CHAPTER V

CONCLUSION

5.1. Conclusion

This study analyzes the effect of the international trade and exchange rate to the economic growth. This study uses four macroeconomic variables, they are Gross Domestic Product (GDP) as the measurement of economic growth, Export, and Import as the variables of international trade and exchange rate. This study adopts the VECM (Vector Error Correction Model) as the method of this study. This study use the VECM because of the result of unit root test shows that the variable stationary in the first difference and also it could be concluded that export, import, and exchange rate have the long run relationship with the GDP. It is proves by the result of cointegration test which is stated that there is a cointegration between the variable.

The result of Granger Causality test shows that the export and exchange rate has the bilateral relationship with the GDP, means that both of them in the past will influence the GDP in the present time and vice versa. Import and GDP only have the unilateral relationship, means that only the import in the past will influence the GDP in the present time but the GDP in the past cannot influence the import at the present time.

VECM method is used to see the relationship in the long run and also in the short run of the dependent variable with the independent variables. Then the result of the VECM test shows the relationship of GDP with the export, import and exchange rate in the short run and long run. In short run, import and exchange rate have the positive relationship with GDP and in long run only exchange rate that has the long run relationship with GDP but in long run the relationship between the two variables is negative.

From the IRF test result GDP responses to those variables are different, the shock of export and exchange rate is positively response by GDP but import is negatively response by GDP. The VD test shows that the variable that will give more proportion shock for GDP is export and exchange rate. Import also contributed to the GDP but the percentage is not as big as the export and exchange rate. It means that the shock of export, import and exchange rate will give some impact to the economic growth of Indonesia. The robustness test shows that this model is tend to be robust which is mean that the result is valid.

So from the result it could be concluded that there are two findings that is contrary with the hypothesis they are the relationship of export, import and exchange rate to the economic growth. The import and exchange rate has a positive relationship with the GDP in the short run. It is possible because in the short run, usually the value of currency more stable and it is also makes the value of exchange rate is more stable.

In the short run the country did not import as much as in long run and the product that have been imported also the important goods that will help to increasing the productivity and the increasing of productivity will increase the value of GDP where the GDP is one of the components to measure the economic growth and that’s why the import has a positive relationship with the economic growth in the short run. In this study, there is no relationship between the export and economic growth. This result is totally contrary with the hypothesis that stated that the export always have the positive relationship with the economic growth.

But there is one result that supported the hypothesis. In this case, the exchange rate in the short run and in the long run has a different relationship with the economic growth. In the short run the exchange rate and economic growth has a positive relationship but in the long run the exchange rate has a negative relationship with the economic growth. This result is supported the hypothesis that stated that the exchange rate has a negative relationship with the economic growth.

5.2. Recommendation

International trade and exchange rate become an important sector that is related to the economic growth. The movement of the international trade activity and the exchange rate will affect the economic growth of Indonesia. It will be better for Indonesia if the government can maintain or increasing the gains from trade because the gain will give a positive contribution that could increase the national income.

Before increasing the gains from trade, the government should stabilize the economy of Indonesia because if the economy is stable the domestic currency will be stable. A stable domestic currency will give a good impact to the movement of the exchange rate, especially in Indonesia. So, this study recommends that the government have to maintain or start to increase the level of international trade and government also need cooperate with the central bank to maintain and stabilize the domestic currency in order to get more gains from trade.

For the another researchers or students that have the same scope of the study, this study can be used the reference. But this study still has the limitation and this study still need some improvement. So, it is recommended for the next students to improve the study and increase the scope of research.