CHAPTER I
INTRODUCTION

A. Research Backgorund

Economic growth is defined as the development of activities in the economy that cause goods and services in production increases and prosperity also increases, so that the welfare of society also increases. Economic growth is also defined as an increasing in gross domestic product/gross national product, or a process of increasing per capita output over the long term. The stronger and higher the economic growth of a country the better the economy of the country. A country can be said either through an increase in the amount of goods and services generated by the calculation of the rate of economic growth. The indicator of the amount of goods and services produced in the economy is known as gross domestic product.

Economic growth is a long-term macro issue whereby each country will seek to improve its ability to produce goods and services in each period, the goal being to increase real production levels (national income) and living standards (real incomes per capita) through the provision and direction of factors of production factors (Sukirno, 1994).

Gross domestic product (GDP) is mostly used as a barometer to measure a country's economic progress. Economic policies leading to economic growth and development have been studied by many economists such as Mercantilists, Adam Smith, and David Ricardo for a long time.

Some of these variables are investment, savings, inflation, inflation variability, government expenditure as a percentage of GDP, government deficits, and other macroeconomic variables.

Each country would expect an economy that increases continuously, therefore becomes the main goal of every country to achieve high economic growth in order to get the welfare of society, no exception Indonesia.

TABLE 1.1
Gross Domestic Product in Indonesia (Current US Dollar)

Year	**Gross Domestic Product**
2005	571.204.954.434,66
2006	602.626.663.572,80
2007	640.863.459.320,35
2008	679.403.088.245,17
2009	710.851.782.010,38
2010	755.094.160.363,07
2011	801.681.840.622,49
2012	801.681.840.622,49
2013	897.261.717.986,53
2014	942.184.637.117,35
2015	988.127.958.652,97
2016	988.127.958.652,97

Source:World Bank 2018

The table above shows the gross domestic product (GDP) in Indonesia from 2005 to 2016. Indonesia's GDP is move fluctuate, given the table, the GDP from 2005 to 2008 continues to increase, 2005 GDP in indonesia is about US$ 571.204.954.434,66, continue to increase each years untill 2016 GDP in Indonesia reach US$ 988.127.958.652,97.

Gross Domestic Product is the most important economic statistics because it is considered as the single best measure of public welfare. The underlying thing is that GDP measures two things at the same time: the total income of all people in the economy and the total expenditure of the state to buy goods and services resulting from the economy. The reason for GDP can measure the total income and expenditure due to an economy as a whole, the income must be the same as expenditure (Mankiw, 2006).

Indonesia is a developing country with a large population and abundant natural resources, but large populations and abundant natural resources are unable to solve and provide solutions to the Indonesian economy. Indonesia needs to improve human and technological resources to manage natural resources well and totality, and these all require large capital. Investment is one of part of gross domestic product, and developing countries like Indonesia is often faced with funding problems, this becomes a serious conversation for developing countries. Developing countries have not been able to provide large investments to support their economic development and their national income. One way to get a capital injection is to attract foreign direct investment.

Foreign direct investment is an investment made by a foreign entity to a particular country. The form may be a branch of a multinational company, a multinational subsidiary (a subsidiary), a license, a joint venture, or otherwise.

Athukorala (2003) said, foreign direct investment has a positive impact on the host country's economy because through foreign investment it can increase the availability of funds for the host country (recipient country). Athukorala also conducted a study using the co-operative econometric model and the 1959 series of time data up to 2012 to analyze the relationship between foreign direct Investment and gross domestic product in Sri Lanka. The results show that foreign direct investment has a positive effect on gross domestic product (GDP) and a causal relationship between foreign direct investment and gross domestic product (GDP) in Sri Lanka.

Foreign direct investment is needed to build economic acceleration. This is because foreign capital can help in the process of industrialization in order to create wider opportunities. Foreign capital only provide through financial aid but can be technological assistance (Jhingan, 2004).

The benefits of a foreign direct investment (FDI) are: employment, technology transfer, managerial training, and access to international markets through exports. Viewed from the output sales target, multinational companies can be divided into two groups: first, domestic-oriented domestic-oriented investments that usually tend to use capital-intensive production technology, and second, foreign investment oriented to foreign markets whose magnitude tends to use labor-intensive production because it is cheaper (Setyowati and Kuswati, 2008).

TABLE 1.2

The Foreign Direct Investment from 4-ASEAN-Nation (Current US Dollar)

Year	Country			
	Indonesia	**Thailand**	**Malaysia**	**Philipines**
2005	8.336.257.207,64	8.215.637.195,30	3.924.786.634,74	1.664.000.000,00
2006	4.914.201.435,40	8.917.470.351,20	7.690.731.245,67	2.707.414.996,80
2007	6.928.480.000,00	8.633.903.440,60	9.071.369.834,84	2.918.724.840,50
2008	9.318.453.649,83	8.561.557.724,60	7.572.512.432,34	1.340.027.563,20
2009	4.877.369.178,44	6.411.458.544,60	114.664.434,56	2.064.620.677,77
2010	15.292.009.410,51	14.746.672.919,60	10.885.614.182,21	1.070.386.939,92
2011	20.564.938.226,72	2.473.685.995,70	15.119.371.191,19	2.007.150.725,40
2012	21.200.778.607,87	12.899.036.061,20	8.895.774.251,02	3.215.415.155,44
2013	23.281.742.361,53	15.935.960.663,10	11.296.278.695,66	3.737.371.739,85
2014	25.120.732.059,51	4.975.455.660,20	10.619.431.769,78	5.739.574.024,13
2015	19.779.127.976,96	8.927.579.180,90	9.857.162.232,87	5.639.155.961,87
2016	4.142.203.472,70	3.063.235.324,20	13.515.796.131,08	7.979.567.090,08

Source: World Bank 2018

The table above shows Indonesia occupying the most favored position in terms of foreign direct investment, compared with other ASEAN-4-Nations countries. Foreign direct investment in Indonesia is always increasing from year to year, as well as Malaysia has increased, but if in comparison with Indonesia, Malaysia is still left behind also if compared to 3 others countries and Indonesia is more interested. Foreign direct investment in Malaysia had fluctuated also and in 2012 Foreign direct investment in Malaysia had decreased, and increased again in the year after.

Indonesia has abundant human and natural resources, to take advantage of Indonesia's abundant natural resources, foreign direct investment brings a very positive role, where foreign direct investment can solve the problems that hamper the gross domestic product that is poor infrastructure, inefficient bureaucracy, limited access to funds, foreign direct investment will hold the construction of new factories, which means there will be an increase in output or domestic products, total exports and employment opportunities, foreign direct investment also provides a means to transfer technological advances from developed countries and also become a new source and more efficient country management.

Foreign direct investment also helps maximize gross domestic product by providing large employment opportunities for large populations in Indonesia. Increasing the distribution of natural resources, national production will increase of course and eventually accelerate the rate gross domestic product.

In addition to foreign direct investment, export is also part of the national income. In many countries, exports and imports are one of the major factors for increasing gross domestic product. Export can expand the market and allow the exporting country to gain profit as well as the national income will increase so that in turn can increase economic growth (Setyowati and Kuswati, 2008).

GDP is defined as the market value of all final recognized goods and services produced in a country in a given period. Imports refer to goods and services produced by the foreign sector and purchased by the domestic economy. Basically, they are goods and services purchased from other countries. Export refers to goods and services produced domestically and purchased by foreign sectors. They are goods and services purchased by other countries.

Furthermore, Salvator (1990) asserted that export is one of the engines of economic growth. A review by Salvator showed that export is one of the main factors for developing countries to promote economic growth. Increased exports and investments made by developing countries can boost output and economic growth.

Export and import activities have an equally important role in a country's economy. When a country has the advantage of a product that can not be produced by another country and the country requires the product, it can export it and vice versa. Export activity now is a must for a country to increase its economic growth (Bustami, 2013).

TABLE 1.3
Export and import goods and services (Current US Dollar)

Year	Export	Import
2005	97.387.627.234,84	85.533.800.863,55
2006	113.143.424.880,16	93.411.753.739,23
2007	127.226.102.177,01	109.755.093.425,23
2008	152.090.401.421,80	146.706.628.549,32
2009	130.357.798.591,19	115.216.544.854,10
2010	183.480.563.627,39	169.158.028.224,50
2011	235.095.130.017,57	212.996.886.068,27
2012	225.744.402.474,11	229.362.101.573,16
2013	218.308.408.827,84	225.519.356.299,67
2014	210.820.082.760,73	217.485.215.697,15
2015	182.166.823.490,33	178.471.802.188,38
2016	177.883.502.081,64	170.658.407.562,69

Source: World Bank 2018

Viewed from the table above Indonesia has good potential in export. From 2005 to 2012, exports and imports in Indonesia fluctuated and from year to year increased. The economic crisis that occurred in 2008 resulted in exports and imports in the year 2009 decreased, as well as the crisis that occurred in 2012 again reduced the performance of exports and imports in Indonesia. Exports reached the highest point in 2011 with a value of US$ 235.095.130.017,57 while imports reached the highest point in 2012 with a value of US$ 229.362.101.573,16. From the table above shows that Indonesia has the potential to increase exports, to increase economic growth. Export and import are said to be able to move the economy of a country and there are many factors why export and import should be done.

Differences resources to be the first factor, difference in production results due to climate geography, level of technological mastery, each country can meet the needs of the country that can not be produced by its country. Export and import activities are very important for a country and provide many benefits. The country needs to conduct export activities because it allows an increasing in the amount of production wich expected to contribute greatly to the growth and stability of the economy. If demand for goods from aboard increase, it means production rate will increase also, with increasing production, will cause an increasing in labor, so that unemployment problem will be resolved. If people work then the purchasing power of the people will increase, so the turnover of consumption will be better and gross domestic product will also improve.

Export is able to expand the market and will certainly give benefit. Many entrepreneurs do not run their machines or tools of production maximally, because they are worried about the excess of production then the price of its product will fall. With the existence of export activity then the entrepreneur can run the machines maximally and sell excess product abroad. The other benefit comes from technology, with export and import activities allow a country to learn more efficient production technique and modern ways of management.

Import activity should be done to meet domestic needs that can not be produced in the country. Whether it is raw materials and machinery and production equipment. Indonesia has not been able to produce all its own needs, so import becomes the important part ofgross domestic product. Import is a reflection of the economic sovereignty of a country. Import etymologically defined as an activity or purchasing goods from aboard wich then the material will be sold in the country for domestic needs. The main factor of import is usually due to natural factors such as climate weather in different countries, each country has its own natural wealth. And now the researcher want to know how far the influence of foreign direct investment, export and import on economic growth ? Therefore the researcher interested to in observe "***The Influence of Foreign Direct Investment, Export, and Import on Gross Domestic Product in Indonesia***"

B. Problem Formulation

Based on the description from the background above, the problem can be formulated in this research are:

1. How far the influence of foreign direct investment on gross domestic product in Indonesia ?
2. How far the influence of export on gross domestic product in Indonesia?
3. How far the influence of import on gross domestic product in Indonesia ?

C. Research Purpose

Based on the formulation problem, thus objectives of this paper are:

1. In order to know about the influence of foreign direct investment on gross domestic product in Indonesia.
2. In order to know about ithe influence of export on gross domestic product in Indonesia.
3. In order to know about the influence of import on gross domestic product in Indonesia.

D. Research Benefit

Some Benefits want to be achieved by the researcher are:

1. It can help to explain about the influence of foreign direct investment, export and import on gross domestic product in Indonesia.
2. It is expected tobe useful as a consideration in deciding policies on foreign direct investment, export and import
3. Student, lecture, and academics are expected to become a reference and further information for research.