ABSTRACT

Income per capita and economic growth in Indonesia has decreased in recent years. Until 2015, Indonesia's income per capita is still in the middle income category. The decreasing income per capita that accompanied with slowing economic growth indicate the condition of national economy weakened that potentially causing Indonesia stuck into the middle income trap. middle income trap (MIT) is a condition where middle income countries has stagnated and not afford to increase its income to higher level. This study aims to analyze the situation of middle income trap in indonesia and factors that affect the income per capita which consist of value-added of agriculture, gross fixed capital formation, foreign direct investment, exchange rate, and inflation, both in the long term and short term with an approach Error Correction Model (ECM). The data that used is secondary data and obtained of the World Bank from 1981 until 2015.

The results showed that Indonesia has not stuck into the middle income trap. Based on the analysis results of the factors that affect the income per capita, in the long term, value-added of agriculture and exchange rate has positive and significant effect, whereas the variable of inflation has negative and significant effect. Only the variable gross fixed capital formation has positif and significant effect both the short term and long term. The foreign direct investment has not significant effect on income per capita.

Keywords: Error correction model, income per capita, middle income trap, slowing economic growth