic processes into real economic power; and improve social welfare.

But keep in mind that the investment climate in Indonesia does not always work well. This can be demonstrated by the emergence of various cases of violations of investment in Indonesia that are hindrances or obstacles to benefit from these investments. Some cases including, Google, which is defined as business entities (BUT), but refuses to pay taxes since 2011 to the detriment of the state trillions of rupiah (www.cnnindonesia.com). Freeport cases mentioned have tax evasion through the inclusion of heavy equipment through special channels and the lack of stock ownership by Indonesian Freeport Indonesia is very detrimental itself as the owner of the resource Freeport. (Www.republika.co.id). Another case noted that as of March 2016 there were about 2.[www.detikfinance.com](http://www.detikfinance.com)).

Another case related to the removal of PT Semen Indonesia's operational permit in Rembang, Central Java, due to a case related to the EIA of establishing a factory with local residents (www.pemeriksapajak.com). Non-compliance of investors in the submission of the Investment Obligation Report (LKPM) which must be reported periodically but which ultimately results in the cancellation of the cancellation of thousands of Approval or Principle License (SP / IP) ([www.liputan6.com](http://www.liputan6.com)).

Through the positive and negative impacts of this investment, Indonesia needs to maintain its economic conditions so that the investment climate remains stable. The financial condition of Indonesia established urgently needed to support the investment climate so as to keep well and are likely to continue to increase, so will have a positive impact on economic growth in Indonesia alone, this can be done by analyzing the formation of the state budget that is effective, so that state spending is not only spent in one period without as the country's consumption without profit or not worth the investment. State expenditure that can bring long-term benefits including the capital expenditure, where expenditure is allocated for capital expenditures; building infrastructure,

Capital expenditures in Indonesia decreased and increased from year to year are quite volatile. Data is accessed from (www.kemenkeu.go.id) on the financial statements of the central government (LKPP) illustrates the Indonesian state capital outlay every year, here are the data capex in Indonesia:



Source: www.Kemenkeu.go.id.

**Figure 2**

**Graph of Central Government Capital Expenditures**

As one of the factors driving investments in Indonesia, a decrease and an increase in capital expenditure, a significant portion of each year, also indicated affect investment relations toward Indonesia's economic growth. Therefore, the government must determine the exact proportion of capital expenditure so that it can have a positive influence on economic growth in Indonesia.

**RESEARCH METHODS**

This study uses a quantitative approach to the study of causality is one way in which this study is not only to measure the strength of the relationship between two or more variables, but also shows the direction of the relationship between independent variables and the dependent variable or causal relationship (Kuncoro, 2011: 19). We uses secondary data, collected using purposive sampling with criteria; Period specified by the vulnerable 2010-2018, is regarded as a time period with stable economic conditions and free from the influence of crisis '98 and '08 because researchers really just want to see the effect of the DDI is the dependent variable in this study with Capex as moderating relationship. Three types of variables available in our research: independent a.variabel DDI; b. the dependent variable, namely the Indonesian Economic Growth which proxy to use (GDP); c. Capex moderating variable is to affect (amplify / attenuate) DDI relationship with the GDP.

**Table 1:**

**Concept Definition and Variable Operations**

|  |  |  |  |
| --- | --- | --- | --- |
| **Variables** | **Dimention** | **Indicator** | **Measurement Scale** |
| Free / Independent (X1)DDILaw No.25 of 2007 concerning Domestic Investments Moderation variable (X2)Treasury Treasury No.Per-33 / NT / 2008 on the guidelines for the use ACCOUNTS for revenue, personnel expenses, expenditures and capital expenditures in accordance with the Chart of Accounts Chart of Accounts Standards or Standards (BAS) | Realized FDI per provinceRealization of Capital Expenditures by Province | Nilasi Investment RealizationTotal Realized Capital Expenditure by province | ratioratio |
| Bound variables / Dependent (Y2) (Indonesian economic growth) Classical Theory of Economic Growth by Harood-Domar | Economic growth area | Gross Regional Domestic Product (GRDP) | ratio |

Analysis Method: at the stage of the analysis conducted in this study is that the formulation of the model using analytical techniques such as Moderated Regression Analysis (MRA) (Ghazali, 2011: 97), and then we select the best model among Common Effect, Fixed Effects and Random Effects, the coefficient of determination, test the suitability of the model (test F), t test, and hypothesis testing. MRA method is done by multiplying the hypothesized variables with a moderating variable and independent variables. Then the equation is formed:

Y it = + X 1it + b2 + b3 X X 2it 1it (X3it) + EIT$ab1$

Y = Gross Regional Domestic Product (GRDP)

a = intercept

X1 = Realsasi of DDI per province (Ivestasi Value in US $)

X2 = Moderating Variables (Capex per province)

b = Regression coefficient

e = Variable disturbance or error terms

i = FDI cross section units by region

t = Time series units in 2010-2018

**THEORETICAL AND DEVELOPMENT HYPOTHESIS**

**Theory**
**Economic growth**

Solow (1957) is an early investigators that offer growth theory (Kholiq and Noy, 2007: 3). According Arsyad (2010: 11), economic growth is a process that increases the per capita income in a given time period, which is characterized by an increase in the gross national product or the real national income, which increased the production capacity to increase output in real terms, (Jaeni and Anggana, 2016: 693), (Adisasmita, 2014: 91).

Growth model Harrod-Domar simply states that the rate of economic growth (GDP) is determined by the ratio of national savings and capital ratio of national output, without direct intervention from the government or the growth of national income will be positively related to the savings ratio (the greater part of the GDP of the economy that can saved and invested, the greater the GDP growth, and inversely or negatively with economic output capital ratio, namely (capital economic output), lower GDP growth (Todaro, 2011: 136).

The theory of economic growth is defined as an effort to increase production capacity to reach additional output, as measured by Gross Domestic Product (GDP) for the national level and Gross Domestic Product (GDP) for the regional level. The theory of regional growth / regional level covering various aspects such as sectoral aspects, spatial locational aspects, natural resources, exports, income distribution imbalances in growth and disparities between regions (Adisasmita, 2013: 5).

**Capital expenditure**

Government expenditures are fiscal policies that promote economic prosperity, in which the government expenditure in question is a capital expenditure. (Ismail.dkk, 2014: 153). The capital expenditure is expenditure made to increase fixed assets or investments that already exist so that will provide benefits in the future (Jeni and Anggana, 2016: 694).

The capital expenditure is expenditure made in the context of purchasing / procurement or construction of tangible fixed assets which have the benefit of long-term value for use in government operations. The capital expenditures are categorized into five categories, including capital expenditures of land, machinery, buildings and buildings, roads, irrigation and tissue, and spending other physical capital in the form of fixed assets that are expected to provide benefits in the future (Wertianti and Dwiranda, 2013)

**Domestic Direct Investment (DDI)**

Act No. 25 of 2007 on Investment in Chapter I General Provisions Article I 2 and 5 explain that domestic investment is to do business in the territory of the Republic of Indonesia by a domestic investor using domestic capital, and done well by Indonesian citizens, enterprises, state-owned enterprises as well as areas planted in the territory of Indonesia.

Investment in the country has great significance for the economic development of countries, including Indonesia, in accordance with the principle of self-reliance in national development outlined in the Constitution and the provisions of its implementation in the form of laws and crustaceans. Government to mobilize capital through various ways and means, so that domestic investment in national development can be maintained and improved (SIH, 2009: 47-48).

Benefits of domestic investment in them is; able to save foreign exchange; reduce dependence on foreign products; pushing the domestic industry; contribute to the efforts of labor. So to create a healthy investment climate and creating these benefits, the direction of government policy in domestic capital investment to be done is (SIH, 2009: 50-51):

1. Reducing the high economic costs at each stage of investment,
2. Fixing the investment policy, formulate a system of incentives in the investment policy, as well as institutional reform investment
3. Fixing the harmonization of legislation between the center and regions, particularly in the development and operation of enterprises in the regions by promoting the principle of legal certainty, deregulation, and efficiency in cost and processing time.

Some factors that may affect investment including, interest rates, inflation, government expenditure (Hadi Sasana, 2008), infrastructure development (Ferdi Posumah, 2016), political stability, investment climate, demographics, natural resources, the availability of the domestic market, capital expenditures embodied in the development of infrastructure (Rizky, Agustin, et. al, 2016). The existence of external factors that individually can affect investment has also become one of the factors the impact of investment in the country within a country.

In Act No. 25/2007 on investment for the purpose of investment in Article 3 paragraph (2) Investment Act, namely:

1. Improving national economic growth
2. Creating Employment
3. Promote sustainable economic development.
4. Improving the competitiveness of the national business community
5. Increasing the capacity and capability of national technology
6. Encourage the economic development of the people
7. Improving the economic potential into economic power by using funds from both domestic and overseas.
8. Improve social welfare.

**Research Accomplished:**

**Table 2:**

**Previous Research**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| No. | title | Author | sample | results |
| 1 | Effect of FDI, domestic investment, PAD to the Indonesian Economic Growth (2017) | Ratna Sari Dewi and Sri Wardani  | The data taken is 33 Provinces in Indonesia in 2013-2015 | Partially, three independent variables have a significant positive effect and simultaneously influence on 88.9%. |
| 2 | The Impact of Domestic Investment on Economic Growth From Algeria 1969-2015 (June 2017) | Sayef Bakari | Time Series with 46 observation | In the short term have an impact DDI (-) on economic growth while while in the long-term impact (+). In the long term, the export and import of impact (+) on economic growth increased by (0.3 and 0.2)% of GDP. While in the short term, only affecting imports (+) on economic growth. |
| **3** | The impact of FDI, domestic investment, and Capital Expenditures Against Economic Growth in Indonesia (2016) | Reza Lainatul R, Grisvia Agustin, Imam Mukhlis | Panel data in 33 provinces in Indonesia during 2011-2013  | Partially, the three independent variables have a positive effect on Indonesian economic growth. Findings from this study is that FDI affects economic growth driven by healthy Indonesian economy, political stability, favorable investment climate, infrastructure spending and capital expenditures were realized in economic development. |
| **4** | *Effect of Capital Expenditure of the Regional Financial Performance Growth with Local Revenue as an intervening variable* | Abdul Rohman (2012) | Descriptive statistics analysis techniques Using the method of PLS ​​and 35 counties and cities in Central Java | 1. Capital expenditure was significantly negative effect directly on the financial performance.
2. Capital expenditures were significantly positive indirect effect on financial performance through local revenue.
 |
| 5 |  Impact of Foreign Direct Investment and Domestic Direct Investment on Economic Growth of Malaysia |  Roshid Masoud, et al (2013) |  The data in the study in this paper uses VECM with the data used is FDI, DI and Malaysia's GDP from the year 1970-2008 |  stating that there is a causal relationship bilateral anatara DI with economic growth, where it is triggered by the presence of foreign investors, while foreign investors to invest in the country, the local investor is required to invest in raw materials, spare parts and manufacturing. |

**FRAMEWORK**

H2

H1

DDI

H3

CE

GDP

**Figure 3**

**Framework**

**hypothesis**

H1: DDI significant positive effect on economic growth in Indonesia

H2: Capital expenditures have a significant impact on economic growth in Indonesia

H3: The capital expenditure moderates the relationship DDI to economic growth in Indonesia.

**RESULTS AND DISCUSSION**

**Selection of the Best Model**

1. **Chow test**

Chow test is used to select the best model among models Common Effect (CE) with a model Fixed Effect (FE), with the provision that if prob. > A then the best model is the model CE and if prob. <A then the best model is the model FE.

**Table 3**

**Chow test**

**(Redundant Fixed Effects Test)**

|  |  |  |  |
| --- | --- | --- | --- |
| Effects Test | statistics | df | Prob. |
| Cross-Section F | 7.110710 |

|  |  |  |
| --- | --- | --- |
|  | (29.237) |   |

 | 0.0000 |
| Cross-Section Chi-squere | 169.015913 |

|  |  |  |
| --- | --- | --- |
|   | 29  |   |
|  |  |   |

 | 0.0000 |

Source: Data Secondary, processed in 2018

Based on the results shown in the above table can be seen that the prob. The resulting Chow test is 0.0000, which means less of a (0.05) or 0.0000 <0.05. Thus it can be concluded from these results is the best model to choose between the models are CE and FE FE models.

Ho: Ce

Ha: Fe

1. **Hausman test**

Hausman test is done to choose the best model among models Fixed Effects (FE) and models Random Effects (RE), with provisions; if prob. generated through the test> a then the best model is the model of RE, but if prob. <a then the best model is the model FE.

**table 4**

**Hausman test**

**(Correlation Random Effects - Hausman Test)**

|  |  |  |  |
| --- | --- | --- | --- |
| Test Summary | Chi.Sq. statistics | Chi.Sq. df | Prob. |
| Cross-sectionRandom | 13.654444 | 3 | .0034 |

Source: Data Secondary, processed in 2017

Based on the results of Hausman test described in Table 4 shows the results of that prob. <A or 0.0034 <0.05, it can be concluded that the best model was chosen between RE and FE models are models of FE.

The same results were shown in two trials to select the best model that with the election of the FE models as much as 2 times the test Lagrance Multiplier (LM) which is used to select between RE and CE models do not need to be done.

1. **Hypothesis testing**

**table 5**

**Regression Test Results**

|  |
| --- |
| Dependent Variable (Y): GRDP |
| variables | coefficient | Std Error | t-statistic | Prob. |
| constants | 8.235420 | 0.319113 | 25.80724 | 0.0000 |
| DDI (X1) | -1.91E-07 | 9.42E-08 | -2.027067 | 0.0438 \*\* |
| Capital Expenditure (X2) | 0.000155 | 5.52E-05 | 2.809223 | 0.0054 \*\* |
| moderation | 0.241560 | 0.024157 | 9.999744 | 0.0000 \* |
| R-square | 0.820516 |
| Adj. R-square | 0.796282 |
| F-Statistics | 33.85782 |
| Prob (F-statistics) | 0.000000 \* |

Ket: moderasi = X1 \* X2

\* Very significant

\*\* significant in a = 5%

\*\*\* significant in a = 10%

Source: Data Secondary, processed in 2019

From the results if the multiple linear regression test data shown in the table (5) above, can be established model of multiple regression equation as follows:

Y = 8235- 1.91 (DDI) +0.00015 (BM) + 0.24156 (Moderation) + e

The above equation shows that, simultaneously, DDI, Capital Expenditure and moderating variables have an influence on economic growth and be able to explain the factors of the Economic Growth.

1. **F test (simultaneous)**

**table 6**

**Model Conformance Test Results**

**(Test F)**

|  |  |  |
| --- | --- | --- |
| **Model** | **F-Statistic** | **Prob.** |
| 1 | Regression Residual Total | 33.85782 | 0.0000 |

Source: Data Secondary, processed in 2019

F-statistical analysis is done by looking at the value of the F-statistic and significance tests, which show the influence of independent variables on the dependent variable. So we can conclude that; independent variables simultaneously (DDI, Capital Expenditure and Moderation significant positive effect on economic growth (GDP), and if prob. <a then formed the strong influence or significant.

According to the table above, it can be shown that the F-statistic 33.85782 and prob. (0000) <a (0.05), it can be inferred from models created that, simultaneously independent variables significant positive effect on the dependent variable, it can be interpreted that the increase in the independent variable will affect the increase in the dependent variable.

1. **Adjusted R-square**

**table 7**

**Results Coefficient of Determination**

|  |  |  |
| --- | --- | --- |
| Model | R square | Adjusted R-square |
| 1 | 0.820516 | 0.796282 |

Source: Data Secondary, processed in 2019

Based on table 9 Adjusted R2 value of 0.79682 and may imply that 79.63% change in the GDP can be explained by variables, DDI, CapEx, and Moderation while the remainder, amounting to 20:37% influenced or explained by factors or other variables outside the model established in this study.

1. **T test (Partial)**

**table 8**

**Individual Test Results Parameter Significance (t test)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Model | Coef. | Std.Error | t-statistics | Prob. | Decission (5%) |
| C | 8.235420 | 0.319113 | 25.80724 | 0.0000 |  |
| DDI (X1) | -1.91E-07 | 9.42E-08 | -2.027067 | 0.0438 \*\* | *reject* Ho |
| Capital Expenditure (X2) | 0.000155 | 5.52E-05 | 2.809223 | 0.0054 \*\* | *reject*Ho |
| moderation | 0.241560 | 0.024157 | 9.999744 | 0.0000 \* | *reject* Ho |

Ket: moderasi = X1 \* X2

\* Very significant

\*\* significant in a = 5%

\*\*\* significant in a = 10%

Source: Data Secondary, processed in 2019

**H1: DDI Positive Impact on Growth Economy**

Partial assay results DDI influence to GDP can be seen t-statistics obtained at -2.02 and obtained p-value or prob.0,0001 smaller than a = 0.05 (0.0438 <0.05), then these results shows partially contained a significant negative influence between DDI and the GDP, with a coefficient of 1.9. (H1 accepted)

**H2: Capital Expenditure on Growth Economy Positively**

Partial assay results of the effect of the Capital Expenditure to GDP can be seen t-statistics obtained with 2.81 and p-value obtained or prob.0,0000 smaller than a = 0.05 (0.0054 <0.05), the results this shows the partially contained significant positive effect between CapEx and the GDP, showing the coefficient value of 0.000155 (H2 accepted).

**H3: Moderate Capital Expenditure (Changing / Strengthen Relationships) between FDI and Growth Economy**

The test results influence DDI \* Capital Expenditure to GDP seen from 4.95 t-test with p-value <a (0.000 <0.05) and compared with the test DDI to GDP individually produce sifnifikansi 0.0438 level, and their changes in the direction of the relationship, if earlier DDI negative effect it can be said that the level of significance in relation to the GDP DDI moderated by the stronger capital spending (0.000 <0.0438). (H3 accepted)

**Analysis and Interpretation:**

1. **DDI Effect Analysis (X1) to Economic Growth (GDP) (Y)**

From the results if the data that has been done can be interpreted that the increase in DDI Rp.1, - will degrade or affect the slowdown of economic growth (GDP) of Rp.1,91, -. From the test results of the t-statistic, which was done before it was concluded that the partial DDI negative effect on the GDP. The results are consistent with recent research in Sri Asiyani (2013), in her research mentioned that, the growth of investment realization fluctuating just shows that the lack of public confidence in investing, then the factors that led to the DDI fluctuating include infrastructure governance and government communication as well as entrepreneurs which is still not good. Sagef Baqari (2017) gives the results of the same study,

But contrary to Laitanul Rizki, et al (2016), where DDI significant positive effect on economic growth is due to the availability of market share of the domestic market. Roshid Masoud, et al (2013) states that there is a causal relationship bilateral anatara DI with economic growth, where it is triggered by the presence of foreign investors, while foreign investors to invest in the country, the local investor is required to invest in raw materials, spare parts and manufacturing.

Domestic investment realization in Indonesia itself is still relatively low, and the ratio between FDI and DDI nearing 2.5: 1 then it is normal that the realization of the investment in the country remains to be improved to give effect to the economic growth of Indonesia. Some factors that may be the reason why domestic investment in Indonesia is lower compared to foreign investment include the inability of the community to participate in the investment.

The inability of people to invest one caused by the condition of Indonesian people are still many who are still classified into poor communities, such as data reported by ([www.bps.go.id](http://www.bps.go.id)), From the 2010-2017 average of poor people in Indonesia still stands at 12.7 million, or 11.5% of the total population of Indonesia. The ability to invest on a large scale as required by BKPM not been met.

The Indonesian government itself encourages people to participate more in the running of SMEs or home industry as one of them is shaping government policy packages associated KUR (Kredit Usaha Rakyat) ([www.setkab.go.id](http://www.setkab.go.id)). Through this policy package that allows the government provide SMEs obtain low-interest loans from 22-23% to 12%.

1. **Effect Analysis (X2) Capital Expenditures on (Y) Economic growth (GDP)**

Based on statistical calculation has been done before can be interpreted that the increase in CapEx amounted to Rp1, - will increase or affecting an increasing economic growth (GDP) of Rp.0,00015, significantly.

The results are consistent with the results of research conducted by Rizky, Agustin and Mukhlis (2016) which gives the reason why capital spending significant positive effect on economic growth, such as government capital expenditures executed well in the construction of public infrastructure. Mordup (2012) the government should control the infrastructure spending that government expenditure targets can be achieved.

However, different results with Ghifari (2016) which states that government spending is negatively correlated with economic growth, and only government spending on housing and construction sectors that contribute to economic growth. Apriyana and Suryanto (2010), capital expenditure has no effect on economic growth and this suggests that local governments have yet to manage resources effectively and efficiently, with the allocation of funds is decreasing every year and there are many areas that have not been optimally provide public facilities.

From the research that researchers do indicate that the relationship between capital spending and economic growth, although the relationship is categorized into a weak association was not statistically significant due. Factors that might cause such a relationship is weak, the lack of capital expenditure portion compared to other government spending. Described in the following graph, the portion of capital expenditure is still lower than the spending on goods and services, but as we know that the capital expenditure is an expenditure of assets which are often categorized as an investment that will bring benefits in the future.

Source: secondary data, processed in 2019

**Figure 4**

**Percentage Jump Shopping**

Based on the picture above can be seen that the portion of the government's overall capital expenditures (all provinces) from 2010 to 2018 is still small when compared with spending on goods and services. If viewed from the benefits brought about government spending, it is clear who has the capital expenditure longest useful life for their own capital expenditure is often categorized as government investment, which will bring benefits in the future. So in this case the government needs to continue to increase the share of capital spending to stimulate economic growth.

1. **Effect Analysis (X1 \* X2) DDI \* Capital Expenditure (Mod1) against (Y) Economic growth (GDP)**

Based on the results of the statistical t-test analysis and test of significance were done before, it can be concluded that, Shopping DDI able to moderate the effect of capital to GDP or in other words the increase in Capex is able to increase the influence of FDI to GDP.

The results are consistent with research conducted by S.Wahyuning and Shindu Rakasiwi (2010) one of the low investment in infrastructure and facilities the country is still low, the availability of quality roads will facilitate investors in the transport modes so that the production process will increase, to then be able to drive the welfare of society and Glen Yericko, et al (2017) in a study revealed that the higher the government in the allocation of capital expenditure will increase investment and reduce unemployment.

As we know that investing in the country also have an impact on the growth of unemployment or employment, and to DDI itself, the average percentage of total employment is much higher when compared with the value of FDI reached 64.4% of the year 2010 -2016. So based on some previous studies and the results of this study, the higher allocation of expenditurethe higher the government's capital investment in the country coming in and there will be more workers absorbed and increase the per capita income which will promote economic growth in Indonesia itself.

Apart from that, the construction of infrastructure continues to be encouraged the Indonesian government to be one factor driving increased domestic investors, as in a news page ([www.liputan6.com](http://www.liputan6.com)) Through PINA scheme (Financing Infrastructure Non Government Budget) approximately 34 infrastructure projects funded with a budget of about Rp.384,2T which is divided into four sectors, namely highways, aviation, power generation and transmission, as well as tourism, As well as several other projects that succeeded in attracting FDI is one of them originating from Japan such as Railway service-Maggarai Soeta, power plant in Central Java ([www.viva.co.id](http://www.viva.co.id)).

1. **Analysis of Islamic Economic Perspective**

In the Islamic economic system at the time of the Prophet Muhammad and his companions, the state becomes an important factor in managing capital or capital owned by the community, or the state itself. The state's role is needed to maintain the fairness and stability of the economy. During this period the role of the state begins with the division of the spoils, public revenue and tax administration, keeping the dynamics of production factors such as; land, labor and capital, including establishing a joint investment (Muhammad, 2017: 212). From these explanations, the state is responsible for managing the economy and is responsible for stabilizing, enhance the country's economic growth so that people in the country can achieve prosperity.

The linkage in this study is the country's engagement in Indonesia, especially in collecting and managing of capital in the form of private investment is allocated in the project plan and the government itself. As the destination for private investment both from domestic and overseas aims to boost national economic growth, creating jobs and so forth, where the purpose set forth in the Investment Law in Indonesia in accordance with the principles and role of the state in the economic system of Islam on time of the Prophet Muhammad and his companions.

In the expansion of investment in Islamic economic principles known only at the level of instruments bought and sell it, such as a bond, or sukuk, shares, savings and time deposits. Islamic investment was distinguished with conventional investment system through a contract binding instruments and the investment itself. But actually, in the function and better benefits to be gained from investing activities of investing in the real sector, as in the days of the Prophet Muhammad and his companions, where the Apostle advocating to continue to improve the investment or capital increase derived from the spoils of war and zakat trade sector. Investment real sector will be directly related and may be perceived by society itself.

Related to this study we can see in terms of how much the number of workers absorbed from capital formation through private investment in Indonesia DDI as the following table:

**Table 10**

**The Number of Workers Who Absorbed By FDI And DDI**

**Period 2010-2016**

|  |  |
| --- | --- |
| Year | Workers who Absorbed in DDI |
| 2010 | 766 310 |
| 2011 | 1078509 |
| 2012 | 1070686 |
| 2013 | 1132326 |
| 2014 | 1.01241 million |
| 2015 | 930 906 |
| 2016 | 951 939 |

Source: BKPM, processed in 2019

From the table, above it can be seen how many of TKI *(Tenaga Kerja Indonesia)* absorbed through investment into Indonesia, in principle, it is in line with the principles of Islamic economic growth system ie the principle of fairness and Adequate. Where Islam is not only set the characteristics of responsibility for the fulfillment of personal needs on economic growth but also the principle of justice and sufficient peck realized on responsibility in the ability of cover and ensure the realization of the adequacy of our fellow humans, where the responsibility is borne by the rich, relatives, people are given the ease and advantages, so that all this potential can overcome the problems of poverty (Huda, 2015: 127).

Meaning: "Indeed, Allah tells (you) Be fair and do good, giving to kinsfolk, and God forbid of indecency, injustice and hostility. He teaches you, that ye may take heed ". (Surat an-Nahl [16]: 90)

In Islam itself the state's role is to manage the economy through the creation of fiscal policy and financial in an effort to capital formation through investment in order to avoid the accumulation of wealth so that the properties owned by every human being to be more productive and profitable, so it will establish prosperity as in Al -qur'an (QS. Al-Hashr: 7)

Arinya: "Any spoils (fai-i) that God gave to His Messenger (of the property) from the people of the towns then is for God, for the apostle, kinsfolk, orphans, the poor and people who are on the way, so that it may not circulate among the rich among you. what is given unto the Apostle, then accept it. leave what he forbids. and fear Allah. Verily Allah Amat harsh punishment ". (Surat al-Hashr [59]: 7)

The prohibition on a buildup of such property can also be interpreted as a command of God to continue memproduktifkan treasure we have. In principle, the investment into one of the roads that can memproduktifkan the treasure. Produktivikasi process through the investment property is not solely invest without regard to principles of Islamic investment in the regulated and established by God, therefore, investing in Islamic principles is also concerned with what the business sectors that will be invested. Allah says in the Qur'an surah Al-Baqarah: 261 explains about in terms of what we can invest, as follows;

Meaning: "parable (income incurred by) those who spend their wealth in the way of God [166] is similar to a seed that grows seven ears, in every ear a hundred grains. God magnifies (reward) for whom He will. and Allah is the area (his gift), All-knowing ". (QSal-Baqarah [2]: 261)

[166] Understanding spend their wealth in Allah's way includes spending for the sake of jihad, the construction of universities, hospitals, businesses and the scientific investigation of others.

Based on the paragraph above, the investment sector is the sector that is in accordance with the principles of Islamic economics, which is projected to remain in the way of Allah. Wherein, the investment sector is a priority in Islam is an investment that can meet the basic needs of people, good food, clothing, shelter, health and education. Another sector is the sector that can provide the infrastructure for the public interest.

Referring to this, that the investment must be run in the way of Allah, and aims to meet the needs of the public, the DDI into investments that run in accordance with these principles, in which sectors the investment therein is largely an effort to meet the needs of the public, such as; food industry, textile industry, pharmaceutical industry and medicine, food crops and plantations, electricity gas and water, construction, housing, telecommunications, and other sectors that support beberpa public needs ([www.BKPM.go.id](http://www.BKPM.go.id)).

Once the importance of investing in our daily lives, to meet the necessities of life and also to continue memproduktifkan treasures in Allah also stated in the Quran surah Al-Jumuah: 10 that is the recommendation to continue to try and find, as follows:

It means: "if it has fulfilled the prayer, then bertebaranlah about the earth; and seek the gift of God and remember God a lot that you prosper ". (Surat al-Jumu'ah [62]: 10)

Of the important role that investment, then investing in a country should be encouraged and improved, it is essential to meet the factors that can increase the investment itself. In this study, the factors to be a catalyst for increased investment is a capital expenditure. The capital expenditure is proven to increase the effect of the investment on economic growth. At the time of Caliph Uthman bin Affan, where the construction of public facilities, such as roads, buildings, mosques, markets, ports, irrigation, plumbing and some other public sectors. The development also affect and benefit the commercial sector into the business genius of Uthman, (Muhammad, 2017: 253).

**IMPLICATIONS**

1. Theoretically, the results can minimize variations in results of previous studies because it proved able to reinforce some of the results of previous studies, so it can be used as a reference source on the patterns and implementation of renewable investment in Indonesia, both from abroad as well as the country in a DDI pattern.
2. In practice, it was the realization of DDI there are still gaps in some areas, giving rise to local or regional industry pioneer, can lead to imbalances in economic growth and social welfare, in each region, so as to minimize the impact of inequality on investment is expected governmental can create policies to minimize inequality realization of investments in each region, as in the SEZ policy is based on the potential of each region. It is expected that after the success of the SEZ on 12 areas that run will continue at the SEZ program in parts of the rest of Indonesia, so that equity and equitable prosperity will be realized.
3. For the public sector, it is necessary to synchronize the national and local regulations so as to equalize the regional development process and minimize inequality. Aside from regulation, taxation was one factor that minimizes the benefits DDI because as we mentioned in the previous chapter, there are cases of tax evasion which of course can be detrimental to the government

**SUGGESTION**

Limitations of this study is, this study only focused on the realization of investments by location or region, and the implications for economic growth in the region itself in general. So for future research is expected to focus research on investment point of view both Foreign Direct Investment (FDI) and DDI by business sector, and see which sectors are being pioneers, and what the implications for increased employment and reduction of unemployment and poverty, and how FDI and DDI can reduce the rate of inequality are quite high in Indonesia.

Apart from that factor that into the catalyst or moderation in this study is limited to the capital expenditure is expected in future studies can be developed such as the availability of human resources associated with certain educational qualifications, then reviewing or further deepen economic research analysis from the perspective of Islam.

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