

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 2016Q4. 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 conclusions of the results of the study can be showed as follows :

1. Foreign Direct Investment (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. This condition happend because of industry activity from FDI make environmental damage. 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 – 2016Q4, FDI become source of external income to Indonesian economic growth.

2. Interest Rate (IR) has negative 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 – 2016Q4. It shows that increase in IR will decrease the total of GDP in Indonesia. It happened because of increase the gasoline in Indonesia.
3. Exchange Rate (ER) has positive and significant impact to Gross Domestic Product (GDP) in long run however Exchange Rate is insignificant in short run: The case of Indonesia over quarterly period 2000Q1– 2016Q4. It shows that increase in EER will increase the total of GDP in Indonesia. It happened because the uncertainty condition in abroad especially for US as the power country in the world.
4. External Reserve (EXRV) has negative 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– 2016Q4. It shows that decrease in EXRV will increase the total of GDP in Indonesia. There is no problem with the reserve in Indonesia. Indonesia should keep the reserve in order to keep the uncertainty condition.

6.2 Recommendations

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

1. The policy implication is that efforts to stimulate growth of Indonesia through FDI should be supported with exchange rate policy.
2. Bank of Indonesia should control interest rate and keep the exchange rate stable in order to increase the economic growth.

3. Government should keep the external reserves in order to stabilize of economy and prevent the crisis.
4. 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.

