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The Influence of Foreign Investment, Domestic Investment, and District Minimum Wages on Regional Original Income in Bali Province

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ABSTRACT
This study aims to analyze the effect of Foreign Direct Investment (FDI), Domestic Investment (DI), and Regency/Municipal Minimum Wages on Regional Original Revenue (ROR) in Bali Province. ROR is an important indicator of regional fiscal independence, which is influenced by various economic factors, particularly investment and labor market conditions. This study uses secondary data consisting of FDI, DI, minimum wages, and ROR across regencies/municipalities in Bali Province during the period 2020–2024, obtained from the Central Bureau of Statistics and relevant institutions. The analytical method employed is panel data regression using the Fixed Effect Model (FEM), which was selected based on the Chow test and Hausman test results. The findings indicate that, partially, FDI and minimum wages have a positive and significant effect on ROR, while domestic investment does not have a significant effect. Simultaneously, FDI, domestic investment, and minimum wages significantly affect Regional Original Revenue in Bali Province. These results suggest that foreign investment and wage policies play an important role in strengthening regional fiscal capacity through increased economic activity and purchasing power. Therefore, local governments are expected to promote a conducive environment for foreign investment and implement balanced wage policies to sustainably enhance Regional Original Revenue.

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INTRODUCTION

Regional economic development has become a primary focus of fiscal decentralization policy in Indonesia, where local governments are granted authority to manage resources and enhance financial independence through Regional Original Revenue (PAD). PAD reflects a region's ability to independently finance development and expand public services. Therefore, optimizing regional revenue sources is a strategic step toward promoting sustainable economic growth.

The Province of Bali is one of the regions that contributes significantly to the national economy, particularly through the tourism sector. The dominance of this sector drives economic activities such as trade, transportation, and services, but it also creates vulnerability to external shocks. In this context, increasing investment becomes an important factor in strengthening the economic structure and maintaining regional fiscal stability through the diversification of PAD sources.

Foreign Direct Investment (FDI) plays a strategic role in encouraging regional economic growth through increased production capacity, job creation, and technology transfer. In Bali, FDI is largely concentrated in the tourism, hotel, and restaurant sectors, which directly contribute to regional tax revenues and levies. In addition, Domestic Investment (DI) also plays an important role as an indicator of local investor confidence and a key driver of domestic economic activity, which contributes to increased PAD through regional taxes and public consumption.

On the other hand, the Regency/City Minimum Wage (UMK) policy also affects regional economic dynamics. The establishment of proportional wages can increase purchasing power and stimulate consumption, thereby contributing to higher regional tax revenues. However, unbalanced wage policies may hinder investment and reduce business competitiveness. Therefore, a balance is needed between labor protection and the sustainability of economic activities.

Empirical data indicate that during the 2020–2024 period, FDI, DI, and minimum wages in Bali Province experienced growth in line with the increase in PAD. The rise in FDI from IDR 4.22 trillion to IDR 18.94 trillion and DI from IDR 5.43 trillion to IDR 9.15 trillion reflects increasing investment activity. Meanwhile, the increase in minimum wages also indicates improved public welfare, which has the potential to stimulate consumption. Alongside this, Bali's PAD increased from IDR 3.06 trillion to IDR 6.86 trillion, suggesting a relationship between investment, labor policies, and regional fiscal performance.

Based on this description, this study aims to analyze the influence of Foreign Direct Investment, Domestic Investment, and Minimum Wage on Regional Original Revenue in Bali Province. The results are expected to

contribute to the formulation of more effective, sustainable regional economic policies that enhance regional fiscal independence.

LITERATURE REVIEW

Fiscal Federalism Theory (Oates)

The fiscal federalism theory proposed by Oates explains that fiscal decentralization grants local governments the authority to independently manage economic resources to increase regional revenue. In this system, Regional Original Revenue (PAD) serves as the primary indicator in assessing the level of fiscal independence of a region. Local governments are required to optimize local economic potential to expand the revenue base, particularly through regional taxes and levies. In practice, PAD can be increased through the management of regional economic activities, such as encouraging investment inflows, both Foreign Direct Investment (FDI) and Domestic Investment (DI), as well as labor policies such as Regency/City Minimum Wage (UMK), which influence income and public consumption. Increased economic activity broadens the regional tax base, thereby increasing regional revenue. Thus, fiscal federalism theory emphasizes that effective regional economic management directly contributes to increasing Regional Original Revenue (PAD) (Oates, 1972).

Aggregate Demand Theory (Keynes)

The aggregate demand theory proposed by Keynes explains that the level of economic activity in a region is determined by the magnitude of demand for goods and services within the economy. Aggregate demand consists of consumption (C), investment (I), government spending (G), and net exports (X-M). Within this framework, investment is one of the primary components driving increased economic activity (Keynes, 1937).

Wage Theory (Empirical Research)

The Regency/City Minimum Wage (UMK) is a policy established by local governments to ensure a minimum standard of welfare for workers. In practice, minimum wage policies not only affect workers but also have broader implications for economic activity, particularly through increased public purchasing power. Several empirical studies indicate that higher minimum wages can encourage increased household consumption, which subsequently stimulates economic activity across various sectors. Studies conducted by Autor (2016) and Wascher (2008) show that wage policies influence labor market dynamics and public consumption. Increased consumption expands business activities that become sources of regional revenue, such as taxes and levies. Therefore, UMK policies can contribute to increasing Regional Original Revenue (PAD) through the mechanism of enhanced consumption and economic activity.

RESEARCH METHOD

This study applies a quantitative method using panel data analysis techniques to assess the relationship between Foreign Direct Investment (FDI), Domestic Investment (DI), and Regency Minimum Wage (UMK) on Regional Original Revenue (PAD) in Bali Province. Panel data techniques, which combine time-series and cross-sectional dimensions, are considered the most appropriate

because they can capture variations more accurately across both time periods and regions (Gujarati, 2009).

RESEARCH RESULTS AND DISCUSSION

In panel data regression analysis, it is important to select the appropriate model to identify and ensure the best model to be applied. This is done through three tests: the Chow Test, Hausman Test, and Lagrange Multiplier Test. The Chow Test is used to determine the choice between the Pooled Least Square (PLS) and Fixed Effect Model (FEM), the Hausman Test is used to determine the choice between FEM and Random Effect Model (REM), while the Lagrange Multiplier Test is used to determine the choice between REM and PLS.

Table 4.2 Chow Test Results

Significance Level	**Prob**
Prob > F	0.000

The Chow Test is used to determine whether the more appropriate model is the Pooled Least Square (PLS) or the Fixed Effect Model (FEM). The basis for decision-making is that if the probability value (Prob > F) is smaller than the 5 percent significance level (0.05), then the Fixed Effect Model is more appropriate to apply. Based on the Chow Test results presented in Table 4.2, the obtained Prob > F value is 0.000. This value is less than 0.05, so it can be concluded that the Fixed Effect Model is more suitable than the Pooled Least Square model. This indicates that there are characteristic differences among regencies/cities that affect Regional Original Revenue in Bali Province, meaning that individual variables must be included in the model.

Table 4.3 Hausman Test Results

Significance Level	**Prob**
Prob > F	0.0027

The Hausman Test was conducted to determine which model is more appropriate, whether the Fixed Effect Model (FEM) or the Random Effect Model (REM). The decision criterion is that if the probability value (Prob > chi-square) is lower than the 5 percent significance level (0.05), then the Fixed Effect Model is more suitable. Based on the Hausman Test results presented in Table 4.3, the probability value obtained was 0.0027. This value is lower than 0.05, so it can be concluded that the Fixed Effect Model is more appropriate than the Random Effect Model. Therefore, the most suitable model for this study is the Fixed Effect Model (FEM).

Classical assumption testing was conducted to ensure that the panel data regression model met the basic assumptions, so that the estimated results obtained are BLUE (Best Linear Unbiased Estimator). In this study, the classical assumptions tested included multicollinearity, heteroskedasticity, and autocorrelation tests.

Table 4.4 Multicollinearity Test Results

	FDI	**DI**	**UMK**
FDI	1.000		

	FDI	DI	UMK
DI	0.7795	1.000	
UMK	0.7559	0.72698	1.000

The multicollinearity test was conducted to identify whether there is a strong linear relationship among independent variables in the regression model. A good regression model should not experience high multicollinearity because it may cause instability in estimating regression coefficients. In this study, multicollinearity testing was performed by observing the correlation values among independent variables.

Based on the correlation test results, the correlation value between Foreign Direct Investment (FDI) and Domestic Investment (DI) was 0.7795, between Foreign Direct Investment (FDI) and Regency/City Minimum Wage (UMK) was 0.7559, and between Domestic Investment (DI) and Regency/City Minimum Wage (UMK) was 0.7268. All correlation values were below the tolerance threshold of 0.80, indicating that the regression model does not suffer from significant multicollinearity problems. Therefore, all independent variables in this study can be used simultaneously in regression analysis.

Table 4.5 Heteroskedasticity Test Results

Significance Level	Prob
Prob > Chi2	0.0232

The heteroskedasticity test was conducted to determine whether there are differences in residual variance in the regression model. A good model should not exhibit heteroskedasticity. In this study, heteroskedasticity testing was performed using the Breusch-Pagan test. According to the test results, the Prob > Chi^2 value obtained was 0.0232. This value is lower than the 5 percent significance level (0.05), indicating that the regression model exhibits heteroskedasticity. Therefore, to address this issue, the regression model estimation was performed using robust standard errors so that the testing results remain valid.

Table 4.6 Autocorrelation Test Results

Significance Level	Prob
Prob > F	0.1131

The autocorrelation test aims to identify whether there is a relationship between error terms across different periods. In this study, the autocorrelation test was conducted using the Wooldridge method. The test results showed a Prob > F value of 0.1131. This value is higher than the 5 percent significance level (0.05), indicating that there is no autocorrelation problem in the applied panel data regression model.

The results from the model selection through the Chow Test and Hausman Test indicate that the Fixed Effect Model (FEM) is the best model to be used in this study. The selection of this model indicates that there are characteristic differences among regencies/cities in Bali Province that need to be addressed through a fixed-effects approach.

The panel data regression analysis in this study aims to determine the effect of Foreign Direct Investment (FDI), Domestic Investment (DI), and Regency/City Minimum Wage (UMK) on Regional Original Revenue (PAD) in regencies/cities of Bali Province during the 2020–2024 period. The panel regression estimation results are presented as follows:

Table 4.7 Model Comparison

VARIABLES	PLS	FEM	REM	FEM Robust
FDI	0.177***	0.0771*	0.101**	0.0771*
	(0.0477)	(0.0398)	(0.0425)	(0.0379)
DI	0.0851	0.00537	0.0851	0.00537
	(0.0616)	(0.0623)	(0.0595)	(0.0562)
UMK	7.539***	5.896***	6.430***	5.896***
	(1.281)	(0.939)	(1.017)	(1.083)
Constant	2.294**	6.180***	4.339***	6.180***
	(0.883)	(1.013)	(0.934)	(1.104)
Observations	**45**	**45**	**45**	**45**
R-squared	0.877	0.703	0.877	0.703

Standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1

The explanation in this study includes several important terms adopted in the analysis. Foreign Direct Investment (FDI) refers to investment originating from abroad and invested in economic activities within a specific region. Meanwhile, Domestic Investment (DI) refers to investment originating from local business actors aimed at promoting economic growth within a region. Regency/City Minimum Wage (UMK) refers to the minimum wage determined by local governments as a form of labor protection and an indicator of worker welfare.

Furthermore, the constant value indicates the value of the dependent variable when all independent variables are zero. The number of observations reflects the amount of data used in the study, both in terms of time and the number of regions examined. The R-squared value evaluates how well the model explains variations in the dependent variable through the independent variables included in the study. On the other hand, the number of regions indicates the total regencies/cities included in the research.

Additionally, the F-statistic is used to test the simultaneous significance of independent variables on the dependent variable, determining whether the research model can explain the relationships among variables. Meanwhile, the T-statistic is used to test the effect of each independent variable individually on the dependent variable, allowing identification of which variables significantly influence the study.

Based on the FEM robust estimation results, the regression equation obtained is as follows:

PAD_{it}=6.180+0.077PMA_{it}+0.005PMDN_{it}+5.896UMK_{it}+e_{it}

The partial test (t-test) is used to determine the effect of each independent variable individually on the dependent variable. Based on Table 4.7, the t-statistic value for Foreign Direct Investment (FDI) is 2.03, Domestic Investment (DI) is 0.10, and Regency/City Minimum Wage (UMK) is 5.45. The significance levels used in this study are 1%, 5%, and 10%. The criteria applied in the t-test are as follows:

- α = 1%, 5%, 10% (significance level)
- n = 45 (cross section × time series)
- k = 4 (number of variables, including the constant)
- df = degrees of freedom (n − k) = 45 − 4 = 41

For FDI, the t-table value at α = 10% and df = 41 is 1.68. Based on the analysis, the t-statistic value for FDI is 2.03. Since the t-statistic is greater than the t-table value (2.03 > 1.68), the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted. Thus, Foreign Direct Investment has a partially significant effect on Regional Original Revenue in Bali Province at the 10% significance level. The coefficient value of 0.0771 indicates that a 1% increase in FDI will increase PAD by 0.0771%, assuming other variables remain constant. These findings suggest that foreign investment can stimulate economic growth, broaden the regional tax base, and enhance the financial capacity of local governments.

For DI, the t-table value at α = 5% and df = 41 is 2.02. The t-statistic value for Domestic Investment is 0.10. Since the t-statistic is smaller than the t-table value (0.10 < 2.02), H_0 is accepted and H_1 is rejected. Therefore, Domestic Investment does not have a statistically significant partial effect on Regional Original Revenue in Bali Province. Although the coefficient value is positive at 0.0053, it is not statistically significant. This indicates that domestic investment still has the potential to stimulate regional economic activity, but its contribution to regional revenue remains limited. This may be due to the concentration of domestic investment in sectors with limited direct contributions to PAD sources.

For UMK, the t-table value at α = 1% and df = 41 is 2.70. The t-statistic value is 5.45. Since the t-statistic exceeds the t-table value (5.45 > 2.70), H_0 is rejected and H_1 is accepted. Therefore, Regency/City Minimum Wage has a partially significant effect on Regional Original Revenue in Bali Province at the 1% significance level. The coefficient value of 5.8956 indicates that a 1% increase in UMK will increase PAD by 5.8956%, assuming other variables remain constant. These findings indicate that wage increases improve purchasing power, encourage consumption and production activities, and increase regional tax and levy revenues.

The simultaneous test (F-test) is used to identify the collective effect of independent variables on the dependent variable. Based on Table 4.7, the F-statistic value obtained is 13.25 with a probability value of 0.0018.

Given:

- α = 5%
- df1 = k − 1 = 4 − 1 = 3
- df2 = n − k = 45 − 4 = 41

- F-table (α = 5%; df1 = 3; df2 = 41) = 2.84

Since the F-statistic is greater than the F-table value (13.25 > 2.84), H_0 is rejected and H_1 is accepted. Therefore, Foreign Direct Investment, Domestic Investment, and Regency/City Minimum Wage simultaneously have a significant effect on Regional Original Revenue in Bali Province during 2020–2024.

The coefficient of determination is used to measure the extent to which independent variables explain variation in the dependent variable. In this study, it is measured based on the R-squared (R^2) value from the panel data regression analyzed using the Fixed Effect Model (FEM). Based on the regression estimation results using FEM robust presented in Table 4.7, the R-squared value is 0.703. This indicates that 70.3% of the variation in Regional Original Revenue in Bali Province can be explained by Foreign Direct Investment, Domestic Investment, and Minimum Wage across regencies/cities. Meanwhile, the remaining 29.7% is explained by other variables not included in this study.

The relatively high coefficient of determination indicates that the regression model used in this study is capable of explaining changes in Regional Original Revenue in Bali Province effectively. Therefore, the independent variables included in this research successfully represent the main factors influencing Regional Original Revenue.

DISCUSSION

Based on the study results, Foreign Direct Investment (FDI) has a positive effect on Regional Original Revenue in Bali Province. This indicates that increased foreign investment in a regency or city is generally accompanied by higher Regional Original Revenue (PAD). Empirically, these findings demonstrate that FDI plays an important role in expanding the regional economic base, which contributes to increased tax and levy revenues. From the fiscal federalism perspective, increasing PAD depends greatly on the ability of local governments to manage economic activities effectively. These findings are consistent with Keynes' aggregate demand theory, which explains that economic activity is influenced by demand components, including investment. The inflow of FDI increases business activity, creates jobs, and raises public income. Increased income stimulates consumption and broadens economic activities in sectors such as trade, services, and tourism. Higher economic activity expands the regional tax base and increases revenue from regional taxes and levies. Thus, within the fiscal federalism framework, the increased economic activity driven by FDI reflects the success of local governments in optimizing local economic potential to enhance PAD (Keynes, 1937; Oates, 1972). These findings are also consistent with studies by Simorangkir et al. (2025) and Ugar et al. (2019), which found that FDI positively influences PAD and regional economic development. This suggests that foreign investment plays an important role in improving regional financial performance, particularly in economically attractive and tourism-oriented regions such as Bali Province.

The study results indicate that Domestic Investment (DI) does not have a significant effect on Regional Original Revenue in Bali Province. Although the

regression coefficient shows a positive value, statistically DI cannot independently explain variations in PAD. Based on Keynesian aggregate demand theory, investment is a key component in stimulating economic activity through business operations and public income generation (Keynes, 1937; Mankiw, 2021). However, in this study, domestic investment tends to remain concentrated in sectors with relatively limited contributions to regional tax revenue, such as small-scale enterprises or informal sectors. As a result, the increase in economic activity generated has not significantly expanded the regional tax base. Thus, within the fiscal federalism framework, the insignificant effect of DI on PAD indicates that optimizing regional revenue depends not only on the amount of investment but also on investment quality and the ability of local governments to manage economic potential through taxation and levy policies (Oates, 1972). These findings are consistent with Ugar et al. (2019) and Mulyana (2023), who found that Domestic Investment does not always significantly affect PAD, particularly when investment structures are not focused on sectors with substantial fiscal contributions. Therefore, increases in DI should be accompanied by tax optimization policies and strengthening of regional leading sectors.

The study results show that Regency/City Minimum Wage (UMK) has a positive and significant effect on Regional Original Revenue (PAD) in Bali Province. This indicates that increases in UMK are closely associated with increases in PAD. The findings suggest that minimum wage policies improve public purchasing power, which subsequently affects regional economic activity. Empirical studies indicate that minimum wage policies influence wage levels and employment conditions, which in turn affect public income and consumption. David Autor (2016) states that changes in labor markets can influence wages and employment opportunities, while William Wascher (2008) demonstrates that minimum wage policies affect wage levels and labor market conditions. Increased income encourages consumption and expands business activity across sectors such as trade, services, and tourism. Higher economic activity broadens the regional tax base, including hotel, restaurant, and entertainment taxes, while increasing regional levy revenues. Thus, within the fiscal federalism framework, UMK policies function not only as labor protection instruments but also contribute to PAD through increased consumption and economic activity (Oates, 1972). These findings are also aligned with studies by Sesana (2023) and Abiyadi (2022), which found that minimum wages positively influence PAD through increased regional economic activity. Therefore, Regency Minimum Wage (UMK) serves not only as a labor protection mechanism but also as an indicator of regional economic growth that contributes to fiscal capacity improvement.

Research Limitations

This study was conducted systematically and in accordance with economic research methodology principles. However, it still has several limitations that should be considered for evaluation and future research. First, the limitation lies in the scope of variables used. The independent variables in this study only include Foreign Direct Investment (FDI), Domestic Investment

(DI), and Regency/City Minimum Wage (UMK). Meanwhile, Regional Original Revenue is influenced by many other factors, including visitor numbers, economic growth rates, population, urbanization levels, the composition of leading sectors, and the efficiency of tax and levy collection. Since these variables were not included, the model cannot fully explain all variations in Regional Original Revenue in Bali Province.

Second, the limitation relates to the relatively short observation period, namely from 2020 to 2024. This period may not fully capture long-term investment dynamics, labor market changes, and regional financial capacity. A longer observation period may produce more consistent estimation results and better capture structural economic changes within the region.

Third, the limitation also concerns the quantitative method applied. Panel data regression analysis can explain statistical relationships among variables, but it cannot fully capture institutional factors, local policies, management quality, and sector-specific characteristics that may affect Regional Original Revenue. Therefore, the findings of this study should be interpreted by considering broader regional economic conditions.

Given these limitations, future research is expected to improve the research model by including additional relevant variables, extending the observation period, and combining quantitative and qualitative approaches to provide a more comprehensive explanation of the factors influencing Regional Original Revenue.

CONCLUSION

Based on the results of the data analysis and discussion presented in the previous chapter, this study is expected to provide a clear overview of the influence of Foreign Direct Investment, Domestic Investment, and Regency/City Minimum Wage on Regional Original Revenue in Bali Province. In addition, these conclusions are formulated to address the research questions and serve as a basis for developing relevant policy recommendations for local governments in efforts to enhance fiscal independence and regional economic development.

1. Foreign Direct Investment (FDI) has been proven to have a positive and significant effect on Regional Original Revenue in Bali Province. Therefore, local governments are encouraged to continuously improve foreign investment attractiveness by enhancing infrastructure quality, simplifying licensing procedures, and providing regulatory certainty. In addition, investment promotion in leading regional sectors should be strengthened so that incoming investments can contribute maximally to regional tax and levy revenues.
2. Domestic Investment (DI) has not yet shown a significant effect on Regional Original Revenue. Therefore, local governments should evaluate the direction and effectiveness of domestic investment. Support for local entrepreneurs, the provision of appropriate incentives, and the development of sectors with strong potential to increase Regional Original Revenue (PAD) should be enhanced so that domestic investment can generate a more direct impact on regional income.

3. Regency/City Minimum Wage (UMK) has a positive and significant effect on Regional Original Revenue. Therefore, minimum wage policies should be implemented carefully by considering both worker welfare and business sustainability. In addition, wage increases should be accompanied by productivity improvements through training, skills development, and job creation in order to strengthen purchasing power and stimulate regional economic growth.
4. Simultaneously, FDI, DI, and UMK have a significant effect on Regional Original Revenue. Therefore, local governments should formulate coordinated policies between investment enhancement and labor market regulation. This policy synergy is expected to strengthen the regional economic foundation, improve public welfare, and sustainably increase regional financial capacity.

RECOMMENDATIONS

Policy Recommendations

Based on the research findings showing that Foreign Direct Investment and minimum wage significantly influence Regional Original Revenue (PAD), while Domestic Investment has not yet produced an optimal impact, local governments need to focus more on improving the overall quality of the investment climate rather than merely increasing the quantity of investment.

One common issue is that investors, particularly domestic investors, are often reluctant to invest due to complicated licensing procedures, regulatory uncertainty, and limited information regarding regional investment opportunities. Therefore, local governments should implement concrete measures such as simplifying licensing procedures through integrated digital services, increasing transparency in investment policies, and providing easily accessible investment information centers for prospective investors.

In addition, local governments should encourage improvements in investment quality rather than quantity alone. This can be achieved by directing investment toward productive sectors that contribute directly to increasing PAD, such as sustainable tourism, trade, and services. In this way, incoming investment will not only stimulate economic activity but also significantly expand the regional revenue base.

On the other hand, minimum wage policies should remain balanced between labor protection and business sustainability. Local governments can supervise minimum wage implementation while encouraging labor productivity improvements through training and skills development programs. Increased productivity ensures that wage increases do not become a burden for businesses but instead act as a driver of regional economic growth, ultimately contributing to higher Regional Original Revenue.

Academic Recommendations

1. Future studies are recommended to include other relevant variables, such as total tourist arrivals, economic growth, population size, unemployment rate, and the effectiveness of regional tax collection, to provide a more

comprehensive understanding of the factors influencing Regional Original Revenue.

2. Future research is also expected to employ a longer observation period and combine quantitative and qualitative methods to better understand long-term dynamics and institutional factors affecting regional fiscal performance.

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