

CHAPTER I

INTRODUCTION

A. Background

Economic growth is one of the important things that can reflect how well the economic activity in a country is. High economic growth is one of the performances desired by all countries, because the higher the economic growth of a country, the better the economic value of that country. Economic growth also has positive and negative sides. Positive economic growth can be interpreted that economic activity in that period is higher than in the previous year's period, while the negative side of the economy can be interpreted as the decline in the economy that occurred in that period and had a lower percentage than the previous period.

Economic growth can show the extent to which economic activity will generate additional income for the community in a certain period. Therefore, basically economic activity is a process of using production factors to produce output, then this process in turn will result in a flow of remuneration for production factors owned by the community. Based on Ambok (2018) indicator used to measure economic growth is the growth rate of Gross Domestic Product (GDP).

In assessing a country's economic performance, Gross Domestic Product (GDP) is considered the best indicator in determining how advanced the economy is in that country. The ability of a country to produce goods and services from time to time in a year based on the fulfilled production factors will increase national income which has an impact on the welfare of the people in a country. In realizing this, there needs to be government intervention as one of the policy holders in terms of the economy in a country.

Steps that must be taken by the government to encourage high economic growth are to take part in seeking new sources of financing for development, both from within the country and from abroad. Financing originating from abroad can be in the form of foreign investment, foreign debt and so on. The arrival of capital from abroad can be used to support the government's national development program, so that the target for national economic growth and an increase in people's per capita income is increased, so that poverty can be reduced. (Atmadja, 2000)

Allah has mentioned in the Qur'an about the importance of resources to meet human needs. As stated in Q.s. al-Baqarah [2]: 29:

□ هُوَ الَّذِي خَلَقَ لَكُمْ مَا فِي الْأَرْضِ جَمِيعًا ثُمَّ اسْتَوَىٰ إِلَى السَّمَاءِ فَسَوَّاهُنَّ سَبْعَ سَمَاوَاتٍ ۗ وَهُوَ بِكُلِّ شَيْءٍ عَلِيمٌ

Meaning: *It is He (Allah) who created all that is on the earth for you, then He went to the heavens, then He perfected them into seven heavens. And He is All-Knowing of everything.*

Sayyid Qutb¹ understands that the substance of this verse explains that Allah created everything on this earth for human life. Thus the existence of humans on earth has a very large role, namely utilizing the natural resources that have been prepared. The same view was also expressed by al-Wâhidî² that the main purpose of creating the heavens and the earth was to bring benefits to human worldly life and their religious life.

Talking about the economic growth of a country, in recent years there have been many organizations that were formed with the aim of relating to economic growth, including APEC. APEC is an acronym for Asia-Pacific Economic Cooperation. APEC was founded in 1989. APEC

¹ Sayyid Quthb, *Fî Zhilâl al-Qur'ân*, (Beirut: Dâr Ihyâ al-Turâts al-'Arabî, 1967), Juz. I, h.62

² Alî ibn Ahmad al-Wâhidî Abû al-Hasan, *Al-Wajîz fî Tafsîr alKitâb al-'Azîz*, (Beirut: Dâr al-Qalam, 1415 H), Juz.I, Cet. I, h.98

aims to strengthen economic growth and strengthen the community of countries in the Asia Pacific. The conference of countries in the Asia Pacific region which was held at the initiative of Australia in November 1989 in Canberra was an intergovernmental forum which became known as "Asia Pacific Economic Cooperation" or abbreviated as APEC. The background of the establishment of APEC is marked by the need for regional economic development due to the globalization of the trade system, and the changes in various political and economic situations in the world since the mid-1980s.

In its development, APEC has a strategic role with a population of around 2 billion people or more than 40% of the world's population and represents 45% of the value of world trade (1996) – a potential market for trade in goods, services and human resources. The realization of APEC's GDP growth in 2000 of 4.1% means that it is relatively slightly lower than the world's GDP growth of 4.7%, besides that APEC also has an important meaning in the context of national development because it represents 69.1% of the non-oil and gas export market and is 63.3% of non-oil import sources. -Indonesian oil and gas each year 2000.

Table 1. 1

Data for All APEC Members and Value of Economic Growth

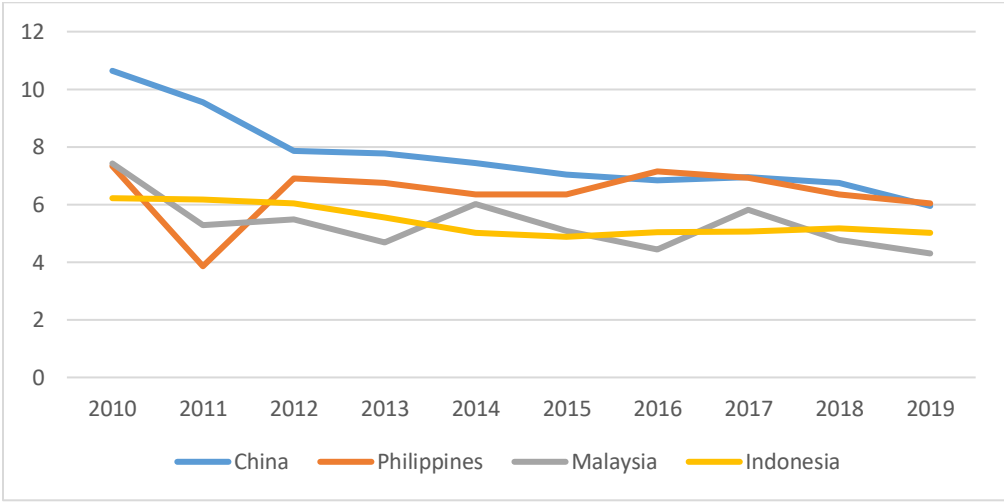
Countries	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Australia	2.07	2.46	3.92	2.58	2.53	2.19	2.77	2.30	2.95	2.16
USA	2.56	1.55	2.25	1.84	2.53	2.91	1.64	2.37	2.93	2.16
Brunei Darussalam	2.60	3.75	0.91	-2.13	-2.51	-0.39	-2.48	1.33	0.05	3.87
Canada	3.09	3.15	1.76	2.33	2.87	0.66	1.00	3.17	2.01	1.66

Chile	5.84	6.11	5.32	4.05	1.77	2.30	1.71	1.19	3.95	1.05
China	10.6 4	9.55	7.86	7.77	7.43	7.04	6.85	6.95	6.75	5.95
Hong Kong	6.77	4.81	1.70	3.10	2.76	2.39	2.17	3.79	2.85	-1.25
Indonesia	6.22	6.17	6.03	5.56	5.01	4.88	5.03	5.07	5.17	5.02
Japan	4.19	-0.12	1.50	2.00	0.37	1.22	0.52	2.17	0.32	0.65
Republic of Korea	6.80	3.69	2.40	3.16	3.20	2.81	2.95	3.16	2.91	2.04
Malaysia	7.42	5.29	5.47	4.69	6.01	5.09	4.45	5.81	4.77	4.30
Mexico	5.12	3.66	3.64	1.35	2.85	3.29	2.63	2.11	2.19	-0.05
New Zealand	1.56	2.36	2.24	2.63	3.63	3.62	3.68	3.16	3.12	2.81
Papua New Guinea	10.1 3	1.11	4.66	3.82	13.54	6.58	5.49	3.53	-0.28	5.90
Peru	8.33	6.33	6.14	5.85	2.38	3.25	3.95	2.52	3.98	2.15
Philippines	7.33	3.86	6.90	6.75	6.35	6.35	7.15	6.93	6.34	6.04
Russia	4.50	4.30	4.02	1.76	0.74	-1.97	0.19	1.83	2.54	1.34
Singapore	14.5 3	6.34	4.46	4.84	3.94	2.99	3.24	4.34	3.44	0.73

Thailand	7.51	0.84	7.24	2.69	0.98	3.13	3.43	4.07	4.15	2.35
Vietnam	6.42	6.24	5.25	5.42	5.98	6.68	6.21	6.81	7.08	7.02

Source: World Bank, 2021 (Processed)

In the table it can be seen that each country that is a member of the APEC organization has a different level of GDP. In addition, Asian countries are the countries with the highest GDP percentage during the 2010-2019 period. Even Southeast Asian countries dominate. In the first position, the country that has the highest GDP value is China. If seen in 2010 the value of economic growth in China reached 10.64. In fact, China is the country with the highest GDP in 2010 in second place, because Singapore is the country with the highest GDP value in the countries that are members of the APEC, namely with a percentage of 14.53 and has a large enough difference from China. However, in the following year, Singapore experienced a very drastic decline in GDP with a percentage decrease of 6.34, while China experienced a much smaller decline, namely with a percentage value of 9.55 and made China the country with the highest percentage of GDP in 2011, even today.



Source: World Bank, 2021 (Processed)

Figure 1. 1

Economic Growth in Selected Research Countries

This study discusses Gross Domestic Product which is influenced by FDI, FD and Exchange Rate. Furthermore, the FDI variable shows the relationship between the dependent variable which is APEC GDP. Then to support the GDP growth process of a country requires a large investment from foreign investors. FDI (Foreign Direct Investment) is often a variable in increasing a country's economic growth. increase economic growth by opening up to the international world by making foreign direct investment and exporting. The good thing about this economic growth is supported by many factors, especially from Foreign Direct Investment (FDI). Eliza (2013)

Various efforts have been made by various countries to stabilize the economy of their countries, one of which is by conducting Foreign Investment (PMA) which is highly expected to help and encourage increased investment in the country in order to assist the country's development process in a conducive manner. In order to create an increase in GDP, an increase in investment is needed where the investment requires financing funds from both domestic and foreign sources. (Khair & Rusydi, 2016). The entry of foreign investment for a country is able to move sluggish economic activities due to lack of capital for economic development. Investments accumulate capital accumulation by building a number of buildings and equipment that are useful for productive activities, then the potential output of a country will increase and long-term economic growth will also increase. It is clear thus that investment plays an important role in determining the amount of output and income. The main economic forces that determine investment are the return on investment costs determined by interest rate and tax policies, as well as expectations about the future. (Samuelson, 2002)

The more rapid development and the limited ability of the government which is required to always be the main driver of the development of a country is one of the strong reasons why foreign debt and foreign investment are one way to provide impetus to the economic development of a country, through increasing the two things that have been mentioned. including foreign debt.

Foreign debt is used to meet government financing and domestic investment, which lies in its role in filling the gap between the target amount of foreign exchange required and the amount of foreign exchange from export income plus foreign debt. Foreign debt can simplify and accelerate the development process because foreign debt can increase the supply of savings. Without foreign debt, the developing country concerned must wait several years to accumulate domestic savings.

Foreign debt is a variable that one of its functions can be one of the drivers of a country's economy. Encouraging the economy is meant here, if these debts are used to create jobs and investment in the field of development, which in turn can encourage an economy or hinder economic growth. However, this can also be the opposite or can be an obstacle to economic growth if the debts are not used optimally because of the lack of a supervisory function over the person in charge of the debts themselves. (Ulfa & Zulham, 2017)

Apart from foreign investment and foreign debt which have an influence in improving the economy of a country. Another important factor affecting economic growth is the exchange rate. According to (Hanafiah, Sudjana, & Sulasmiyati, 2015) it is defined that the exchange rate is the amount of domestic money needed to obtain one unit of foreign currency or the price of a currency expressed in terms of currency. The exchange rate is one of the important instruments in an open economy, because it is determined by the balance between supply and demand that occurs in the market. If there is a difference in supply and demand in the exchange rate, it will cause the value

of the currency to appreciate and depreciate. Appreciation can have a positive impact on the exchange rate due to the strengthening of the exchange rate, while depreciation has a negative impact on the exchange rate due to the weakening of the exchange rate as a result of market mechanisms (Berlianta, 2006). The exchange rate itself has a close relationship with economic growth. Because a decrease in the value of the exchange rate has an impact on a decrease in output and will affect a country's GDP and this is in line with the Mundell-Fleming theory.

This study seeks to examine in depth the relationship between Foreign Investment, External Debt and Exchange Rates to Gross Domestic Product in 4 selected APEC countries with the highest GDP levels of all member countries based on a literature review of several empirical research results both which is based on cross section and time series research. So it will be known how the influence of these variables on the GDP of APEC countries. Therefore, the researcher will take the title: "Determinants of Economic Growth in Selected APEC Member Countries".

B. Limitation of Research Problem

1. The dependent variable in this study is Economic Growth (GDP).
2. The independent variables in this study are Foreign Investment (FDI) and External Debt (FD) and the Exchange Rate.

C. Research Question

Based on the above background, Research Question to be studied is as follows:

1. How is the influence of Foreign Investment on Economic Growth in in selected APEC member countries?
2. How is the influence of Foreign Debt on Economic Growth in selected APEC member countries?

3. How is the influence of the Exchange Rate on Economic Growth in selected APEC member countries?

D. Research Objective

Based on the formulation of the existing problems, the objectives of this study are as follows:

1. To analyze the effect of Foreign Investment on Economic Growth in selected APEC member countries
2. To analyze the influence of Foreign Debt on Economic growth in selected APEC member countries
3. To analyze the effect of the Exchange Rate on Economic growth in selected APEC member countries

E. Purpose of Research

Some of the benefits that researchers expect from this research on Indonesia's GDP are:

1. Theoretical

The researcher hopes that this research can be used as a reference for further researchers and for the researchers themselves, hopefully they can gain insight into the research being studied.

2. Practice

- a. For researchers

Sharpen the power of analysis to solve problems in the economy in APEC and the influence of these variables.

- b. For the government

For the government, this research is expected to be an input to the policies taken by the government itself, both in the country where the research is located or not.