# CHAPTER I

# INTRODUCTION

## 1.1. Background Of The Study

The objectives of economic are to promote the growth and increase people's welfare which supported by the sustainable economic growth, powerful economic sector, inclusive, equality of economic development and macroeconomic and financial stability. Sustainable economic growth becomes the main point of the process of changing a country's condition. Economic growth itself is a development process in economic activities that cause increasing goods and services. Economic growth can be measured by determining the Gross Domestic Product.

GDP is a measurement of a nation's whole economic activities. It includes all private and public consumption, government expenditures, investments and balance of trade (export and import). In determining the economic growth in 6 provinces of Java, the researcher use GRDP as a data. GRDP or Gross Regional Domestic Product is one of the indicators to supervise economic condition in a province during period of time, whether using actual price or constant price.
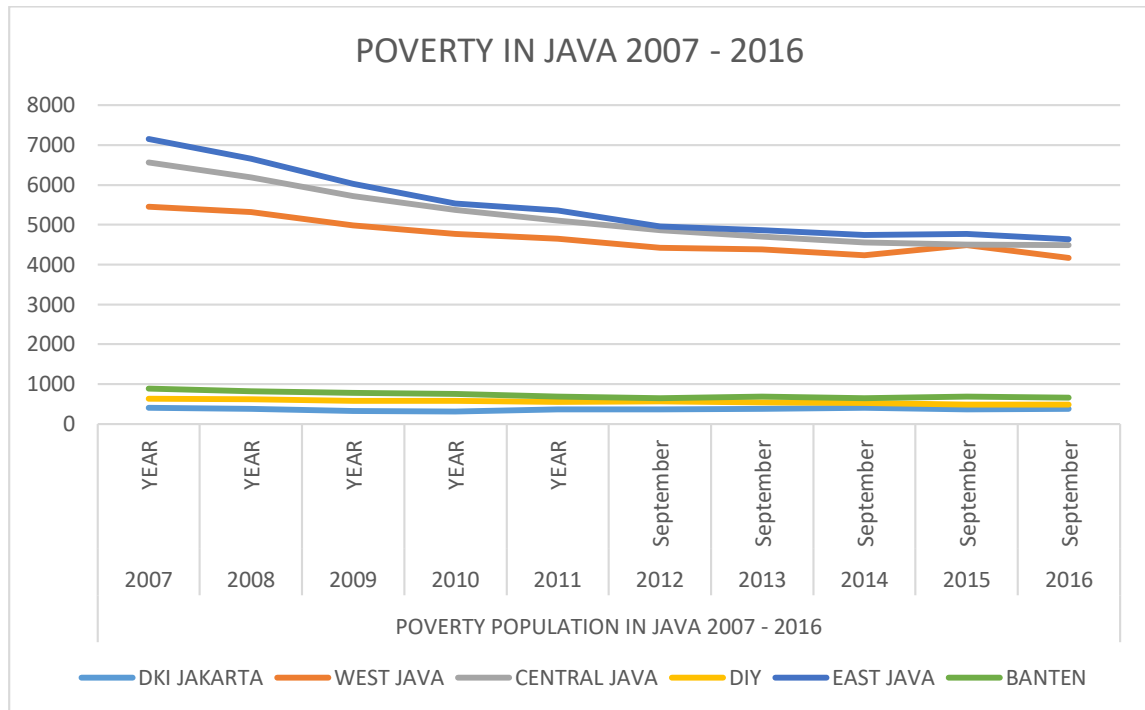
The table below shows the GRDP in Java in 2010-2017. The GRDP using constant price as a base price. The highest GRDP is DKI Jakarta.

Table 1. GRDP 2010-2017 (2010 Constant Price), Billion Rp

| | DKI JAKARTA | WEST JAVA | CENTRAL JAVA | DIY | EAST JAVA | BANTEN |
|---|---|---|---|---|---|---|
| 2010 | 111528.86 | 20974.94 | 19209.31 | 18652.97 | 26371.1 | 25397.65 |
| 2011 | 117672.92 | 21976.53 | 20053.8 | 19387.45 | 27864.26 | 26548.94 |
| 2012 | 123962.38 | 23036 | 20950.62 | 20183.88 | 29508.4 | 27716.47 |
| 2013 | 130060.31 | 24118.31 | 21844.87 | 21037.7 | 31092.04 | 28910.66 |
| 2014 | 130060.31 | 24966.86 | 22819.16 | 21867.9 | 32703.39 | 29846.64 |
| 2015 | 142913.61 | 25845.5 | 23887.06 | 22688.36 | 34271.81 | 30813.03 |
| 2016 | 149847.63 | 26921.57 | 24965.78 | 23566.32 | 35970.71 | 31780.68 |
| 2017 | 157684.47 | 27956.16 | 26097.67 | 24533.91 | 37720.42 | 32933.36 |

Source: Badan Pusat Statistik (n. d.)

As developing country, Indonesia still suffers from inequality. It proven by the condition of economic growth is in a good rate, while the poverty population is high as well. Especially in Java, the real existence of inequality is occurring. In Java, the condition having high number of GRDP and high number of poverty at same time.

Source: Badan Pusat Statistik (n. d.)

FIGURE 1. Poverty in Java 2007-2016

Based on a figure above, it shows the poverty population in Java in period 2007 – 2016, year by year is decreasing. The highest poverty population comes from East Java province with 4.638.53 thousand people.

Since the main purpose of economic development is no longer increasing GDP, but it focusing to elimination of inequality and reduction of poverty (Susanto, 2014). According to BPS, in determining the poverty, BPS used the ability to fulfill basic need approach concept. In this approach, poverty can be define as inability in economics sides to fulfill basic needs (food and non-food) which measure by spending sides.

Economic development problem such as poverty and inequality, reminds the government the development not always about the welfare but concern in development goal that can be considered as human beings and human rights (Kuncoro, 1997). Thus, the meaning of development as the upward movement of the entire social system. In other word, target of economic development is no longer about GRDP but also quality of the development process. Therefore, human development as the main goals of development that can reduce the poverty.

Human developments consider several indicators, such as the quality of human resources. It includes healthy life, education and skills so the people can participate in economic activities. The increasing of human development will tend to poverty reduction. One of the measurement of the quality of human development is HDI (Human Development Index) which have three fundamental component namely health, education, and purchasing power. The table below shows the HDI in Indonesia in period 2010-2017 is increasing rapidly year by year. The highest HDI is on DKI Jakarta with average 78,2.

Table 2. Human Development Index, 2010-2017

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|
| **DKI JAKARTA** | 76.31 | 76.98 | 77.53 | 78.08 | 78.39 | 78.99 | 79.6 | 80.06 |
| **WEST JAVA** | 66.15 | 66.67 | 67.32 | 68.25 | 68.8 | 69.5 | 70.05 | 70.69 |
| **CENTRAL JAVA** | 66.08 | 66.64 | 67.21 | 68.02 | 68.78 | 69.49 | 69.98 | 70.52 |
| **DI YOGYAKARTA** | 75.37 | 75.93 | 76.15 | 76.44 | 76.81 | 77.59 | 78.38 | 78.89 |
| **EAST JAVA** | 65.36 | 66.06 | 66.74 | 67.55 | 68.14 | 68.95 | 69.74 | 70.27 |
| **BANTEN** | 67.54 | 68.22 | 68.92 | 69.47 | 69.89 | 70.27 | 70.96 | 71.42 |
| **INDONESIA** | 66.53 | 67.09 | 67.7 | 68.31 | 68.9 | 69.55 | 70.18 | 70.81 |

Source: Badan Pusat Statistik (n. d.)

Inflation is one of the essential variables in macroeconomics. Inflation happen when excess money happens due to excessive total demand which triggered by liquidity in the market. The consequences are high demand in market and change in price level. The increasing of medium exchange volume with high demand for goods and services resulting the increasing of production demand. Because of the increasing demand of production, it will lead increasing of prices. While price is rise, the
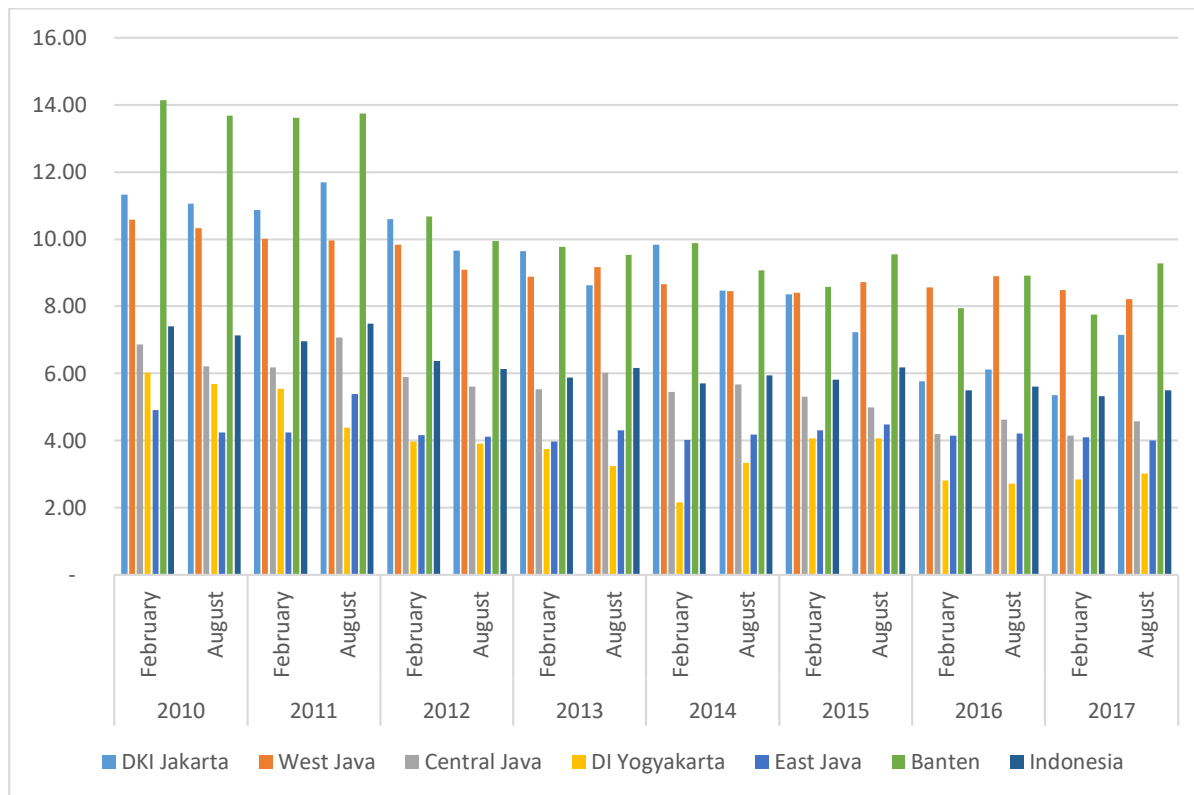
purchasing power will decrease. Inflation can bring bad influence on production cost and level of welfare. A decreasing of consumption show a lower welfare and an increasing number of people living below the poverty. Also affect the economic growth and unemployment level.

INDONESIA INFLATION RATE



SOURCE: TRADINGECONOMICS.COM | STATISTICS INDONESIA

Sources: Trading Economics

FIGURE 2. Indonesian Inflation Rate 2017-2018

The decreasing of purchasing power parity to goods and demand will decline the production capacity which will be labor cut off in to reduce the cost. Unemployment level will get higher and poverty levels also increase (Sulistiawati, 2012). The increase of unemployment will decrease the society's income as well.

Source: Badan Pusat Statistik (n. d.)

FIGURE 3. Unemployment Rate, 2010-2017

The bars above show the unemployment rate in 6 Java's Province in Indonesia period 2010-2016. The unemployment rate in Banten is higher than unemployment rate in Indonesia in average.

1.2. Problem Formulation

Therefore, based on the background study above, some issues has risen by the researcher, they are:

  a. Does Human Development Index influence the poverty in 6 provinces of Java, Indonesia in the period 2010 – 2016?

  b. Does Gross Regional Domestic Product influence the poverty in 6 provinces of Java, Indonesia in the period 2010 – 2016?

  c. Does Inflation influence the poverty in 6 provinces of Java, Indonesia in the period 2010 – 2016?

  d. Does Unemployment influence the poverty in 6 provinces of Java, Indonesia in the period 2010 – 2016?

## 1.3. Problem Identification

The researcher want to investigate whether factors that already mentioned such as GRDP, inflation, unemployment population and HDI or Human Development Index are having influence in poverty.

## 1.4. Research Objectives

Refer to problem formulation above; this research's objective is to analyze the effect of Human Development Index or HDI, Gross Regional Domestic Product or GRDP, inflation and unemployment to the poverty in 6 provinces of Java in the period 2010 – 2016.

## 1.5. Problem Limitation

The subjects in the research are not all the provinces in Indonesia. The writer will only take 6 provinces of Java as the subjects, they are; East Java, West Java,

Central Java, DKI Jakarta, DI Yogyakarta and Banten. Additionally, for the period, the writer observes 7 years period from 2010-2016. The result later will not represent determinant factors of poverty in Indonesia since the writer limited the research to 6provinces in 7 years.

1.6. Research Contribution

The benefit from this research:

a. For the researcher, this research will beneficiary to have deep understanding and knowledge of poverty, Human Development Index, Gross Regional Domestic Product, Inflation and Unemployment. Especially in this topic research about the factors which influence poverty population in Java.

b. For the future researcher, the researcher hope that this research will give benefit as a reference for further research related to the factors which influence poverty population.

c. For government, this research will be a reference in government policy making with consider about the factors which influence poverty population.

1.7. Writing Systematic

To simplify and clarify the writing of the thesis, the researcher uses systematic of writing so that it is more focused. This proposal will be divided into three chapter, they are:

CHAPTER 1: INTRODUCTION

This chapter contains background of study, problem identification, problem formulation, problem limitation, research objectives, research contributions and writing systematic.

CHAPTER 2: LITERATURE REVIEW & THEORETICAL FRAMEWORK

This chapter describes the result of research from previous study in literature review, theoretical framework, and hypotheses.

CHAPTER 3: RESEARCH METHOD

This chapter contain of data collection method, research variables and explanation about method of analysis and data source.

CHAPTER 4: RESULT AND DISCUSSION

This chapter discusses data analysis, hypotheses testing and research findings.

CHAPTER 5: CONCLUSIONS AND RECOMMENDATIONS

This chapter presents the conclusion and recommendations for future researchers.