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THE EFFECT OF FOREIGN DIRECT INVESTMENT AND HUMAN CAPITAL TO INCOME INEQUALITY IN REGIONAL ECONOMY

IMAM MUKHLIS
Faculty of Economics
Universitas Negeri Malang

INDRA MAIPITA
Faculty of Economics
Universitas Negeri Medan

TIMBUL HAMONANGAN SIMANJUNTAK
Faculty of Economics
Maranatha Cristian University
Correspondent Authors: imam.mukhlis.fe@um.ac.id

ABSTRACT

This research aims to analyze the relationship between foreign direct investment and human capital with income inequality in the regional economy at Java Island for 2010-2016. Foreign direct investment was proxied by investment realization from abroad (in million US\$), human capital was proxied by rate enrollment ratio in secondary school, and income inequality was proxied by Gini ratio. The area of research are West Java Province, East Java Province, Center Java Province, Banten Province, Jakarta Province and Yogyakarta Province. The method of data analysis used in this study was panel data model in form of a random effect. The results of research provide the conclusion that foreign direct investment was not affected income inequality in West Java Province, East Java Province, Center Java Province, Banten Province, Jakarta Province and Yogyakarta Province. These provinces reflect good economic performance in Indonesia that contains high inequality. The other results is human capital have a positive and significant effect on income inequality at Java island in Indonesia for 2010-2016. The recommendation is government must select priority to direct foreign direct investment in these areas. The scope of priority are the density of population, purchasing power parity, degree of people education, and economic structure in the region.

Keywords : *Foreign Direct Investment, Human Capital, Inequality, Panel Data*