



Literature Review on the Role of Public Investment in Promoting Sustainable Economic Growth in Indonesia

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ABSTRACT

Public investment plays a strategic role in driving sustainable economic growth in Indonesia. Through infrastructure development, job creation, and the reduction of social and economic disparities, public investment can enhance the welfare of society. This study analyzes the role of public investment using a literature-based approach regarding its impact on economic growth. The research findings indicate that the integration of sustainability principles in public investment, such as environmental, social, and governance (ESG), can enhance economic efficiency and maintain environmental sustainability. The main challenges in optimizing public investment include inter-agency coordination, transparency, and effective budget management. Case studies from other countries show that targeted public investment can accelerate inclusive economic development. Therefore, policy improvements and strict oversight are necessary to ensure that public investment contributes maximally to sustainable economic development in Indonesia

INTRODUCTION

Public investment is one of the important factors in supporting sustainable economic growth. With public investment, the infrastructure needed to support economic activities can be developed and improved. In addition, public investment can also create new jobs and improve the overall welfare of society. Therefore, it is important for the government and relevant stakeholders to understand the vital role of public investment in advancing a country's economy. Public investment plays a crucial role in driving sustainable economic growth in Indonesia by integrating environmental, social, and governance (ESG) principles into industrialization and economic policies. This approach not only increases production and exports but also ensures environmental sustainability and social welfare. The integration of sustainability principles in the industry can lead to increased efficiency, reduced environmental impact, and broader social benefits. Government support through regulations, fiscal incentives, and capacity building is crucial for achieving sustainable industrialization. (Emiliano & Yasin, 2024). In addition, public investment can also help reduce social and economic disparities between regions, so that sustainable economic growth can be felt by all layers of society. Therefore, careful and efficient planning of public investment is essential to achieve sustainable economic development goals.

LITERATURE REVIEW

Wise public investment can also help reduce economic disparities between regions, so that economic growth can be felt evenly by the entire society. In addition, the infrastructure built through public investment can also create new jobs, which will help reduce the unemployment rate in a country. One of the interesting aspects of current public sector investments is the balance of outcomes achieved wisely for the environment. Sustainable investments by major banks in Indonesia have shown a positive impact on economic growth, reduced unemployment, improved the welfare of local communities, and reduced greenhouse gas emissions. (Lumingkewas et al., 2023). Implementing GGF has shown significant effects on financial deepening, influencing sustainable development outcomes. Sustainable policy adjustments are necessary for long-term success. (Diartho, 2023). Public investment in Indonesia also plays a crucial role in strengthening the basic infrastructure that supports long-term economic growth. Public sector investment in Indonesia must involve all stakeholders, which can enhance the efficiency and effectiveness of resource use. In addition, investment in environmentally friendly infrastructure can help Indonesia achieve its emission reduction targets while supporting sustainable economic growth.

METHODOLOGY

The research method in this study uses a qualitative approach and literature analysis. The qualitative approach allows researchers to gain a deep understanding of complex and multidimensional issues. The library research method is used to gather relevant information and data from various reliable sources. Literature analysis is conducted to evaluate existing policies and programs as well as to identify potential improvements that can be made.

Qualitative research allows for an in-depth exploration of local needs and implementation challenges, informing policymakers about community concerns. (Bokemeier & Yount, 2019). Qualitative research studies often use library research methods to collect data from various sources, such as books and journals, allowing researchers to reconstruct knowledge and understand phenomena holistically in natural settings, emphasizing descriptive and inductive analysis. (Fadli, 2021).

RESULTS AND DISCUSSION

Public investment can be defined as expenditures made by the government to build and improve infrastructure and public services that can benefit society as a whole. The role of public investment in the economy is very important, as it can create new opportunities for economic growth, enhance a country's competitiveness, and improve the overall quality of life for society. Public investment can also help reduce social and economic disparities between urban and rural areas, as well as between different social groups. In addition, public investment can also provide broader access to quality infrastructure and public services, such as transportation, education, health, and sanitation. Public investment includes expenditures by national and local authorities for infrastructure with a lifespan of more than one year (Ivashko, 2023). It can be financed through various sources, including government budgets, loans, and user fees. (Ivashko, 2023). To target infrastructure investments to address the accumulation of economic and social infrastructure caused by socio-economic and spatial disparities, policymakers need indicators that capture national and per capita infrastructure needs for inclusive and sustainable growth and development. The literature on public infrastructure investment in economic development shows that its role is mediated through its contribution to the capital stock in the macroeconomic aggregate. (Josie, 2017). Types of investment the public can support growth economy sustainable.

Investment the right public can also help reduce disparity in access to services and infrastructure between area urban and rural. This is can help reduce gap social and economic issues that exist in society. In addition that, investment public that focuses on potential sectors For growth economy sustainable, such as energy renewable and technology green, also can give impact positive in term long. Government need consider types investment the public can support growth sustainable and inclusive economy. Investment more public even can also help increase quality life communities throughout the region. Investment public is very important For growth economy, act as catalyst For productivity and standards life (Danaj & Reçi, 2024). Investment public is booster policy main For overcome various challenge big faced society, namely climate change, trends demographics, digitalization, and shock economy and shocks others. Investment help put foundation for prosperity and well-being future economy in our cities and regions. Investment can also help reduce gap, adjust various place with trend big , increase resilience , and reduce impact shocks ("Making the most of public investment to address regional inequalities, megatrends and future shocks", 2022).

Factors Affecting the Effectiveness of Public Investment in Driving Economic Growth

Factors that can influence the effectiveness of public investment vary depending on the context and economic conditions of a country. Several factors that can influence the effectiveness of public investment include appropriate fiscal policies, transparency in investment management, and the availability of skilled and trained human resources. In addition, political stability and security are also important factors that can influence the success of public investment in driving economic growth. Therefore, it is important for the government and other stakeholders to work together in creating a conducive environment for effective and sustainable public investment. This can be achieved by continuously evaluating existing fiscal policies, improving transparency in public investment management, and enhancing the availability of quality human resources. In addition, political stability and security must also be maintained so that investors feel safe to make long-term investments. Thus, public investment can become one of the main drivers of a country's economic growth and can provide long-term benefits for society as a whole. Thus, the following measures and policies are important in the effort to create sustainable and inclusive development in Indonesia.

Fiscal policies, including budget regulations, taxes, and subsidies, have made a positive contribution to economic growth. However, there is a need to improve the efficiency of budget management and transparency in the use of public funds. (E & Wahyudi, 2024). Monetary policy, such as interest rate regulation and money supply management, significantly impacts economic growth. Balancing price stability with growth remains a challenge. (E & Wahyudi, 2024). Coordination between fiscal and monetary policies, along with structural reforms and institutional capacity building, is crucial for creating an environment that supports sustainable growth. (E & Wahyudi, 2024). III. Relationship Investment Public with Growth Economy Sustainable.

The Relationship Between Public Investment and Sustainable Economic Growth

Theoretical review of the relationship between public investment and sustainable economic growth, Well-executed public investment can have a positive impact on a country's sustainable economic growth. In a theoretical review, public investment is considered one of the factors that can drive sustainable economic growth. This is because public investment can create infrastructure that supports economic activities, increases productivity, and creates jobs that can improve the overall welfare of society. Therefore, it is important for a country to pay attention to public investment as one of the strategies to achieve sustainable economic growth. Public investment significantly contributes to long-term economic growth by enhancing physical capital and human resources, as evidenced in ASEAN countries where a two-way causal relationship has been identified. (Nhung & Ven, 2024). Theoretical models, such as the supermultiplier model, highlight that while public investment may not yield immediate long-term growth, it plays a crucial role in stimulating economic activity and addressing systemic challenges. (Gallo, 2024).

One example is that infrastructure investment in Brazil has been low over the past few decades, leading to significant gaps in all infrastructure sectors. To close this gap, public investment needs to be increased and made more effective, while additional private resources need to be mobilized. Improving strategic planning and effectively translating it into budget allocations over time will enhance the quality of infrastructure projects. Promoting foreign participation in public procurement will enhance competition and the value of public money, while strengthening SOE governance will improve the quality of infrastructure services ("Scaling-up Infrastructure Investment to Strengthen Sustainable Development in Brazil," 2024).

The role of investment shows that public investment has an impact on economic growth in this country. This is evident in several policies implemented in public sector investment policies that have resulted in changes successfully gathered through policy analysis conducted. In addition, this research also shows that there are several areas where public investment can be improved to achieve more sustainable economic growth. The success of public investment in Indonesia can be attributed to various factors, including effective government strategies, increased resource allocation, and positive impacts on economic growth and human development. The Ministry of Investment's initiative to create an Investment Opportunity Map has proven effective in increasing investment realization, demonstrating a structured approach to attracting capital. (Anwar et al., 2023).

Furthermore, this research also reveals that policies supporting effective and efficient public investment are crucial to ensure that public funds are used optimally. Investment, approached as a factor influencing the future, plays an important role in economic growth and development by stimulating the production process and creating new high-performing structures that correlate with the specific needs of individuals and society. From the perspective of access to resources, but also economic-social competition, economic development results in higher performance levels, which are certified based on qualitative and quantitative evaluation processes. In this context, the investment project analysis system must be based on operational principles and instruments with medium- and long-term impacts, capable of aligning with the strategic vision. (Dima et al., 2023).

Case Study of a Country that Successfully Implemented Public Investment for Sustainable Economic Growth

One example of a country that has successfully implemented public investment for sustainable economic growth is South Korea. With a focus on infrastructure and technology development, South Korea has been able to enhance its economic competitiveness and attract foreign investment. In addition, public investment programs have also successfully reduced the economic gap between urban and rural areas, as well as between different social groups. South Korea's approach to sustainable economic growth involves strategic public investments in green energy, digital finance, and support for small and medium-sized enterprises. (UKM). The transition from fossil fuels to renewable energy is the main focus, with significant investments aimed at

reducing gas imports and expanding green energy infrastructure. This strategy is expected to generate substantial economic growth, with projections showing growth rates between 7% and 35% from 2025 to 2040, depending on the scenario. (Ghezelbash et al., 2023). Through a strong commitment to public investment, South Korea has been able to accelerate economic growth and create an environment conducive to sustainable development in the future. Countries that prioritize public investment in infrastructure, such as roads and schools, often experience improved economic performance and resilience against economic downturns. (Ivashko, 2023).

Challenges and Obstacles in Optimizing the Role of Public Investment in Sustainable Economic Development in Indonesia

One of the main challenges faced by Indonesia in optimizing the role of public investment in sustainable economic development is the issue of coordination among government agencies. Sometimes, the policies made by one agency are not aligned with the policies of other agencies, thereby hindering the efficiency and effectiveness of public investment. In addition, the lack of transparency and accountability in the management of public investments also becomes an obstacle that needs to be addressed so that the goals of sustainable economic development can be optimally achieved. The inability of government agencies to work together synergistically can result in overlapping policies and inefficient resource use. In the developing countries of Central and Eastern Europe, public capital shocks have shown a long-term negative impact on GDP, indicating that the effectiveness of public investment can vary significantly based on context (Ocolişanu et al., 2022). This can be detrimental to sustainable economic development because it can create uncertainty for investors and hinder the growth of key sectors. Therefore, concrete steps are needed to improve coordination between agencies, as well as to strengthen oversight and reporting mechanisms so that public investment can have an optimal impact on sustainable economic development in Indonesia. Many sectors, including agriculture and fisheries, suffer from inadequate infrastructure, limiting market access and economic growth potential. (Potret et al., 2024). The need for improved infrastructure aligned with Environmental, Social, and Governance (ESG) criteria is crucial, yet capacity building remains a challenge. (Pambudi et al., 2023). Local governments often lack the authority and resources to attract investment effectively, leading to disparities in development across regions. (Haiti et al., 2024).

Implications of Research Findings on Public Policy and Investment Practices in Indonesia

One of the implications of this study's findings is the need for improvements in the oversight and transparency systems in the management of public funds. Community involvement in the oversight process is also a key factor in preventing corruption practices. In addition, there needs to be cooperation between the government, private sector, and society in optimizing public investment to achieve sustainable economic growth. All parties must work together to create a conducive environment for effective and efficient investment. This will help increase investor confidence and encourage stable economic growth. In addition, the improvement of education and public awareness about

the importance of sustainable investment also needs to be enhanced. The history of Indonesia's fuel subsidies exemplifies policy management errors, where short-term political considerations overshadow long-term economic benefits. (Dick, 2017). The increase in fuel subsidies every time there is a trend of rising international prices and the failure to stop them when prices fall should remind economists of some very unpleasant messages. First, the government does not adopt policy measures that involve short-term political suffering and is very unaware of or uninterested in opportunity costs. Second, although the government only talks about the environment and expresses concern about global warming, they have not been willing to make it a policy priority. Third, populism is at the core of politics and has become even more so in the era of democracy. (Dick, 2017).

CONCLUSION AND RECOMMENDATION

In the context of globalization and increasingly fierce economic competition, it is important for the government to continuously evaluate and adjust existing public investment policies. This aims to ensure that these investments truly have a significant impact in driving sustainable economic growth. Therefore, this research makes an important contribution by providing recommendations that can help the government design more effective and efficient policies. By conducting evaluations and adjustments to public investment policies, it is hoped that the government can ensure that the funds invested truly provide maximum benefits for economic growth. Indonesia's fiscal position is generally good and its policy-making is wise. However, the country still faces significant challenges in terms of economic and social development. Infrastructure, education, health, and social security are areas of expenditure that the government is striving to improve further, as this country has not yet achieved better results like those of other countries at the same level of development. (Ollivaud, 2017).

In the current context of Indonesia, it is important to emphasize that public investment is not merely a matter of fund allocation, but also a strategic instrument that can optimize existing resource potential, thereby facilitating the achievement of sustainable development goals. Through a comprehensive and integrated approach, public investment is expected to address the structural challenges faced by Indonesia, such as social inequality, limited access to basic services, and the need for adequate infrastructure. Thus, strengthening public investment policies becomes crucial to creating a conducive environment for economic growth and enhancing Indonesia's competitiveness on the global stage.

FUTHER STUDY

The government also needs to continue monitoring and evaluating the implementation of public investment policies to ensure that the programs that have been implemented run according to the plans and objectives that have been set. In addition, there needs to be good cooperation between the government, the private sector, and the community in supporting public investment to achieve sustainable economic growth. Thus, the strategic measures taken will have a

significantly positive impact on Indonesia's economic development in the future. The government also needs to ensure that the allocation of the budget for public investment is carried out efficiently and transparently so that it can provide maximum benefits to the community. With good collaboration between various parties, it is hoped that public investment can provide a positive impact not only in terms of economic growth but also in the overall improvement of community welfare. This will help Indonesia move towards a more sustainable and inclusive development direction in the future. To achieve this improvement, a comprehensive approach from the government is necessary, including in the budgeting process and in setting medium-term goals. The key element of Indonesia's recent history lies in the extraordinary efforts since the late 1990s to transition from a highly centralized governance system to a system with multiple tiers of government. (Ollivaud, 2017).

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