CHAPTER I

INTRODUCTION

A. Research Background

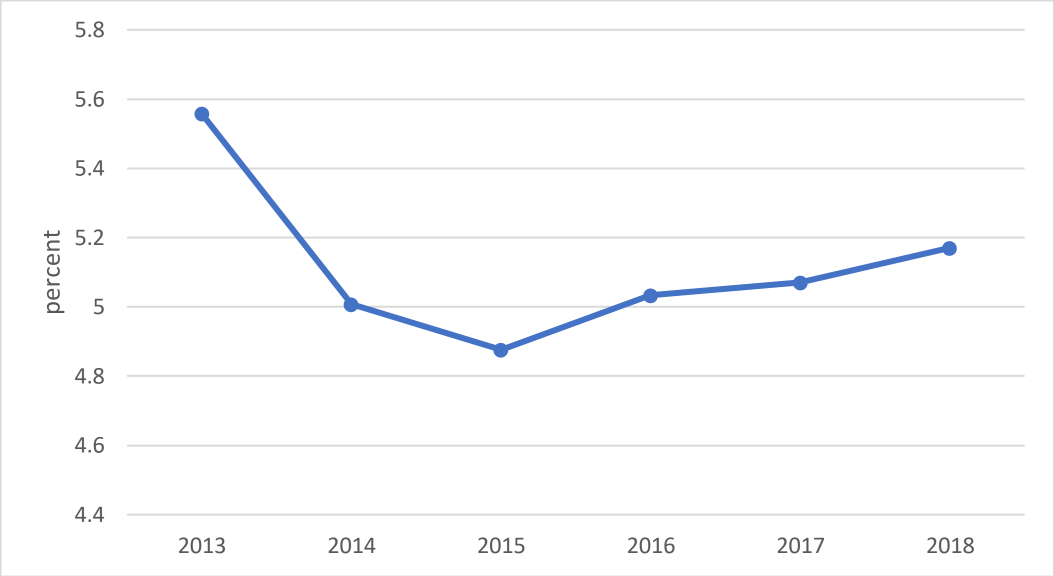
Economic development is an effort to increase capita income by processing potential economic strengths into a real economy by investing, using technology, increasing knowledge, increasing skills, increasing organizational skills, and management (Sadono, 1996). Economic growth cannot be separated from economic development, because it has become a unit where economic growth is always related to economic development in a country. The goal of a country's economic development is to improve welfare in society, where when economic development is good, jobs will be easily obtained by the community. To know the development of a country's economic growth is very important because to carry out the development of a country the indicator is economic growth. This will explain the macroeconomic situation and policies made by the government.

Every country has the ability to increase the growth of its country if the government and its people want to maximize resources, both natural and human resources, one of the countries that have abundant natural and human resources in Indonesia. Economic growth can explain or be an indicator of a country's economic development. In order to achieve stable and equitable economic growth, the government needs to make regulations in which economic growth is not focused on a single point, and it is hoped that all people can experience this economic growth.

To achieve the expected economic growth, the government needs to make policies, one of that is international trade.

Furthermore, economic growth is one of the long-term problems of a country's economy in increasing the economy in a certain period of time, and this economic growth can be associated with an increase in a country's production in the form of increasing national income. The economic income of a country comes from increasing capital through investment in improving the quality and quantity of labor through labor growth and increasing knowledge and skills as well as improving technology in the production process.

Economic growth can be seen or measured in terms of gross domestic product (GDP). This GDP is the sum of the total value of goods and services produced in a country in a certain period (generally one year) and is used as a measure of the level of economic growth in that country. This Gross Domestic Product (GDP) is calculated based on the total added value generated by all production activities or activities. In this case, this GDP growth indicates an increase in remuneration for factors of production. In this case, this GDP growth indicates an increase in remuneration for factors of production. GDP is an indicator of a country in explaining the macroeconomic condition of a country. The results of GDP are needed to determine the progress of the development of economic growth that has been carried out. The following is a graph of Indonesia's economic growth from 2013-2018:



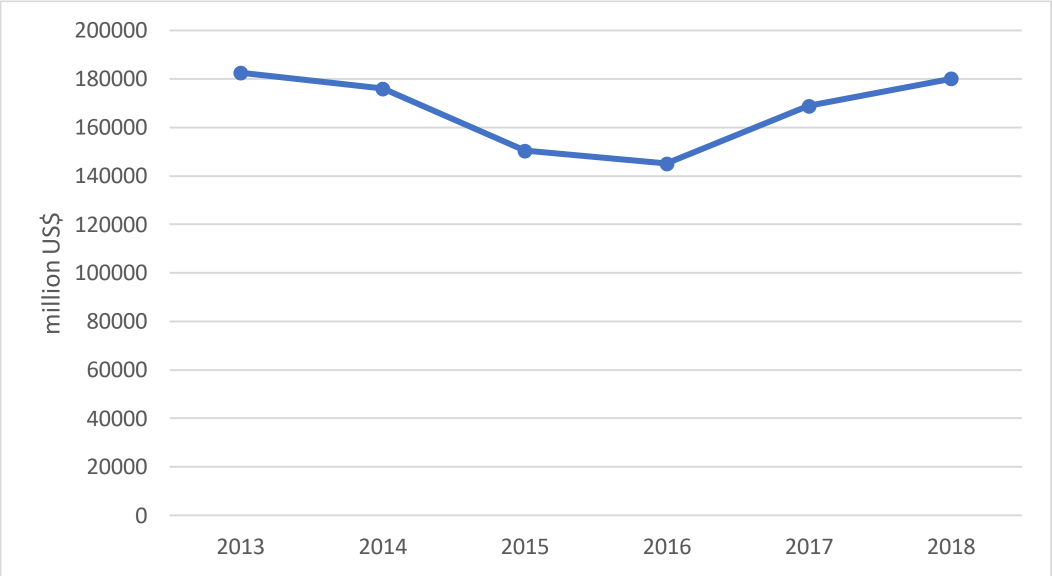
Source: World Bank, 2013-2018.

FIGURE 1.1

Indonesia’s GDP

We can see in Figure 1.1 that during the time span from 2013-2018 Indonesia's GDP growth fluctuated wherein 2013 Indonesia's GDP was 5.57% and experienced a significant decline in 2015 where Indonesia's GDP broke through the figure of 4.876%, however, Indonesia's GDP has improved after 2015, wherein 2018 Indonesia's GDP showed an increase of 5.17%. In this figure, we can see that a country's economic growth will experience ups and downs. GDP is an indicator of a country's economic growth, however, to achieve good economic growth, several supporting factors are needed, including Exports, Foreign Direct Investment (FDI), Labor. Furthermore, the researcher will explain Exports, Foreign Direct Investment (FDI), and Labor.

Exports are an important component in the economic growth of a country, where a country with abundant resources can produce either services or goods which are then sold or sent to countries in need. Exports can be said to be an indirect investment made by the government because they can support the economic growth of a country that has the potential to export. export is a trading activity by means of releasing goods from within the country outside the Indonesian customs area in compliance with applicable regulations (Hutabarat, 1996). The following is data on the development of Indonesia's exports from 2013-2018:



Source: Central Bureau of Statistic, 2013-2018.

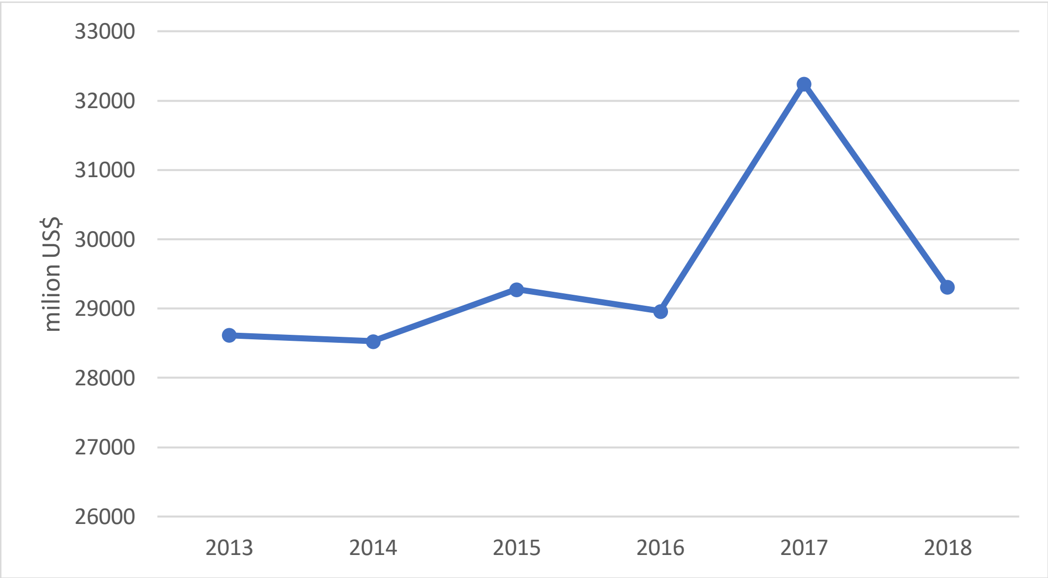
FIGURE 1.2

Total Export of Indonesia

We can see in Figure 1.2 that Indonesia's export growth in 2013-2018 experienced fluctuating growth, wherein in 2013 Indonesia's exports reached the US $ 182552 million, and decreased in 2016 by the US $ 145134 million and began to increase in 2018 amounting to the US $ 180013 million. Export growth that tends to fluctuate can be caused by, Government policy in the field of foreign trade, if the government provides convenience to exporters, exporters are encouraged to increase exports. These conveniences include simplifying export procedures, eliminating various export costs, providing export goods production facilities, and providing export facilities. The forces of supply and demand from different countries can influence prices on world markets. If the number of goods demanded on the world market is more than the number of goods offered, the price tends to rise. This situation will encourage exporters to increase their exports.

Sutawijaya (2010) Export will generate foreign exchange which will be used to finance imports of raw materials and capital goods needed in the production process that will form added value. The aggregation of the added value generated by all production units in the economy is the value of the Gross Domestic Product.

Foreign Direct Investment (FDI) is the activity of bringing in real or intangible capital or investment from one country to another to carry out business activities or manage company operations with the aim of generating profits under the supervision of the owner of the capital either in total or in part. According to Law Number 25 of 2007 concerning Investment, the meaning of Foreign Direct Investment (FDI) is an activity of investing to conduct business in the territory of the Republic of Indonesia which is carried out by foreign investors, either fully using foreign capital or jointly with investors. domestic capital. Furthermore, it is explained that foreign capital is capital owned by foreign countries, foreign individuals, foreign business entities, foreign legal entities, and/or Indonesian legal entities, whose capital is partly or wholly owned by foreign parties. According to Salim (2012), Foreign Investment (PMA) is an activity to enter capital or investment, with the aim of carrying out business activities with a full composition of foreign capital or joining forces with domestic investors. The maximum percentage of shares owned by foreign investors is 95%. Meanwhile, domestic investors have a minimum capital of 5%. The following is a figure of foreign direct investment in Indonesia from 2013-2018:



Source: Central Bureau of Statistic: 2013-2018

FIGURE 1.3

Total FDI of Indonesia

Based on Figure 1.3, we can see the development of foreign direct investment in Indonesia during 2013-2018. In 2017, Indonesia experienced a significant increase from the previous year wherein 2017 foreign direct investment amounted to US $ 32239.8 million, however, within a year in 2018 Indonesia experienced a drastic decline where the value of foreign investment reached the US $ 29307.1 million.

Yuliana et al. (2019) also Dewi and Cahyono (2016) reveal that, investment is the main supporting factor in driving economic growth, as well as road infrastructure development is an important factor in promoting economic growth, and that the price level is the economic variable that has an impact on economic growth.

Apart from exports as well as foreign direct investment, labor is also a component of economic growth. Manpower is any person who is capable of doing work in order to produce goods or services either to fulfill his own needs or for the community. According to ALAM. S manpower is population aged 15 years and over for developing countries such as Indonesia. Meanwhile, in developed countries, the manpower is a population between the ages of 15 and 64 years. The manpower is a population who is not yet working but is ready to work or is looking for work at the prevailing wage level. Whereas what is meant by non-man power is those who are still in school, the group that takes care of the household, and other groups or income recipients (Simanjuntak, 2006). To speed up the production process, a large number of man powers are needed. and employment can be an alternative recommendation to reduce the poverty and unemployment rate of a country.

Based on research conducted (Mahadika, 2017) that the effect of exports and FDI is significant on Indonesia's economic growth. The results of research conducted by Kilavuz & Topcu (2012) show that based on the results of the first model, an analysis that includes variables such as high and low-tech manufacturing industry exports, investment, and population, found only two variables. High-tech manufacturing industry investment and exports have a positive and significant effect on growth. In addition to the first model which includes an analysis of all variables, the second model investigates the effect of imports of high and low technology manufacturing industries on growth. The results reveal that only high-tech manufacturing industry exports, investments, and imports of low-tech manufacturing industries have a positive and significant effect on growth.

Based on the description above, researchers are interested in analyzing the effect of exports, foreign direct investment, and labor on economic growth in Indonesia during the 2001-2018 period, therefore the researcher takes the title: **“’ The Analysis the Effect of Exports, Foreign Direct Investment (FDI) and Labor on Economic Growth in Indonesia during the 2001-2018 Period”’**

This research based on the Qur’anic science inline with the Qur’an Surah Al-Baqarah/1: 283):

وَإِنْ كُنْتُمْ عَلَى سَفَرٍ وَلَمْ تَجِدُوا كَاتِبًا فَرِهَانٌ مَقْبُوضَةٌ فَإِنْ أَمِنَ بَعْضُكُمْ بَعْضًا فَلْيُؤَدِّ
الَّذِي اؤْتُمِنَ أَمَانَتَهُ وَلْيَتَّقِ اللَّهَ رَبَّهُ وَلَا تَكْتُمُوا الشَّهَادَةَ وَمَنْ يَكْتُمْهَا فَإِنَّهُ آثِمٌ قَلْبُهُ وَاللَّهُ
بِمَا تَعْمَلُونَ عَلِيمٌ ﴿٢٨٣﴾

“And if you are on the road you do not find a writer, then let there be collateral to be held. However, if some of you believe in others, let those who are believed to fulfill their mandate (debt) and let them be obedient to Allah, their Lord. And do not hide your testimony, because whoever hides it, really, his heart is dirty (sinful). Allah knows best what you are doing.” (Al-Baqarah/1: 283)

This verse explains about *muamalah* (transaction) which do not in cash, which was done on the way and there is no scribe who will write it. In case *muamalah* is not cash, which is carried out on the way and there is no clerk to write it down, then there should be a mortgage (collateral / guarantee) submitted to the party owing it. Unless each trust each other and submits himself to Allah, then muamalah can be done without surrendering collateral. The Word of Allah SWT., فَرِهَانٌ مَقْبُوضَةٌ “So let there be a dependent item (by the debtor). " Abu Umar and Ibn Kathir read: faruhunun (using harakat dhammah in the letters ra 'and ha').

B. Problem Statement

Based on background that explain before, the purpose of this research is going to solve the problem as defined:

1. How does the effect of export on economic growth in Indonesia 2001-2018?
2. How does the effect of FDI on the economic growth in Indonesia 2001-2018?
3. How does the effect of labor on the economic growth in Indonesia 2001-2018?

C. Objective the Research

Based on the problem statement research the purpose of this research are:

1. To analyze the effect of export on economic Indonesia.
2. To analyze the effect of FDI on the economic Indonesia.
3. To analyze the effect of labor on the economic Indonesia.

D. The Benefit of the Research

This research is expected to provide benefits in the scientific field, the benefits of this research are as follows:

1. This research is expected to be considered by the government or authority as input in making economic decisions in Indonesia.
2. This research is expected to be a reference for readers who are interested in problems in the economic field.
3. This research is expected to be a reference or a comparison for further research.