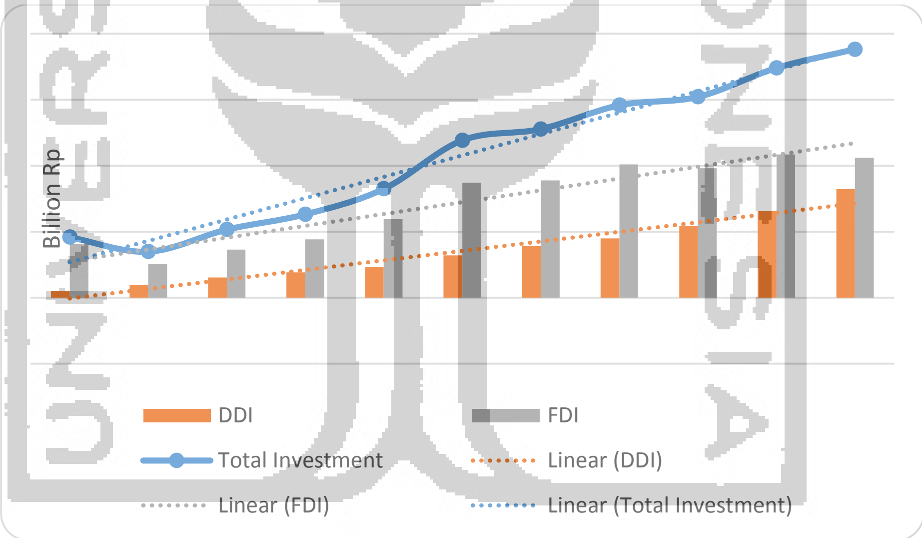
CHAPTER I
INTRODUCTION

1.1. Background

The government is responsible for the prosperity of the people who live in a country, one of the indicators of prosperity is economic growth which is calculated through a country's Gross Domestic Product (GDP). Economic growth can be said as a process of growth of goods and services that occur in society. A high income for a certain period in the region indicates that the people's economy is getting better and more prosperous.

Regional income growth has a good impact on the economy as seen from the increase in regional income or Gross Regional Domestic Product (GRDP). Consequently, the government is always competing to maintain and even improve these indicators in order to achieve the goals of the national economy, also each region must be able to achieve the Gross Regional Domestic Product (GRDP) target that has been set together and solve problems in its improvement. Therefore, local governments are required to utilize the resources they have both humans and nature.

In achieving this goal the government must be active in collaborating and intervening economic activities. In fact, there are a number of non-economic components which are driving and inhibiting the economy. In the theory of income that is believed by the Keynesians to say the balance of income is Y = C + G + I + (XM), where the indicator Y is income, C is consumption, G is government expenditure, I is investment and (EM) is net exports or exports (X) minus imports (M). The intended investments are both domestic and foreign that are considered to be able to open employment opportunities or expand existing businesses can make a major contribution to the economy. Indonesia itself is a good investment destination for foreign countries because it has enormous potential to generate profits. As a tropical country which is located on the equator, Indonesia has abundant natural resources both in sea and land. Additionaly, Indonesia's population is also the fourth largest in the world, making Indonesia have a vast and growing domestic market, investment in Indonesia be the right investment destination. Therefore, many investors still make Indonesia as the main investment destination. The following table shows the realization of Foreign Direct Investment (FDI) and Domestic Direct Investment (DDI) in Indonesia.

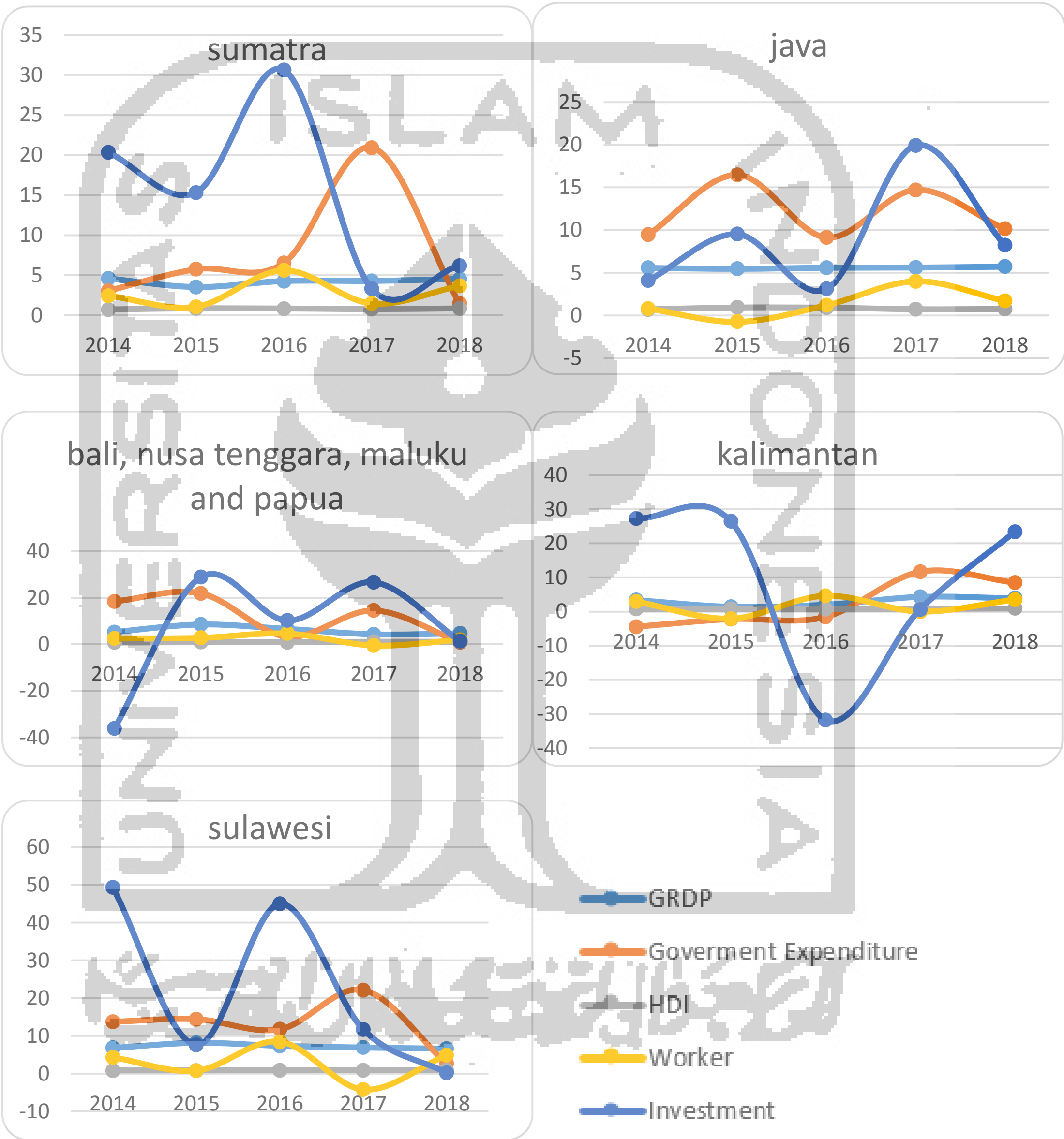


Source: Badan Pusat Statistik processed, 2019

Graph 1.1. : Investment in Indonesia (Billion Rp)

Based on Graph 1.1. the amount of investment in Indonesia has experienced a drastic decline in 2009 after the monetary crisis, while the Foreign Direct Investment (FDI) fluctuates, the Domestic Direct Investment (DDI) consistently increases in the following years. On the whole, first, Indonesia’s investment is very dependent on FDI. Second, the difference between FDI and DDI is getting smaller.

Third, inversely proportional to a very positive linear of investment, the Gross Domestic Product (GDP) shows a negative linear. Futhermore, whether the amount of investment in Indonesia will be able to drive the growth of regional income in Indonesia can be explained by the following graph:



Source: Badan Pusat Statistik processed, 2019

Graph 1.2. : Growth of Gross Regional Domestic Product (GDRP), Government Expenditure, HDI, Worker and Investment based on the island. (Percent %)

Graph 1.2. shows that Indonesia's Investment experiences large fluctuations in each year, and the focus of investment in the last 5 years only occurred in Java, and Papua, Southeast Nusa Tenggara, Maluku, and Papua which have positive trends, while other islands have negative trends. Besides, other variables, namely the government expenditure, only Kalimantan and Sumatra islands have a positive trend. At the same time, a significant decrease occurred in the groups of Bali, Southeast Nusa Tenggara, Maluku and Papua. Though, almost all workers in the islands of Indonesia experienced positive fluctuations but it is not significantly in line with the population growth which around 1.3% each year. In 2016, there was a drastic decrease in investment growth on two islands in Indonesia, especially in Kalimantan which experienced a 31.7 percent investment decline, after a 27.2 percent increase in the previous year, due to the investment position in Kalimantan which was dominated by Foreign Direct. Investment (FDI), as seen in 2015 FDI controlled 80.1 percent of total investment, when in 2016 FDI declined to 51.08 percent the total investment also experienced a sharp decline.

Of all the variables, only HDI has experienced stagnant growth, strangely the growth in income of each province seems to be very dependent on HDI that remains on stable growth, as stated by Durlauf et al (2004) that human capital plays an important role in economic growth and macroeconomic performance in East Asia and South-east Asia. When compared with 9 other ASEAN countries, Indonesia's HDI index is as follows:

Table 1.1. : Human Development Index (HDI) Record in ASEAN Countries

Country	1990	2000	2010	2011	2012	2013	2014	2015	2016	2017
Singapore	71,8	81,9	90,9	91,4	92	92,3	92,8	92,9	93	93,2
Malaysia	64,3	72,5	77,2	77,8	78,1	78,5	79	79,5	79,9	80,2
Indonesia	52,8	60,6	66,1	66,9	67,5	68,1	68,3	68,6	69,1	69,4
Brunei Darussalam	78,2	81,9	84,2	84,6	85,2	85,3	85,3	85,2	85,2	85,3
Lao People's Democratic Republic	40	46,6	54,6	55,8	56,9	57,9	58,6	59,3	59,8	60,1
Vietnam	47,5	57,9	65,4	66,4	67	67,5	67,8	68,4	68,9	69,4
Thailand	57,4	64,9	72,4	72,7	73,1	72,8	73,5	74,1	74,8	75,5
Philippines	58,6	62,4	66,5	67	67,7	68,5	68,9	69,3	69,6	69,9
Myanmar	35,9	43,1	53	54	54,9	55,8	56,4	56,9	57,4	57,8
Cambodia	36,4	42	53,7	54,6	55,3	56	56,6	57,1	57,6	58,2

Source: United Nation Development Program, 2019

Indonesia has not focused on the development of human resources, Table 1.1. shows that Indonesia's Human Development Index (HDI) did not experience a drastic increase during the 27-year, from 1990 to 2017. Indonesia could only raise 16,6 points, while Vietnam and Myanmar could increase their HDI by 21,9. Until 2017 the quality of Indonesian human resource development is still in the seventh position out of ten countries, whereas when viewed in 1990 Indonesia ranks 6th, so it can be concluded that the quality of Indonesian human resources is less able to compete among ASEAN countries.

Shortly from the Graph, probably HDI is one of the reasons why the amount of investment, population, and workers have not been able to have a significant effect. According to Schultz (1961), there are five ways to develop HDI, namely; providing health facilities, increasing education at all levels of education, providing training in the workplace, providing better migration facilities, and increasing work-forced counselling. In essence, good human resources will stimulate growth by stimulating technological advancement and enhancing worker productivity, hopefully, the results of this study can answer the problems of GRDP that has been discussed. Therefore this topic is very interesting to discuss because whether the government expenditure, capital people, Worker and investment always go hand in hand in determining the Gross Regional Domestic Product (GRDP) or not.

Therefore, the researcher will take government expenditure, HDI, Worker, and investment as an independent variable and Gross Regional Domestic Product (GRDP) is the dependent variable. The title to be used in this study is **"The Impact of Government Expenditure, Human Development Index (HDI), Worker and Investment on Indonesia's Provincial Gross Regional Domestic Product (GRDP)".**

1.2. Problem Formulation

Therefore, based on the background above, the researcher raises some issues, they are:

1) Does the size of government expenditure influence Indonesia's Provincial Gross Regional Domestic Product (GRDP)?
2) Does Human Development Index (HDI) influence Indonesia's Provincial Gross Regional Domestic Product (GRDP)?
3) Does the number of worker influence Indonesia's Provincial Gross Regional Domestic Product (GRDP)?

4) Does the volume of Investment influence Indonesia's Provincial Gross Regional Domestic Product (GRDP)?

1.3. Research Objective

Based on the research problem formulation written above, the research objectives are the followings below to measure the impact on regional income or gross regional domestic product (GRDP) in Indonesia's Provinces from 2013-2018.

1) To analyze the influence of the size of government expenditure on Gross Regional Domestic Product (GRDP).
2) To analyze the influence of Human Development Index (HDI) on Gross Regional Domestic Product (GRDP).
3) To analyze the influence of the number of worker on Gross Regional Domestic Product (GRDP).
4) To analyze the influence of the volume of investment on Gross Regional Domestic Product (GRDP).

1.4. Research Contribution

1. Academic

1.1 For the researcher, this research will contribute to the academic world regarding factors that affect economic growth or Gross Regional Domestic Product (GRDP) in Indonesia.

1.2 For future researchers, it is expected that this research could be the answers to several rationales for discussing economic growth as Gross Regional

Domestic Product (GRDP) in Indonesia and at the same time can be a benchmark for discussing economic problems in Indonesia.

1.3 For science, the findings will enrich the existing literature in the public sector related to Indonesia's Gross Regional Domestic Product (GRDP).

2. Government

This research will be a reference in government policymaking for knowing the progress and the influence of government expenditure, Human Development Index (HDI), investment, and worker as the determination of region economic target as well as the evaluation topic in government.

1.5. Systematic of Writing

This thesis is presented in five chapters, namely; Chapter 1 introduction which explains the background to the research as well as a description of why this problem needs to be investigated. Chapter 2 literature review, it contains a description of theories related to this research, namely the theory of economic growth. In addition, this chapter also outlines previous research, theoretical frameworks, and research hypotheses. Chapter 3 research methods, it explains the operational definitions of variables, sources of data, and as well as an explanation of the research methods. Chapter 4 results and discussion, it elaborates on the description of research objects also a breakdown of the results and discussion of the data analysis that has been done. Chapter 5 conclusions and recommendations contains conclusions obtained from the results of the analysis. In addition, limitations were also presented in the study, as well as recommendations recommended to certain parties relating to the theme of this study.