

Chapter 1

Preliminary

1.1 Background

Economic growth is a development of an economic activity that encourages increased output in society and encourages increased prosperity and community welfare. The output circulating in the community includes goods and services (Sukirno, 2000).

The economic growth of a country certainly requires investment both from within the country and foreign investment or investment. Domestic investment is when domestic investors use domestic capital to establish a business sector in the country. Capital in the country in question is capital owned by the state, individual Indonesian citizens, or business entities in the form of legal entities or unincorporated. Meanwhile, foreign investment is when foreign investors or those from abroad, establish a business sector in the country with foreign capital or together with domestic capital. Foreign Investors are individuals of foreign nationals, foreign business entities, and/or foreign governments who invest in the territory of the nation. Furthermore, Foreign Capital means capital owned by a foreign state, an individual foreign national, a foreign business entity, a foreign legal entity, and/or a nation's legal entity whose capital is partly or completely owned by a foreign party (Tazkia, 2022)

Foreign investment also certainly affects International Trade where foreign investment is an example of the implementation of International Trade. International Trade is the practice of buying and selling goods and services that involves nations across the border. Goods such as consumer goods, raw materials, machineries, and services are traded in an international market commonly known as export and import activities. (Reem, 2023). International Trade allows nations to expand their market for greater profits and opportunities and this makes the international market becomes more competitive.

By encouraging exports and imports in a variety of ways, FDI may have a considerable influence on a country's foreign trade.

First off, international investors frequently bring significant information, experience, and contacts with them. These factors may aid local firms in growing their operations and exporting their goods. This can support international trade and enhance a nation's exports.

Second, FDI may boost a nation's competitiveness by boosting the effectiveness of its local businesses. This is due to the fact that foreign investors frequently offer new technology, management strategies, and commercial practices that might aid local businesses in becoming more productive and competitive in the global economy. As domestic businesses improve their efficiency and competitiveness, this may result in a rise in exports and imports.

Finally, FDI can also facilitate imports by providing access to new markets and distribution networks. Foreign investors can bring in new products and services that may not be available domestically, thereby increasing the range of goods and services that can be imported into the country.

As the country with the fourth largest total population in the world, Indonesia needs a lot of support and costs to continue the continuity of development. As written in the source, the existing Anggaran Pendapatan dan Belanja Negara (APBN) only covers 8.7% of the planned development costs in the 2015–2019 Social Medium-Term Plan (RJMS) which when totaled requires Rp 5,000 trillion for infrastructure development throughout Indonesia. With the existing budget shortfall, the government also received financial support from the SOE sector, including the national bank. However, the SOE sector can also only cover about 30% of the required budget. There is still around RP 3,000 trillion left which can only be filled by the private sector and foreign investment. Therefore, it is important for Indonesia to open and consider how foreign investment is important for Indonesia's economic growth. By looking at Indonesia's economic growth, this study will show the relationship between foreign investment and international trade with Indonesia's exports and imports as evidence of research.

1.2 Problem formulation

In relation to the background that has been given above, the problem that will be discussed in this thesis is the relationship and influence of foreign investment on international trade with the Indonesian economy as evidence.

1.3 Research Objectives and Benefits

With the problem formulation mentioned above, the objectives of this research are:

1. To know what Foreign Direct Investment is.
2. To know what International Trade is and its effect on the country's economy.

3. To find out the results or impact of Foreign Direct Investment on the Indonesian economy.
4. To find out whether Foreign Direct Investment has a good impact and is important to implement in developing the country's economy.

This research also has beneficial objectives such as:

1. To increase knowledge about the relationship between Foreign Direct Investment and International Trade for authors and outsiders.
2. To increase knowledge about the impact of Foreign Direct Investment on the country's economic growth for writers and outsiders.
3. This research is also useful to be an information reference for authors, researchers, and the general public.
4. This research is one of the applications of the author's learning results for 4 semesters at Atmajaya Yogyakarta University and 4 semesters at Nanjing Xiaozhuang University.

1.4 Systematic of Writing

The writing of this thesis consists of 5 chapters:

CHAPTER 1: Preliminary

This chapter explains research background, problem formulation, research objectives and benefits, and systematic of writing.

CHAPTER 2: Literature Review

This chapter explains the theoretical base of the research such as International Trade theory including export and import theory, Foreign Direct Investment theory and the relationship theory of Foreign Direct Investment with International Trade.

CHAPTER 3: Research Methods

This chapter consists of types and sources of data, data collection techniques, and data analysis techniques using correlation analysis research methods.

CHAPTER 4: Result and Discussion

This chapter includes the discussion of previous chapter's result.

CHAPTER 5: Conclusion and Suggestions

In this last chapter, it discusses the conclusion of the final result and the advice given to the author and reader.