

# CHAPTER I

## INTRODUCTION

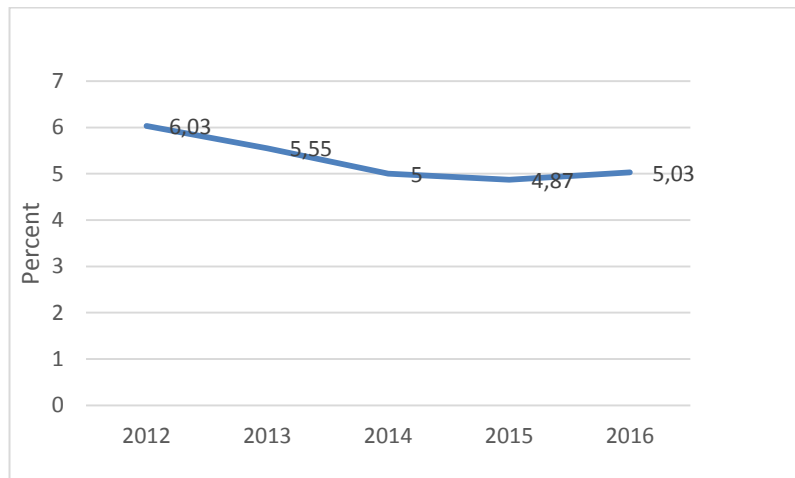
### A. Research Background

Economic development can be defined as a capacity of an economy that was initially unfavorable and static in a long period of time to create and maintain an increase in Gross Domestic Product (GDP) (Todaro, 2006). Economic development is never separated from economic growth, because economic development does not only cover economic growth, but also includes broader things such as changes in savings and investment and the structure of the economy. Economic growth indicators are very important to be carried out in carrying out a country's economic development. This will explain the situation well regarding macroeconomic conditions as well as policies that have been implemented by policy makers.

Economic growth will be achieved if every country has economic potential can be optimally empowered and supported by the economic empowerment of the country, one of which is Indonesia. Economic growth explains and measures the level of development of an economy, both within the region and country. Rapid and stable economic growth is expected to have a positive impact both directly and indirectly on other economic variables. In realizing the expected economic growth, the government has several policy components that can be used to realize the economic growth to be achieved. One of them is through international trade policy

Furthermore, economic growth is the economy problem of a country in the long run towards a better situation over a period of time and can also be linked as a condition of an increase in the production capacity of an economy manifested in the form of an increase in national income (Ernita, Amar, & Syofyan, 2013). The country's economic growth can come from increasing capital through public investment and savings, improving the quality and quantity of labor through the growth of the workforce and increasing knowledge and skills as well as the improvement of technology in the production process.

Economic growth can be measured by the development of the value of Gross Domestic Product (GDP) in reflecting the welfare of the population on a national scale. Gross Domestic Product as one of the economic indicators contains various economic instruments that explain the macroeconomic conditions of a country with its economic growth, per capita income and various other economic instruments. The GDP figure is very necessary because in addition to the material for development planning analysis it is also a barometer for measuring the results of development that have been carried out. The following is a graph of Indonesia's economic growth in 2012-2016:

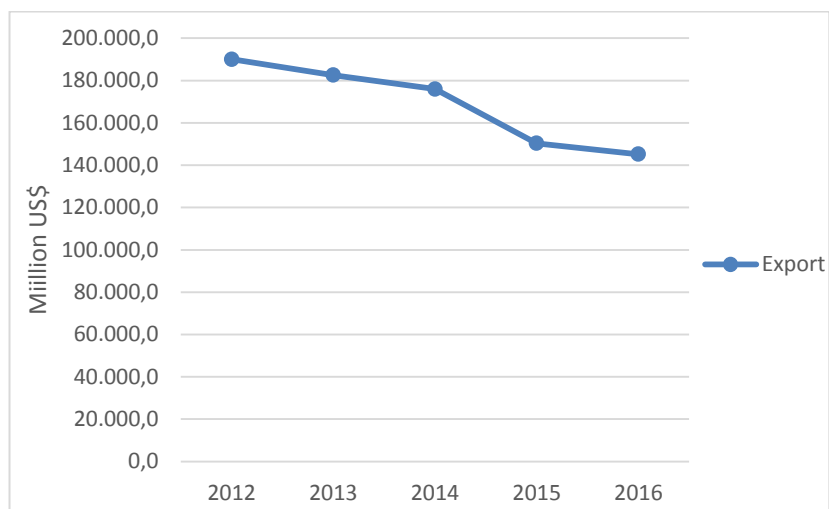


Source: World Bank 2018

**FIGURE 1.1.**  
Gross Domestic Product (GDP) in 2012-2016 (Percent)

From the Figure 1.1 above shows that Indonesia's economic growth during the period of 2012 to 2016 experienced fluctuations. Indonesia's economic growth was highest in 2012 at 6.03% and continued to decline until 2015 to 4.87%. Furthermore, in 2016 it increased by 5.03%.

Export plays an important role in the economic activities of a country. Exports will generate foreign exchange which will be used to finance the import of raw materials and capital goods needed in the production process which will form added value. The aggregation of added value generated by all units of production in the economy is the value of Gross Domestic Product (Primandari, 2017). The data of Indonesia Export for 2012-2016 can be described as follows:



Source: Central Bureau of Statistics (BPS) 2018

**FIGURE 1.2.**  
Indonesia Export Value in 2012-2016 (million US\$)

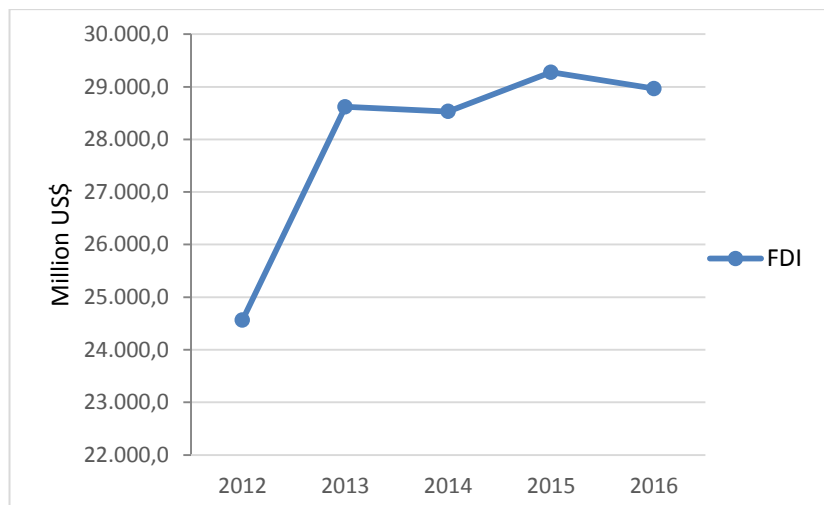
Based on Figure 1.2 above, it can be seen that during the period of 2012-2016, where for five years the value of Indonesia's exports tended to decline. In 2012 Indonesia's highest export value reached US \$ 190.020,3 million, then the export value continued to decline until 2016 reached 145.186,2 million US \$ and was the lowest export value. According to the Ministry of Trade, the main obstacle to Indonesian export is the physical barriers in customs in the form of inspections of goods that must be in accordance with the accompanying documents, such as the type and amount of goods contained in the document. Another obstacle is the import duty applied by each destination country.

Capital stock or investment is an important factor in determining economic growth and economic development. With the presence of new investments, it is possible to create new capital goods so that it will create new jobs or employment opportunities that can absorb labor which will ultimately reduce unemployment. With the existence of new investments, there will be additional output and new

income on the production factor, so that it will encourage economic growth. The investment can be in the form of Domestic Investment (DI) or Foreign Direct Investment (FDI).

Investment in Indonesia is regulated by Law No. 25 of 2007 Article 1) concerning Investment, what is meant by Foreign Direct Investment is investing activities to do business in the territory of the Republic of Indonesia carried out by foreign investors, both using foreign capital fully and which is in combination with domestic investors. Foreign capital security is needed for developing countries to help accelerate economic growth. This is because the role of foreign capital helps in the industrialization and renewal of technology used in these developing countries. In addition, foreign capital is needed to create new employment opportunities and increase the skills of security of the workforce.

To support the economic development efforts of a country, the government needs to make policies that support mutually beneficial investment for both the local government, the private sector and the community. The growth of a healthy and competitive investment climate is expected to spur the development of mutually beneficial investments in the country's development. To view data on the development of foreign direct investment in 2012-2016 can be seen in the graph as follows:



Source: Central Bureau of Statistics 2018

**FIGURE 1.3.**

Foreign Direct Investment of Indonesia Period 2012-2016 (million US\$)

Based on figure 1.3, it can be seen that over the past five years, namely in 2012-2016, foreign direct investment in Indonesia tended to fluctuate and the highest number of foreign direct investment in 2015 reached 29.275,9 million US \$. Indonesia experienced a drastic decrease in 2012 amounting to 24.564,7 million US \$ and began to improve in subsequent years until 2015 and the following year tended to decline in 2016, reaching 28.964 million US \$.

Besides investment, labor is also a factor that influences a country's output. Labor is a factor of production that is able to increase the usefulness of other production factors (cultivating land, utilizing capital etc.) so that the company views labor as an investment and many companies that provide education to their employees as a form of capitalization of labor (Maharani, 2016). To overcome the balance between supply and demand for labor, one of the

goals of national development is the expansion of employment opportunities that can be done through increased investment.

If the amount of labor is greater then the amount of productive work increases. While the larger population growth means the size of its larger domestic market. However, we still question whether the rapid growth of labor supply in developing countries (so many of them are overweight) actually depends entirely on the economic system concerned to absorb and productively utilize the additional labor.

Research on economic growth which carried out by Sothan (2016) where based on the results show that there is long-run bidirectional causality between FDI and GDP and between exports and GDP. This can be concluded that FDI and exports do have causal impact on long-run growth in the countries being investigated. The result of research conducted by Mahadika (2017) found that export volume and FDI have significant influence on economic growth of Indonesia. In addition, according to Johansen co-integration test, there is long-run relationship between GDP, FDI and export volume of Indonesia.

The result of research conducted by Kilavuz & Topcu (2012) show that based on results of the first model, the analysis of which included variables such as high and low-tech manufacturing industry exports, investment and population, it was found that only two variables, high-tech manufacturing industry export and investment, have a positive and significant effect on growth. In addition to the first model which included the analysis of all variables, the second model investigated the effect of high and low-tech manufacturing industry imports on

growth. The findings revealed that only high-tech manufacturing industry export, investment and low-tech manufacturing industry import have a positive and significant effect on growth. The result of O., S, & O (2015) research show that only total Export remains positive and significant while others remain insignificant, which means, Nigeria is running a monocultural economy where only oil act as the sole support of the economy without tangible support from other sectors such as industrial/manufacturing and agriculture.

The result of Ali & Hussain's research (2017) show that the results of the study reveal that FDI has a positive impact on Pakistan's economic growth. These results are consistent with the research conducted by Naz, Sabir, & Ahmed (2015) show that FDI has a positive relationship and very significant with GDP, while inflation has significant and negative impact on GDP.

The result of Rahman's research (2014) indicates that there is a positive relationship between the FDI and GDP and have a negative relationship with Consumer Price Index. When FDI increase the GDP of Pakistan will positively affected by FDI. The result of Umar's research (2016) indicates that in period of 2007 - 2013, the partially variables: Investment has no effect to economic growth, Labor positively and significantly affected to economic growth, Export in this case net-exports a negatively and significantly affected to economic growth, and the rupiahs' exchange rate has not affected economic growth. And simultaneously variables: Investment, Labor, Exports, Foreign Exchange positively affected to Indonesia's Economic Growth.



The results of Korkmaz & Korkmaz's research (2017) that it is revealed there is a long run equilibrium relationship between labor productivity and economic growth between these years. Moreover, the causality test points out that there is a unidirectional causality relationship from economic growth to labor productivity. The findings from the test results support the opinion that labor productivity is better in countries that provide economic development. The result of research conducted by Soejoto, Cahyono, & Solikhah (2017) indicates that Solow variable affect differently to each country. In Indonesia and Brunei, investment, human resources, and labor have significant effect toward economic growth. In Thailand and Philippines, investment, natural resources, and labor affect economic growth significantly. In Malaysia investment, technology, and human resources have significant effect toward economic growth. In Vietnam, technology, natural resources, human resources, and labor affect economic growth significantly. Meanwhile, In Cambodia technology, natural resources, and labor have significant impact toward economic growth.

Based on the description above, the researcher are interested in analyzing the influence of exports, foreign direct investment, and labor on Indonesia's economic growth in 2000-2016, therefore the researcher takes the title: "**Analysis Of The Impact of Export, Foreign Direct Investment And Labor On Economic Growth in Indonesia Period 2000-2016**".

## **B. Limitation of The Research**

There are a lot of factors that may influence of Economic Growth In Indonesia. However, As for the limitation of the problem to be investigated

further so that the discussion of the problem can be directed, the researcher provide limits on the object in the research where the discussion of the problem is only specified in:

1. Only focusing on Economic Growth in Indonesia during research period.
2. The object of research in the analysis of factors that affecting of Economic Growth, which is measured by GDP, consist of independent variable those are Export, Foreign Direct Investment, Labor . While dependent, variable is Gross Domestic Product (GDP) In Indonesia on 2000-2016 Period.
3. This research used Multiple Linear Regression (OLS) method.

### **C. Problem Statement of Research**

Based on the background that explain before, then the problem which is going to solve in this research defined as:

1. How does the Export affect on Economic Growth in Indonesia?
2. How does the Foreign Direct Investment affect on Economic Growth in Indonesia?
3. How does the Labor affect on Economic Growth in Indonesia?

### **D. Objective of The Research**

Based on the formulation of the problems that have been described above, then the purpose of this research are:

1. To analyze the effect of Export on the Economic Growth in Indonesia.

2. To analyze the effect of Foreign Direct Investment on the Economic Growth in Indonesia.
3. To analyze the effect of Labor on the Economic Growth in Indonesia.

#### **E. Benefit Of The Research**

The existence of a research is expected to provide benefits, especially for the field of science in carefully, the benefits obtained from this research are as follows:

1. This research is expected to be a material input and consideration for the parties involved, especially the government in determining the steps and formulating policies related to decision making in the Indonesian economy.
2. This research is expected to be a good discourse to add information and insight for readers who are interested in economic problems.
3. This research is expected to be useful as an additional reference or reference material and comparison for further research.

