CHAPTER V
CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study empirically investigates the short-run and long-run relationship between trade, foreign direct investment, external debt, official development assistance, exchange rate, and economic growth. NARDL is a model to estimate the empirical model using a dataset from 1983 to 2022. Based on the results of the data analysis, several conclusions can be drawn.

In the long-run, the independent variables have a significant impact on Indonesia's economic growth. Trade has a significant negative relationship with economic growth, with an increase in trade reducing economic growth, possibly due to Indonesia's dependence on imports of high value-added goods and exports of low value-added goods. Meanwhile, foreign direct investment (FDI) shows a significant positive relationship, where an increase in FDI can boost economic growth through improvements in infrastructure, human resource quality, and technology transfer. Furthermore, external debt, both in the form of positive and negative shocks, both have a significant negative impact on economic growth, with a decrease in external debt having a greater impact. These results indicate the need for more effective and efficient debt management. Official development assistance (ODA) is also found to have a negative impact on economic growth, indicating that unproductive allocation of ODA funds can worsen economic conditions. Finally, a strengthening real exchange rate can reduce economic growth because it increases imports which in turn causes a trade deficit. Therefore, competitive exchange rate stability and policies that support good debt management are essential to boost Indonesia's economic growth in the future.

In the short-run, trade openness has an insignificant negative relationship with economic growth, which can be explained by the dependence on exports of primary commodities with low added value. In the long run, dependence on commodity exports can be detrimental to economic growth. The decline in external debt also shows an insignificant negative relationship with economic growth, with the difference in significance between the short and long run influenced by momentary economic fluctuations and the cumulative impact in the long run. Meanwhile, official development assistance (ODA) has a significant negative relationship with economic growth in the short run, which is caused by the inefficient use of ODA funds. The exchange rate has a significant positive relationship with economic growth in the short run, because an appreciation of the exchange rate can lower import costs and increase domestic consumption. However, in the long run, dependence on imports and higher prices of domestic goods can reduce exports, which affects economic growth.

5.2 Recommendation

Based on the results of considerations of several impacts of the variables studied on economic growth in long-run and short-run, along with suggested policies obtained from previous research, it can be concluded as follows:

1. The need to diversify exports by increasing the production of high value-added goods.
2. Increase FDI attractiveness by creating a conducive investment climate through infrastructure improvements, strengthening human resources, and implementing policies that support technology transfer.
3. Better debt evaluation and planning to ensure debt is used productively.
4. Foreign aid funds such as ODA must be focused on productive sectors such as education, health, and basic infrastructure development.
5. The need for a competitive exchange rate stability policy is included in the optimal management of foreign exchange reserves to reduce volatility.