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Factors Determining Economic Growth: Analysis and Implications for the Global Economy

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ABSTRACT
Economic growth is one of the main indicators in assessing the progress of a country and its impact on the global economy. This study aims to analyze the factors that influence economic growth, both from the internal side (such as domestic economic policies, investment, and human resources) and external (such as international trade, technology, and globalization). Global economic growth is greatly influenced by integration between countries in terms of trade, investment, and capital flows. Countries that are able to optimize these factors have a greater opportunity to improve the level of welfare of their people and reduce the development gap between countries. The economic growth model applied in this study combines classical and modern theories, and uses quantitative analysis methods such as linear regression to assess the relationship between economic variables and growth. The results of the study indicate that domestic and foreign investment have a significant influence on economic growth. In addition, the quality of the workforce and government policies also play an important role in creating a conducive economic climate. Technology and innovation are key factors in increasing a country's productivity and competitiveness in the global market. The implications of this study emphasize the importance of economic policies that support global economic integration and encourage increased investment and adoption of new technologies. Countries also need to pay attention to external factors that affect the domestic economy, such as international trade policies and capital flows. In a global context, international collaboration and global economic stability are important factors in creating sustainable and inclusive growth for the whole world.

INTRODUCTION

Economic growth remains a central indicator in assessing a nation's development, as it represents the rising production and consumption of goods and services over time (Peng et al., 2024; Sainsbury, 2020). A growing economy signifies improvement in living standards, increased employment opportunities, and reduction in poverty levels. In essence, the ability of a country to achieve sustained and inclusive growth becomes a fundamental objective of its development agenda (Doğan et al., 2022).

Achieving high and sustainable economic growth is not merely an economic concern but also a social imperative, as it directly impacts citizens' quality of life (Kocak & Cavusoglu, 2024; Maroufi & Hajilary, 2022; Shah & ul Haq, 2022). Economic growth enhances access to education, healthcare, and infrastructure, thereby contributing to social welfare. However, the achievement of such growth is not isolated from the external environment; it is shaped by the interconnected global economy that continues to evolve (Li et al., 2024).

A multitude of internal and external factors contribute to economic growth. Internally, policies related to investment, human capital development, infrastructure, and sound governance play vital roles in shaping economic performance. On the external front, factors such as technological advancement, globalization, and international economic relations significantly influence the growth trajectory of a country (Novandi & Adi, 2019).

Investment plays a key role in stimulating economic growth, as it provides the capital required to expand productive capacities. Both domestic investment and foreign direct investment (FDI) drive growth by financing infrastructure, enhancing industrial output, and fostering innovation. Particularly, FDI is critical in facilitating the transfer of new technologies, managerial expertise, and access to global markets (Benkraiem et al., 2021).

In addition to financial capital, technological progress is another powerful engine of economic growth. Technology increases production efficiency, reduces operational costs, and enables the development of new products and services. Countries that integrate technology effectively within their economic systems experience accelerated productivity growth and greater international competitiveness (Arcos-Aguilar et al., 2021).

Globalization has amplified the interdependence among nations through trade, investment flows, and financial integration. It opens up access to larger markets, facilitates the adoption of foreign innovations, and creates new economic opportunities. Nevertheless, globalization also exposes countries to external risks such as financial crises, commodity price shocks, and fluctuating global demand (Kausar et al., 2021).

Government policy remains a critical instrument in shaping the economic environment. Through stable fiscal and monetary policies, regulatory reforms, and institutional strengthening, governments can create conditions favorable to investment and innovation. Policies that prioritize infrastructure development, education, and research are essential in building long-term growth foundations (Kristanti et al., 2023).

The global economic system is increasingly interconnected, making national economies vulnerable to global shocks. For instance, a financial crisis in one region can trigger ripple effects across others, particularly in trade-dependent economies. As such, building domestic economic resilience and adopting adaptive policy responses become necessary to withstand global economic turbulence (Cappelletti, 2020)

Understanding the complex interaction of internal and external growth determinants allows policymakers to formulate more precise and effective economic strategies. A narrow focus on a single factor is insufficient; instead, a holistic and integrated approach is needed to promote sustainable development. The synergy between investment, technology, globalization, and government policy must be strategically managed.

economic growth is a multidimensional process influenced by a wide array of domestic and international dynamics. As countries navigate the complexities of a globalized economy, a nuanced understanding of growth determinants becomes increasingly essential. The urgency of this discourse lies in the fact that nations today are confronted not only with traditional development challenges but also with pressing global issues such as post-pandemic recovery, climate change, technological disruption, and geopolitical instability. These multifaceted challenges demand more than conventional policy responses; they require adaptive, inclusive, and forward-looking strategies that can ensure sustainable and equitable economic development.

This paper offers a novel contribution by integrating classical economic growth theory with contemporary dynamics such as digital transformation, sustainable investment practices, and resilience-based economic governance. Unlike traditional approaches that often treat economic growth determinants in isolation, this analysis emphasizes the interconnectedness of investment, technology, globalization, and government policy in shaping economic trajectories. The novelty of this approach lies in presenting a comprehensive framework that not only captures the evolving nature of global economic interdependence but also provides actionable insights for designing growth strategies that are responsive to the realities of the 21st-century global economy.

METHOD

This study aims to examine the key determinants of economic growth, focusing on the roles of investment, technology, globalization, and economic policy, as well as their collective impact on the global economy. Employing a qualitative, the research seeks to explore both statistical relationships among economic variables and the broader dynamics of economic policy implementation across different countries (Goyal & Deshwal, 2023).

The research adopts a descriptive analytical design with qualitative methods such as thematic interviews. The study's population consists of countries experiencing varying degrees of economic growth and globalization. A purposive sample of 15 countries including both developed and developing economies like the United States, China, Indonesia, and Brazil was selected to represent diverse economic systems and policy environments, allowing for comprehensive cross-national comparisons (Abramovitz et al., 1964; Alchian & Demsetz, 1972).

Secondary data were collected from credible sources such as the World Bank, IMF, WTO, and national government reports. Key indicators analyzed include GDP, foreign investment, unemployment, inflation, technology adoption, and trade openness (Moktar et al., 2024). In addition, qualitative data were obtained through interviews with economists and policymakers to provide deeper insights into practical aspects of economic policy, investment dynamics, and globalization impacts.

Data collection was conducted through documentation studies and expert interviews. Quantitative data were analyzed using multiple linear regression and correlation tests to assess the impact of each determinant on economic growth. Simultaneously, qualitative data were examined through thematic analysis to identify emerging patterns related to policy strategies, technological integration, and the responses of countries to global economic challenges.

The analysis process included descriptive statistics to summarize data characteristics, regression analysis to test the influence of each growth factor, and thematic interpretation of interview results. Triangulation was applied to enhance the validity of the findings by comparing interview insights with secondary data. The integration of both methods offers a robust framework for understanding how internal and external factors jointly shape economic growth trajectories across different national contexts.

RESULTS AND DISCUSSION

This study aims to analyze the factors that influence a country's economic growth, with an emphasis on investment, technology, globalization, and economic policy, and how these factors interact in the context of the global economy. Based on the data collected and the analysis conducted, the main findings reveal that these factors are interrelated and have a significant influence on the rate of economic growth. This discussion will detail the results of the analysis, as well as explore the policy implications and challenges faced by countries in the context of globalization.

1. The Impact of Investment on Economic Growth

Investment is widely recognized as one of the primary drivers of economic growth, encompassing both domestic investment and foreign direct investment (FDI). It serves as a crucial source of capital formation that enables the expansion of production capacity and improves the productivity of existing economic sectors. As investment levels increase—typically measured as a proportion of gross domestic product (GDP)—countries often experience a corresponding rise in economic growth. However, this relationship is not always linear, as other factors such as economic policy frameworks, technological advancement, and institutional quality also play essential roles in shaping growth trajectories.

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Economic Growth (%)
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|                *
|             *
|          *
|       *
|    *
| *
|_____________________________________________
              Investment (% towards PDB)
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Domestic investment significantly contributes to economic development, particularly through its impact on infrastructure, manufacturing, and services. Nations with higher levels of domestic capital formation tend to exhibit faster and more robust economic growth. Investment in technological infrastructure, industrial facilities, and production systems enhances a country's competitiveness in both local and international markets. Nevertheless, in many developing economies, domestic investment is frequently constrained by political uncertainty, bureaucratic inefficiencies, and economic instability. These obstacles underscore the importance of supportive policy environments that can encourage and stimulate domestic investment. Governments that implement pro-investment fiscal measures—such as tax reductions for productive sectors and incentives for entrepreneurs—are more likely to foster domestic capital accumulation and sustain long-term economic development.

In addition to domestic capital, foreign direct investment plays a pivotal role in the global economic landscape. FDI not only brings capital inflows but also introduces advanced technologies, managerial competencies, and access to international markets. Empirical studies have demonstrated that FDI significantly contributes to economic growth, particularly in developing countries, by enhancing production capacity, stimulating exports, and promoting economic diversification. Countries that have successfully attracted large volumes of foreign investment—such as China, India, and several Southeast Asian nations—have utilized these resources to develop infrastructure, strengthen industrial sectors, and create employment opportunities. Moreover, FDI facilitates the transfer of knowledge and technological innovations that enhance productivity and improve competitiveness on a global scale. In this context, the ability of countries to attract and retain foreign investment depends heavily on the presence of conducive policy environments, including efforts to simplify bureaucratic procedures and provide strategic incentives tailored to investor needs.

2. The Role of Technology in Driving Economic Growth

Technology plays an essential role in enhancing productivity and efficiency across virtually all sectors of the economy. Countries that successfully embrace technological advancements are better equipped to optimize resource utilization, improve the quality of goods and services, and reduce production costs—factors that collectively stimulate economic growth. Empirical observations indicate that economies with higher levels of technology adoption often experience accelerated development, as they can respond more effectively to global market demands and achieve competitive advantages through innovation.

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Economic Growth (%)
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|  *
|_____________________________________________
            Globalization Index
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A positive correlation can be observed between a country's level of globalization measured by its integration in international trade and capital flows and its economic growth performance. Although the strength of this relationship may vary depending on sectoral dynamics and national policy frameworks, there is a consistent trend highlighting the significance of market openness and global connectivity. Countries that are more integrated into global markets tend to enjoy better growth outcomes due to increased access to international technology, investment, and knowledge exchange.

Technological innovation, particularly in manufacturing and service sectors, has been found to have a substantial impact on economic performance. The implementation of cutting-edge technologies such as industrial automation, artificial intelligence (AI), and the Internet of Things (IoT) has significantly enhanced production processes and enabled countries to compete more effectively in the global arena. Technology-induced productivity improvements contribute not only to higher output levels but also to lower production costs and more affordable goods and services, ultimately increasing consumer purchasing power. Countries that prioritize investment in research and development (R&D) and foster innovation within the private sector tend to exhibit stronger economic growth trajectories.

Digital transformation has emerged as a major driver of global economic development in recent years. The rapid adoption of digital technologies—including e-commerce platforms, digital payment systems, and cloud-based services—has created new economic opportunities and increased the efficiency of service delivery. Nations such as Estonia and Singapore, which have successfully integrated digital tools into various aspects of governance, education, and public administration, demonstrate how digitalization can accelerate growth by improving transparency, accessibility, and the effective allocation of resources.

Despite the numerous advantages that technology offers, developing countries continue to face considerable challenges in technology adoption. Limited infrastructure, inadequate digital literacy, high costs of education, and restricted access to advanced technologies hinder the development of technology-driven economies. For these nations, strategic investments in education, digital infrastructure, and workforce training are imperative to bridge the technological divide and unlock the full potential of innovation-driven growth.

3. Impact Of Globalization on Economic Growth

Globalization has significantly transformed the structure and functioning of the global economy. Through increasing integration in international trade, foreign direct investment, and technological exchange, globalization has opened a multitude of opportunities for countries to accelerate their economic development. The process of economic interconnectedness allows nations to access broader markets, share innovations, and attract external resources that support their growth. Although the extent of its impact may differ across economic sectors and policy frameworks, globalization generally contributes positively to enhancing economic performance and competitiveness in the international arena.

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Economic Growth (%)
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|                 *
|              *
|           *
|        *
|     *
|  *
|_______________________________________________
             Globalization Index
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Empirical trends demonstrate that countries with higher globalization indexes—reflecting deeper engagement in trade and capital flows tend to experience stronger economic growth. This suggests that greater openness to international markets plays a pivotal role in driving economic expansion. International trade, in particular, serves as a crucial mechanism by which countries can scale up production, increase exports, and benefit from economies of scale. However, globalization also presents notable challenges, especially for countries that rely heavily on specific commodities or industrial sectors. Such dependency renders them vulnerable to global market volatility, price fluctuations, and external economic shocks. In response, many developing nations are striving to diversify their economies and enhance the resilience of domestic industries to mitigate these risks.

In this globalized context, international institutions such as the World Trade Organization (WTO) and the International Monetary Fund (IMF) have a significant influence in shaping global economic governance. These organizations play a central role in promoting fair trade practices, stabilizing global markets, and offering frameworks for international cooperation. Countries that align themselves with international trade norms and engage in cooperative economic policies often achieve better growth outcomes, as they are better positioned to capitalize on globalization's benefits. Nonetheless, disparities in the gains from globalization remain evident, with developed countries often deriving more substantial benefits than developing nations. To address this inequality, it is essential for developing countries to adopt strategic policies that enhance their capacity to compete in global markets while avoiding overreliance on external actors. Equipping domestic industries with the necessary tools and support systems is vital to ensure that globalization translates into inclusive and sustainable economic growth.

4. Economic Policies That Support Growth

Appropriate economic policies play a critical role in shaping the trajectory of a country's growth. Pro-growth strategies such as supportive fiscal policies, sound monetary frameworks, and liberal trade regimes tend to accelerate economic development by fostering a favorable environment for investment and innovation. Countries that implement well-structured and forward-looking economic policies are generally more successful in attracting both domestic and foreign capital, thus reinforcing the foundation for sustained economic expansion. Empirical observations suggest that nations with higher scores on economic policy effectiveness particularly in promoting foreign direct investment tend to receive larger inflows of international capital. This indicates that open and supportive policy environments are instrumental in facilitating investment-driven growth.

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Foreign Direct Investment ($ Million)
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|            *
|          *
|       *
|    *
|_________________________________________
          Economic Policy Score
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Fiscal policy is a central component in promoting productive investment. Governments that offer tax incentives for strategic sectors such as infrastructure, industrial development, and research and development are better positioned to stimulate private sector participation and foster innovation. Moreover, efficient budget management, including reduced fiscal deficits and well-targeted public spending, enhances investor confidence and contributes to macroeconomic stability. Alongside fiscal measures, monetary policy also plays a significant role in sustaining growth. Maintaining stable inflation and moderate interest rates helps to create a predictable economic climate, which is crucial for investment planning and long-term economic activity. In economies where price stability is ensured, both domestic and foreign investors are more likely to commit resources, thereby supporting broader economic progress.

Additionally, structural reforms that enhance governance quality, reduce regulatory burdens, and improve institutional efficiency are vital in supporting economic growth. These reforms help to eliminate systemic inefficiencies and foster a business environment characterized by transparency and accountability. At the same time, inclusive economic policies those that ensure the equitable distribution of growth benefits across all segments of society are essential in promoting long-term social cohesion and reducing income disparities. Inclusive development strategies not only contribute to economic resilience but also help establish a more stable and productive socio-economic environment in which growth can flourish sustainably.

CONCLUSION

This study examines the complex factors that drive economic growth within the global economic system, focusing on the critical roles of investment, technology, globalization, and economic policy. These elements do not operate in isolation but are interrelated, influencing a country's strategic decisions and shaping its participation in the global economy. The findings highlight the need for a comprehensive understanding of how these factors interact and offer essential insights for crafting sustainable and inclusive growth policies.

Investment remains a fundamental pillar of economic growth, particularly through capital accumulation facilitated by both domestic and foreign direct investment (FDI). Countries that succeed in attracting FDI often benefit from improved production capabilities, technology transfer, and expanded access to global markets. However, challenges such as political instability, inadequate infrastructure, and regulatory constraints often hinder investment in developing countries. As such, policy frameworks that enhance infrastructure development, reduce legal uncertainties, and provide fiscal incentives are crucial to fostering a more favorable investment environment.

Technological advancement is a transformative force in the modern economy, enhancing productivity and innovation across sectors. Digitalization, automation, and artificial intelligence have revolutionized manufacturing and service industries, enabling countries to achieve higher output and lower production costs. However, disparities in technological infrastructure and workforce readiness continue to limit progress in many developing countries. Therefore, strategic investment in research and development, human capital, and digital infrastructure is essential to harness the full potential of technological innovation and mitigate the widening gap between developed and developing economies.

Globalization, characterized by increased economic interdependence through trade, investment, and knowledge exchange, presents both opportunities and challenges. While open trade policies and global integration can drive specialization and efficiency, heavy reliance on specific commodities or sectors exposes countries to external shocks. Moreover, the unequal distribution of globalization's benefits often disadvantages developing nations. Thus, policymakers must strike a balance between engaging in global markets and strengthening domestic economic resilience through diversification and enhanced competitiveness.

Finally, the study emphasizes that economic growth depends on the synergy between these driving factors, rather than any single element alone. Investment, for instance, becomes more impactful when supported by sound economic policies and openness to global markets. In a rapidly evolving global environment marked by technological disruption, climate change, and geopolitical shifts, countries must adopt holistic and adaptive policy strategies. Sustainable economic growth will depend not only on accelerating innovation and capital flow but also on ensuring inclusiveness, social equity, and long-term economic resilience.

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