

CHAPTER I

INTRODUCTION

1.1. Background

The infrastructure is a key role as one of the drivers of economic growth and development. The existence of good infrastructure is indispensable and becoming an important part of the public service system, because infrastructure as physical facilities to supporting the activities of the economy, industry and other social activities.

According to Todaro and Smith (2006), development is “both a physical reality and a state of mind in which society has secured the means for obtaining a better life”. Through this process the society ensures growth in wealth acquisition and mental enrichment and the betterment of the quality living conditions of all the people. The society uses a combination of social, economic and institutional process as the means to acquire better living conditions. The definition of development objectives, there are to increase the availability and distribution of basic goods needed for human life, to improve the level of living in respect of social aspects, and to expand the range of the available individual and national economic.

The welfare of citizen, the method that should be done made by the country is through the development of sustainable and planned economy. This is good for the creation of developed countries and developing countries and in solving the inequality of the economy. In order to make the spreading evenly, it would be better if it's done in all countries. It's not just done by the governments at this

economic development, but it also should be implemented in other regions so society will be able to get the benefits of this development (Todaro & Smith, 2006).

Economic growth itself indicates the addition of a number of outputs from time to time. Positive economic growth shows the improvement in the activity of the economy, while negative economic growth shows the vice versa. High and sustainable economic growth is the main condition for the continuity of economic development. Meanwhile, the unbalanced development in Indonesia creates the gap between regions and becomes a crucial issue in the condition of the Indonesian economy. The fact that Indonesia has a thousand islands, it causes the differences of economic patterns in Indonesia. As a consequence, each region has different growing abilities and it builds income inequality between households in Indonesia.

Infrastructure not only plays an important role to support economic growth, but also the gap between regions. The inequality between regions that is reflected in differences in income per capita also indicates the difference in infrastructure needs. Low income per capita requires a large portion of infrastructure for water supply, roads, and electricity infrastructure, while more advanced regions tend to require transport infrastructure, electricity, and communications. The availability of infrastructure becomes one of the main prerequisites for development. The existence of infrastructure will increase the income per capita and economic growth will also increase automatically (Jhingan, 2016).

According to Kuznets (1996), he suggests that income inequality is a reality that exists among people of the world. In a country, a growing inequality problem is always

an important issue due to the tendency that the construction of the policy that prioritizes economic growth has led to higher levels of inequality that occurred.

The inequality of economic development in Indonesia causes the inequality of income per capita. It is caused by the condition of Indonesia as a country that consists of thousand islands. As the result, the diversity of characteristics give several impacts towards the growing ability. Each province able to grow quickly while other provinces grow slowly. So the different ability to grow causes income inequality between the households of provinces in Indonesia.

Based on the clarification above, this study discussed Water supply, Road and Electricity infrastructure. According to Act 13 of 1980, road infrastructure is the land of any kind, covering any part of the road, including building complementary and equipment intended for traffic. The road as the supporting transportation has an important role, particularly for land transportation since it will facilitates the mobility of the society surrounding to region and to facilitates the distribution of goods and services.

Table 1.1 Distribution of Water Supply (M^3), Road (km) and Electricity (watt) in Indonesia 2011- 2016

Years	Water Supply (M^3)	Road (km)	Electricity (watt)
2011	2498157	496607	158694.89
2012	2710131	504184	174341.92
2013	2800027	502724	188342.41
2014	3374984	517753	199892.83
2015	2952452	523974	199028.08
2016	3658650	526413	204279.92

Source : Central Bureau Statistics, Minister of energy and mineral resource

The table shows that the two infrastructures, Road and Electricity, is increasing years per years. It means that the infrastructure is useful for human living in Indonesia in order to support their activities and also economic activities. While water supply is decreasing in years 2015, but in 2011 until 2014 is increasing years to years and 2016 have increased again.

Electricity is the energy that can affect directly or indirectly to increase the production of household or industry in order to maximize the output. Electricity mostly needed in the human modern life to fulfill the necessity of human activity and industry. The absence of electricity causes the productivity will decrease and the economy will run smoothly, likewise Water supply and Road, both of infrastructure is used for supporting all economic activity.

Based on the fact above, this study tries to investigate whether there is an impact of Infrastructure on Economic growth and Income Inequality from 33 provinces in Indonesia. This study focusing on three Infrastructure such as Water supply, Road, and Electricity. Which is the author gave a report entitled:

“The Effectsof Water Supply, Road and Electricity Infrastructure on Economic growth and Income Inequality in Indonesia (2011-2016)”

1.2 Research Problem

According to the explanation above, it becomes the government assignment to increase the Infrastructure in giving the impact of Economic growth in Indonesia and reducing income inequality in Indonesia. According to this phenomenon, the author will simply the question, there are :

1. How the impact of three infrastructure variables on Economic Growth?

2. How the impact of three infrastructure variables on Income Inequality?

1.3 Research Objective

Based on the research problem, the author wants to analyze the effects of Infrastructure in Indonesia period 2011 - 2016, such as :

1. To analyze the effect of Infrastructure related to Water Supply, Road and Electricity infrastructure on economic growth in Indonesia.
2. To analyze the effect of Infrastructure related to Water supply, Road, and Electricity infrastructure on Income Inequality in Indonesia.

1.4 Research Advantages

This research hopefully expected to be useful for writer and the others interest parties and the benefits of this research include:

1. Government

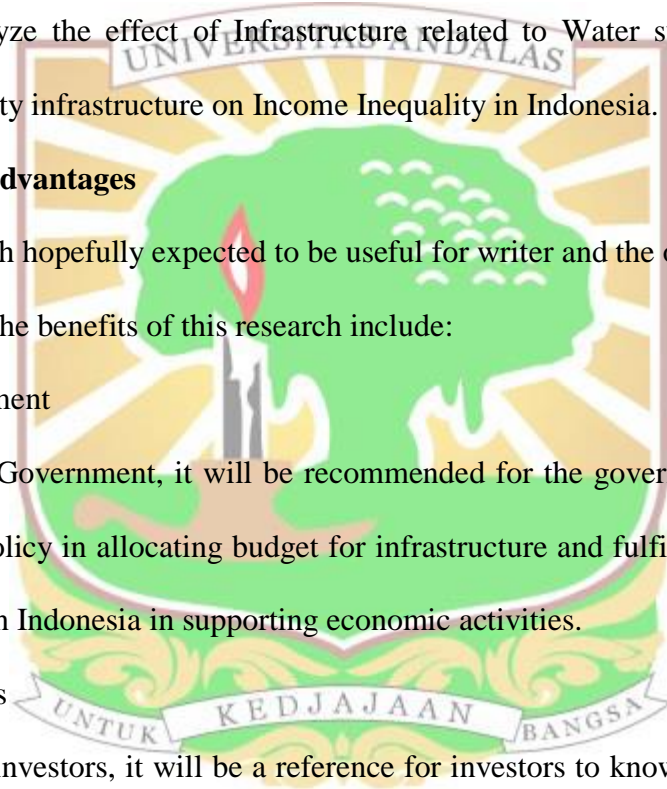
For the Government, it will be recommended for the government to take the better policy in allocating budget for infrastructure and fulfill the necessity of citizen in Indonesia in supporting economic activities.

2. Investors

For the investors, it will be a reference for investors to know the condition of the economy in Indonesia especially the condition of Infrastructure Then investors can decide for invest in Indonesia.

3. Reader

For the reader, to know the condition of infrastructure in Indonesia, impact infrastructure on increasing economic growth and lowering inequality in Indonesia.



4. As the partial fulfillment of the requirement of the Bachelor degree in economics.

1.5 Limitation of Study

This study focuses only on the relation of three infrastructures, such as Water supply, Road, and Electricity in the 33 provinces of Indonesia. Based on the purpose of this study, the author tries to examine the provinces in Indonesia overall from 2011 until 2016. The data of this research is secondary data from Central Bureau Statistics and others additional journal publications. The data of Water supply, Road, and Electricity measured by capita for Economic Growth models using GDRP per capita variable. The data of Water supply, Road, and Electricity measured by household access for Water and Electricity and Ratio Road by Region for Road to Income Inequality Model using GINI coefficient variable.

1.6 Writing Systematic

The study consists of 6 Chapters from Introduction to the Conclusion and Recommendation. The systematic of this research as follow:

Chapter I: Introduction

This Chapter describes background of this research, problem formulation, purpose and benefits of this research, scope of this research.

Chapter II: Theoretical Framework and Review Literature

This chapter includes the answer of hypothesis with reference and review that connect with independent and dependent variable theory.

Chapter III: Research Method

This Chapter explains about research methods, the definition of the variables study, collecting all the data, source of the data, method, and data analysis method.

Chapter IV: General Overview

This chapter describes trend that happened in each variable include Economic Growth (GDP), Income Inequality (GINI coefficient), Water supply Infrastructure, Road Infrastructure and Electricity infrastructure.

Chapter V: Empirical Result and Analysis

This Chapter consists of the outline result, discussion of description in object research, data analysis, and description.

Chapter VI: Conclusion and Recommendation

This Chapter consists of the conclusion of the analysis carried out, suggestion and implication arising from the conclusion of the research.

