

CHAPTER 1

INTRODUCTION

1.1. General Overview of Research Object

The Republic of Indonesia is the largest archipelago country in the world, located in Southeast Asia. Indonesia has 17,508 islands with a total area of 1,904,569 km². Indonesia, which is located between the continents of Asia and the continent of Australia, is located between 6°N – 11°08'LS and from 95°E – 141°45'E. Besides being flanked by two continents, Indonesia is also located between the Pacific Ocean and the Indian Ocean and is crossed by the equator. Indonesia shares land borders with Papua New Guinea on the island of Papua, Malaysia on the island of Borneo and Timor Leste on the island of Timor. Meanwhile, the countries bordering the sea with Indonesia are Singapore, the Philippines, Australia and India.

Indonesia has a population of 275,122,131 people (2021). The population of 275 million people makes Indonesia the fourth most populous country in the world. Indonesia is also included in the twenty countries with the largest economic growth or called the G20 with the Indonesian Economy in 2021 as measured by Gross Domestic Product (GDP) at current prices reaching IDR 16,970.8 trillion and GDP per capita reaching IDR 62.2 million or US\$4,349.5. This research aims to determine the impact of Foreign Direct Investment (FDI) and International Trade on economic growth in Indonesia. therefore, the objects in this research are Foreign Direct Investment (FDI), International Trade and Indonesia's Gross Domestic Product (GDP). International Trade in this research includes Exports and Imports.

Foreign Direct Investment (FDI) has benefits for the country, namely by increasing income and economic growth which can be seen from the growth of Gross Domestic Product (GDP). The influx of foreign investment into Indonesia provides new capital to assist economic development either in the form of opening new jobs or developing the existing economic potential in Indonesia. In addition,

the influx of foreign investment is usually accompanied by technology transfer. (InvestmentIndonesia.go.id).

1.2. Research Background

Economic growth is one indicator that shows the good or bad economic performance and economic development in a country. Economic growth can also be interpreted as an increase in per capita income and the welfare of the people of a country. Recently, the media and several forums have said that Indonesia is one of the countries with a fairly high economic growth rate. Currently, Indonesia is listed as one of the member countries of the G20 or twenty countries with the largest economies in the world. Indonesia has always positive economic conditions with an average economic growth of 6 percent per year and it is hoped that this will continue for the sake of achieving the welfare of the Indonesian people.

The Government of the Republic of Indonesia targets Indonesia's economic growth in 2023 to be 5.3 percent, this economic growth target is considered by some economists and the World Bank to be very difficult to achieve. The World Bank itself estimates that in 2023 there will be a global recession so it is quite heavy. Economic growth requires the role of the government as a policy maker, be it fiscal or monetary policy, and also the role of the community as a factor in running the economy. This means that the economic growth of a country is highly dependent on economic activities that produce the value of the Gross Domestic Product (GDP) in that country. According to Sukirno (2008), Gross Domestic Product (GDP) is the value of goods or services in a country produced by national or foreign production factors in one year. Gross Domestic Product (GDP) at current prices can be used as an indicator to see the shift and structure of the economy, while constant prices can be used to determine economic growth from year on year.

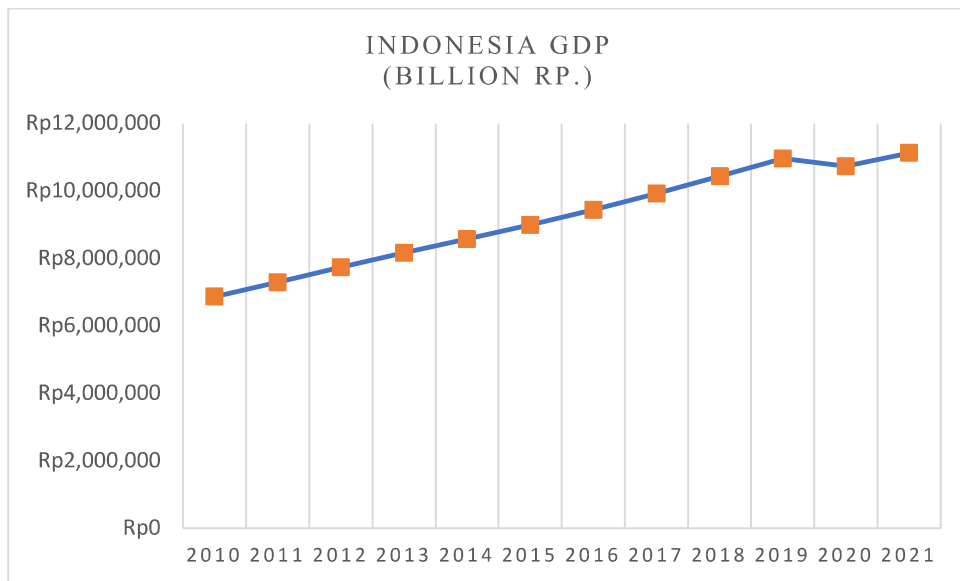


Figure 1. 1 Indonesia's Gross Domestic Product (GDP)

Source: BPS, processed by the author

According to the data above, Indonesia's Gross Domestic Product (GDP) in 2010 to 2019 always increases every year. although in 2020 Indonesia's Gross Domestic Product (GDP) decreased due to the impact of the Covid-19 pandemic crisis and finally in an effort to recover the national economy, Indonesia's Gross Domestic Product (GDP) increased in 2021. Economic growth in Indonesia can be categorized as good if the government can implement sustainable economic growth. According to Ernita (2013) Sustainable economic growth is growth that is supported by investment. Growth supported by investment is considered to increase the productivity of a country.

Investment is divided into two types, namely Domestic Investment (DI) and Foreign Investment (FI). According to Law Number 25 of 2007 concerning Investment, Domestic Investment is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by domestic investors by using domestic capital, either directly or indirectly to run business in accordance with this law. Meanwhile, Foreign investment is an investment activity to conduct business in the territory of the Republic of Indonesia carried out by foreign investors, both those who use fully foreign capital and those in joint ventures with domestic

investors. Foreign investment can also be interpreted as international capital flows where investors from other countries establish or expand their companies in other countries.

Indonesia as one of the countries with high economic growth, it will attract many investors, both foreign and domestic investors to invest in Indonesia. This is supported by the improving investment climate in Indonesia, marked by the following investment realizations:

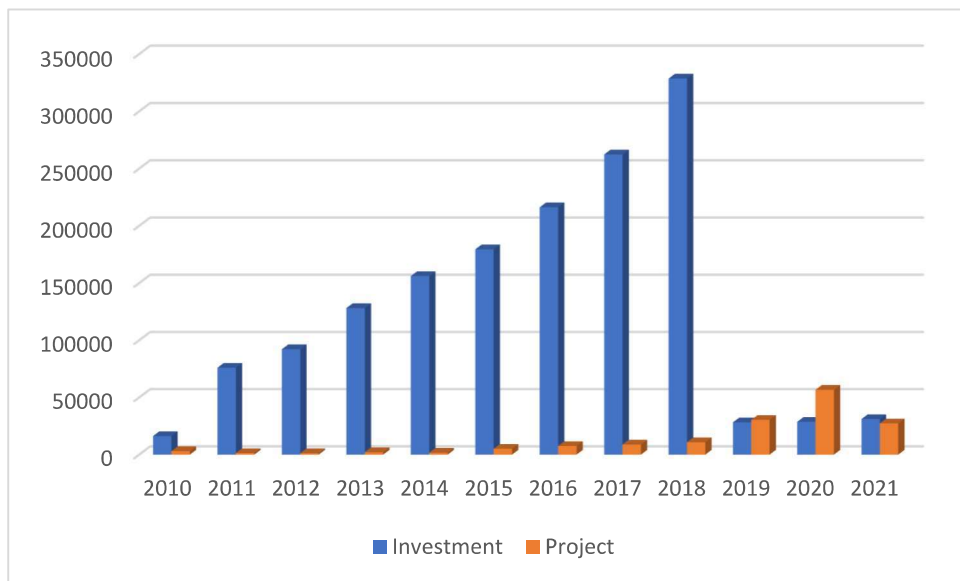


Figure 1. 2 Indonesia Foreign Direct Investment Realization

Source: BPS, processed by the author

The data above illustrates the development of the realization of Foreign Direct Investment (FDI) in Indonesia from 2010 to 2022. In this data, in 2017 Indonesia had an investment value of 32239.80 Million US\$ and decreased in 2018 until in 2019 it only obtained an investment of 28208.76 Millions US\$. From 2019 to 2021 the realization of investment continues to increase and in 2021 the investment reach 31093.10 Million US\$. The realization of an investment is very important for a country. For example, in 2021, Indonesia will receive an investment of 31093.10 Million US\$, from this investment it can be managed to produce a productive project of 27271 Million US\$, one of which is infrastructure projects including roads, electricity supply, clean water supply, industrial estate development and others. The realization of investment coming into Indonesia has a

positive impact on Indonesia's GDP. However, investment is not the only factor that can influence GDP. According to Mankiw (2018) The growth of a nation's Gross Domestic Product (GDP) is impacted by several variables, including investment, government spending, household consumption, exports and imports, labor, monetary policy, innovation and technology, and economic uncertainty. Ajayi et al. (2018) analyze the impact of Foreign Direct Investment (FDI) on economic growth with these indicators. Then Nguyen (2020), Quoc, Chinh Hoang. & Thi, Chi Duong. (2018), Govori & Fejzullah (2020) and Vukmirović et al. (2021).

This research uses three variables, namely Foreign Direct Investment (FDI), Import and Export. So, This research will use three variables that can influence gross domestic product, namely Foreign Direct Investment (FDI), Export and Import. In addition, The research data in this study has a period of 2010Q1 to 2021Q4. The author realized that in the 2010Q1 – 2021Q4 period, there was a pandemic COVID-19 crisis. However In this case researchers only focus on researching FDI's, export, and import impact on Indonesian economic growth in general. for the pandemic covid-19 impact on investments, it needs to do its research. Eryafdi (2021) conducted research related to it and showed that the COVID-19 crisis had no significant impact on the magnitude of investment. However, there's been a change in investor behavior where the pandemic investors went from the financial sector to the real sector. Therefore, the title of this research will be **"The Impact of Foreign Direct Investment (FDI) and International Trade on Economic Growth: Empirical Research in Indonesia 2010 - 2021 Period"**.

1.3. Problem Statement

Based on research conducted by Nguyen (2020), empirical test results show that Foreign Direct Investment (FDI) and international trade are related to economic growth. However, each economic variable has a different impact. Foreign Direct Investment (FDI) has a positive and statistically significant influence on the economic growth. Exports also have a positive and statistically significant impact on economic growth, while imports have a negative but not statistically significant effect. Indonesia is included in the twenty countries with the largest economic growth or what is often called the G20 with the Indonesian Economy in 2021 as

measured by Gross Domestic Product (GDP) at current prices reaching IDR 16,970.8 trillion and GDP per capita reaching IDR 62.2 million or US\$4,349.5.

Investment, exports, imports and economic growth are a factor in macroeconomy that provides useful insights for a manager to make decisions. A comparison between export and import (net export) can be considered whether an economy in a country is a surplus or deficit. This situation can be an indicator especially for a manager to conduct a feasibility study. On this research investment had a significant impact on the domestic product gross, So a Investment manager needs a more complex macroeconomic analysis to measure the extent of the investment worthiness that can be carried out on the investment instruments of both real sectors and financial sectors. The author is interested in examining the impact of Foreign Direct Investment (FDI), the impact of imports and export on economic growth in Indonesia with the main questions listed in the research question.

1.4. Research Question

Based on the explanation of the background and problem statement above, it could determine the research questions as bellow:

1. How is the impact of Foreign Direct Investment (FDI) to Economic Growth in 2010-2022 ?
2. How is the impact of Export to Economic Growth in 2010-2022?
3. How is the impact of Import to Economic Growth in 2010-2022?
4. How is the impact of Foreign Direct Investment (FDI) and International Trade to Economic Growth in 2010-2022 simultaneously?

1.5. Research Objective

The objectives of this research is:

1. To analyze the impact of Foreign Direct Investment (FDI) to Economic Growth in 2010-2022,
2. To analyze the impact of Export to Economic Growth in 2010-2022,
3. To analyze the impact of Import to Economic Growth in 2010-2022,
4. To determine the impact of Foreign Direct Investment (FDI) and International Trade to Economic Growth in 2010-2022 simultaneously.

1.6. Research Benefit

This research is expected to have both direct and indirect benefits. The benefits of this research are as follows:

1.6.1. Theoretical Aspect

The results of this research can be used as information and references to assist future research with the topic of Foreign Direct Investment (FDI) and similar methods.

1.6.2. Practical Aspect

This research is expected to provide insight as material for consideration to the government in making regulations and policies related to economic activity that has an impact on Indonesia's economic growth.

1.7. Research Scope

This research will explain Foreign Direct Investment (FDI) in terms of definition and Concept, then the implementation of Foreign Direct Investment (FDI) in Indonesia. This research will also discuss the impact of Foreign Direct Investment (FDI), International Trade on Indonesia's GDP using data from 2010Q1 to 2021Q4.

1.8. Research Systematic Writing

a. CHAPTER I INTRODUCTION

This chapter describes the review of the research object, research background, problem statement, research question, research object, and Thesis Structure.

b. CHAPTER II LITERATURE REVIEW

This chapter contains a description of literature review, theories related to research and the solution of the problem, theoretical framework and scope of the research.

c. CHAPTER III RESEARCH METHODOLOGY

This chapter contains the process of research, type of research used, the operationalization of variables and measurement scales, phases of the research, population and sample, data analysis techniques, and protocol.

d. CHAPTER IV RESEARCH ANALYSIS AND DISCUSSION

This chapter describes the characteristic of the respondents and the result of the research.

e. CHAPTER V CONCLUSION AND SUGGESTION

This chapter describes the conclusion of the results of the research and giving any suggestions whether it is constructive advice or only any feedback from us to Diskominfo Bandung District.