CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Based on the empirical results of study and discussion from the previous chapter, the main objective of this research is to examine the impact of foreign direct investment, interest rate, exchange rate, external reserves and trade open toward gross domestic product in Indonesia over quarterly period 2000Q1 to 2015Q3. In this study, the writer used Error Correction Model (ECM) model empirically test the impact of foreign direct investment, interest rate, exchange rate, external reserves and trade open toward gross domestic product in Indonesia. From the analysis of data that has been conducted, it is obtained the following conclusions and recommendations.

6.1 Conclusions

The result of hypothesis testing can explain as follow:

1. Foreign Direct Investmet (FDI) has negative and significant impact to Gross Domestic Product (GDP) in short run. It shows that increase in FDI inflow will decrease the total of GDP in Indonesia. Meanwhile, FDI has positive and significant impact to GDP in long run. It shows that increase in FDI inflow will increase the total of GDP in Indonesia : The Case of Indonesia over quarterly period 2000Q1 – 2015Q3.
2. Interest Rate (IR) has positive and significant impact to Gross Domestic Product (GDP) in long run however Interest Rate is insignificant in short run:

The Case of Indonesia over quarterly period 2000Q1 – 2015Q3. It shows that increase in IR will increase the total of GDP in Indonesia.

3. Exchange Rate (ER) has negative and significant impact to Gross Domestic Procut (GDP) in long run however Exchange Rate is insignificant in short run: The Case of Indonesia over quarterly period 2000Q1 – 2015Q3. It shows that decrease in ER will increase the total of GDP in Indonesia.
4. External Reserve (EXRV) has positive and significant impact to Gross Domestic Product (GDP) in long run however External Reserve is insignificant in short run: The Case of Indonesia over quarterly period 2000Q1 – 2015Q3. It shows that increase in EXRV will increase the total of GDP in Indonesia.
5. Trade Open (TO) has negative and significant impact to Gross Domestic Product (GDP) in short run however Trade Open is insignificant in long run: The Case of Indonesia over quarterly period 2000Q1 – 2015Q3. It shows that increase in TO will decrease the total of GDP in Indonesia.

6.2 Recommendations

Based on the study, it can be given Recommendations as follows:

1. Indonesian should be competes with foreigner in order to face free labor movement such as the Agreement from Asean Economic Community. Indonesia should bring in professional worker. Then income per capita should be increase in order to increase GDP of home country. Based on data in World Bank, the income per capita of Indonesia still \$2 to \$4 per day. It means still under poverty rate.

2. Indonesia should increase the capital inflow in order to increase economic growth in Indonesia. Capital inflow has a strong relationship to economic growth. It has significant in both short run and long run.
3. Government should increasing result of production of firms. Indonesia tends to produce raw material until semi finished good. Such as rubber. Indonesia should process the rubber until finished goods like wheels. However, the finished goods should high quality and low price in order to compete with foreigners.
4. Government should control the capital inflow. It should be obvious the flow of investment in Indonesia. The target of capital inflow in order to economic development in Indonesia by reducing the poverty.
5. Government should eradicate of corruption. Although many foreign investment comes to Indonesia but the capital inflow done by corruptor. There is no benefit for Indonesia. Then government should be aware in big project in order to develop Indonesian economy. The capital inflow is clearly distributed to decrease unemployment in Indonesia.
6. Bank of Indonesia should control interest rate and keep the exchange rate stable in order to increase the economic growth.
7. Government should keep the external reserves in order to stabilize of economy and prevent the crisis.
8. For further study,it will be better if all relevant macroeconomic variables are included as factors affect the level of gross domestic product and then compare to another developing countries.