

CHAPTER 1

INTRODUCTION

1.1 Background

The indicator for assessing the performance of the economy is a considerable growth reflected in the Gross Regional Domestic Product (GRDP) figure. GRDP is the value of final goods and services produced by the economic system in a region within a specified period. GRDP divided two. It based on the current market price and the 2010 constant market price. Economic growth is not only influenced by economic variables but also can influence another variable like political variables.

Political stability is a pattern of attitudes and behavior of all components of the political system that builds the preservation of the structure of structures and power relations to ensure the effectiveness of government, and political stability is strongly related to the running of the government system.

Indonesia is a democratic country, which means that it adheres to the form or mechanism of a government system by realizing people's sovereignty over the state to be run by the country's government. The power of government comes from the people and for the people. The form of this manifestation of democracy is by holding elections. Direct elections in Indonesia began in 2004-now, direct elections are people can elect regional heads or presidents directly because they have political rights as citizens as stipulated in the 1945 Constitution.

With the implementation of elections every five years, there will undoubtedly be a political year, namely the year in which elections will hold. The political year is a very turbulent year, due to many conflicts that occur before and

after elections are held. One of the real battles that happened in the political year was ahead of the 2019 election, which was the amount of friction between the political elite and the lower classes, such as volunteers who made noise. The noise that occurred can have an impact on political stability, which will affect Indonesian economic growth.

In addition to holding direct elections, the embodiment of Indonesia as a democracy country can be seen from the Indonesian Democracy Index, which contains aspects of the Civil Liberties Index, Political Rights Index, and Index of Democratic Institutions. BPS data shows that from 2009-2017, the Indonesian Democracy Index figure is around 60-70, which is interpreted as moderate democratic performance. With the performance of democracy, which is classified as moderate, it can affect economic growth, moving towards a more positive direction.

Drazen (2004) explains how political instability can affect economic growth. Political stability will affect economic growth through a political institution. The success of economic growth can be measured by political institutions, because political institutions regulate: (1) *property rights* of individuals or companies, (2) *pressure of redistribution* or the ability of an institution to control income redistribution evenly distributed; and (3) *predatory dictator* or system of government applied to a country.

Property rights are the protection of ownership rights to resources owned by individuals. And it is reflected in the Gross Fixed Capital Formation variable. The *Pressure of Redistribution* is the ability of an institution to control income redistribution equally. And it is reflected in the Gini Ratio variable. And

predatory dictator or government systems that applied to a country (dictatorial system or democracy). Economic policies will be formulated based on the interests of the political agents concerned. And it is reflected in Indonesian Democracy Index variables.

Arbi Sanit (1982) explains political stability determined by three correlated variables, namely adequate economic development, the development of institutionalization of both the structure and processes of political processes, and political participation. Adequate economic development can be seen through the Government Consumption Expenditure, Export, and Import variables.

Government Consumption Expenditure is the action of the government as a policymaker to regulate the running of the economy by determining the amount of government revenue and expenditure each year, which is reflected in the national expenditure budget and regional expenditure budget. While Export and Import are economic relations between countries that affect the economic development of each country, this activity is a trading activity between countries and between regions. This condition causes competitiveness as one of the determining factors in competition between countries and regions so that they can benefit from the increasingly open world economy. Both of these variables can influence economic growth through political stability determined from adequate economic development.

So based on the arguments of Arbi Sanit that political stability is determined by adequate economic development, the writer concludes variables that can explain adequate economic development including political stability that can influence economic growth based on the Drazin argument. So it can be said that the variables

that can affect political stability can also explain the effects of political stability on the economic growth. And the writer will use Government Consumption Expenditure, Export, Import, Gross Fixed Capital Formation, Gini Ratio, and Indonesian Democracy Index variables to see the effect of the political stability on the Indonesian economy.

Many economies of a country are plummeting due to domestic politics, such as in Ukraine, where political corruption and inefficient reform occur. This is clear evidence of political instability that can affect the economy where political instability can lead to corrupt practices.

With the existence of several countries as examples where political instability can affect the economy like in Ukraine, it can use as a lesson for other countries to avoid the same problem because political stability can affect the economy through many aspects of state life.

1.2 Research Problems

Based on the background described above, then there is a formulation of the problem that can take as a research study to be conducted. Formulation of the problem needed as a way to decide on this research; the formulation of the problem includes:

1. Does economic variables (government consumption expenditure, export, and import) that can determine political stability can affect Indonesian economic growth?
2. Does gross fixed capital formation as a measure of the success of political institutions that regulate property rights affect Indonesian economic growth?

3. Does the Gini ratio as a measure of the success of political institutions that regulate the pressure of redistribution affect Indonesian economic growth?
4. Does the Indonesian Democracy Index as a measure of the success of political institutions that regulate the predatory dictators affect Indonesian economic growth?

1.3 Research Objectives

The objectives of this research are:

1. To see the impact of government consumption expenditure, export, and import on Indonesian economic growth
2. To see the impact of gross fixed capital formation on Indonesian economic growth
3. To see the impact of Gini ratio on Indonesian economic growth
4. To see the impact of the Indonesian Democracy Index on Indonesian economic growth

