CHAPTER I

INTRODUCTION

1.1. Background

Recently, all developing countries in various world have been trying to increase the pace of their development. However, there are difference view point from the experts about the measurement of development. To measure development, a number of indicators and economic variables are used. Indicators or variables used by international institutions such as income per capita (GNP or GDP), quality of life index (Physical Qualty of life Index), human development index, etc.

Income per capita, both in terms of GNP and GDP is one of the first macro-economic indicators that has been used to measure economic growth. As times change, per capita income is no longer used as an indicator to measure development because income growth will not be able to solve the fundamental problems of development. GDP as a proxy for income has a lot of criticism when this indicator is used as a proxy for measuring development. Some experts say per capita income is a proxy for development welfare that is necessary but inadequate (Sabina, 2002).

In 1979, Morris introduced an alternative indicator in measuring a country's development performance, namely Physical Quality of Life Index (PQLI). PQLI has limitations as an indicator of measurement of development that is not yet used for regional comparison and focuses more on cross-country comparisons (Ray, 2008). PQLI is an inadequate indicator to comprehensively and accurately describe the actual level of community development (Doessel and Gounder, 1994). However, as times

change this indicator cannot provide an overview of people's welfare in measuring development and the success of economic (Doessel and Gounder, 1994).

Amartya Sen (1990) developed an indicator to measure the quality of development using the human development index (HDI). Human development is defined as a process to multiply human-owned choices (a process of enlarging people's choices). The existence of HDI does not mean disregarding the role of GDP, but how to translate GDP into human development. There are several opinions from experts about the human development index. Hicks (1997) explains the lack of the effect of distribution on HDI. HDI indeed exposes the country's performance in the aspects of education and health, besides income, but fails to combine how this dimension is distributed among people. Srinivasan (1994) criticizes that HDI is conceptually weak and empirically unhealthy, involving serious problems such as measurement errors and bias. The census data used to calculate HDI were not reliable because of the rare collection of census data, the possibility of inaccurate reporting and the lack of complete coverage within the State.

However, there are some experts who agree that HDI is a good indicator for measuring development. Booysen research (2002) about an overview and evaluation of composite indices of develpment explain although HDI has a lack of statistics, this index is useful because it simplifies the construction of complex measurements and draws attention to the variables entered.

HDI is an important indicator to measure success in an effort to build the quality of human life. Moreover, HDI can determine the ranking or level of development of a region or country. For Indonesia, HDI is strategic data because in addition to being a

measurement of Government performance, HDI is also used as one of the allocators for determining the General Allocation Fund.

Based on the data from United Nations Development Program (UNDP), Indonesia's human development index in 2016 was 68.9. This place Indonesia as the country in the medium human development category, and ranked 116 out of 189 countries in the world. To improve Indonesia's human development index we should know what factors influence human development index in Indonesia. One of them can be seen from factors such as gross regional domestic product (GRDP), poverty, labor force and gini ratio.

Recently, the issue regarding human development has been a concern of the experts in Indonesia. Therefore, human development needs to be considered, one of them is because many factors influence human development index. So, based on the background above, it's interesting to discussed human development index in Indonesia.

1.2. Research Problem

Based on the background described, then there is a problem formulation that can be taken as a research study that will be conducted. The formulation of the problem is needed as a way to take a decision of this study:

1. How the influence of gross regional domestic product (GRDP) on human development index (HDI) in Indonesia?

2. How the influence of poverty on human development index (HDI) in Indonesia?

3. How the influence of female labor force participation rate on human development index (HDI) in Indonesia?

4. How the influence of gini ratio on human development index (HDI) in Indonesia?

1.3. Research Objective

Based on the research problem, the writer set the objectives of this research as follows:

1. To know and assess the influence of gross regional domestic product (GRDP) to human development in Indonesia.
2. To know and assess the influence of poverty to human development in Indonesia.
3. To know and assess the influence of female labor force participation rate to human development in Indonesia.
4. To know and assess the influence of gini ratio to human development in Indonesia.

1.4. Research Advantages

The benefits that can be obtained from the research are as follows:

1. Provide and add new knowledge about the influence of GRDP, poverty, labor force participation rate and gini ratio to the human development index in Indonesia
2. As a basis that can be used in policy making to improve the quality of community welfare and the human development index in Indonesia
3. As a reference for further research

1.5. The Structure of Writing

This research paper is divided into five chapters as follows:

Chapter I: Introduction

In this chapter describes the background of the problem which give an introduction about the topic discussed in this research paper, the research problem, the research objectives, the research advantages and the systematic writing of the thesis.

Chapter II: Theoretical Framework and Literature Review

In this chapter outlines the theoretical foundation which is the theoretical basis of the research, understanding of HDI, GRDP, poverty, female labor force participation rate and gini ratio that affects HDI, previous research and description of hypotheses in this study.
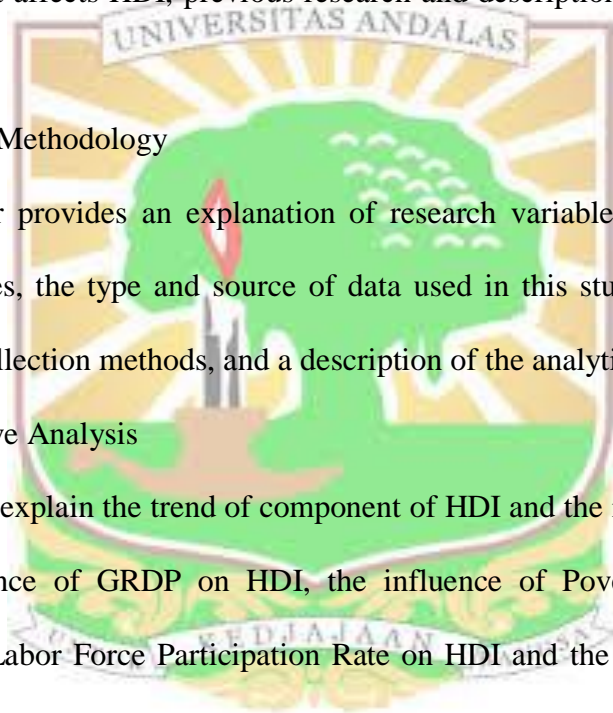
Chapter III: Research Methodology

In this chapter provides an explanation of research variables and operational definitions of variables, the type and source of data used in this study along with an explanation of data collection methods, and a description of the analytical method used.

Chapter IV: Descriptive Analysis

In this chapter explain the trend of component of HDI and the influence between variables. The influence of GRDP on HDI, the influence of Poverty on HDI, the influence of Female Labor Force Participation Rate on HDI and the influence of Gini Ratio on HDI.

Chapter V: Empirical Result and Discussion

In this chapter describes the description of HDI data, GRDP, poverty, female labor force participation rate, gini ratio and discussion of the results of the study which includes the most influential variables on HDI and data analysis that focuses on processed data in accordance with analytical tools and techniques used, this chapter will also describe the results interpretation.

Chapter VI: Conclusion and Recommendation

In this chapter is the final chapter of writing which consists of conclusions and a series of discussion of thesis in chapter V as well as suggestions that need to be delivered to the parties involved in policy making or further research.