

CHAPTER I

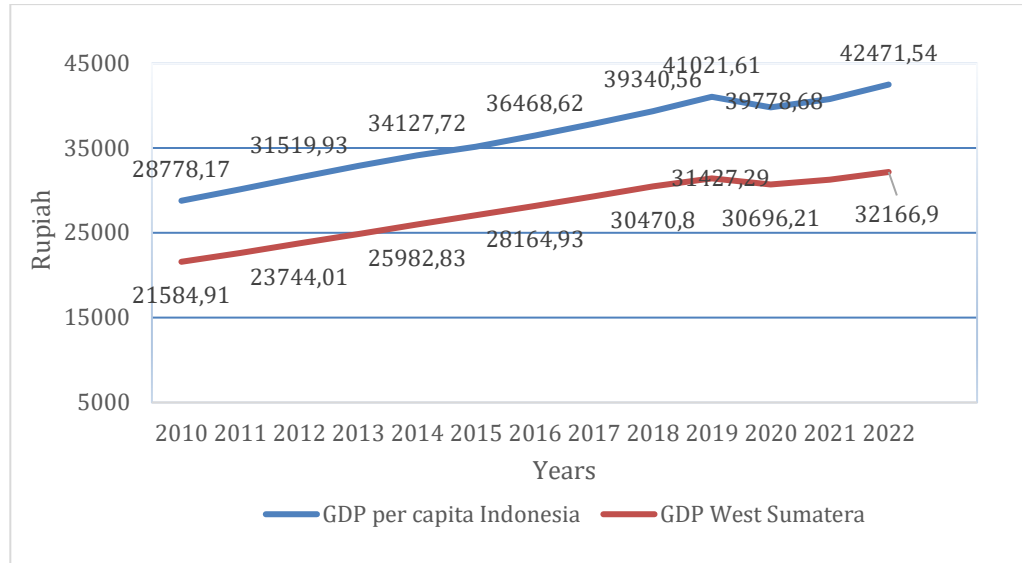
INTRODUCTION

1.1 Background

Economic growth is not just about producing more goods and services but also about enhancing the quality of life for citizens. Economic growth is the foundation for economic development that can improve quality of life. Economic growth can encourage an increase in per capita income which will affect the welfare of the community and global competitiveness. High economic growth is important because it creates jobs, increases incomes, and generally improves living standards. It leads to advancements in healthcare, education, and infrastructure, which improves overall well-being. Sustainable economic growth is crucial for long-term prosperity, as it allows countries to address social challenges, invest in future generations, and enhance their global competitiveness. By fostering an environment conducive to economic growth, nations can create a path towards a more prosperous and equitable society.

Economic growth, the increase in a nation's production of goods and services over time, reflects improvements in its overall economic performance. The indicator used to assess and clarify the relationship between a country's welfare and economic growth is real GDP per capita, which takes into account inflation and population increase. The higher a country's GDP per capita, the higher the average standard of living of its citizens. Indonesia's GDP per capita ranks 5th among ASEAN countries in 2023, which is below Singapore, Brunei Darussalam, Malaysia, and Thailand. West Sumatra is one of Indonesia's provinces with considerable economic potential, although its Gross Domestic Regional Product (GRDP) per capita is still comparatively low when compared to other provinces in Indonesia. Interestingly, West Sumatra's GDP is quite low compared to other provinces in Sumatra, where based on BPS data in 2023 West

Sumatra is ranked 7th out of 10 provinces on the island of Sumatra, which is below North Sumatra with the top ranking province is Riau Islands.



Source: BPS (2024), processed

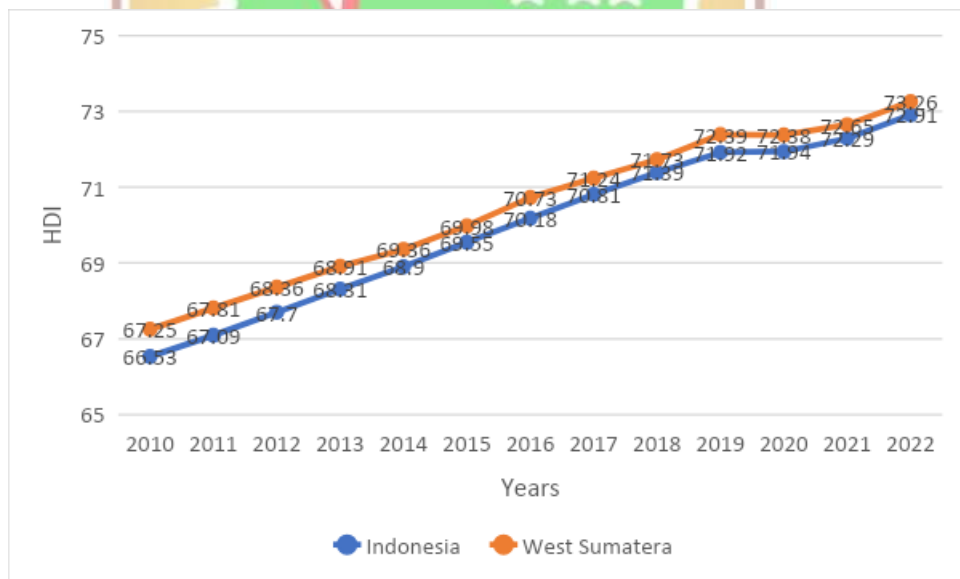
Figure 1.1
GDP Per Capita Indonesia and West Sumatera 2010-2022

According to data from the Indonesian *Central Statistics Agency (BPS)* in Figure 1.1, Indonesia's GDP and West Sumatra's Gross Regional Domestic Product are increasing, while 2020 has fallen. It is because there was a pandemic in this year which caused a downturn in various sectors. The difference between Indonesian GDP and West Sumatra's Gross Regional Domestic Product is quite large with an average of IDR8,530. To raise West Sumatra GDP per capita, several factors must be considered. The main factors that influence economic growth are human resources, natural resources, capital, socio-cultural development, and technology. Economic growth is more effective when it is accompanied by an improvement in the quality of human resources.

Human capital is one of the factors that influence economic growth. Human capital indicates the knowledge, skills, abilities, ideas, and health of an economy's productive function, therefore improving these components can result

in higher productivity, adaptability, and creativity for long-term economic growth (Kholifaturrohmah et al., 2022). Then the country can carry out human resource development to strengthen human capital.

Human development is very important because it involves improving the quality of life and welfare of the entire population. To measure the success of human development, an indicator called the Human Development Index (HDI) is used. The United Nations Development Programme (UNDP) initially introduced the Human Development Index (HDI) in 1990. The HDI is a summary assessment of average accomplishment in important elements of human development, including a long and healthy life, knowledge, and a reasonable standard of living. The higher a region's HDI, the higher its people's standard of living, which can boost GDP per capita.



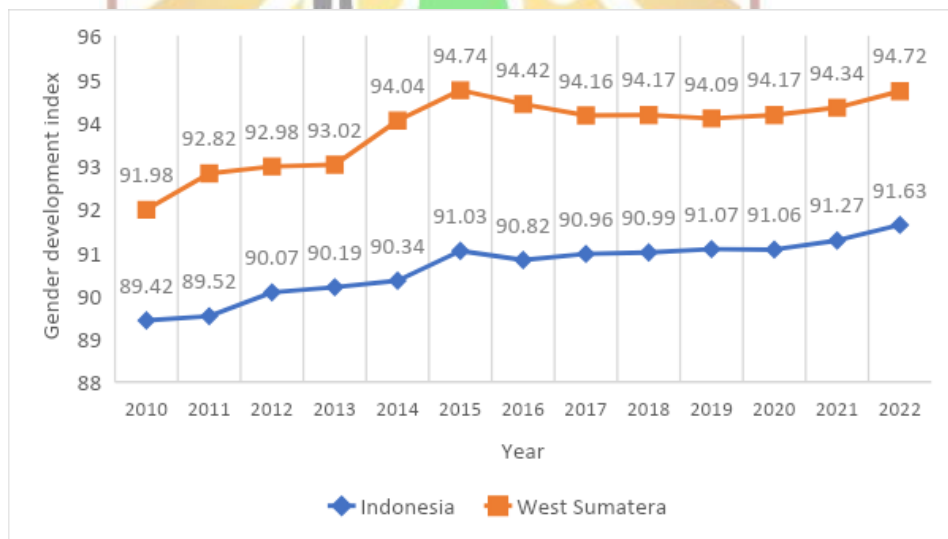
Source: BPS (2024), processed

Figure 1.2
HDI Indonesia and West Sumatera 2010-2022

Based on data from BPS Indonesia, human development in Indonesia tends to increase every year. Likewise human development in West Sumatra

where both had decreased in 2020. Factors including the pandemic, decreased access to fundamental services like health care, and deteriorating educational quality as a result of online learning contributed to the 2020 HDI fall. Figure 1.2 shows that the HDI in West Sumatra exceeds the national average, with the attainment of the human development index (HDI) in 2022 ranking West Sumatra third out of ten provinces on Sumatra.

The United Nation Development Program (UNDP) stated in the Human Development Report that one of the important elements in human development is economic growth that is fairly distributed across generations, ethnicities, genders, and regions. Through the Human Development Report 2010, UNDP released the Gender Inequality Index (GII) as a quantitative measurement tool that measures the loss of achievement in women's life in three (three) dimensions: reproductive health, empowerment, and employment. The index to track progress in gender development is known as the Gender Development Index (GDI). The GDI supports HDI by Providing information on human development based on gender.

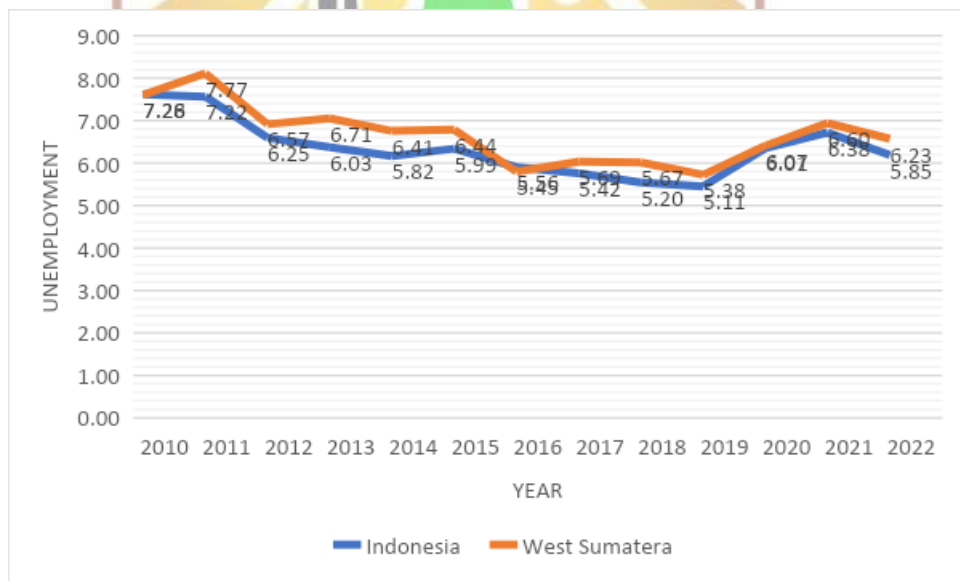


Source: BPS (2024), processed

Figure 1.3
GDI Indonesia and West Sumatera 2010-2022

Based on figure 1.3 GDI Indonesia and West Sumatra in 2010-2022 fluctuated. Nationally gender development equality is almost achieved. West Sumatra's GDI is above the national average every year which means that the contribution of men and women in human development is almost equal. The criteria for gender-based development are outlined. If the GDI value is less than 100, the capacity gap between males and females will widen. However, when the GDI value approaches 100, there is an increase in the capacity of both males and females to develop their capabilities. Gender equality might increase economic growth by increasing the quality of life for individuals and their families, resulting in increased spending and economic activity.

Unemployment and economic growth have a complex and mutually influential relationship. Unemployment is one of the world's major challenges, especially in developing countries. A high unemployment rate can be a drag on economic growth as it reduces people's purchasing power, which in turn inhibits consumption and investment growth. Unemployment reduces income, thereby lowering the level of prosperity achieved. Unemployment greatly influences the occurrence of various criminal acts, social and political symptoms, and poverty.



Source: BPS (2024), processed

Figure 1.4
Unemployment Rate Indonesia and West Sumatera 2010-2022

Based on Figure 1.4, the open unemployment rate fluctuated from 2010 to 2022. Strong economic growth tends to reduce the unemployment rate by increasing labor demand from expanding economic sectors. Conversely, slow or negative economic growth can lead to an increase in the unemployment rate as firms tend to reduce production and cut labor. Low unemployment rates will benefit the community and encourage the region's economic growth.

West Sumatra from the total population in 2022 reached 5.6 million people, the total population of women reached 2.79 million people and men reached 2.84 million people (Indonesia Central of Statistics, 2022). Based on the National Socio-Economic Survey (2022), the number of undergraduate graduates in higher education reached 13.02%, of which men reached 10.06% and women 15.94%. Education is one way to guarantee and improve the quality of human life economically and socially, which is also a way to address gaps in the effort to achieve equality and create a prosperous life (Roza & Satrianto, 2021). Meanwhile, based on the National Labor Force Survey (2022), in West Sumatra province, the male labor force participation rate is 82.58%. Meanwhile, the female labor force participation rate is 56.28%, which means that around 43.72% of women in West Sumatra play the role of housewives.

It is interesting that based on the education completed, women in West Sumatra have a higher percentage than men, while at the labor force participation rate, the percentage of men is higher, which means that more men of working age are working than women. The Minister of Women's and Children's Empowerment argues that there are obstacles to women in achieving sectors or activities in the economy, especially in the field of labor.

Based on the explanation above, according to HDI and GDI West Sumatra is one of the provinces with significant economic potential, but its economic growth, as measured by real GDP per capita, is still below that of other provinces in Sumatra and the Indonesian average and economic growth rate of West Sumatra is slow comparing in other provinces. It is intended that the results of this research will give insights for

policymakers in West Sumatra in formulating effective strategies to enhance economic growth through its relationship with HDI, GDI, and unemployment. This research can contribute to the development of more focused and effective policies to achieve sustainable and inclusive economic development goals. With these variables, the author titles the study *"The Effect of Human Capital and Gender Development on Economic Growth: Study Case of West Sumatra 2010-2022."*

1.2 Problem Formulation

Based on the background, the problem formulation in this study can be taken as follows:

1. How does the Human Capital affect the Economic Growth in West Sumatra 2010 - 2022?
2. How does Gender Development affect Economic Growth in West Sumatra 2010 - 2022?
3. How does Unemployment affect Economic Growth in West Sumatra 2010 - 2022?

1.3 Research Objectives

Based on the statement of the topic, the aims of this research are:

1. To determine the effect of Human Capital on Economic Growth in West Sumatra 2010 – 2022.
2. To determine the effect of Gender Development on Economic Growth in West Sumatra 2010 - 2022.
3. To determine the effect of Unemployment on Economic Growth in West Sumatra 2010 – 2022.

1.3 Research Benefits

From the research objectives that have been conveyed, this research is expected to provide the following benefits:

1. For the researcher, researchers can improve their understanding of the impact of human capital, gender Development and Unemployment on Economic Growth.
2. For the government, it serves as a tool for planning and carrying out development projects, as well as understanding West Sumatra's economic growth throughout time.
3. For research purposes, it is used as a reference material and to compare with similar studies.

