

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Definition of Economic Growth

The simplest economic growth can be interpreted as an increase in output or aggregate national income in a certain period of time, for example one year. The economy of a country is said to experience growth if it repays real services for the use of factors of production in a given year greater than in previous years. Thus, the notion of economic growth can be interpreted as an increase in the production capacity of goods and services physically in a certain period of time (Prasetyo, 2009)

Economic growth is the process of increasing per capita output in the long term, where the emphasis is on three things, namely process, per capita output and long term. Economic growth is a "process", not an economic picture at a time. Here is seen the dynamic aspect of an economy, namely seeing how an economy develops or changes over time.

Economic growth is also related to the increase in "per capita output". In this sense there are two sides to note, namely total output and population, because only if these two aspects are explained, can the development of per capita output be explained. Then the third aspect is the long-term economic growth perspective, that is, if for a long period of time the per capita output shows a clear tendency to rise (Boediono, 2009).

According to Mankiw (2007:17-19) one of the indicators used to measure macro economic growth is the value of Gross Domestic Product (GDP). GDP is the market value of all final goods and services produced in the economy over a period of time. GDP is often used as the best indicator to measure economic performance. It is based on the purpose of GDP that is summarizing economic activity in the value of a single currency over a period of time, measuring total income and total national expenditure or money flow of goods and services output in an economy. The reason for the GDP can be used to measure total revenue and expenditure due to an economy as a whole, revenues must be equal to expenditure.

According to Mankiw (2000: 21), there are several measures of economic prosperity in a country that better calculate the output of goods and services and are not affected by changes in prices, economists use Real GDP or GDP at Constant Prices. This is because a country's real GDP is not affected by changes in prices but rather changes in the amount of goods and services produced on a broader scale of economics. Thus, the definition of economic growth is the development of a country's economic activities which can be measured using Gross Domestic Product (GDP) on the basis of Constant Prices (ADHK) or real GDP. GDP (ADHK) or real GDP can be used to improve people's welfare.

This following is a component of GDP in terms of expenditure (Y) divided in to four components: consumption (C), investment (I), state

expenditure (G), and net exports (NX) (Mankiw, 2007: 25). All components of GDP can be formulated as follows:

$$Y = C + I + G + NX \dots\dots\dots(2.1)$$

Information:

Y = Gross Domestic Product (GDP)

C = Consumption

I = Foreign Direct Investment (FDI)

G = Government spending

NX = Net exports

The above equation is called the national income account identity by describing the following equation variables (Mankiw, 2007: 25):

a. Consumption.

Consumption is the purchase of goods and services made by households. Consumer goods are divided into three subgroups: non-durable goods, durable goods, and services. Nondurable goods are goods in a short time. Durable goods are goods that have long life. Service is something purchased does not cover the production of physical things.

b. Investment.

Investment is the purchase of goods for use in the future. Investments are also divided into three subgroups: fixed business investment, fixed residential investment, and inventory investment. Fixed business investment is the manufacture of the factory and the purchase of new

equipment by the company. Residential investment is the purchase of new homes by household and host. Inventory investment represents an increase in the inventory of the company's goods.

c. Government Expenditure.

Government expenditure include purchases of goods and services by local, state, and federal governments.

d. Net exports.

Net exports take into account international trade (inter-state trade) by purchasing domestic products by foreigners (exports) minus purchases of foreign products by citizens (imports).

2. Factors of Economic Growth

The following are some growth factors that can help to explain the economic growth of a country known as the Aggregate Production Function (APF), among others (Samuelson, 2004):

- a. Human resources are labor inputs consisting of the quantity and quality of the workforce. The economic growth of a country is influenced by the skills, knowledge, and workforce discipline.
- b. Natural resources are a very important production factor. These important resources are in the form of land that is good for planting, oil, and gas, forests, water, minerals.
- c. Forming capital in the form of roads, electricity, factories, can increase the level of investment and increase efficiency and effectiveness of production which has an impact on increasing economic growth.

- d. Technological change and innovation in science, engineering, managerial and entrepreneurship show changes in the production process or the introduction of new products or services. This can increase productivity and output levels.

APF connects total national output with technology and inputs, where:

$$Q = AF(K, L, R) \dots\dots\dots(2.2)$$

Information:

Q = output

K = capital productive services

L = labor input

R = input of natural resources

A = level of technology in the economy

F = production function

3. Theory of Economic Growth.

There are quite a lot of growth theories concerning the national economy, here only explain theories that are directly related to the policies that can be taken by local governments. The theory consists of classical economic theory, Harrod-Domar theory, Solow-Swan theory and fast track theory (Turnpike) with the following explanation (Tarigan, 2007):

a) Classical Economic Theory

This theory is taken from Adam Smith's explanation so that society is given the widest possible freedom in determining what economic activities are the best to do. According to Smith the free market economy

will create efficiency, bring the economy to full employment conditions, and guarantee economic growth. In addition, Smith also explained that the government is directly involved in production and service activities.

The government only plays a role in ensuring security and order in people's lives and making "rules of the game" that provide legal certainty and justice for economic actors. Then Smith's view was corrected by John Keynes that in order to guarantee stable growth the government needed to implement fiscal policy, monetary policy, and direct supervision.

b) Harrod-Domar's Theory in Regional Systems

This theory complements the Keynesian theory, where Keynes saw it in the short term (static conditions) while Harrod Domar saw it in the long run (dynamic conditions). This is based on economic assumptions that are closed, saving desire (MPS = Marginal Propensity to save) is constant, the production process has a constant coefficient (constant return to scale), and the labor force growth rate (n) is constant and equals the population growth rate.

Harrod-Domar made an analysis and concluded that steady long-term growth (all increases in production can be absorbed by the market) can only be achieved if the following balance requirements are met.

$$g = k = n$$

Where: g = Growth (output growth rate)

k = Capital (capital growth rate)

n = Labor Force Growth Rate

In order for a balance to occur between savings (S) and investment (I) there must be a mutual balancing relationship, because the role of k to generate additional production is determined by v (capital output ratio).

c) Neoclassical Growth Theory

This theory was developed by Robert M. Solow and W. Swan by using elements of population growth, capital accumulation, technological progress, and the amount of interacting output. This model is almost the same as the previous model, but the difference lies in the existence of elements of technological progress in it.

In addition, Solow-Swan uses a production function model that allows for substitution between capital (K) and labor (L). Thus, the requirement for steady growth in the Solow-Swan model is less restrictive due to the possibility of substitution between capital and labor. It means that there is flexibility in the capital-output ratio and the capital-labor ratio.

d) Fast Track Growth Theory

This theory was introduced by Samuelson (1955) where each region needs to see what sectors/commodities have great potential and can be developed quickly, both because of the natural potential and sectors that have a competitive advantage to develop. That is, with the same capital requirements the sector can provide greater added value, can produce in a short time and the volume of contributions to the economy is also quite large.

e) Theory of Stages of Economic Growth

This theory was raised by Prof. W.W. Rostow which provides five stages in economic growth. This analysis is based on the belief that economic growth will be achieved as a result of the emergence of fundamental changes in the style of economic activity, also in political life and social relations in a society and state.

There are five stages in economic development process are:

1) Stage of Traditional Society

Rostow means traditional society as a society:

- a) Ways of producing relatively primitive and public attitudes and ways of life that are strongly influenced by values that are triggered by ways of thinking that are not rational, but by habits that have been passed down through generations. The level of production that can be achieved is still very limited, because modern science and technology do not yet exist or have not been used systematically and regularly.
- b) The level of production per capita and the level of productivity per worker are still very limited. Therefore, most of the community resources are used for activities in the agricultural sector. In this sector the social structure is very hierarchical, so there is little vertical mobility in the community.
- c) Political and governmental activities exist in areas held by powerful landlords, and policies from the central government are always influenced by the views of landlords in various regions.

2) Takeoff Prerequisite Phase

This stage is the stage as a transition period when the community prepares itself or is prepared from the outside to achieve growth that has the power to continue to develop (self-sustain growth). At this stage and after that economic growth will apply automatically. The prerequisite stage of takeoff is divided into two, namely:

- a) The prerequisite stage for takeoff achieved by European, Asian, Middle Eastern and African countries is carried out by changing existing traditional community structures.
- b) The so-called Rostow bomb free, which is a precondition for takeoff reached by the United States, Canada, Australia and New Zealand, without having to overhaul the traditional system of society, because the people of these countries consist of emigrants who have the necessary traits by the community to reach the prerequisite stage of takeoff..

3) Take Off Stage (Tahap Lepas Landas)

It is an interval stage where the traditional community stage and the prerequisite stage for takeoff have been passed. During this period, several growth barriers were eliminated and the forces that led to economic progress were expanded and developed, and dominated the community, causing investment effectiveness and increasing public savings.

The characteristics of takeoff stages are:

- a) There is an increase in investment capital (which is productive, from 5% or less, to 10% of Net National Products). $NNP = GNP - D$ (depreciation).
- b) The development of several industrial sectors with high development rates.
- c) The existence or creation of a political, social and institutional basic framework that will create: 1) Realities that make expansion in the modern sector. 2) External economic potential that causes growth to continue.

4) The Drive of Maturity

The movement towards maturity is defined as a period when society effectively applies modern technology in processing most of the factors of production and natural wealth.

The characteristics of the movement toward maturity are:

- a) Technology maturity, where the structure of workforce expertise changes.
- b) The nature of leadership in the company changes.
- c) The community as a whole feels bored with the miracle created by industrialization, because the enactment of the law of boundary usability is diminishing.

5) Stage of High Consumption Period

At this time the public's attention was directed towards problems related to consumption and welfare of the people and no longer to the problem of production. Leading sectors, moving towards durable consumer goods and services. In this period there were three kinds of community goals to obtain available resources and political support, namely:

- a) Enlarging the power and influence of the country abroad and this tendency can end in conquest of other countries.
- b) Creating a welfare state, which is more equitable prosperity to its supporters by striving to create a more equitable revenue distribution through a progressive tax system, in this taxation system the greater the income, the greater the tax.
- c) Increasing the level of consumption of society above simple basic consumption of food, clothing, family homes separately and also durable consumer goods and luxury goods.

4. Export

The role of international trade covering exports and imports in economic development is quite prominent. Classical and neo-classical economists consider international trade as a growth engine. According to the Law of the Republic of Indonesia Number 17 of 2006, exports are activities to move goods from the customs area (Kartikasari, 2017).

According to Tandjung, export is the expenditure of goods from the Indonesian customs area to be sent abroad (Aulia Hadin Salsabila, 2015).

Export is considered as an influential instrument in the international trade due to its various advantages (Khalil, 2013). It must ensure the provision to meet its current import requirements of goods and services and pay off the accumulation of past international debts. Exports are activities to produce various kinds of goods and services in the country and then sold abroad (Mankiw N. , 2006). According to Central Bureau of Statistics (BPS):

"Export is a trade by means of removing goods from within the country outside the Indonesian customs territory by meeting the applicable provisions".

Understanding of other exports by the Ministry of Industry and Trade, as follows:

"Export is the activity of removing goods from customs areas. While the meaning of customs itself is the territory of the Republic of Indonesia which includes the land area, the waters and the air space above it as well as certain places of the Exclusive Economic Zone (ZEE) and the continental basis in which the Act applies. 10 of 1995 on Customs. Export is the activity of removing goods from customs areas. While the meaning of customs itself is the territory of the Republic of Indonesia which includes the land area, the waters and the air space above it as well as certain places of the Exclusive Economic Zone (ZEE) and the continental basis in which the Act applies. 10 of 1995 on Customs".

Exports are purchases of other countries for goods made by companies in the country (Sukirno, S, 2008). The most important factor that determines exports is the ability of the country to produce goods that can compete in the international market. Meanwhile, according to Apridar (2012), exports are the process of transporting goods or commodities from one country to another legally, generally in the process of trading. Exports also generate the necessary foreign exchange for imports that can not be produced domestically. Thus, the relationship between exports and economic growth is

rooted in the *export-led-growth* (ELG) hypothesis. This is based on the idea that international trade can promote specialization in the production of export products and reallocation of resources from the relatively inefficient sectors of the non-export trade to the more productive export trade sector, so that economic growth increases.

According to Mankiw (2006: 231) there are various factors that can affect the export (X), import (M), and net exports (X-M) of a country, as follows:

1. Good consumer appetite for both domestic and foreign production goods.
2. Prices of goods inside and outside the country.
3. Exchange rate determining the amount of domestic currency required to purchase foreign currency.
4. Consumer income at home and abroad.
5. The cost of goods transport between countries.
6. Government policy on international trade.

5. Foreign Direct Investment (FDI)

Investment according to economic theory as expenditures to buy capital goods and production equipment with the aim of replacing and mainly adding capital goods in the economy that will be used to produce goods and services in the future (Lumbantobing I. P., 2017). This increase in the amount of capital goods allows the economy to produce more goods and services in the future and to replace capital goods that are thirsty and need to be depreciated.

Investment often leads to changes in overall demand and affects the business cycle. In addition investment leads to capital accumulation that can increase the country's potential output and develop long-term economic growth (Samuelson, 2004).

Investment can be done by the private sector, government or cooperation between the government and the private sector. According to Sukirno (2000) describes three important benefits of investment activity, namely as follows: First, investment is one component of aggregate expenditure, so that when investment increases then aggregate demand, national income and employment will also increase, Second, investment with capital goods increase will increase production capacity, Third, investment is always followed by technological progress.

The factors that influence the amount of investment (Samuelson, 2004), are as follows:

a) Income

Investment will provide additional revenue if the investment helps the company sell more products. It means that the level of output or GDP is an important determinant of investment. Many studies have found that investment is very sensitive to the business cycle.

b) Cost

Investors often collect funds to buy capital goods by borrowing what is meant by borrowing costs, namely the interest rates on loan

funds that must be paid and taxes imposed on the company on income received.

c) Expectations

Determinants in investing are expectations of profit and business confidence. Investment is a future speculation of the income to be received may exceed its cost.

Investment has an important role that enables the creation of new capital goods so that it will absorb new production factors, namely new jobs that will absorb energy so that it will reduce unemployment. This means that there will be an increase in output and new income in the production factor which will increase national output so that economic growth will occur.

In essence of Foreign Direct Investment is the beginning of economic development activities and one of the ways that can be done by the government to increase economic growth and for the long term can raise the living standards of its people (Mankiw, 2006). In addition to exports, domestic savings and foreign aid, Foreign Direct Investment (FDI) is also a source of national development financing (Kuncoro M. , 2000).

According to Law No. 25 of 2007 concerning Investment Article 1) paragraph 3), Foreign Direct Investment is an investment activity to conduct business in the territory of the Republic of Indonesia which is carried out by foreign investment either using fully foreign capital or domestic partners (Lubis, 2015).

Foreign capital flows according to Jhingan (2002) can be divided into two types, namely portfolio investment and foreign direct investment. Portfolio investment is a form of indirect foreign investment which consists mainly of the acquisition of financial assets, such as bonds and shares. Shareholders only have the right to dividends. Whereas Foreign Direct Investment, where companies from the investment country are de facto or de jure, invest and supervise assets planted in capital importing countries. Direct investment can be in the form of establishing a branch of a company in a capital importing country or placing assets in another country by a national company from an investor country. Investment into real assets abroad, namely in the form of factories, procurement of various goods and capital, purchase of land for the purposes of production activities, expenditure of various inventory equipment and so on and usually accompanied by the implementation of management functions, and the investor himself still maintains direct control over the funds that have been planted. Specifically the notion of foreign direct investment is a number of investments in the long term with the allowed investment is at least a percentage of the ownership of pure capital to a company in another country.

Foreign Direct Investment has many advantages among others because of its long-term nature which is considered as a relatively stable capital flow and has a small risk, compared with portfolio investment that is susceptible to fluctuations in currency fluctuations. In addition, Foreign Direct Investment

contributes a lot in technology transfer, over management skills, and opening up new jobs.

According to Jhingan (2004), Foreign Direct Investment is needed to accelerate economic development. Foreign Direct Investment helps industrialization in building up capital for economic overhead and in creating wider employment opportunities. Foreign capital flows open remote areas and work on new resources that have not been used and not only bring money and machinery but also technical skills. Risks and losses at the pioneer stage are borne by foreign investors. Furthermore, foreign capital encourages local entrepreneurs to work with foreign companies and also helps modernize the community and strengthen the state sector and the private sector. Thus, the use of foreign capital is important to accelerate the economic development of underdeveloped countries.

6. Labor

a. Definition of Labor

Labor is a population in working age (aged 15-64 years) or the total population in a country that can produce goods and services if there is a demand for their labor, and if they want to participate in the activity. (Mulyadi, 2003).

According to Act No. 13 of 2003 Chapter 1 Article 1) Paragraph 2), Manpower is anyone who is able to do work to produce goods and or services to meet their own needs or for the community (Eunike Elisabeth Bawuno, 2015). The working age limit adopted by Indonesia is a

minimum of 10 years, with no maximum age limit, so every person or population who is aged 10 years and above is classified as a workforce.

Manpower consists of two groups, namely the labor force and unlabor force. Labor force is a labor or population in working age who works, or has a job but temporarily does not work, and who is looking for work. Whereas unlabor force are workers or residents of working age who do not work, do not have jobs and are not looking for work, namely people who are in school (students), take care of the household (meaning mothers who is not a career woman), and receives income but is not a direct reward for her services.

The number of work forces that work is a description of the conditions of available employment. The greater the amount of available employment will lead to an increase in the total production in a country, where one indicator to see the development of employment in Indonesia is the Labor Force Participation Rate (TPAK). Labor force participation rate is to describe the number of labor force in an age group as a percentage of the population in that age group, namely comparing the number of workforce with the number of workers.

B. The relationship between the dependent variable and the independent variable

1. The Relationship of Export to Economic Growth

Export is one of the important factor in driving a country's economic growth. Export will enlarge the consumption capacity of a country, increase world output, and provide access to scarce resources and potential international markets. Increasing foreign exchange earnings through improving export performance is also very important for developing countries in order to offset the problem of scarcity of physical and financial resources that they really need as a basis for carrying out development efforts in general. Exports can also help all countries in carrying out their development efforts through the promotion and strengthening of economic sectors that contain comparative advantages, whether in the form of availability of certain production factors in abundant quantities or efficiency advantages also called labor productivity. Exports can also help all countries take advantage of the economies of scale they have (Todaro M. P., 2004).

Export relations have a very positive influence on economic growth in Indonesia. This is in accordance with the classical theory proposed by Schumpeter's Theory. This theory emphasizes the importance of the role of entrepreneurs in realizing economic growth. In the theory it is explained that entrepreneurs are groups that will continue to make renewal or innovations in economic activities. These innovations include: introducing new goods, enhancing efficient ways of producing goods, expanding the market for goods

to new markets, developing new sources of raw materials and making changes in the organization with the aim of enhancing the efficiency of company activities (Primandari, 2017).

2. The Relationship of Foreign Direct Investment to Economic Growth.

Almost all economists emphasize the importance of investment formation as the main determinant of economic growth and economic development. Investment here is that people do not use all of their income to consume, but there are some that are saved and this savings is needed for the formation of investments. Furthermore, the formation of this investment has been seen as one of the factors and even the main factor in economic development. For example, investment in capital equipment or capital formation is not only increasing production or economic growth, but also can provide employment opportunities for the community. Thus there is a positive relationship between the formation of investment with economic growth in a country (Prasetyo, 2009 in Bambang Muqsyithu Wihda, 2014).

In an effort to develop capital economy plays an important role, because the accumulation of capital will determine the fast or slow pace of economic growth and reflect the rampant sluggish economic development of a country. Where investments can be made by accumulating capital accumulations to build a number of buildings and equipment that are useful for productive activities, the potential output of a nation will increase and long-term economic growth will also increase.

Investments in both Domestic Investment and Foreign Direct Investment play an important role in determining the amount of output and income. With the increasing investment both Domestic Investment and Foreign Direct Investment, it is hoped that it will encourage the growth of the private sector and households in allocating existing resources in a country. This will eventually lead to increasing GRDP and it is expected that regional economic growth can increase.

The relationship between investment and economic growth is by investing in the purchase of capital goods and completing production to increase the ability to produce goods and services needed in the economy so that this can increase Indonesia's real GDP and thus have a positive effect on growth economy (Handayani, 2011). Increased investment will increase production capacity which ultimately leads to the opening of new jobs, which in the next stage will encourage economic growth (Sutawijaya, 2010). This is in line with the theory developed by the Harrod Domar growth model which is a development of Keynesian theory. In Harrod Domar's theory, to grow an economy capital formation is needed as an additional capital stock. The formation of capital is seen as an expenditure that will increase the ability of an economy to produce goods as well as expenditures that will add to the effective demand of the entire community. The essence of Harrod-Domar's theory is that each economy can set aside a certain proportion of its national income if it is only to replace damaged capital goods (buildings, equipment,

materials). However, to grow the economy, new investments are needed as capital stock. (Todaro, 2006: 96 in Rizky, Agustin & Mukhlis, 2016).

3. The Relationship of Labor To Economic Growth

According to Todaro (2003), population growth and labor force growth are traditionally considered as one of the positive factors that spur economic growth. A larger amount of labor means that it will increase the number of productive labor, while greater population growth means increasing the size of its domestic market. Nevertheless, this is still questionable, is it true that the rapid rate of population growth will really have a positive or negative impact on economic growth.

Furthermore, it is said that the positive or negative influence of population growth depends on the ability of the regional economic system to absorb and productively utilize the increase in the workforce. This ability is influenced by labor and capital accumulation, and the availability of supporting inputs and production factors, such as managerial and administrative skills.

Population growth and matters related to the increase in the labor force are also considered as positive factors in determining economic growth. That is, the more the workforce, the more productive the workforce. Because with the larger workforce, it will increase the level of labor force participation (TPAK).

Lewis puts forward his theory of employment, namely; the excess of workers is an opportunity and not a problem. The overwork of one sector will

contribute to the growth of output and supply of workers in other sectors. Furthermore, Lewis points out that there are two sectors in the economy of developing countries, namely the modern sector and the traditional sector. The traditional sector is not only in the agricultural sector in the countryside, but also includes the informal sector in urban areas (street vendors, retailers, angkringan traders). The informal sector is able to absorb the excess labor that exists during the industrialization process, so it is called the labor safety valve. With the absorption of excess labor in the industrial sector (the modern sector) by the informal sector, at one time the wage level in the countryside will increase (Nizar, 2013).

C. Previous Research

TABLE 2.1.
Previous Research Result

No	Title and Author	Research Variable	Analysis Tool	Research Result
1	Foreign Direct Investment, Exports, and Long-Run Economic Growth in Asia. (Sothan, 2016)	Dependent Variable: Economic Growth Independent variable: Export, Foreign Direct Investment	Panel Cointegration and Granger Causality Analysis	This result shows that there is long-run bidirectional causality between FDI and GDP and between exports and GDP. This can be concluded that FDI and exports do have causal impact on long-run growth in the countries being investigated.
2	Relationship between GDP, Foreign Direct Investment and Export Volume: Evidence from Indonesia. (Mahadika I. N., 2017)	Dependent: GDP Independent Variable: Export, FDI	VAR Model	This result found that export volume and FDI have significant influence on economic growth of Indonesia. In addition, according to Johansen co-integration test, there is long-run relationship between GDP, FDI and export volume of Indonesia.
3	Export and Economic Growth in the Case of the Manufacturing Industry. (Kilavuz & Topcu, 2012)	Dependent variable: Economic growth Independent variable: high and low-tech manufacturing industry exports and imports, investment and population	Panel Data Analysis	According to the results of the first model, the analysis of which included variables such as high and low-tech manufacturing industry exports, investment and population, it was found that only two variables,

				<p>high-tech manufacturing industry export and investment, have a positive and significant effect on growth. In addition to the first model which included the analysis of all variables, the second model investigated the effect of high and low-tech manufacturing industry imports on growth. The findings revealed that only high-tech manufacturing industry export, investment and low-tech manufacturing industry import have a positive and significant effect on growth.</p>
4	<p>Impact of International Trade on Economic Growth in Nigeria Economic Growth in Nigeria (1988-2012). (O., S, & O, 2015)</p>	<p>Dependent variable: GDP per capita Independent variable: export, import, balance of payment</p>	<p>Vector Auto Regressive (VAR) Model</p>	<p>This result shows that only total Export remains positive and significant while others remain insignificant, which means, Nigeria is running a monocultural economy where only oil act as the sole support of the economy without tangible support from other</p>

				sectors such as industrial/manufacturing and agriculture.
5	Impact of Foreign Direct Investment on the Economic Growth of Pakistan. (Ali & Hussain, 2017).	Dependent : GDP Independent Variable: FDI	Correlation and multiple regression analysis	The results of the study reveal that FDI has a positive impact on the economic growth of Pakistan. Correlation analysis also suggests that FDI and GDP are positively related to each other. So finally, the findings of the study reveal that FDI positively affects the economic growth in Pakistan.
6	Impact of Foreign Direct Investment on Economic Growth: Empirical Results from Pakistan. (Naz, Sabir, & Ahmed, 2015)	Dependent: GDP Independent: Foreign Direct Investment, inflation	Multiple linear regression model	The model shows that FDI has positive and highly significant relationship with GDP, while inflation has significant and negative impact on GDP.
7	Impact of Foreign Direct Investment on Economic Growth in Pakistan (Rahman, 2014)	Dependent variable: GDP Independent variable: foreign direct investment (FDI) and consumer price index (CPI) are independent variables.	Multiple regression technique	The result indicates that there is a positive relationship between the FDI and GDP and have a negative relationship with CPI. When FDI increase the GDP of Pakistan will positively affected by FDI.

8	The Analysis of Investment, Labor, Exports, Exchange Rate's Effect toward the Indonesian Economic Growth (Umar, 2016)	Dependent variable: GDP Independent variable: Investment, Labor, Exports, Exchange Rate	Multiple linear regressions with ordinary least squares approach (OLS).	The results of this study indicate that in period of 2007 - 2013, the partially variables: Investment has no effect to economic growth; Labor positively and significantly affected to economic growth; Export in this case net-exports a negatively and significantly affected to economic growth; and the rupiahs' exchange rate has not affected economic growth. And simultaneously variables: Investment, Labor, Exports, Foreign Exchange positively affected to Indonesia's Economic Growth.
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9	<p>The Relationship between Labor Productivity and Economic Growth in OECD Countries. (Korkmaz & Korkmaz, 2017)</p>	<p>Dependent: GDP Independent: Labor productivity</p>	<p>Panel causality test</p>	<p>It is revealed there is a long run equilibrium relationship between labor productivity and economic growth between these years. Moreover, the causality test points out that there is a unidirectional causality relationship from economic growth to labor productivity. The findings from the test results support the opinion that labor productivity is better in countries that provide economic development.</p>
10	<p>Effect of Solow Variable to the Economic Growth in Southeast Asia. (Soejoto, Cahyono, & Solikhah, 2017)</p>	<p>Dependent: Economic Growth Independent: Investment, Human Resources, Natural Resources, Technology, Labor</p>	<p>Descriptive quantitative research</p>	<p>In Indonesia and Brunei, investment, human resources, and labor have significant effect toward economic growth. In Thailand and Philippines, investment, natural resources, and labor affect economic growth significantly. In Malaysia investment, technology, and human resources have significant</p>

				<p>effect toward economic growth. In Vietnam, technology, natural resources, human resources, and labor affect economic growth significantly. Meanwhile, In Cambodia technology, natural resources, and labor have significant impact toward economic growth.</p>
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D. Hypothesis

Based on the theories, and the previous studies from the background to the exposure of the theoretical framework, the researcher build the following hypothesis. Based on the above framework, the following research hypothesis can be proposed:

1. Export has a positive and significant effect on Indonesia's Economic Growth.
2. FDI has a positive and significant effect on Indonesia's Economic Growth.
3. Labor has a positive and significant effect on Indonesia's Economic Growth.

E. Research Framework

Economic growth is one of the most important indicators on macro economic variables. Economic growth it is said to increase if macroeconomic variables work with stable. Export is one of the factors that affect economic growth. Export represent one of the most important sources in a country's balance of payments and job creation. In Indonesia, the role of exports in the economy is also very large. From time to time the value of Indonesian exports has increased. In addition to export, Foreign Direct Investment is also an important factor for economic growth. Investment and economic growth have a very close relationship, this is because investment is one factor that can encourage economic growth of a country. In order to experience rapid growth then every economy must save and invest as much as possible part of its GNP. If the economic growth

of a country has increased then there will be an increase in employment, welfare, productivity and income distribution. In addition, labor is one of the important production factors in improving the country's economic growth. With the increase in the number of workers, it will increase labor productivity so that the resulting output increases and ultimately can boost economic growth.

To gain ease of understanding in this research, a systematic framework of thought is illustrated, as follows:

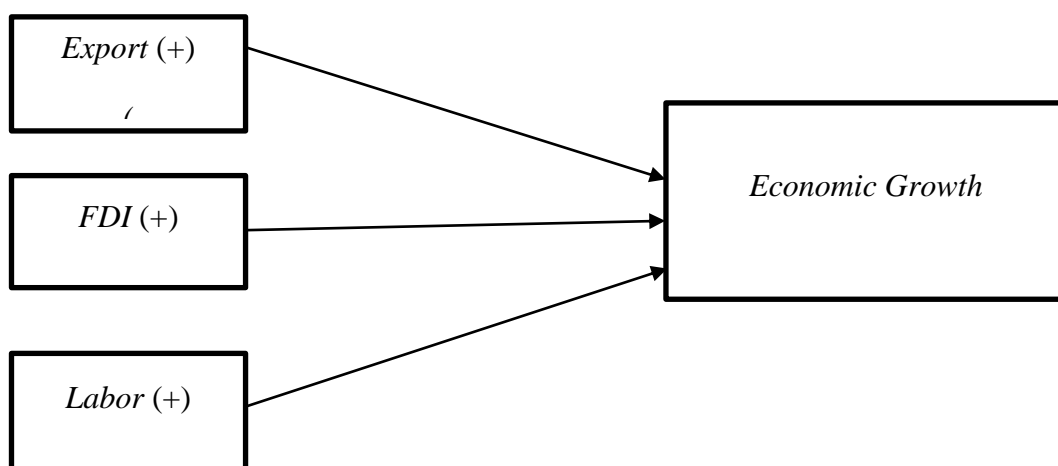


FIGURE 2.1.
Research Framework