

Economic Openness: A Key Success or a Threat to Economic Growth in Indonesia for the Period 1988-2022? And How Does It Relate to the Development of Agribusiness?

Keterbukaan Ekonomi: Kunci Keberhasilan atau Ancaman Pertumbuhan Ekonomi Indonesia Periode 1988-2022? Dan Bagaimana Kaitannya dengan Perkembangan Agribisnis?

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ABSTRACT

Economic openness is an important pillar in the current era of globalization in encouraging a country's economic growth. This study aims to analyze how much influence economic openness has on economic growth with control variables in the form of foreign investment (FDI) and Inflation in Indonesia for the period 1988-2022. This research method uses multiple linear regression analysis with Eviews 10 analysis tool. The results showed that economic openness and foreign investment have a positive and significant effect on economic growth, while inflation has a negative and significant effect on economic growth in Indonesia. The results of this study are expected to provide an in-depth understanding of the effect of economic openness on economic growth and relevant data for policy makers to make better, strategic and more effective decisions in supporting sustainable and inclusive economic growth in the country of Indonesia. Indonesian government has undertaken a series of proactive measures, including expanding market access, imparting advanced agricultural techniques to farmers, and investing in agricultural infrastructure. These initiatives have become instrumental in driving the economic development of agriculture and the expansion of agribusiness.

Keywords: agribusiness development, economic growth, foreign direct investment, inflation, trade openness

ABSTRAK

Keterbukaan ekonomi menjadi pilar penting di era globalisasi saat ini dalam mendorong pertumbuhan perekonomian suatu negara. Penelitian ini bertujuan untuk menganalisis seberapa besar pengaruh keterbukaan ekonomi terhadap pertumbuhan ekonomi dengan variabel kontrol berupa Penanaman Modal Asing (FDI) dan Inflasi di Indonesia periode 1988-2022. Metode penelitian ini menggunakan analisis regresi linier berganda dengan alat analisis Eviews 10. Hasil penelitian menunjukkan bahwa keterbukaan ekonomi dan penanaman modal asing berpengaruh positif dan signifikan terhadap pertumbuhan ekonomi, sedangkan inflasi berpengaruh negatif dan signifikan terhadap pertumbuhan ekonomi di Indonesia. Hasil penelitian ini diharapkan dapat memberikan pemahaman mendalam mengenai pengaruh keterbukaan ekonomi terhadap pertumbuhan ekonomi dan data yang relevan bagi pengambil kebijakan untuk mengambil keputusan yang lebih baik, strategis dan efektif dalam mendukung pertumbuhan ekonomi yang berkelanjutan dan inklusif di negara Indonesia. Pemerintah Indonesia telah melakukan serangkaian langkah proaktif, termasuk memperluas akses pasar, memberikan teknik pertanian canggih kepada petani, dan berinvestasi pada infrastruktur pertanian. Inisiatif-inisiatif ini berperan penting dalam mendorong pembangunan ekonomi pertanian dan perluasan agribisnis.

Kata kunci: pengembangan agribisnis, pertumbuhan ekonomi, penanaman modal asing, inflasi, keterbukaan perdagangan

INTRODUCTION

An open economy, comprising international trade, capital flows, and foreign investment, has become a crucial issue in the economic development of developing countries. Economic openness presents opportunities for a country to export goods that utilize its abundant resources (comparative

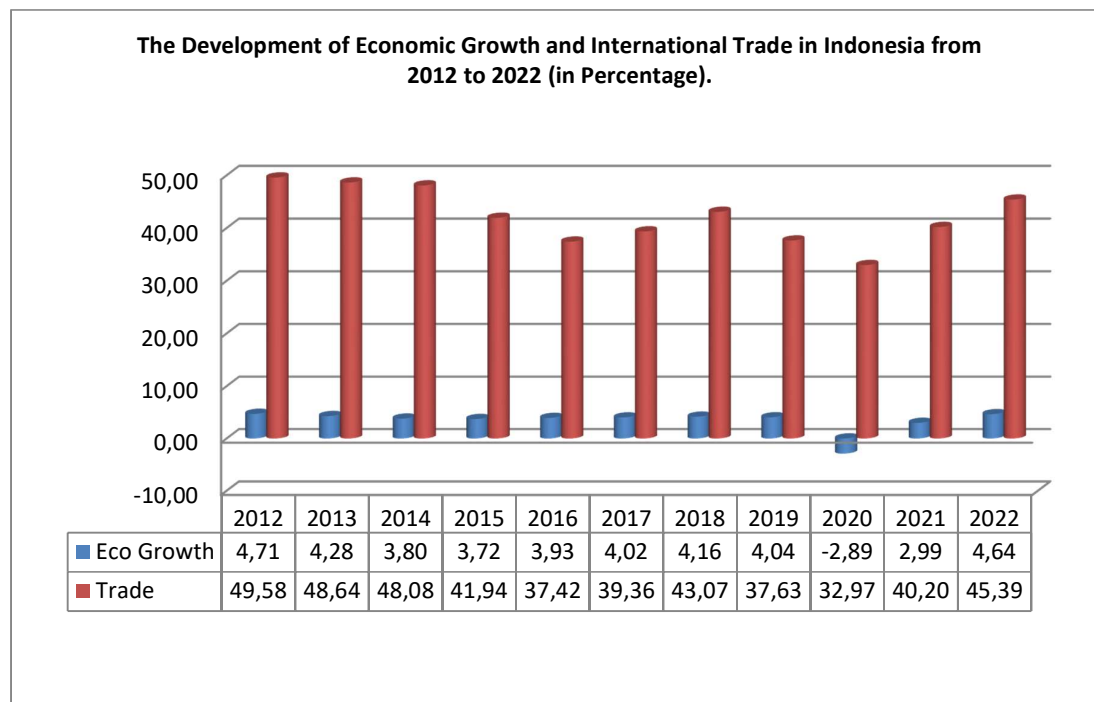
advantage) and import products from other nations where resources are scarce or costly to produce domestically. Consequently, economic openness is believed to accelerate economic growth.

According to the basic theory of international trade, nations that open their economies and participate in global markets will gain advantages, such as broader market access, increased economic efficiency and competitiveness, and improved employment opportunities (Nopirin 2013).

The relationship between trade openness and economic growth is theoretically controversial, and some argue that economic openness may not always be beneficial. Advocates of the idea that economic openness can drive economic growth argue that increased international trade can facilitate the diffusion of knowledge and technology, enhance the benefits of foreign direct investment, and promote economies of scale and specialization. However, endogenous growth models suggest that the contribution of trade to economic growth varies depending on the resources of the economy and its level of development (Zahonogo 2017).

Empirical analyses of the impact of economic openness on economic growth have been conducted extensively, but the results remain debated. Some studies conclude that the relationship between economic openness and economic growth is positive, as seen in research by (Chang and Mendy 2012),(Caleb 2014) and (Phimphanthavong 2014). However, other studies have found negative associations, such as those conducted by (Lahouij 2016), (Anyanwu 2014), (Mahwish Zafar, UllahSabri, and Khan 2016), and (Sakyi and Adams 2012).

Indonesia, as a developing country with a large population and abundant natural resources, has experienced significant economic growth in recent decades. The Indonesian government has actively opened markets, attracted foreign investment, and implemented trade policies to support global economic integration for the purpose of fostering high economic growth in Indonesia. However, high economic openness has not yielded a substantial impact on the rate of economic growth in Indonesia, as reflected in the data below:



Source: World Bank, 2023

Picture 1. The development of Economic Growth and International Trade in Indonesia from 2012 to 2022 (in Percentage)

Based on the data above, it can be concluded that the magnitude of international trade does not have a significant impact on Indonesia's economic growth. Upon closer examination, even though the international trade figure was 45.39 percent in 2022, Indonesia achieved only 4.64 percent

economic growth. However, it's essential to acknowledge that economic growth is influenced by multiple factors, not solely reliant on international trade.

As outlined in the previous discussion and considering the ongoing debate among experts regarding the impact of economic openness on economic growth, the empirical data also demonstrates that high economic openness does not guarantee correspondingly high economic growth in Indonesia. Therefore, this article aims to investigate the extent of the influence of economic openness on economic growth in Indonesia over the last three decades. The results of this research are expected to provide a deeper understanding and relevant data for policymakers to make more informed, strategic, and effective decisions in supporting sustainable and inclusive economic growth in Indonesia.

RESEARCH METHOD

This research employs a quantitative approach. The data utilized in this study consists of economic growth data (GDP growth annual %), economic openness data (Trade % of GDP), Foreign Direct Investment (Foreign direct investment, net inflows % of GDP), and Inflation (Inflation, consumer prices annual %) for Indonesia from 1988 to 2022, sourced from the World Bank. The analytical method employed is multiple linear regression. Multiple linear regression analysis is conducted to determine the direction and magnitude of the influence of independent variables on the dependent variable (Ghozali, 2018). The analytical tools used include Microsoft Excel 2013 and Eviews 10 software. The equation in this research model can be expressed as follows:

$$(G)_{it} = \beta_0 + \beta_1(TO)_{it} + \beta_2(FDI)_{it} + \beta_3(INF)_{it} + \beta_4it + e_{it}$$

Where:

- G = Economic Growth Rate
- TO = Trade Openness
- FDI = Foreign Direct Investment
- INF = Inflation Rate
- e_{it} = Error Term
- β₀ = Intercept
- β₁...β₄ = Coefficients of Independent Variables

RESULTS AND DISCUSSIONS

The data analysis used in this research is multiple linear regression, which aims to analyze the extent of the impact of economic openness on economic growth, along with control variables such as foreign investment and inflation in Indonesia during the period 1988-2022. Based on the regression data estimation results in the table below, the equation obtained is as follows:

$$(G)_{it} = -1.463219 + 0.146055 (TO)_{it} + 0.671183 (FDI)_{it} - 0.424096 (INF)_{it} + e_{it}$$

Table 1. Results of Multiple Linear Regression Estimation

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1.463219	2.582961	-0.566489	0.5751
FDI	0.671183	0.296637	2.262644	0.0308
INF	-0.424096	0.056617	-7.490568	0.0000
TO	0.146055	0.051513	2.835306	0.0080
R-squared	0.748567			
F-statistic	30.76448			
Prob(F-statistic)	0.000000			

Source: Data Processing using Eviews 10

Based on the results of the multiple linear regression estimation above, it can be concluded that the coefficient of determination in this model is 0.748567, which means that 75% of the economic growth rate in Indonesia can be explained by the variables of economic openness, foreign investment, and inflation. The remaining 25% is explained by other variables not included in this study.

The F-statistic test shows whether all the independent variables in the research results have a simultaneous effect on the dependent variable. The estimation results indicate that the Prob (F-Statistic) value is 0.0000. This value is less than 0.05, so it is decided to reject H₀ and accept H₁, meaning that the variables Trade Openness (TO), Foreign Investment (FDI), and Inflation (INF) have a simultaneous influence on economic growth (G) in Indonesia.

The results of the hypothesis test (t-test) for the economic openness variable (TO) show that economic openness has a positive and significant impact on economic growth with a coefficient of 0.146055. This means that if economic openness increases by 1 percent, economic growth will also increase by 0.15 percent, and vice versa. Meanwhile, other independent variables like foreign investment (FDI) have a positive and significant impact on economic growth, with a coefficient of 0.671183. This means that if FDI increases by 1 percent, it will increase economic growth by 0.67 percent, and vice versa. For the inflation variable, it has a negative and significant impact on economic growth with a coefficient of -0.424096. This means that if inflation increases by 1 percent, it will decrease economic growth by 0.42 percent, and vice versa, if inflation decreases by 1 percent, it will increase economic growth by 0.42 percent.

Based on the hypothesis testing and regression equation generated, it can be concluded that the influence of economic openness (TO) on economic growth is positive and significant. This result aligns with neoclassical theory, which suggests that economic openness contributes to the efficient allocation of resources, thereby aiding economic development (Helpman and Krugman 1987). Furthermore, new growth theory posits that economic openness can drive economic development by accelerating technological progress and enhancing productivity (Romer 1986).

This conclusion is consistent with the findings of a study by (Sultanuzzaman et al. 2019), which examined the impact of exports and technology on economic performance in developing economies in Asia from 2000 to 2016 using an alternative dynamic panel model. They found that exports and technology have a positive and significant influence on economic growth in Asian countries.

These findings are also supported by research conducted by Wen et al. (2023), who examined data from a panel sample of 30 provinces in China from 2004 to 2018. They applied static and dynamic regression models to test the relationship between economic openness and regional economic growth. The main conclusion of their research is that expanding economic openness can optimize regional economic development in China. Additionally, scientific and technological innovation is a vital channel through which economic openness can drive regional economic growth.

These results are reinforced by the research of (Wacziarg and Welch 2008), who stated that trade liberalization leads to an increase in foreign direct investment (FDI) and economic growth, especially after controlling for other growth-determining variables.

Furthermore, a study by (Miankhel, Thangavelu, and Kalirajan 2009) explored the link between FDI, exports, and economic growth in six developing countries with varying growth stages: India and Pakistan in South Asia, Malaysia and Thailand in Southeast Asia, and Mexico and Chile in Latin America. Their research supported the hypothesis that exports drive economic growth (export-led growth), especially in South Asia. In the long term, economic growth stimulates the development of other variables, leading to increased exports in Pakistan and increased FDI in India. Different relationships were observed in Latin America in the short term, where FDI influences growth through exports (FDI → Exports → GDP) in Chile, and FDI directly affects growth (FDI → GDP) in Mexico. Exports influence growth and FDI in both of these countries in the long term. Meanwhile, in the case of Southeast Asia, a two-way causal relationship was found between GDP and FDI in Thailand, whereas in Malaysia, there was no direct cause-and-effect relationship between the two.

Regarding control variables, based on the regression results, it is known that FDI has a positive and significant impact on economic growth in Indonesia. This finding is in line with economic growth theories where investment is a crucial input in supporting economic growth. This research aligns

with the findings of (Tuan, Ng, and Zhao 2009), who studied the impact of FDI on regional economic development using data from city panels in the Pearl River Delta and Yangtze River Delta, two regions that have globalized since China's reform and openness. Their research indicates that FDI not only directly affects output growth and productivity advancement but also indirectly boosts economic growth by enhancing productivity.

The variable of inflation has a negative and significant impact on economic growth in Indonesia. This finding aligns with the research conducted by (Faraji and Kenani 2013), (Mohseni and Jouzaryan 2016) and (Hartini 2023), all of which suggest that high inflation can reduce a country's economic growth. High and fluctuating inflation can make it challenging for people to make decisions regarding consumption, investment, and production, thereby slowing economic growth.

The economic development of agriculture in Indonesia plays a vital role in enhancing overall economic growth. Agriculture is traditionally the backbone of Indonesia's economy and remains a source of income for a significant portion of the rural population. In recent years, particularly during the period from 1988 to 2022, there has been a significant shift in the focus of agricultural economic development. This aligns with the government's efforts to promote agribusiness as a strategy to increase productivity and value-added in the agricultural sector (Karliani et al. 2023; Khairiyakh, Irham, and Mulyo 2016).

Agribusiness is an approach that integrates the entire agricultural value chain, including production, processing, distribution, and marketing of agricultural products (Zulham et al. 2022). Agricultural economic development with a focus on agribusiness opens up opportunities for farmers and stakeholders in the agricultural sector to produce agricultural products with higher added value (Aulia 2021). This can create job opportunities, increase farmers' income, and reduce economic inequality in rural areas (Devaux et al. 2018; Saragi et al. 2022).

The Indonesian government has promoted this transformation through various programs and policies, such as expanding market access, training farmers in more efficient agricultural techniques, and investing in agricultural infrastructure. Therefore, the economic development of agriculture and the growth of agribusiness in Indonesia are essential in supporting overall economic growth and providing benefits to rural communities. Additionally, these efforts also have the potential to boost the export of Indonesian agricultural products, which can make a significant contribution to the country's economic growth (Rahman 2022).

CONCLUSION

In conclusion, the analysis presented above underscores the significant role of economic openness and foreign direct investment (FDI) in fostering economic growth in Indonesia. Conversely, a rise in inflation poses a weakening effect on the economy. To navigate these dynamics, it is imperative for the government to formulate strategic policies that optimize economic openness and foreign investment while upholding macroeconomic stability to mitigate the hindrance of inflation to economic development in Indonesia. Furthermore, the Indonesian government has undertaken a series of proactive measures, including expanding market access, imparting advanced agricultural techniques to farmers, and investing in agricultural infrastructure. These initiatives have become instrumental in driving the economic development of agriculture and the expansion of agribusiness, ultimately supporting holistic economic growth and imparting tangible benefits to rural communities. Importantly, these efforts hold the potential to bolster the export of Indonesian agricultural products, thereby making a substantial contribution to the nation's economic advancement.

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