# CHAPTER I

# INTRODUCTION

## A. Background

Economic growth is a process of economic change that occurs in the country's economy within a certain period of time towards a better economic condition. Generally, economic growth is synonymous with an increase in production capacity which is known by an increase in national income. The existence of the increase in income is not related to an increase in population, and can be assessed from an increase in output, increasingly developing technology, and innovation in the social sector. According to Berg (2001), economic growth is defined as an increase in real output per capita. It can also be defined as a wide perception which means economic growth process whose capacity can raise the welfare of its people. In the community, economic growth is represented as an economy activities development which makes the production of goods and services in the community increase (Sukirno, 2002).

There are many factors that can affect the economic growth in a country. A quick economic growth in a country can be seen from the activities that happen in the country. In a country's economy, there is an indicator used to judge whether the economy is doing well or not. The indicator in assessing the economy must be used to determine the total income that everyone in the economy earns. The right indicator and according to the measurement is Gross Domestic Product (Mankiw, 2006). The definition of Gross Domestic Product (GDP) is the market value of all final goods and services produced in a country at a period of time. It

is Economic statistics that is concerned the most because they are considered as a measure single best regarding people's welfare. The underlying thing is because GDP measures two things at the same time: the total income of all insider economy and total state spending to buy goods and services of the economy. The reason GDP can measure total income and expenditure due to an economy as a whole, income must be the same as expenditure(Mankiw, 2006). Since the economic growth within a country can be seen from its GDP, there are also factors that can affect the amount of GDP in a country. These factors are influencing the GDP, so that the economic growth in that country can be known. For example, FDI (Foreign Direct Investment) (Latif & Mengke, 2017; Yuliadi, 2017); inflation (Yuliadi & Rose, 2017); globalization (Latif & Mengke, 2017); and trade (Raghutla, 2020).

Investment, generally, has a long term relationship with economic growth (Li, 2002). Investment can be an addition for tool and machine stocks, or inventory. According to Athukorala (2003), foreign investment has a positive impact on the economy of the host country because through foreign investment it can increase availability of funds for the host country (recipient country). Athukorala also did research using co-integration econometric models and time series data from 1959 to 2012 to analyze the relationship between FDI and GDP in Sri Lanka. Research result shows that FDI has a positive effect on GDP and that there is a causal relationship between FDI and GDP in Sri Lanka. According to Hadad and Harison (1993), FDI does not have a significant effect on economic growth. This empirical study is different from the research done by Borensztein, Gregorio et al (1998) which state that the existence of FDI actually increases economic growth. This result is supported by Alfaro et al (2000) which state that FDI has positive impact on economic growth, especially

in the financial sector. The table below shows the rate of FDI in BRIICS countries during period time 2009 to 2019:

**TABLE 1.1**

Foreign Direct Investment (FDI) of BRIICS Countries

Period 2009 – 2019 (in % of GDP)

| No | Year | Brazil | Russia | India | Indonesia | China | South Africa |
|---|---|---|---|---|---|---|---|
| 1 | 2009 | 1.89 | 2.99 | 2.65 | 0.90 | 2.57 | 2.58 |
| 2 | 2010 | 3.73 | 2.83 | 1.64 | 2.03 | 4.00 | 0.98 |
| 3 | 2011 | 3.92 | 2.69 | 2.00 | 2.30 | 3.71 | 0.99 |
| 4 | 2012 | 3.76 | 2.29 | 1.31 | 2.31 | 2.83 | 1.17 |
| 5 | 2013 | 3.04 | 3.02 | 1.52 | 2.55 | 3.04 | 2.24 |
| 6 | 2014 | 3.57 | 1.07 | 1.70 | 2.82 | 2.56 | 1.65 |
| 7 | 2015 | 3.59 | 0.50 | 2.09 | 2.30 | 2.19 | 0.48 |
| 8 | 2016 | 4.14 | 2.55 | 1.94 | 0.48 | 1.56 | 0.75 |
| 9 | 2017 | 3.34 | 1.81 | 1.51 | 2.02 | 1.35 | 0.59 |
| 10 | 2018 | 4.15 | 0.52 | 1.55 | 1.81 | 1.69 | 1.51 |
| 11 | 2019 | 3.76 | 1.88 | 1.76 | 2.23 | 1.09 | 1.32 |

Source*:* World Bank Data, 2009

Table 1.1 shows the fluctuation of the rate of Foreign Direct Investment done by BRIICS countries. In average, Brazil is the country with the highest rate of foreign investment with 3.5% of GDP during period time 2009 to 2019. That means the government of Brazil has successfully attracted foreign investors due to increase its economic growth. According to World Investment Report (2020) published by UNCTAD (United Nations Conference on Trade and Development), Brazil is the 9$^{th}$ recipient of FDI in the world in terms of inflows, and the first one in Latin America. Santander Trade Markets explained in the Export Enterprises, there are several factors which make Brazil an attractive market for international investors: Brazil is a domestic market of nearly 210 million inhabitants, strategic geographic position which creates easy access to other South-American Countries,

and is a diversified economy that is less vulnerable to international crises (Santander Trade, 2021).

In Islam, investment in an activity that is very suggested. This is explicitly state in several verses in Quran such as Al-Hashr: 18 which states "*O you who have believed, fear Allah. And let every soul look to what it has put forth for tomorrow - and fear Allah. Indeed, Allah is Aware of what you do*." From the verse we can understand that the verse contains moral advice to invest as stock in this world and the Hereafter because in Islam all kinds of activities, if intended as worship, will be worth the Afterlife too, such as this investment activity.

Another factor influencing GDP is inflation. Inflation is a process of an event, not the high-low level of a price. That, if there is high price level it does not mean that it is inflation. Inflation happens if a process of price increase continues to happen and influence each other. (Yuliadi & Rose, 2017). Inflation becomes one of important indicators to analyze the economy in a country, especially related with the wide impact on aggregate macroeconomic variable, such aseconomic growth (Endri, 2008). This is because, in an area where inflation is increasing, people tend to spend more money because they know that it will be less valuable in the future. This causes further increases in GDP but only in the short term, bringing about further price increases. There were some debates between structuralist and monetarist about this. Structuralist claimed that inflation is important for the economic growth, while monetarist, oppositely, saw that inflation disadvantages the process of the economic growth. In 1970, the fact that the rate of growth started to decrease with a high

inflation, especially hyperinflation that happened in Latin America in the 1980s, had made the new view that inflation has a negative effect on economic growth(Erbaykal and Okuyan, 2008). This table below shows the inflation that happened in the BRIICS countries in the time period 2009 to 2019:

**TABLE 1.2**

Inflation Rate in BRIICS Countries

Period 2009 – 2019 (consumer price, annual %)

| No | Year | Brazil | Russia | India | Indonesia | China | South Africa |
|---|---|---|---|---|---|---|---|
| 1 | 2009 | 4.89 | 11.65 | 10.88 | 4.39 | -0.73 | 7.26 |
| 2 | 2010 | 5.04 | 6.85 | 11.99 | 5.13 | 3.18 | 4.06 |
| 3 | 2011 | 6.64 | 8.44 | 8.86 | 5.36 | 5.55 | 5.02 |
| 4 | 2012 | 5.40 | 5.07 | 9.31 | 4.28 | 2.62 | 5.72 |
| 5 | 2013 | 6.20 | 6.75 | 10.91 | 6.41 | 2.62 | 5.78 |
| 6 | 2014 | 6.33 | 7.82 | 6.35 | 6.39 | 1.92 | 6.14 |
| 7 | 2015 | 9.03 | 15.53 | 5.87 | 6.36 | 1.44 | 4.51 |
| 8 | 2016 | 8.74 | 7.04 | 4.94 | 3.53 | 2.00 | 6.59 |
| 9 | 2017 | 3.45 | 3.86 | 2.49 | 3.81 | 1.59 | 5.18 |
| 10 | 2018 | 3.66 | 2.88 | 4.86 | 3.20 | 2.07 | 4.50 |
| 11 | 2019 | 3.73 | 4.47 | 7.66 | 3.03 | 2.89 | 4.12 |

Source: World Bank Data, 2019

Table 1.2 shows the rate of inflation that happened in each BRIICS country during period time 2009 to 2019. The average of the inflation rate in BRIICS countries is still considered in *safe*level, because most of the fluctuation in every BRIICS countries, the rate of the inflation is below 10%. Light inflation can actually stimulate the economic growth. That is because inflation can encourage entrepreneurs to increase the production. They tend to expand the production, because with the price increases, that will occur entrepreneurs to

earn more profit. Another positive impact from the light inflation is there will be more job-fields available. Inflation can be said to have negative impacts when the rate is more than 10% (Khairuna, 2019). In year 2009, Russia and India experienced bad condition because there were high rate of inflation that happened there, with 11.65% for Russia and 10.88% for India. In the same year, China had the lowest rate of inflation. The inflation happened to be negative. The rate that had decreased to -0.73% had indeed lowered the people's cost of living. In 2010, while China had successfully fixed the economy condition by the decrease of the inflation there, India again experienced the high rate of inflation. It was even higher than the previous year. In 2015, Russia experienced a financial crisis and that issue affected the inflation rate which increased from 7.82% in 2014 to 15.53% in 2015. The financial crisis happened because of the sharp devaluation of the Russian ruble. It began in the second half of 2014. The crisis caused investors to sell off their Russian assets, which then led to a decline in the value of Russian ruble and that it created fears of a Russian financial crisis. The issue stemmed from two major sources. The first is in the fall in the price of crude oil in 2014. Crude oil is a major export of Russia and it declined in price by nearly 50%. Second, the result of international economic sanctions imposed on Russia following Russia's annexation of Crimea and the Russian military intervention in Ukraine (Viktorov, 2020).

According to the perspective of the Qur'an, the source of the emergence of economic turmoil, which is indicated by high inflation, is due to the use of currencies that deviate from the Qur'an. The deviation is nothing but making the currency a commodity in order to make a profit. The advantage is called by the Qur'an in terms of usury, both usury *nasi'ah* and *fadhl*. Therefore, if we want to create a more stable economy, with a more controlled inflation rate, then there must be courage to eliminate the source of the main cause.Referring to the Qur'an,

there is a verse that gives information about the occurrence of instability or even economic shock, if humans make mistakes in carrying out economic practices. It is in Al Baqarah verse 275 which states: "*Those who consume interest cannot stand (on the Day of Resurrection) except as one stands who is being beaten by Satan into insanity. That is because they say, 'Trade is (just) like interest.' But Allah has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past, and his affair rests with Allah. But whoever returns (to dealing in interest or usury) – those are the companions of the Fire; they will abide eternally therein.*"

The next factor that affects the GDP is from the side of globalization. Globalization is a worldwide process of something so that the boundaries between places are no longer existed. Globalization is supported with many factors, such as technology development, transportation, science, telecommunication, and more. Globalization entirely has significantly positive impact on the economic growth. In the modern era of globalization, information and communication technology (ICT) are considering key sectors that profoundly contribute to economic growth. Most of the economic activities, trade, and foreign direct investment are mainly dependent on modern source of ICT. The empirical results of the study done by Latif, *et al* (2017) to investigate the dynamic relationship between ICT, FDI, economic growth incorporating trade and globalization for BRICS countries over 2000-2014 suggest the long-run elasticity between ICT and economic growth, which suggests that ICT positively contributes to economic growth (Latif & Mengke, 2017). The part of globalization to be studied includes internet use. Internet can be regarded as a truly general goal technology and impacts society at various levels and in a vast range of activities (Harris, 1998). People are able to communicate better, faster, and at lower costs, reducing internal as well as external

transaction costs and thus lowering production costs and enhancing productivity and generating economic growth. The internet facilitates the generation and spread of knowledge and new ideas tremendously which allows for an increased productivity of the research process and an increased diffusion of its products and outcomes (Meijers, 2013). The table below shows the development of internet use in BRIICS countries during period time 2009 to 2019:

**TABLE 1.3**

Individual Using Internet in BRIICS countries

Period 2009 – 2019 (in % per population)

| No | Year | Brazil | Russia | India | Indonesia | China | South Africa |
|---|---|---|---|---|---|---|---|
| 1 | 2009 | 39.22 | 29.00 | 5.12 | 6.92 | 28.3 | 10.00 |
| 2 | 2010 | 40.65 | 43.00 | 7.5 | 10.92 | 34.3 | 24.00 |
| 3 | 2011 | 45.69 | 49.00 | 10.07 | 12.28 | 38.3 | 33.97 |
| 4 | 2012 | 48.56 | 63.8 | 12.58 | 14.52 | 42.3 | 41.00 |
| 5 | 2013 | 51.04 | 67.97 | 15.1 | 14.94 | 45.8 | 46.5 |
| 6 | 2014 | 54.55 | 70.52 | 21.00 | 17.14 | 47.9 | 49.00 |
| 7 | 2015 | 58.33 | 70.10 | 17.00 | 22.06 | 50.3 | 51.00 |
| 8 | 2016 | 60.87 | 73.09 | 22.00 | 25.45 | 53.2 | 54.00 |
| 9 | 2017 | 67.47 | 76.01 | 32.00 | 32.34 | 54.3 | 56.17 |
| 10 | 2018 | 70.43 | 80.86 | 20.08 | 39.90 | 54.3 | 58.00 |
| 11 | 2019 | 70.43 | 82.64 | 20.08 | 47.69 | 56.1 | 61.02 |

Source: World Bank Data, 2019

The evolution of internet has indeed happened in every place in the world every year. In BRIICS countries, the development of people using internet has grown quite significantly every year. From 2009 to 2019, the evolution of internet had continued to spread equally to every individual. However, in 2015, India experienced a quite big drop of the evolution of internet deployment from 21% in 2014 to 17% in 2015. That happened in 2014 following several crisis and events happened in India. It includes several political matters, terrorism accidents, disasters that happened twice in 2014 in Pune and Kashmir, and also Ebola problems, all happened in the same year. In 2016, the development of internet deployment began to happen again in India, and it continued to increase every year.

The last factor affecting GDP to be studied in this research is trade. The relationship between trade and economic growth has been extensively investigated yielding to mixed and inconclusive results. The study that has been done by Yaya Kehohas results showing that trade has positive effects on economic growth both in the short and long run. Furthermore, they reveal a positive and strong complementary relationship between trade and capital formation in promoting economic growth (Keho, 2017). The table below shows the trade that happened in BRIICS countries during period time 2009 to 2019:

**TABLE1.4**

Trade of BRIICS Countries

Period 2009 – 2019 (in % of GDP)

| No | Year | Brazil | Russia | India | Indonesia | China | South Africa |
|---|---|---|---|---|---|---|---|
| 1 | 2009 | 22.11 | 48.44 | 46.27 | 45.51 | 45.18 | 55.42 |
| 2 | 2010 | 22.77 | 50.36 | 49.26 | 46.70 | 50.72 | 55.99 |
| 3 | 2011 | 23.93 | 48.04 | 55.62 | 50.18 | 50.74 | 60.11 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 4 | 2012 | 25.11 | 47.15 | 55.79 | 49.58 | 48.27 | 60.90 |
| 5 | 2013 | 25.79 | 46.29 | 53.84 | 48.64 | 46.74 | 64.24 |
| 6 | 2014 | 24.69 | 47.80 | 48.92 | 48.08 | 44.91 | 64.43 |
| 7 | 2015 | 26.95 | 49.36 | 41.92 | 41.94 | 39.46 | 61.62 |
| 8 | 2016 | 24.53 | 46.52 | 40.08 | 37.42 | 36.89 | 60.64 |
| 9 | 2017 | 24.33 | 46.88 | 40.72 | 39.36 | 37.63 | 57.97 |
| 10 | 2018 | 29.40 | 51.13 | 43.40 | 43.00 | 32.46 | 59.47 |
| 11 | 2019 | 28.98 | 49.07 | 39.55 | 37.30 | 35.84 | 59.20 |

Source: World Bank Data, 2019

Trade that happened in BRIICS countries every year from 2009 to 2019 had fluctuation rate. The lowest rate of average of trade happened in Brazil, despite of big population and high GDP that produced there. Although the foreign trade only represented 29% in 2018 (World Bank), Brazil is still one of the world's 25 largest exporters and importers and the country has many economic potential. Brazil mainly exports soy beans (11.6%), petroleum oils (10.7%), iron ores (10.1%), maize (3.2%), and chemical wood pulp (3.1%) (Santander Trade, 2021).

Those factors above have been proved for having important impacts on the economic growth within a country. The level of the economic growth they make will reflect on the rate of the GDP makes. The higher output that the GDP makes, the better the percentage of the economic growth will be. While GDP is a measure describing the value of a country's economy, GDP per capita is a measure that results from GDP divided by the size of the nation's overall population. So in essence, it is theoretically the amount of money that each individual gets in that particular country. Therefore, this study examines the impact of globalization, Foreign Direct Investment, inflation, and trade openness on the GDPper capita in Brazil, Russia Federation, India, Indonesia, China, and South Africa that are included as BRIICS countries. BRIICS countries are also known as the countries of The Emerging

Economies. According to KUNA (Kuwait News Agency), BRIICS countries “are projected to see GDP growth of 5.3 percent this year on average and 5.7 percent in 2015” (KUNA, 2014). The six BRIICS countries appear to be a rather diverse group of nations, although to some extent they have several common economic and structural features. First, these are the world’s six largest developing country economies. Excluding the oil-rich state of Saudi Arabia and also the two large and emerging OECD economies, Mexico and Turkey, the BRIICS countries are by far the largest economies in the developing and transition world, and the only developing countries with gross national income of over USD 200 billion *per annum*(OECD, 2009). So, that can be said that the BRIICS countries are known as the most important economies that are not members of the OECD (Organization for Economic Co-operation and Development).

OECD is an intergovernmental economic organization with 37 member countries. Generally, OECD members are high-income economies with a very high Human Development Index (HDI) and are regarded as developed countries. As of 2017, the OECD member countries collectively comprised 62.2% of global nominal GDP (US$49.6 trillion) and 42.8% of global GDP (Int$54.2 trillion) at purchasing power parity. The OECD is an official United Nations observer. OECD countries still dominate the world economy, but their share of world trade dropped from 73% in 1992 to 64% in 2005, and some of the world’s most important economies are not members of the OECD. They are Brazil, Russia Federation, India, Indonesia, China, and South Africa. Now, those countries represent almost half of the world population and almost 25% of the world GDP (OECD, 2009).

A high income in a country opens the possibility for that country to have a higher budget and can also be optimal for the sake of the country’s development. A country’s

income is the government of the country's right to claim as a net wealth additional in certain period of time. The higher the output is produced by a country, the higher the country's income. GDP is the indicator from the output that is produced by a country. While the GDP per capita measures the average income earned per person from the total population in the country.

**TABLE 1.5**

GDP Per Capita of BRIICS Countries

Period 2009 – 2019(Constant 2010US$)

| No | Year | Brazil | Russia | India | Indonesia | China | South Africa |
|---|---|---|---|---|---|---|---|
| 1 | 2009 | 10,595 | 10,220 | 1,268 | 2,979 | 4,133 | 7,217 |
| 2 | 2010 | 11,286 | 10,675 | 1,358 | 3,122 | 4,550 | 7,329 |
| 3 | 2011 | 11,628 | 11,125 | 1,410 | 3,271 | 4,961 | 7,455 |
| 4 | 2012 | 11,746 | 11,554 | 1,469 | 3,421 | 5,325 | 7,500 |
| 5 | 2013 | 11,993 | 11,731 | 1,545 | 3,969 | 5,711 | 7,564 |
| 6 | 2014 | 11,951 | 11,609 | 1,640 | 3,693 | 6,104 | 7,583 |
| 7 | 2015 | 11,431 | 11,355 | 1,752 | 3,824 | 6,500 | 7,557 |
| 8 | 2016 | 10,966 | 11,356 | 1,876 | 3,968 | 6,908 | 7,477 |
| 9 | 2017 | 11,022 | 11,551 | 1,987 | 4,121 | 7,347 | 7,476 |
| 10 | 2018 | 11,080 | 11,844 | 2,086 | 4,285 | 7,807 | 7,434 |
| 11 | 2019 | 11,121 | 12,011 | 2,152 | 4,451 | 8,242 | 7,346 |

Source: World Bank Data, 2019

From the table of GDP per capita each country included in BRIICS countries shows the variation of the GDP per capita every country makes from the year 2009 to 2019. Brazil and China have the highest level of GDP per capita amongst all six countries, means that both countries have big amount of goods and services produced. China and Brazil, both cannot be denied, have a really big amount of population. Even though India also contributes a really big population, but the goods and services produced are still low, despites of the big

population. We can also see that in each country in every year, there are several fluctuations happen of the GDP per capita, but all in one, the level tend to increase in average.

## B. Problem Formulation

The scope of the research focuses only onthe six countries of BRIICS: Brazil, Russia Federation, India, Indonesia, China, and South Africa. It will be done by analyzing the secondary data from year 2009 to year 2019. The analyzing will focus only on selected variables as factors; they are foreign direct investment, inflation, trade openness, and internet. From the research background that has been discussed in the previous sub-chapter, we can take conclusion for the formulation of the research as follows:

1. How does globalization influence the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019?
2. How does investment influence the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019?
3. How does inflation influence the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019?
4. How does trade openness influence the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019?

5. Which from globalization, investment, inflation, and trade openness influences the economic growth the most in the BRIICS countries during period time 2009 to 2019?

## C. Research Purpose

The purpose from doing this research can be seen as follows:

1. To analyzethe influence of globalization on the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019.
2. To analyze the influence of investment on the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019.
3. To analyze the influence of inflation on the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019.
4. To analyze the influence of trade openness on the GDP per capita in the emerging economies countries Brazil, Russia Federation, India, Indonesia, China, and South Africa during period time 2009 to 2019.
5. To analyze, from those factors that are studied, which factor that has the biggest impact on the GDP per capita and the economic growth in the emerging economies countries BRIICS during period time 2009 to 2019.

## D. Research Benefits

1. Theoretically, this research is expected to be able to provide valid information in understanding and contribute ideas in deepening insights and theories about the economic growth condition in BRIICS countries and the factors that affect it.
2. Practically, the author hopes the results of this study could give benefits in contributing ideas for the problem solving for matters that are related to this research.
3. In terms of decision making, the results of this study is hoped to be a hypothetical tool in acknowledging the causes of some related matters, so that will make it easy to find alternatives for the decision making.