

# CHAPTER I

## INTRODUCTION

### 1.1 Background of The Problem

Economic Growth theory states that economic growth is affected by physical capital (investment and capital) and human capital (labor) (Young 1995 : Ray 1998). Since 1990s, demographer economist started to include demography into economic growth to observe effect of fertility decrease, change of workforce and ratio decrease of young population dependency towards economic growth (Birdsall and friend 2001). For example, Williamson (2001) found that increase in population density and total population and increase in relative total of productive age population associated with economic growth.

Population problem is one of important issue faced by developing countries, including Indonesia. Effect from this population problem impacts on others economic problems such as unemployment problem, poverty, education, and so forth. Population is a factor that can encourage economic growth. However, it will inhibit economic growth if it is not managed properly.

Reham Rizki (2018) in his paper entitled *Does Demography transition matter for economic growth? Evidence from Egypt* used Solow growth model stated that there is relationship between economic growth with productive age growth. Besides that, there is similarity with other expert opinion. Bloom, David A, David Canning and Jaypee Sevilla (2003) said that there is correlation

between transition of population and economic growth in some latest years due to demography trend in developing countries. Based on research done by Maryanti (2015) about the dynamic of educated unemployment is one of challenge to demography bonus in Indonesia. For case in Indonesia, benefit potential of economy from demography bonus is marked by numbers of productive working age and low of population dependency ratio will be useless. If population of productive age is more than unemployment and they have no income, they will be burden and treat for national growth. The result of the research showed that the highest open unemployment rate with young age in Indonesia in 2005-2015 is 15-19 years old.

Demography bonus is small dependency ratio where number of productive population will be bigger than they who are not productive (BPS, 2012). Demography bonus can be felt when related region dependency ratio is under 50 percents ( T.Sulham, Teuku Bahran Basyiran, 2015). So, demography bonus will be an useful event for each area where experiancing this demography bonus. Demography bonus situation will change pyramid / comparison between productive age population and non productive population. In this case, productive age population will increase more while non productive age population will decrease less. Process of Demography transition in Indonesia does not immediately show that there is a same way or process for each province. Finally, not all of province will get demography bonus.

One of demography bonus impact is dependency ratio decrease more. When dependency number decrease, it will impact on ability to produce goods and service for gaining income and profit. So, economic circle will support

economic growth improvement in particular area. Other impact is participation rate of workforce. It means that number of productive age population and employee increase more. Other impact is on workforce participation rate which means that number of productive working age population and unemployment increase. This is advantageous because human resources is one of supportive factor for productivity. Increased productivity will increase economic growth. Negative impact of demography bonus is unemployment. Unemployment is working age population who don't have a job or on process to find a job. This is so worrying because it will be burden for certain age economy. So, unemployment is an impact that should be avoided as a result of demography bonus event (Pakpahan, 2019).

Big numbers of workforce in the future will improve income per capita if the workforce can be absorbed into available work opportunity. Condition we face now is that rate of unemployment is relatively high in February 2018. Rate of unemployment is 5,13 % (BPS, 2018). It means that there is not enough available employment opportunity than can absorb optimum workforce. The absorption of workforce maximally into market place is part of the utilization of demography bonus. This must be supported with high quality of labor and availability of employment opportunity. Population that can be categorized as workforce in the future (productive age at the demography bonus era) must be absorbed into employment so that population with productive age have strength of economy to bear population with non productive age or even more to improve the growth of economy in larger scope. Hence, it is really important to be discussed about how is the improvement of workforce in the future and how it effect for the growth of

economy. So, it can be estimated how big economy should be moved to optimize the absorption of workforce for the utilization of demography bonus.

Based on projection result of population in 2010-2035, there some provinces which have not get demography yet until 2035, one of them was West Sumatra. This problem happened due to high dependency ratio in West Sumatra. Dependency Ratio in West Sumatra in 2010 was 57,7 per 100 inhabitants, while Indonesia had 50,5 in the same year. Dependency ratio in West Sumatra can also be said enjoy demography bonus if dependency ratio is under 50. Kominfo (2014) assume that the cause of the problem which West Sumatra can't get to the demography bonus is because of a tradition called "Merantau". Merantau is one of West Sumatra inhabitant to go other area ( migration), can be other province, and Island even country with intention to get better life. This is usually done by inhabitant of productive age. However, population Growth dynamic in one area is not only affected by migration but also by fertility and mortality as a unity component that affect to demography process.

According to Yusmarni (2016), even though as a province West Sumatra have not got demography bonus as whole , but there are two regions who has got demography bonus. They are Padang. Dependency Ratio of Padang city in 2010 was 42,7 . Dependency ratio of Padang in 2008-2018 showed dependency ratio which kept decreasing. It indicates that Padang actually in verge of window of opportunity which can be maximized.

To see correlation between demography bonus, open unemployment rate and economic growth in Padang, it can be summarized as following table 1.1 below :

**Table 1.1. Economic Growth of Padang city in period 2008 -2018**

Year	GRDPCurrent Price (Million Rupiah)	Growth Rate (%)	TPT (%)	Growth rate (%)	Dependency Ratio (%)
2008	21503943	-	14,61	-	48,12
2009	23480046,62	9,19	15,86	8,56	48,74
2010	25819754	9,96	14,67	-7,50	43,73
2011	29218101,65	13,16	16,9	15,20	43,49
2012	32779054,1	12,19	12,35	-26,9	43,21
2013	36629159,3	11,75	14,1	14,17	42,94
2014	41265599,6	12,66	12,28	-12,90	42,71
2015	45092946,85	9,27	14,02	14,17	42,52
2016	49386263,76	9,52	6,88	-50,93	42,37
2017	53868744,6	9,08	9,44	37,21	42,22
2018	58272340,66	8,17	9,18	-2,75	42,12

Source: BPS, 2020.

On table 1.1 can be seen that economic growth in Padang city since 2008-2018 tend to increase. This is possibly affected by transition of population number and workforce tend to get improvement. This transition can support economic growth rate in Padang for future. The highest Economic growth in Padang is 13,16 % in 2011. Based on survey result of national workforce ( Survey Angkatan Kerja Nasional, Sakernas) in August of BPS ( 2015), this is tend to be affected by development of workforce percentage towards productive population, that is 68,94%.

Table 1,1 also shows that Padang city has got demography bonus with dependency ratio in 2008-2018 less than 50 % and percentage keep decreasing year by year. If dependency keep decreasing, it will impact on participation rate of workforce. It means that number of jobless productive population keep increasing. However, this problem is contradictive with young open unemployment rate in Padang which has fluctuative progress. The decrease of demography bonus which can be seen from decreasing of dependency ratio and increasing of GRDP in Padang city is always followed by the increase of open young unemployment rate. . Highest Young Growth rate in Padang in 2016 decrease as amount -50,93 percent while in the same year, dependency ratio PRDB of Padang city decreased..

Based on background of the problem above, researcher did a research entitled “ **An Analysis of Effect Demography Bonus and Young Open Unemployment Rate towards Economic Growth in Padang City**”

## **1.2 Formulation of The Problem**

Based on the background of the problem above, the problems were formulated in further as following below :

1. Does demography bonus effect on economic growth in Padang city?
2. Does young open unemployment rate effect on economic growth in Padang city

## **1.3 Purpose of The Research**

Based on formulation of the problem, so this research was aimed to :

1. To test demography bonus effect towards economic growth in Padang city.

2. To test young open unemployment effect toward economic growth in Padang city.

#### **1.4 Advantages of the Research**

Advantages expected from the research were as the following below :

1. Can enrich realm of science especially human resources management in demography bonus case, young open unemployment rate and economic growth.
2. As an input and consideration for decision maker relating in human resources development in government institution generally and local government specifically.
3. As reference for next research about human resource development associated in population and economic growth.

#### **1.5 Scope of the Research**

Scope of this research is on population and economic growth data in Padang to see effect of demographic bonus and young open unemployment toward economic growth. This research include sekunder data from Badan Pusat Statistik Padang from 2008 to 2018.

#### **1.6 Systematical of research writing**

The systematical or arrangement of this thesis was the following below:

### **CHAPTER I INTRODUCTION**

Chapter I is consisted of background of the problem, formulation if the problem, purpose of the research and advantages of the research, scope of the research and the systematical of research writing.

## **CHAPTER II REVIEW OF LITERATURE**

Chapter II is consisted of literature references which are relevant with this research that is concept of demography bonus, concept of macro economy in Indonesia and consideration of formerly research, conceptual framework and hypothesis.

## **CHAPTER III RESEARCH METHODOLOGY**

Chapter is consisted of kind of research, population and sample, kind and sources of data, technique of collecting data, research variable and operational definition, research instrument and data analysis' method.

## **CHAPTER IV RESULT AND DISCUSSION**

Chapter IV is consisted of explanation about description of research data and data anilities using statistic assessment and literature studies. In this chapter will be discussed process of getting result and analysis of observed variable.

## **CHAPTER V**

Chapter V is consisted of conclusion and recommendation which are considerate important and can be implemented.

