

CHAPTER I

INTRODUCTION

1.1. Problem Identification

One of the aims and ideals of the Indonesian nation proclaimed by the nation's founding fathers more than 70 years ago through the Proclamation of Independence of the Republic of Indonesia and contained in the Preamble to the 1945 Constitution of the Republic of Indonesia, is to advance public welfare on the basis of social justice. General welfare has a general meaning, namely welfare in all aspects of the economy, social and humanity. Several measures can be used to measure the level of welfare depending on the aspect of development success to be measured.

Economic growth is attempt to increase productivity capacity to gnerate additional output, as measured by Gros Domestic Product (GDP) and Gross Regional Domestic Product (GDRP). Economic growth is an indicator to measure the success of an economy's development. The progress of an economy depends on the rate of growth indicated by changes in national product. The existence of changes in production in an economy is a short-run economic analysis.

In a nutshell, high economic growth is a measure of welfare and a sign of successful regional development. In addition to increased economic growth factors, a region's development success also depends on the region's ability to reduce unemployment and poverty rates, including reducing inequality between groups. On the other hand, high economic growth does not guarantee that everyone will get the same benefits. To obtain indicators that can explain economic growth and social problems at the same time, several international organizations such as the Asian Development Bank (ADB), the World Economic Forum (WEF), and the United Nations Development Program (UNDP) have created multiple variables and formulas to describe alternative economies Growth and emphasis on equal access to economic opportunity in all areas of life. This measure is known as inclusive economic growth.

Sustainable economic development is a key requirement for developing countries, especially Indonesia. Sustainable economic development is not enough if it is not followed by economic development that pays attention to the quality of life, namely inclusive growth. Inclusive growth is growth that requires the participation of all parties to take part in creating economic growth, so that when the economy starts to grow, poverty, inequality and unemployment will decrease (Klasen, 2010).

Inclusive growth is one of the visions of sustainable development. Sustainable inclusive growth in a broad sense includes increasing production, income, and distribution of income/expenditures (Suryana, 2013). Therefore, the development and growth of a region is considered inclusive if it involves all segments of society and the results can be felt equally (Klasen, 2010). In addition to increasing the rate of economic growth and expansion, inclusive growth goes hand in hand with increasing productive employment opportunities and equity in investment (Bank, 2022). This causes inclusive growth indicators not only in the form of high economic growth but also, among others, low poverty rates, the achievement of income distribution, and reduced unemployment rates. Furthermore, in order for this growth to be sustainable into the future, growth must be comprehensive in various sectors and be able to include most of the existing workforce. This concept is different from the pro-poor growth analysis of economic growth, which only focuses on the effect of growth on poverty reduction (Bank, 2022).

In other words, inclusive economic growth emphasizes that high economic growth must be able to increase opportunities for people to enjoy and actively participate in development widely and evenly. Even though inclusive growth is not a new issue, discussion of inclusive economic growth is still an interesting discussion. This topic still raises academic debates and a number of discussions related to development implementation policies.

Inclusive economic growth is one of the 3 pillars of inclusive economic development in Indonesia. inclusive Bappenas states that there are 3 pillars in inclusive economic development in Indonesia. the first pillar is economic growth and development, the second pillar is income distribution and poverty reduction, and the third pillar is expanding access and opportunities.

The Inclusive Economic Development Index is a tool to measure and monitor the inclusiveness of Indonesia's development at the national, provincial, and district/city levels. The Inclusive Economic Development Index measures Indonesia's development inclusiveness in terms of economic growth, inequality and poverty, and opportunity and opportunity. The index consists of 3 pillars, 8 sub-pillars, and 21 indicators to form the Inclusive Economic Development Index.

Technological developments occurred very quickly in the middle of the last century. The spread of this wave of technology has driven the flow of globalization which has forced countries in the world to participate in international economic openness. Most of the world's economies are open, where the flow of goods and services and the flow of money occurs between countries. Economic openness is an arena of competition for countries to compete for markets and continue to increase their economic growth. These international interactions are considered important and encourage economic growth (Mankiw 2006). One of the factors that can drive inclusive economic growth is globalization (Khan et al., 2016).

Dreher (2006), Vogiatzoglou (2014), and Olatunbosun (2018) found that globalization affects a country's economic growth. globalization affects a country's economic growth. Globalization makes resource traffic between countries increase. The shifting production of labor-intensive labor-intensive commodities from developed countries to developing countries will improve the economy. economy. This is in accordance with Friedman's opinion (in Krugman, 1991) that the movement of resources between countries indirectly improves the the country's economy. The

transfer of production means an increase in employment and increase in national income

Globalization provides participating countries with opportunities to increase production and economic growth. Coulibaly et al (2018) said that from various perspectives, both economic, social, cultural and technical perspectives, globalization encourages free trade and capital flows, migration, religion, work ethics, and mechanical or technological advances that significantly affect global growth and development pattern. Dollar and Kraay (2004) also stated that economic openness will accelerate a country's economic growth, especially through the international trade sector.

The trade-off between economic growth and income inequality due to trade openness policies was also mentioned by Aradhyula et al (2007). In order to bridge the trade-off between economic growth and income inequality, economists introduce inclusive economic growth. Ngepah (2017) and Klasen (2010) explain a conceptual approach to inclusive growth which is defined as non-discriminatory economic growth that provides equal access to economic growth while reducing losses (inequality).

Globalization and inclusive development have a complex relationship. On the one hand, globalization provides opportunities for economic growth and development in various countries, including Indonesia. However, on the other hand, the impact of globalization is often uneven and can exacerbate socio-economic inequities. Inclusive development aims to create economic growth that is fair and equitable for all levels of society and leaves no one behind. Therefore, inclusive development is very important to study in the current era of globalization.

Based on its income, Indonesia is included in the Lower Middle Income category in ASEAN which consists of Indonesia, the Philippines, Laos, Vietnam, Cambodia and Myanmar. ASEAN has become an economic community. Thus, the flow of money and the flow of goods that occur between countries in ASEAN

becomes freer and easier. ASEAN is the 3rd largest market in the world after China and India. In addition, ASEAN is also the world's 3rd largest exporter and has the 5th largest GDP in the world. Seeing these facts, it is very possible that the flow of globalization will greatly influence economic development in ASEAN countries, one of which is Indonesia. The fact that eight out of ten ASEAN member countries fall into the category of middle-income countries is very interesting to study, considering what Alonso et al (2014) said that middle-income countries still face considerable vulnerabilities that affect their development process. Middle-income countries not only need support from the international community, but the international community also needs middle-income countries so that global economic development targets can be met, considering that more than 70% of countries in the world are still in the category of middle-income countries. So it is important to know the relationship between globalization and inclusive development in Indonesia.

1.2. Problem Statement

Based on the problem identification, this is an era of globalization where global trade flows have more than doubled since 1990. A more open economy lowers the cost of goods and services. Currently, more and more countries are depending on export- and import-triggered growth, one of which is Indonesia. Globalization offers great opportunities. However, inequality, poverty and environmental degradation create dangers. Those who suffer the most are those who are most left behind, namely developing countries, people with lower middle incomes, women in developing countries, rural poor communities, etc. Indonesia is a country with a lower middle income category in ASEAN. So it is important to know the relationship between globalization and inclusive development in Indonesia. Based on these problems, the formulation of the problem in this study is whether globalization activities which include the realization of foreign investment and trade openness have an influence on inclusive development in Indonesia and assess the contribution of human capital variables to the achievement of inclusive economic development in Indonesia.

1.3. General Research Objective

Based on the above problem, the general objective of this study is to analyze whether globalization, consisting of foreign direct investment, trade openness, and human development index variables, affects inclusive development index in Indonesia.

