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Export, Political Stability, and Growth in Developing-8 Countries

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ABSTRACT

The relationship between growth in export and economic growth is still a current issue in both the theoretical and empirical literature. Besides, there are also non-economic factors that determine economic growth in a country, namely political stability. This study aims to examine the impact of export and political stability on economic growth in D8 member countries. The research on the development of the D8 country's economy is still minimal, so this research expected to be able to contribute to drafting policies for D8 member countries. By using panel regression, this research finds that there is no impact between export on economic growth. However, political stability had an impact on economic growth in developing-8 countries. This result implies that the government should increase political stability to accelerate growth.

Keywords: export; political stability; economic growth

JEL Classification: F13, F14, F43

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1. Introduction

Various aspects, one of which is influenced by export activities, determine economic growth (Sheehey, 1990; Shafiullah et al., 2017; Tang & Abosedra, 2019). The economy can benefit from an increase in export to depend on the supply and demand elasticity of export goods (Kilavuz & Topcu, 2012). Szkorupova (2014) shows that there is a positive impact of export on gross domestic products. More export-oriented countries will enjoy relatively more economic growth (Bahmani-Oskooee & Oyolola, 2007).

Besides export, political stability also other factors can be deterrent to economic growth. Political stability plays an essential role in the economic development of a country. Political instability may present a severe threat to economic performance, which hurts economic growth (Jaouadi et al., 2014; Kaplan & Akçoraoglu, 2017; Murad & Alshyab, 2019). Uddin et al. (2017) show that political instability is higher in the OIC countries and affects economic growth, especially for the lower and middle-income OIC countries due to the absence of strong economic and political institutions.

This research will examine whether exports and political stability will impact economic growth in D-8 member countries. The D-8 Organization for Economic Cooperation (or also known as Developing-8) is an organization among eight countries such as Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey. D-8 organization contains eight developing countries that are also members of The Organization of Islamic Cooperation (OIC). This organization initially intended to improve its member countries' economic performance to compete with the global economy. Based on the D-8 official website mentioned that this organization has an objective to improve member states' position in the global economy, diversify, and find new opportunities in trade relations, encourage participation in decision-making at the international level, and increase standards of living[1].

This organization founded on June 15, 1997, but its development has not been able to improve its member countries' economic performance to compete globally. From the first Summit Declaration (Istanbul, 1997), the primary objective of D-8 declare to be socio-economic development following principles, such as: (a) Peace instead of conflict; (b) Dialogue instead of confrontation; (c) Cooperation instead of exploitation; (d) Justice instead of double-standard; (e) Equality instead of discrimination; (f) Democracy instead of oppression.

The association of D-8 chooses the object of research because there were still limited studies related to the impact of joining D8 on member countries' economies. These countries initially formed D-8 to be able to pursue its development with other countries within the OIC. However, based on data after two decades have passed there does not appear to be a significant development process in D8 member countries

SESRIC (2016) reports a decline in the share of the D-8 countries in the total GDP of the developing countries. This data indicates that the D-8 economies have performed worse than non-D-8 developing countries. A few member countries still produce the total GDP of the D-8 countries. In 2015, the top three D-8 countries (Indonesia, Turkey, and Iran) produced 57% of the total D-8 countries. However, in terms of GDP per capita, Malaysia is the highest GDP per capita, followed by Turkey and Iran.

SESRIC (2016) also reports that the average growth rate of the real GDP per capita in D-8 countries has been positive from 2011 to 2015. The services sector plays a significant role in the economies of D-8 countries as the most important source of income. The average share of the service sector is 52.4%. In contrast, there is a decline in the average labor force participation rate in D-8 countries. There is a slight downward trend, which stood at 57.8% in 2015, lower than the world average (62.9%). The D-8 countries also recorded have higher average unemployment rates compared to the world and non-OIC developing countries.

The indicators show that most of the D-8 countries are still unable to set up favorable economic frameworks and provide foreign business with adequate regulatory and physical infrastructure. This

[1] Official website of D8. http://developing8.org/about-d-8/purposes-objectives/

condition requires countries to create a conducive environment to attract more investment. Reforms are needed to improve the business climate and to introduce investment incentives tailored to the needs of both domestic and foreign investors to achieve those objectiveive... The financial reform in some developing countries play an important role to improve the economic conditions

SESRIC (2016) concludes that the D-8 countries need to intensify the effort and policy to improve competitiveness through reforms and policy-action in different domains of socio-economic life from regulatory framework to basic infrastructure. These reform and policy actions will improve competitiveness and boost productivity growth. So, it will increase the standards of living. Asturias et al. (2016) suggest that developing countries should adopt policy reforms. The government should design a multi-level approach to understanding financial reform (Bakir & Woo, 2016).

The study that discusses economic development in country D8 is still minimal. Thus, research on the economic performance of country D-8 will make a significant contribution to the formulation of policies to revitalize the role of this organization. This research will contribute significantly to the enrichment of the literature on the benefits of joining this organization on the country's economy. Thus, this study aims is to examine the impact of export and political stability on economic growth in developing-8 countries.

2. Literature Review

2.1. Export and Economic Growth

The contribution of trade, especially exports in the flourishing economic growth of a country, has long been recognized and extensively examined by various studies. Bahmani-Oskooee & Oyolola (2007) find both directions between export growth and economic growth. The same result also shows by Dritsaki & Stiakakis (2014) that confirm a bidirectional long-run and short-run causal relationship between export and growth.

Tang & Abosedra (2019) state that there are several reasons why exports can accelerate economic growth. First, increasing exports will create employment opportunities for the community. Second, export growth will increase foreign exchange reserves; this will further strengthen the domestic currency. Third, economic efficiency will occur through competition between exporting countries. Fourth, an increase in exports can provide a pathway to access new technology, so that they will be able to increase productivity.

Furthermore, Hatemi-J & Irandoust (2000) state that export growth positively affects economic growth through several channels. First, the export growth will facilitate the exploitation of economies of scale for small open economies. Second, relieving the binding foreign exchange constraints to allow increases in imports of capital goods and intermediate goods. Third, export growth enhances efficiency through competition. Fourth, the export will promote the diffusion of technical knowledge.

H_1 = export will have a positive effect of economic growth in D-8 member countries

2.2. Political Stability and Economic Growth

The other factor that can have an impact on the economic condition is political stability. Tabassam et al. (2016) state that an unstable political system could seriously hamper economic growth. Political instability can affect the economy because it can increase uncertainty about future economic situations and policies (Gurgul & Lach, 2013; Murad & Alshyab, 2019). Generally, political instability is the result of a combination of social, political, cultural, and economic factors. Political instability can affect the capability and credibility of the state (Murad & Alshyab, 2019). Political instability will cause a shorten policymakers' horizons leading to sub-optimal macroeconomic policies. This condition will lead to a more frequent policy switching, create volatility, and thus, adversely affecting macroeconomic performance (Aisen & Veiga, 2013). Alesina et al. (1996), by defining political instability as the propensity of government collapse, they show that in countries with a high propensity of government collapse, the growth is lower than otherwise.

Jong-A-Pin (2009) finds that there are four dimensions of political instability, such as politically motivated violence, mass civil protest, instability within the political regime, and instability of the political regime. Radu (2015b) shows that at least two directions in which political instability negatively affects the growth. First, the condition will disturb market activities and labor relations, with an adverse effect on productivity. Second, the unstable political condition will lower the level of investment. The political environment of a democratic country can impact national economic performance in many ways (Osterloh, 2012).

Robinson (1998) states that bad government policy as a causal factor behind the stagnation in the economy. There is strong evidence that political instability impedes financial development (Roe & Siegel, 2011). As we know, one of the policies that have a positive impact on economic growth in financial liberalization (Owusu & Odhiambo, 2014). Financial innovation positively affects economic growth through capital formation (Bernier & Plouffe, 2019). Aksoy (2018) states that improving property rights and contract enforcement can mitigate the adverse effects of reforms in the short-run.

H_2 = political stability will have a positive effect of economic growth in D-8 member countries

3. Methods

This study uses regression analysis to panel data. The data used are yearly data from 2004 to 2018, by including eight members of Developing-8. The members are Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria, Pakistan, and Turkey. The data source for growth, export, human development index, population, and inflation is using World Bank data. The proxy for political stability is using political risk components that publish by international country risk guide (ICRG) data.

The political risk has twelve components, such as government stability, socio-economic conditions, investment profile, internal conflict, external conflict, corruption, military in politics, religion in politics, law and order, ethnic tensions, democratic accountability, and bureaucracy quality. In general, if the overall value is less than 50%, it can be categorized as a very high risk. If the range of values is between 50-60%, then it is categorized as high risk, the range is 60-70% as moderate risk, in the 70-80% range as a low risk, and in the 80-100% range as very low risk.

To examine the impact of export and political stability to growth is using panel regression. The mathematical equation proposed in this research is:

$$Growth_{it} = \alpha + \beta_1 Ln\_Exp_{it} + \beta_2 PolStab_{it} + \beta_n Z_{it} + \varepsilon_{it}$$

Where:

$$Z = \beta_3 HDI_{it} + \beta_4 Pop_{it} + \beta_5 Inf_{it}$$

So, the model became:

$$Growth_{it} = \alpha + \beta_1 Ln\_Exp_{it} + \beta_2 PolStab_{it} + \beta_3 HDI_{it} + \beta_4 Pop_{it} + \beta_5 Inf_{it} + \varepsilon_{it}$$

where:

$Growth_{it}$ = economic growth of D-8 members;

Ln_Exp_{it} = amount of export from D-8 members;

$PolStab_{it}$ = political stability index from D-8 members;

HDI_{it} = human development index from D-8 members;

Pop_{it} = population from D-8 members;

Inf_{it} = inflation rate -based on consumer price index- from D-8 members;

To estimate the parameter of the model using panel data regression. Several techniques can be used, such as First, ordinary least square. Second, the fixed-effect model. Third, the random effect model. This research is using panel regression with a fixed-effect model because we assume that the intercept is not constant.

The technique of analysis to estimate the parameter of this research is by using a panel data regression. Several models can use, such as First, the pooled regression model. This model is one type of model that has constant coefficients, referring to both intercepts and slopes. For this model researchers can pool all of the data and run an ordinary least squares regression model. The second model is fixed effect model. The fixed effect model is the differences across cross-sectional units that can be captured in differences in the constant term and the intercept term of the regression model varies across the cross sectional units. In this model, α_j is the intercept term that represents the fixed country effect. The third model is random effect model. In the random effect model, the individual effects are randomly distributed across the cross-sectional units and in order to capture the individual effects, the regression model is specified with an intercept term representing an overall constant term. On this research is using panel regression with fixed effect model, because we assume that the intercept is not constant (Hiestand, 2005).

There are several steps in this research, such as: first, run the estimation using the fixed-effect model. Second, do the Chow-test to choose between pooled ordinary least square or fixed-effect models. Third, do the Hausman-test to select between fixed effect model and random effect model.

4. Result and Discussion

Table 1 shows the development of economic growth in D-8 member countries from 2004 to 2018. On average, in the last fifteen years, the highest economic growth achieved by Bangladesh was 6.4 percent, while the lowest average economic growth in the last fifteen years is Iran at 2.56 percent. However, in general, the economic growth of D-8 member countries shows fluctuations from year to year. The financial crisis in 2009 also affected the economic performance of several member countries such as Malaysia and Turkey, that experienced negative economic growth. Economic growth in Iran is quite interesting to observe because fluctuations between years are often quite drastic. For example, in 2015, Iran experienced negative economic growth (-1.32%), but in 2016 it experienced a relatively high positive economic growth (13.4%). Nigeria's economic growth in the last five years is quite alarming because it shows a drastic decline even in 2016 that has negative economic growth (-1.62%).

Table 2 shows the empirical results of this study. Nevertheless, before we discuss the empirical results, several steps were carried out. The first step is testing which model is better between the ordinary least square (OLS) model and the fixed effect model using the Chow test. The Chow test results show that the effect model remains better than the OLS model. Then in the next step is to test between fixed effects models and random effects models using the Hausman test. The Hausman test results show that the random-effects model is better to use in this study.

Table 2 shows all the models tested in this study. In general, the three models show the same results, namely, the variables that influence economic growth are political stability, human quality (measured by the human development index), and population. As for the export variables and inflation rates, the results showed no significant effect on economic growth. Then, the coefficient of determination shows the number of 0.5077 in the random-effects model. This result shows that the model in this study can explain economic growth of 50.77 percent, while other variables outside the model explain the rest. Furthermore, the F-test value shows significant results, and this result means that all independent variables simultaneously affect the economic growth variable.

Table 2 shows that export volume has no impact on economic growth in D8 member countries. Nushiwat (2008) states that the early experiences of the economic growth of the industrialized countries were not export-led growth. This result is consistent with Edo et al (2020) that also found the insignificant impact of export on economic growth in the short-run.

These empirical results contradict some previous studies that have discussed the link between exports and economic growth. Dritsaki (2013) shows a unidirectional Granger causality that runs from exports to economic growth. Marwan et al. (2013) also support the export led-growth in the case of Sudan. The export-led growth hypothesis also proves in Sub-Saharan African countries (Yee Ee, 2016). Bahramian & Saliminezhad (2020) find evidence of positive causation from economic growth to export at low and high quantile ranges of export growth.

Table 1. The Growth of D-8 Countries

	Bangladesh	Egypt	Indonesia	Iran	Malaysia	Nigeria	Pakistan	Turkey
2004	5.24	4.09	5.03	4.37	6.78	9.25	7.37	9.64
2005	6.54	4.47	5.69	3.19	5.33	6.44	7.67	9.01
2006	6.67	6.84	5.50	5.00	5.58	6.06	6.18	7.11
2007	7.06	7.09	6.35	8.16	6.30	6.59	4.83	5.03
2008	6.01	7.16	6.01	0.25	4.83	6.76	1.70	0.85
2009	5.05	4.67	4.63	1.01	-1.51	8.04	2.83	-4.70
2010	5.57	5.15	6.22	5.80	7.42	8.01	1.61	8.49
2011	6.46	1.76	6.17	2.65	5.29	5.31	2.75	11.11
2012	6.52	2.23	6.03	-7.44	5.47	4.23	3.51	4.79
2013	6.01	2.19	5.56	-0.19	4.69	6.67	4.40	8.49
2014	6.06	2.92	5.01	4.60	6.01	6.31	4.67	5.17
2015	6.55	4.37	4.88	-1.32	5.09	2.65	4.73	6.09
2016	7.11	4.35	5.03	13.40	4.45	-1.62	5.53	3.18
2017	7.28	4.18	5.07	3.76	5.74	0.81	5.55	7.47
2018	7.86	5.31	5.17	-4.85	4.74	1.94	5.83	2.83
Avg.	6.40	4.45	5.49	2.56	5.08	5.16	4.61	5.64

Source: www.worldbank.org

Table 2. The Empirical Result of The Model

Variable	Model 1: PLS	Model 2: FEM	Model 3: REM*
C	12.44505***	26.13588***	0.954284***
	(2.930925)	(14.5272)	(5.206940)
LN_EXPORT	0.000192	4.14E-05	4.62E-05
	(0.000227)	(0.000140)	(0.000139)
POLSTAB	0.030757***	0.048481***	0.044422***
	(0.011713)	(0.010197)	(0.009608)
HDI	7.098906***	5.189701**	8.385611***
	(0.753092)	(2.259340)	(0.938916)
LN_POPULATION	0.609902***	2.684547***	1.207190***
	(0.130741)	(0.850849)	(0.268479)
INFLATION	-0.017749	-0.009078	-0.009315
	(0.010970)	(0.007900)	(0.007810)
R-squared	0.47714	0.814952	0.528456
Adj R-squared	0.454180	0.794198	0.507774
F-stat	20.80411	39.26891	25.55176

Note: ***(1%), **(5%), *(10%)

The result of this research also different from Ostadi & Shoaei (2015); they show that the variables (such as total GDP of parties involved in trade, the difference in per capita income, and geographical distance) have an impact on the trade potential of the G8 and D8 countries. However, the variable of similarity in economic size does not have an impact on their trade potential. Those countries that have lesser economic power could gather together as a framework of economic zones and create a larger union. The union needs a leader from advanced countries to become successful.

Jafari et al. (2011) show that the export flows among the D8 members determined positively by the trading partners' GDP, exporter population, and its currency depreciation, and the common border effect. However, the export flows among the members negatively affected by transportation costs and importers currency appreciation. Besides that, the result also found that there is a strong effect of economic growth on the exports in the D8 region; the members should take policies that can promote economic growth. Othman et al. (2013) show that not all member countries will experience a welfare gain under free trade agreement. Likewise, the impact on economic sectors after the trade agreement differs substantially across countries. Almasi (2012) shows that the growth of member countries' trade transactions with the outside countries has been higher than the growth with the member countries. The foreign trade economy can strengthen through trade liberalization (Sepehrdoust et al., 2019)

This result implies that every country should make greater export opportunities among the members. They should make an investment not only in the export sectors but also in other sectors related to export (Dritsaki & Stiakakis, 2014). Nushiwat (2008) states the domestic supply factors must sufficiently develop to respond to the demand for exports. The members of D-8 countries should do cooperate not only for goods export but also for the service exports. Sermcheep (2019) shows that in the period of the slow growth of goods export, the service exports have become increasingly significant as a new engine of growth in ASEAN countries. Besides that, the members should enhance productivity. There are several factors identified as essential in order to enhance productivity. The factors are including the quality of the institution, infrastructure development, economic stability, and market efficiency. If the institution works properly with proper infrastructure, markets will work more efficiently, and the economy will become more stable and competitive (SESRIC, 2016).

Table 2 shows that political stability will have a positive effect on economic growth among D8 member countries. This result means that the more conducive the political situation in a country, the better the economic condition (Abu et al., 2015). Political democracy tends to have a positive impact on economic growth (Radu, 2015a). One factor that causes instability is inter-state conflict; the high intensity of the conflict will reduce annual growth (Polachek & Sevastianova, 2012). Chen & Feng (1996) find that regime instability, political polarization, and government repression harm economic growth. Political instability negatively affects growth by lowering the rates of productivity growth and, to a smaller degree, physical and human capital accumulation (Aisen & Veiga, 2013).

Radu (2015b) suggests that a stable political environment helps in building a coherent and continuous path for sustainable development. The institutional quality will spur economic growth in D-8 countries (Mahjabeen et al, 2020). Uddin et al. (2017) recommended that the development of political and economic institutions must, along with human capital development. The several indicators that have the highest impact on economic growth are corruption and the rule of law, while the regulatory quality has the lowest impact (Elbargathi & Al-Assaf, 2019). The government must have durable economic policies that may engender higher economic growth (Aisen & Veiga, 2013). The institutional reforms can give a significant impact on the economic growth (Nedić et al., 2020).

5. Conclusion

This study aims to examine the effect of exports and political stability on economic growth by adding several other variables as control variables. The results showed that the volume of exports in D-8 countries has not been able to contribute significantly to economic growth. Meanwhile, political stability shows a positive influence on economic growth. Furthermore, for the control variable, the variables of human quality and population affect economic growth, while the inflation variable does not affect.

This result has several practical implications. First, trade between D-8 member countries must increase so that the benefits of joining D-8 members can felt in improving economic performance. Second, exports in D-8 member countries must be in the form of exports of goods that have high added value, and not only exports in the form of raw materials. Third, Each country must produce goods that have a competitive advantage. Fourth, political stability in a country must always be maintained so as not to have an impact on the decline in the country's economic performance.

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