Journal of Financial Supervision and Audit
Volume 2, Number 1, 2023

ZERA

Optimizing Investment for Inclusive and Sustainable Development

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Abstract

Article history:
Received: January 12, 2023
Revised: February 28, 2023
Accepted: April 15, 2023
Published: June 30, 2023

Keywords:
Economic Growth,
Foreign Direct Investment,
Globalization,
Government Policy,
Investment.

Identifier:
Zera Open
Page: 44-59
https://zeraopen.com/journal/jfsa

Investment plays a fundamental role in driving economic growth, particularly in developing nations, by expanding production capacity, generating employment, and strengthening the economic foundation. Its effectiveness is shaped by internal factors such as political and economic stability, government policy, and institutional performance, as well as external dynamics including globalization and international markets. A deeper understanding of how these elements interact is essential to explain the link between investment and growth. This study explores the contribution of investment to economic development, identifies the main determinants of investment success, and evaluates the role of government and institutions in optimizing results. Adopting a Systematic Literature Review (SLR),with quality assessment based on the Critical Appraisal Skills Programme (CASP). The findings reveal that both domestic investment and Foreign Direct Investment (FDI) significantly contribute to GDP growth, technology transfer, and trade expansion. Stable governance, sound policies, and institutional quality are decisive, while globalization serves as an external driver.

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1. Introduction

A nation's economic growth is inseparable from the role of investment, which acts as one of the primary drivers in enhancing development performance. Investment contributes significantly to expanding production capacity, generating job opportunities, and reinforcing national competitiveness. Within the framework of development economics, the Savings and Investment Theory proposed by Harrod-Domar remains highly relevant. This theory emphasizes that growth is largely determined by the levels of savings and investment. When savings and capital investment are limited, economic growth tends to stagnate. Essentially, underdevelopment arises from capital scarcity, and development challenges stem from insufficient capital accumulation (Gherghina et al., 2019). In the case of developing economies, constraints on domestic capital represent a fundamental obstacle to growth. To address this gap, additional capital is required, both from local and international sources (Erten et al., 2021).

The inflow of foreign capital has become a crucial catalyst in expediting the development process. Beyond financial support, foreign investment introduces new technology, advanced management expertise, and improved access to global markets, all of which are essential for developing nations. However, attracting foreign investors is not automatic it depends heavily on internal conditions, such as macroeconomic stability, political security, and strong legal frameworks. These factors serve as prerequisites for sustaining long-term investor confidence (Aimon et al., 2019). The government, therefore, plays a central role in shaping a favorable investment climate. Policy instruments include fiscal incentives, streamlined

licensing procedures, and the formulation of sectoral regulations that define areas open to foreign investors. These efforts are not only intended to attract capital inflows but also to ensure that investment provides extensive benefits for the host economy. Such benefits include creating new employment opportunities, enhancing national production capacity, saving foreign exchange, and generating export revenue. For this reason, many developing countries continuously compete in refining their investment policies to achieve more resilient and sustainable growth (Hartini et al., 2022). Ivanenko et al. (2018) define investment as a structured plan for allocating resources to various projects ranging from large-scale to small initiatives with the expectation of obtaining future economic gains.

These gains are often expressed in monetary terms, whereas the initial capital invested can be in different forms, such as cash, land, machinery, or infrastructure. Because of its substantial costs and long-term implications, investment planning requires careful analysis to ensure feasibility. A thorough evaluation helps mitigate risks of financial losses while ensuring the economic viability of the project (Mohsin et al., 2021). In today's era of globalization, international capital mobility has intensified, providing opportunities as well as challenges for developing nations. Countries like Indonesia must proactively capitalize on these flows by strengthening the determinants that influence investor decisions. Factors such as regulatory transparency, bureaucratic efficiency, and infrastructure readiness can significantly affect the extent to which investment contributes to national development. By addressing these aspects, investment can be transformed into a dynamic engine for inclusive and sustainable growth (Alade et al., 2021). This study adopts a Systematic

Literature Review (SLR) method to explore the link between investment and economic development. The SLR framework is considered appropriate because it enables researchers to systematically identify, evaluate, and synthesize previous findings in a structured manner. The analysis in this study draws upon, particularly scientific articles, and both national and international journals that focus on investment and growth. The analysis carried out within this study is directed at identifying recurring themes, conceptual patterns, and consistent findings across the literature regarding the impact of investment on economic performance. In particular, attention is given to the extent to which investment fosters production expansion, employment absorption, and integration into global markets (Wang et al., 2020).

Moreover, the review highlights how internal conditions such as governance stability, political will, and institutional quality interact with external dynamics like globalization to shape investment outcomes. Based on this analysis, the study sets three main objectives. First, to examine the influence of investment on national economic growth, particularly in developing countries. Second, to identify key domestic factors that encourage or hinder the inflow of both domestic and foreign investment. Third, to assess the strategic role of government in fostering an enabling investment environment through policies that balance the interests of investors with broader national development goals. Through this approach, the study aims to provide a more comprehensive understanding of investment as a driver of sustainable economic development, while offering insights into how developing nations can maximize its potential

2. Methods

This research applies a Systematic Literature Review (SLR) to examine the relationship between investment and economic performance. The method was selected because it provides a transparent, structured, and systematic process for identifying, evaluating, and synthesizing findings from existing studies. By employing SLR, researchers are able to collect data comprehensively from diverse academic sources, offering an integrated perspective on how investment contributes to economic growth and which elements determine its effectiveness. The process begins with developing precise research questions, for instance: in what ways does investment influence economic growth, and what conditions facilitate or hinder its success. Once the questions are formulated, researchers establish inclusion and exclusion criteria to filter relevant literature. Examples include selecting journal articles published in a specific time period, focusing on the theme of investment and economy, and adopting credible methodologies. Searches are then carried out in academic databases such as Google Scholar, using keywords like investment, economic growth, and determinants of investment.

After gathering the literature, quality assessment is performed using tools such as the Critical Appraisal Skills Programme (CASP) to ensure that only rigorous studies are analyzed. Data extracted from selected works are synthesized both qualitatively and, where possible, quantitatively to identify recurring trends and consistent findings. For example, evidence often indicates that Foreign Direct Investment (FDI) plays a significant role in driving growth in developing nations, although its impact is strongly shaped by factors such as infrastructure quality,

political stability, and favorable government policies. The strength of SLR lies in its structured approach, which minimizes bias and bases conclusions on solid evidence. Moreover, this method helps uncover research gaps, such as insufficient studies on investment impacts within specific sectors or regions with unique economic characteristics. Therefore, this research not only deepens understanding of investment's role in growth but also provides a valuable foundation for future investigations. By applying SLR, the study contributes to knowledge on how investment can be better managed to support inclusive and sustainable economic development across different contexts.

3. Results

3.1. The Strategic Role of Investment in Promoting Inclusive and Sustainable Economic Growth

Investment holds a central position as a driver of economic growth, particularly in developing nations, as confirmed by findings from numerous literature reviews. Both domestic investment and foreign direct investment (FDI) function as primary engines for expanding production capacity, generating employment, and broadening the economic base of a country. Within economic theory, the Harrod-Domar model emphasizes that the rate of savings and investment serves as a decisive factor for growth. When savings are limited, investment levels remain low, which slows the pace of economic expansion. On the other hand, higher investment rates stimulate economic activity by reinforcing productive sectors (Alrawabdeh, 2022). Domestic capital plays a vital role in

infrastructure improvement, industrial expansion, and the advancement of production technology. Reliable infrastructure, including roads, seaports, and energy systems, creates favorable conditions for economic development. Domestic investment also frequently targets the enhancement of local resources, particularly small and medium-sized enterprises, which represent the backbone of developing economies. As these sectors expand, overall national productivity improves, which subsequently strengthens Gross Domestic Product (GDP) performance (Rahman & Alam, 2021).

Meanwhile, FDI contributes not only by supplying capital but also by transferring technology and introducing modern management systems. Nations able to attract significant amounts of FDI often experience gains in competitiveness in international markets. For instance, multinational corporations operating in developing regions typically bring in advanced technology and workforce training, which elevate human resource quality. Moreover, FDI facilitates access to global trade networks, enabling host countries to boost exports and solidify their position in the world economy. Evidence shows that countries such as China and Singapore have effectively utilized FDI to accelerate growth, achieving substantial GDP increases after successive inflows of foreign capital (Valiyevna & Hamidhanovich, 2019). Nonetheless, the effectiveness of investment in fostering growth does not depend solely on the volume of funds but also on enabling conditions such as policy frameworks and institutional performance. Transparent and consistent government policies offer assurance to both local and foreign investors. Measures like tax incentives, simplified licensing, and legal protection of property rights encourage

larger inflows. Conversely, issues such as complicated bureaucracy, corruption, or legal uncertainty weaken investor confidence. Countries with strong institutional capacity, including independent courts and reliable law enforcement, are better positioned to optimize the benefits of investment. For example, studies within ASEAN reveal that states with low corruption and favorable investment regulations, such as Singapore and Malaysia, secure more FDI compared to those with weak governance systems (Widarni & Bawono, 2021).

Political and macroeconomic stability are equally significant. Instability arising from conflict or abrupt political transitions can discourage investors, while economic instability, such as soaring inflation or volatile exchange rates, undermines investment attractiveness. As a result, governments need to uphold stability through prudent fiscal and monetary measures. Human capital quality and infrastructure availability also strongly influence investment outcomes. A skilled workforce increases efficiency and attracts investors seeking competent labor markets. Similarly, adequate infrastructure such as reliable electricity, transport links, and digital connectivity is essential for sectors like manufacturing, services, and technology. Investment in education and training further creates multiplier effects, as a more capable workforce improves productivity while simultaneously making the country more appealing for future investors.

Despite these opportunities, challenges remain, particularly concerning uneven distribution of investment benefits. In some contexts, investments are concentrated in specific regions or industries, thereby widening disparities between areas. To mitigate this, governments must implement strategies that promote

inclusive growth, for example by establishing special economic zones or offering targeted incentives to stimulate investment in underdeveloped areas (Klofsten et al., 2019). However, its success relies on a combination of factors: effective government policy, institutional quality, political stability, human resource capacity, and supporting infrastructure. By adopting an integrated and balanced approach, countries can maximize the developmental benefits of investment and ensure that growth is both inclusive and sustainable.

3.2. Synergy of Internal and External Factors in Optimizing Investment for National Development

The ability of investment to effectively drive economic growth in a country is not determined solely by the volume of capital inflows but by a combination of interacting factors, both internal and external, as emphasized in numerous studies. These determinants include the stability of the economy and politics, government policies, institutional strength, legal certainty, and global dynamics such as market fluctuations and international trade agreements. A nation's capacity to manage these aspects determines the conduciveness of its investment climate, which in turn accelerates growth through expanded production capacity, job creation, and broadening of the economic base (Zvonova et al., 2021).

Among the most decisive internal elements, economic and political stability consistently emerge as dominant in shaping investor confidence. Macroeconomic stability, reflected in low inflation, predictable exchange rates, and steady GDP performance, offers a sense of assurance for investors seeking to preserve their

capital's value. Likewise, political stability minimizes risks linked to abrupt regime changes, domestic conflicts, or social unrest that can erode trust in long-term projects. Evidence demonstrates that highly stable economies, such as Singapore and South Korea, succeed in attracting sustained investment flows because of this reliability. On the contrary, instability ranging from hyperinflation to prolonged armed conflict tends to repel both domestic and foreign direct investment (FDI). Consequently, governments are urged to prioritize stability through prudent fiscal policy, sound monetary management, and consistent diplomatic engagement (Mazelis et al., 2020).

Government policies also play a pivotal role in enhancing investment attractiveness. Investor-oriented incentives, such as tax reductions, subsidies for priority industries, or favorable credit schemes, significantly influence capital inflows. Equally important is streamlining bureaucratic procedures, particularly business licensing, which often acts as a barrier when it is lengthy and costly. In addition, governments need to strike a balance between openness to foreign investors and national economic priorities. Regulations covering foreign ownership, local labor absorption, and environmental considerations must be clearly established to safeguard domestic interests. Infrastructure development also forms the backbone of investment attractiveness. Adequate transport networks, energy supply, and digital infrastructure improve operational efficiency and reduce production costs. China illustrates this success through large-scale infrastructure expansion paired with supportive investment regulations, which substantially boosted its GDP and export capacity (Klofsten et al., 2019).

Another equally crucial determinant lies in institutional quality and legal enforcement. Strong and independent institutions, including effective judicial systems and credible anti-corruption agencies, reassure investors about the protection of their assets and rights. Legal certainty, especially in contract enforcement and property protection, is indispensable for long-term projects that require significant sunk costs. Nations like Denmark and New Zealand, renowned for low corruption and efficient governance, stand out as top destinations for international investment. In contrast, countries plagued by corrupt practices and weak legal frameworks often struggle to maintain steady inflows. The literature highlights that reforms emphasizing transparency, accountability, and institutional strengthening can significantly boost investor confidence (Saleh et al., 2020).

Beyond domestic conditions, global factors also affect investment outcomes. Globalization facilitates the mobility of capital across borders, but it simultaneously creates intense competition among countries seeking to capture investor interest. Fluctuations in global commodity prices, for instance, directly shape investor priorities in sectors such as oil, minerals, or agriculture. Additionally, foreign trade policies, including tariffs and preferential trade agreements, influence investment attractiveness by either expanding or restricting market access. Countries engaged in extensive trade agreements are generally more appealing, as investors view them as gateways to wider export opportunities. Nevertheless, scholars consistently underscore that internal conditions remain the principal determinants, as external advantages can only be maximized if domestic fundamentals are robust (Dahliah et al., 2020).

To ensure that investment delivers optimal benefits, governments must adopt a holistic and integrated strategy. Investment in education and vocational training, for example, can enhance the quality of human capital, making the labor force more attractive to investors who seek skilled and adaptable workers. Equitable distribution of investment gains also requires attention. If capital inflows concentrate in specific regions or sectors, disparities may worsen, fueling social and regional inequalities. To address this, policymakers can establish special economic zones, offer incentives for investment in lagging areas, and promote balanced regional development. This approach helps ensure that economic benefits are spread more inclusively, reducing the risks of uneven growth and social tension (Khan et al., 2021).

The success of investment as a driver of economic growth rests on the synergy between multiple components: economic and political stability, pro-investment policies, reliable and transparent institutions, strong legal frameworks, and the effective utilization of global opportunities. When these factors are aligned and mutually reinforcing, investment not only raises GDP and generates employment but also supports sustainable, equitable, and long-term economic transformation. Without such integration, investment potential may remain underutilized, limiting its ability to serve as a catalyst for comprehensive development. Thus, governments and policymakers are challenged to maintain stability, refine institutional frameworks, and strengthen human capital while simultaneously leveraging global market opportunities to maximize the transformative role of investment in national growth.

4. Conclusion

The findings of this study demonstrate that both domestic and foreign investment play a vital role in driving economic growth. Investment not only enhances production capacity but also generates employment opportunities, widens market access, and accelerates the transfer of technology. For developing countries, the success of investment is strongly influenced by internal conditions such as stable economic performance, political certainty, institutional strength, legal enforcement, and government regulations that foster a supportive investment climate. The role of government is central in ensuring that investment contributes effectively to national development. Policies designed to attract capital, such as fiscal incentives, efficient licensing systems, and clear investment regulations, are essential to encourage investor confidence.

In addition, the development of adequate infrastructure, including transportation, energy, and digital facilities, provides a foundation that enables investment activities to operate more effectively. Properly managed, investment can become a strategic driver of inclusive and sustainable economic progress. Its impacts are not limited to increasing capital flows for investors but extend to strengthening national competitiveness, fostering innovation, and improving community welfare. Therefore, effective coordination between the state, private sector, and local communities is crucial to ensure that investment outcomes benefit all stakeholders. By creating an enabling environment, countries can maximize the long-term advantages of investment to achieve balanced and sustainable economic growth.

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