

CHAPTER I

INTRODUCTION

1.1. Background

Indonesia is one of most rapidly growing economies in the world, as well as one of the most successful countries in reducing poverty. But when Indonesia has hit by an economic crisis than began in mid- 1997, the poverty rate increased significantly. The term poverty arises when a person or group of people are not able to meet the level of economic prosperity that is regarded as the minimum requirement of a certain standard of living.

According to Nurkse theory in Cypher (2004), the main problem in the fight against poverty in Indonesia is related to the fact that the economic growth is not spread evenly throughout Indonesia but evidenced by the high income disparities between regions. Besides poverty is also a causal relationship which means that a high level of poverty due to the low per capita income, per capita income occurred due to the low per capita investment. The low level of investment per capita due to low per capita domestic demand as well and it happens because of the high levels of poverty and so on, thus forming a vicious circle of poverty as a cause and effect relationship.

According to BPS In March 2015, a person qualifies as poor if his / her income is below the poverty line. The government itself has always declared poverty reduction efforts from year to year, but the number of poor people in Indonesia is not significant decreased, although the data showed a trend toward a decrease in change in the number of poor people, but has not appeared qualitatively in change and increasingly concerned condition each year and the number of poor people (the population with per capita per month is below poverty line) in Indonesia

reached 28.59 million votes (11.22 percent) , increased by 0.86 million compared to September 2014 amounted conditions 27.73 million (10.96 percent).

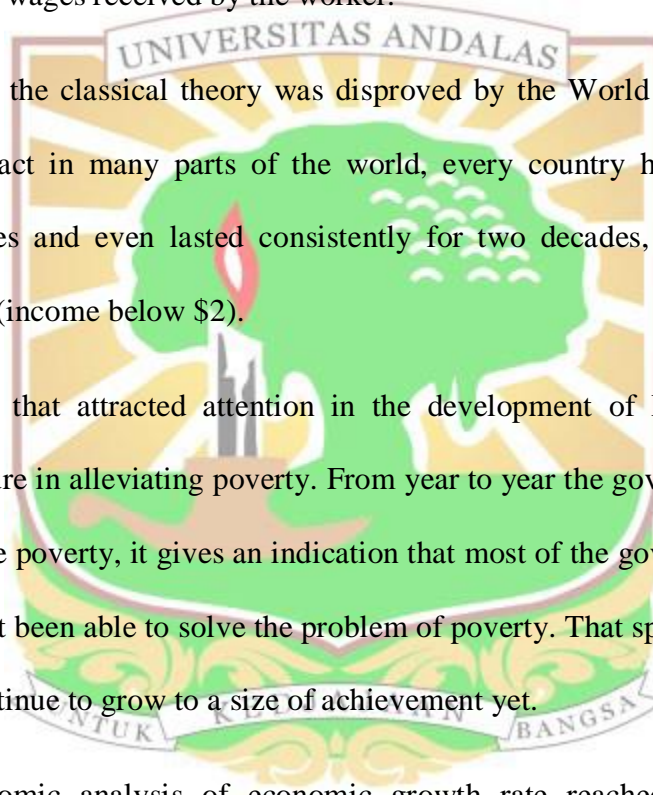
In the classical theory of economic growth, economic growth is the growth of national output which is a function of factors of production. The faster rate of economic growth represents the distribution of household income to factors of production has improved. This means that the higher the economic growth rate, the higher the productivity of factors of production and higher wages received by the worker.

In other hand, the classical theory was disproved by the World Bank Report (2003), it said that there is a fact in many parts of the world, every country has recorded impressive economic growth rates and even lasted consistently for two decades, but it is not offset by reductions in poverty (income below \$2).

Another issue that attracted attention in the development of Indonesian economy is government expenditure in alleviating poverty. From year to year the government has spending a lot of budget to reduce poverty, it gives an indication that most of the government budget is used as the program has not been able to solve the problem of poverty. That spending for spending for poverty programs continue to grow to a size of achievement yet.

In macroeconomic analysis of economic growth rate reached a measured state of development of a country's national income which is the sum of consumption, investment, government spending and net exports. The investment is the use of money as an activity for the supply of capital goods used in an activity to generate profits in the future (Mankiw, 2003).

Foreign Direct Investment is Investment activity to do business in the territory of the Republic of Indonesia by foreign investors, whether using foreign capital and is a joint venture



with a domestic investors. Provisions on regulated under the Investment Law No.25 of 2005 on investment. Foreign Investors can be done by individual foreign nationals, foreign entities, and or foreign government makes an investment in the territory of Republic of Indonesia.

The existence of Law No 25 of 2007 on Foreign Direct Investment (FDI) is clearly an opened door for the government's efforts to invite foreign investment to Indonesia. With the increasing in FDI, economic growth will also increase with an increasing in economic growth, poverty rate will reduce.

To reduce the level of poverty in Indonesia actually we need to know what are the factors relating to or affecting the high and low levels of poverty (poor people) in Indonesia so that the future can be formulated an affective public policies to reduce poverty in this country and not just the decline number alone but also qualitatively.

Based on explanation above some economist say that the impact of foreign direct investment to poverty is the negative and positive impact. So, the authors are interested to study and analyze the relationship and the influence of foreign direct investment to the country's own Poverty Reduction which is why the author gave a report entitled: **“The Impact of Foreign Direct Investment on Poverty Reduction in Indonesia”**

1.2. Research Questions

1. What is the impact and relationship between of Foreign direct investment on poverty reduction in Indonesia?
2. What is the impact and relationship between of Gross Domestic product on Poverty reduction in Indonesia?

3. What is the impact and relationship between of Government Expenditure on Poverty reduction in Indonesia?

1.3. Research Objective

- 1.3.1. To analyze the condition of gross domestic product, government expenditure, foreign direct investment on poverty rate in Indonesia.
- 1.3.2. To examine the impact of gross domestic product, government expenditure, foreign direct investment on poverty rate in Indonesia.

1.4. Research Advantages

This study's benefits are:

1. As the partial fulfillment of Bachelor of economics in Economic Faculty, Andalas University.
2. For the writer, it improves the ability on writing report and doing research, especially in monetary sector.
3. For the reader, it is expected to add the understanding regarding the economic analysis about the context of reduction poverty and factors that can be the impact the reduction poverty such Foreign Direct Investment (FDI).
4. For researcher in the field of economics and finance is expected this study can be a reference for the next research.
5. For society will provide a proactive stimulus as a controller of economics and increase public awareness to reach stability of economic growth.
6. For government will be recommended to take better policy in case of reducing poverty rate.



1.5. Research Scope

This research is focused on hypothesis testing about the relationship between, foreign direct investment on reducing poverty rate in Indonesia. Coverage used in this research is year time series data during 1990-2015.

1.6. Writing Systematic

Systematic writing of study is divided into six chapters. As for each chapter are briefly described as follows:

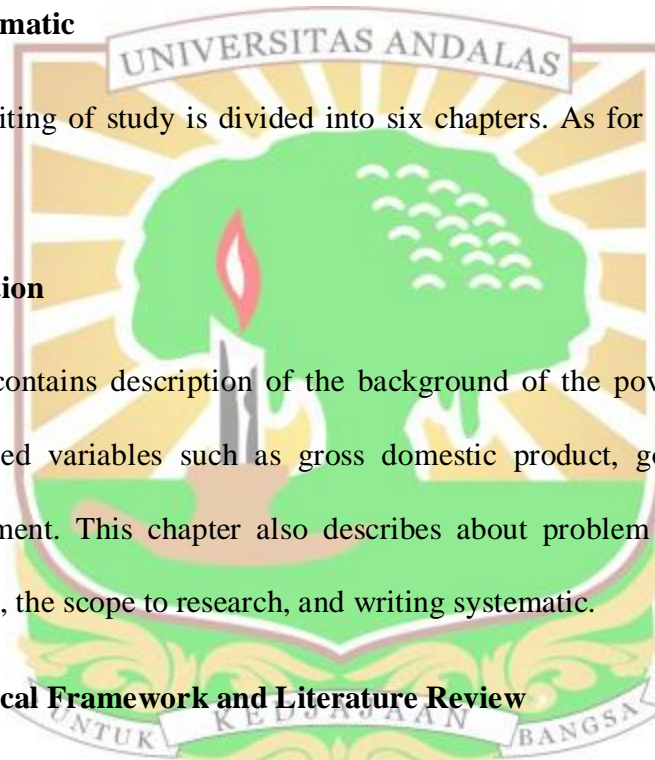
Chapter I: Introduction

This chapter contains description of the background of the poverty rate. Theoretically poverty rate influenced variables such as gross domestic product, government expenditure, foreign direct investment. This chapter also describes about problem identification, research advantage, hypothesis, the scope to research, and writing systematic.

Chapter II: Theoretical Framework and Literature Review

This chapter will provide the poverty theory and the relationship between economic variables such as gross domestic product, government expenditure and foreign direct investment. To support the literature review some explanation from empirical studies in the past, as proven.

Chapter III: Research Methodology



This chapter elaborates about study method of problem, containing research data such as research variables, data characteristics that accompanied by clarification about data collecting procedure, and also technique data analysis.

Chapter IV : General Overview.

Chapter IV explain about the outlook and recent development of variables in Indonesia related to research data from 1990 until 2014.

Chapter V : Empirical Result and Analysis

This chapter explain about the output of the research and the analysis from the processed of data.

Chapter VI : Conclusion and Recommendation

In this chapter consist of conclusion of analysis carried out, suggestion, and implication arising from the conclusion of problem.

