

# CHAPTER I

## INTRODUCTION

### 1.1 Background

Economic development is a process of economic growth and the rise in economic and social structures, including the reduction of unemployment and poverty problems. Unemployment occurs due to growth in the labor force is higher than the growth of existing jobs. Unemployment is one of the important indicators in the field of employment, where the unemployment rate can measure the extent to which the labor force is able to be absorbed by the existing employment. High unemployment can be a major source of poverty, also can trigger high crime and can hamper development in the long term (Arslan and Zaman, 2014).

Furthermore, unemployment is one of the big and vital problems in all over the world. It is the common issue in developed and less developed countries. It is the consistent problem facing by all industrially advance and as well as poor countries. Unemployment occurs when people are without jobs. Unemployment means people are able to work and actively finding job but fail to get a job. According to neoclassical economic, unemployment occurs when rigidities are imposed on labor market from the outside. But according to Keynesian economics, unemployment is due to in efficiency of markets and ineffective demand for goods and services (Arslan and Zaman, 2014).

Unemployment in Indonesia to be a problem that constantly swells. Before the economic crisis of 1997, the unemployment rate in Indonesia is generally below 5 percent and in 1997 amounted to 4.68 percent. An unemployment rate of 4.68 percent is still a reasonable scale unemployment (CBS, 2010).

The increase in new labor force that is greater than the available jobs continues to show the gap that continues to grow. The condition is growing following the economic crisis. With the crisis, not only the economic gap between the increase in new labor force by providing jobs that keep getting lower, but also termination of employment occurs. This caused the unemployment rate in Indonesia from year to year increase.

The problem of unemployment is very complex to be discussed and is an important issue, because it can be associated with several indicators. The economic indicators that affect the unemployment rate are the economic growth and foreign direct investment (FDI). If the FDI rises would likely reduce the number of unemployed as well.

Investment is input is an economic activity which will affect the amount of employment. The higher the investment, the greater will affect the low unemployment. Conversely, if the amount of investment are declining, the unemployment rate will rise. In addition to affecting the number of unemployed, the investment also contributed to the increase in the rate of economic growth.

Based on data from the Central Bureau of Statistics Indonesia (2015), during the period 2000 to 2012 the realization of foreign direct investment (FDI) has fluctuated significantly. In 2000, the investment was the lowest point, which amounted 275,882.00 billion rupiah. And in 2012 the investment has increased significantly by 1,803,701.85 billion rupiah. The development of these investments should be able to encourage the growth of the number of new jobs and absorb the unemployment.

Further economic indicators that affect the level of unemployment is economic growth. Economic growth through increased GDP, is expected to absorb labor in the country, due to the increase in national income over GDP is likely to increase production capacity. It indicates that the decline in GDP of a country can be attributed to the high number of unemployed in a country (Mankiw, 2010).

In 2001, Indonesia's economic growth reached 3.8 percent, while in 2007 the economic growth was only 6.32 percent (CBS, 2010). Negative economic growth occurred in 1998, because the economic crisis hit Indonesia at the time. From these data it can be concluded that the level of unemployment that occurred in Indonesia will be increased in line with their economic growth is likely to slow as well as the increase in the amount of GDP.

Research conducted Arslan and Zaman (2014) shows growth economic increase of 1 percent resulted on unemployment will decline about 0.20 percent. And the increasing of FDI by 1 percent, it makes the unemployment go down about 0.000316 percent. Opinion was also in line with research conducted by Ester Magdalena (2009), this study shows that economic growth increased in Indonesia has vast employment opportunities to the labor force in Indonesia, thus increasing economic growth resulting in absorption of the labor force. However, opinions to the contrary contained in the study conducted by Aurangzeb and Asif (2013) where the increase in GDP which is economic growth does not affect unemployment. It occurs because the greatest contribution to economic growth is the manufacturing sector where the sector is a growth that occurs in some capital-intensive industry is not labor intensive. Therefore, from a gap study conducted by several researchers,

need to be investigated and further explore the relationship of economic growth against rising unemployment.

Based on the above assumptions, the authors are interested in doing research to take the title of **“The Analysis effect of FDI and GDP on Unemployment in Indonesia.”**

## **1.2 Research Question**

In Indonesia, unemployment is a very important issue to be resolved, given the number or amount of the unemployment rate in Indonesia which has increased each year followed the increase of population and the number of the Indonesian workforce. Low unemployment figures may reflect good economic growth, and reflect an increase in quality of living standards of the population and an increase in income distribution, therefore the welfare of the population increases.

Unemployment occurs due to a low of new jobs compared to the growth of new job seekers. Economic growth and high levels of investment followed by low inflation should be able to create new jobs. Economic growth and high levels of investment followed by low inflation should be able to create new jobs. From the above it is known that Indonesia has economic growth and high foreign direct investment followed by a low inflation rate. This situation should position the low unemployment rate, but in fact the development of the unemployment rate in Indonesia remains high.

Some of the issues to be investigated, namely:

1. How does the effect of FDI on unemployment in Indonesia?
2. How does the effect of the economic growth on unemployment in Indonesia?

### 1.3 Research Objectives

Based on the problems to be addressed, this research specifically aims to:

1. Analyzing the effect of FDI on the unemployment rate in Indonesia.
2. Analyzing the effect of economic growth on the unemployment rate in Indonesia.

### 1.4 Research Advantage

The advantages of this research are:

1. To fulfill requirements of bachelor of economics faculty at Andalas University.
2. For author, to improve my ability in writing report and doing research.
3. As a reference for other researcher who are interested to study in the same field with the different approach and scope.

### 1.5 Organization of Thesis

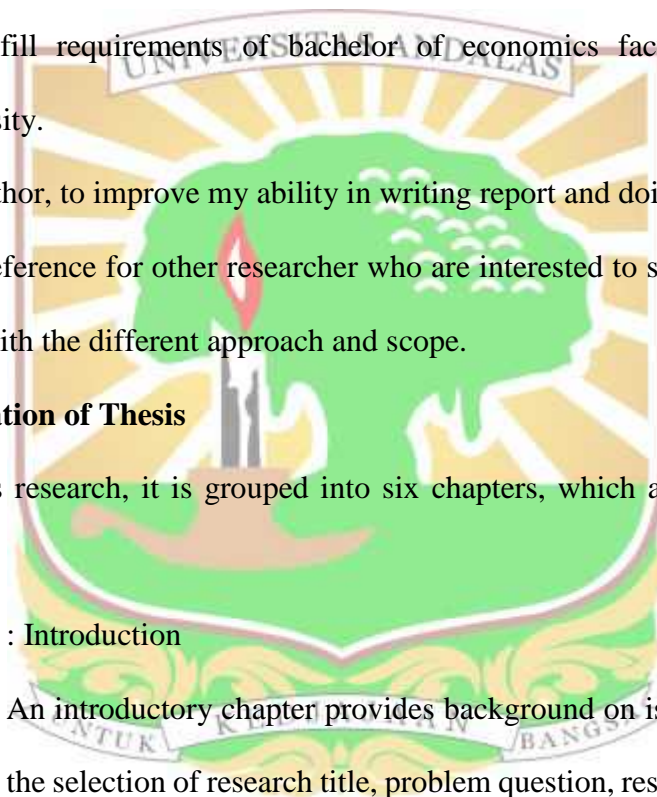
In writing this research, it is grouped into six chapters, which are details as the following:

#### Chapter I : Introduction

An introductory chapter provides background on issues concerning the selection of research title, problem question, research objectives, research advantages, and writing systematic.

#### Chapter II : Theoretical Framework and Literature Reviews

The literature review chapter describes basic theory, concepts related to employment, unemployment rate in Indonesia, foreign direct investment (FDI), and economic growth. The theories





obtained will be the basis for discussion and writing to make conclusions about the title that the author chosen.

Chapter III : Methodology and Research

This chapter is describing the research methods and operational definitions of research variables, types and sources of data, data collection methods and data analysis methods.

Chapter IV : An Overview to Economic Condition in Indonesia

This chapter analysis the unemployment rate, economic growth and FDI in Indonesia.

Chapter V : Empirical Result and Analysis

This chapter outlining the results and discussion of the research object description, data analysis, and discussion.

Chapter VI : Conclusions and Recommendation

This is a closing chapter describes the conclusions of the analysis carried out and the implications that arise from the conclusion as an answer to the question of the problem.

