



POLICY REFORM AND IT'S IMPACT ON ECONOMIC GROWTH EVIDENCE IN DEVELOPING-8 COUNTRIES

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CV. PENERBIT QIARA MEDIA

170 pages: 15.5 x 23 cm

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ISBN: 978-623-7925-81-1

Publisher IKAPI No. 237/JTI/2019

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Qiara Media

First Printing, 2020

Publisher:

CV. Penerbit Qiara Media - Pasuruan, Jawa Timur

Email: qiaramediapartner@gmail.com

Web: qiaramedia.wordpress.com

Blog: qiaramediapartner.blogspot.com

Instagram: [qiara_media](https://www.instagram.com/qiara_media)

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Print By CV. Penerbit Qiara Media
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PREFACE

Bismillahirrahmanirrahimci

Alhamdulillah, all our thanks go to Allah SWT for giving His blessings and blessings so that the book "Policy Reform and It's Impact on Economic Growth: Evidence in Developing-8 Countries" can be finished.

The D-8 organization is an organization formed by eight developing countries that are members of the OIC to accelerate the member economies. In its development, the D-8 organization has not been able to have a significant impact on the economies of its member countries, especially in increasing trade cooperation between members. The study of the D-8 organization is still limited; therefore this study will analyze economic growth in the D-8 member countries by linking to the policy reforms undertaken.

There are three goals to be achieved in this book. First, this book will describe the economic development of each member country. Second, this book will explain how the impact of political stability and exports affects economic growth in D-8 member countries. Third, this book will explain whether joining the D-8 organization will have an impact on the economic growth of its member countries.

This book explains that political stability is very influential in economic growth in D-8 member countries. This shows that it is important for every government regime in each country to maintain political stability. However, this study shows that exports have no effect on economic growth in D-8 member countries. This shows that each country must be able to increase its competitive advantage in each product, and must further increase trade among member countries. On the other hand, this book also shows that joining the D-8 organization makes a positive difference for its member countries. This shows that the D-8 organization has a positive impact on the countries that are its members.

The work of this book will not be completed without the help of all parties; therefore we would like to thank all those who have helped to

make this book possible. This book is dedicated to the entire academic community at UIN Syarif Hidayatullah.

Jakarta, August 25, 2020

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CHAPTER 1

INTRODUCTION

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INTRODUCTION

A. Background

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 living¹.

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

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

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 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.

B. Problem Statement

Based on the explanation above, it appears that the economy among D-8 member countries since 1997 has not shown a significant

contribution. This can be seen from several economic indicators. One of the things that caused the economic change is not yet significant is the policy reforms that should have been carried out by D-8 member countries. Therefore, the formulation of the problem in this study is *"How big is the impact of policy reforms carried out by D-8 member countries on economic growth"*

C. Research Objectives

The purposes of this research are:

1. To describe the economic development in Developing-8 countries members.
2. To analyze the impact of policy reform on economic growth in Developing-8 countries members.
3. To analyze does joining the D-8 countries give an impact on the economic growth for its members.

D. Previous Studies

The study that discusses economic development in country D8 is still very limited. From the first Summit Declaration (Istanbul, 1997), the primary objective of D-8 is declared to be socio-economic development in accordance with 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.

Othman et al. (2013) examines the trade impact of possible trade liberalization among the D-8 countries. The result shows that the 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.

Ostadi & Shoaie (2015) shows that the variables (such as total GDP of parties involved in trade, difference in per capita income, and geographical distance) have an impact on the trade potential of the G8 and D8 countries. But, 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) shows 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. But, 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 the economic growth.

SESRIC (2016) concludes that the D-8 countries need to

intensify the effort and policy to improve the 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 the competitiveness and boost the productivity growth. So, it will increase the standards of living. Asturias et al. (2016) suggest that the developing countries should adopt policy reforms. The government should design a multi-level approach to understanding financial reform (Bakir & Woo, 2016).



CHAPTER 2 ECONOMIC GROWTH THEORY

CHAPTER 2

ECONOMIC GROWTH THEORY

A. Understanding of Growth

Economic growth theory is usually applied for explaining the steady-state or long-run growth measured by the percentage increase in national income or some measure of the standard of living such as HDI (*human development index*) (Sengupta, 2011). According to Supriyanto (2016) economic growth is one illustration of the state or economic activity in a country. Than Paulo Brito (2011) concludes, that theories of growth boil down to which variables explain the growth in GDP and to their dynamic behavior and which parameters are relevant. Then, economic growth is the most powerful instrument for reducing poverty and improving the quality of life in developing countries (Brown, 2007). Than, Acemoglu (2009) clarifies that economic growth sometimes increases pollution or may raise individual aspirations so that the same bundle of consumption may no longer satisfy an individual and on the other side, economic growth shows striking differences in the quality of life, standards of living, and health. On the other side Piętak (2015) explain that the level and rate of growth does not always reflect the real level of a population's living standards, it remains the primary measure of prosperity. Then he continued economic growth as a measure describing the dynamics of economic processes in the country it has some drawbacks (Piętak,

2015). Economic growth is an improvement in the economic situation in a country compared to the previous period by including several indicators related to the economic problems of its citizens. On the other side, economic growth according to (Sukirno, 2017) is an increase in GDP (*Gross Domestic Product*), without regard to population growth. Sukirno continued that usually the term economic growth is used by developed countries to explain the increase in GDP, while economic development is a term for developing countries to explain an increase in GDP. Many indicators serve as a benchmark for economic growth in a country such as a state income, income per capita, the number of workers and the unemployment rate, and the reduction in poverty levels in that country (Fair, 2007).

The way to measure economic growth in a country is generally seen from Gross National Product (GNP) and Gross Domestic Product (GDP). The GNP has the function of measuring the total national economic production expenditure of all citizens both working domestically and abroad. While GDP has a function as a benchmark of the rate of economic growth based on income derived from domestic or the results of all products produced in the country regardless of nationality (Fair, 2007). The way to calculate it is simple, Supriyanto (2016) explains that economic growth in countries can be measured by comparing, for example in a national measure, the Gross National Product (GNP), the current year with the previous year.

There are three problems in economic growth according to Supriyanto (2016) in the short term: 1) inflation which, inflation can

cause the redistribution of income among the people, a decrease in economic efficiency, changes in output and employment opportunities in society. 2) unemployment, which causes a decrease in the level of output in the aggregate. unemployment itself is caused by a decrease in expenditure made by the public and the use of high technology in the industry. 3) the balance of payments deficit, this occurs when the value of imports is greater than the value of exports, the stability of the balance of payments reflects the stability of the foreign exchange rate. The problem that arises from the balance of payments deficit is the declining value of the currency and inflation. On the other hand, Jati Sengupta (2011) expresses economic growth involves two sides, one is the output side with consumption as the end-use and the other is the cost side, which is the cost implications of various resources used in the production and distribution processes of the economy.

There are various models of economic activity in society according to Supriyanto (2016):

- 1) The model of two sectors of economic activity, which shows the relationship between two sectors between the household sector and the company sector and also the bank sector.
- 2) Three-sector economic activity model, this model shows the relationship between the household sector, banks, companies, and government through taxes.
- 3) Open economic activity model, showing the relationship by four interrelated sectors namely, the household sector, banks, companies, government, and also the foreign sector.

Sengupta (2011) explains that some factors are affecting economic growth there are:

- 1) Human resources determining the very important thing in economic growth in a country by calculating the quality and quantity of human resources that have been available directly in influencing economic growth. The quality of human resources can be seen with the skills, creative abilities, training, and education that they already have. If a country has very good, skilled and trained human resources, the output will be of high quality. But the lack of skilled human resources can hamper economic growth, while the surplus to human resources will be less significant in economic growth. For this reason, human resources in a country must be proportional to the number of skills and abilities that are needed, to produce the achievement of economic growth.
- 2) Natural Resources can affect economic growth in a country. Natural resources are resources that are already available in nature, both on land or under the sea. Natural resources that have been owned in a country following climatic and environmental conditions within the country. Countries that have a lot of natural resources can enjoy good growth compared to countries with few natural resources.
- 3) The capital formation consists of land, buildings, machinery, electricity, transportation, and other communication media. Capital formation is the process of producing all products

derived from man-made. The capital formation can increase the availability of capital in the workforce, it can increase the ratio of capital or labor. As a result, it can increase labor productivity, which can result in increased output and economic growth in a country.

- 4) Technology development, technology has the nature and type of technical instruments used with several workers. Technological development has contributed to increased productivity with a very limited amount of resources. Countries that have used technology development can grow rapidly compared to countries that do not use it. The selection of appropriate technology development can play an important role in economic growth.
- 5) Social and political factors consist based on customs, traditions, values , and beliefs in each country, it can contribute to economic growth. Political conditions of a country can affect economic growth in a country. If the current political conditions in a stable country will run well and can provide comfort to the community can also support increased performance in production. That way the free community will innovate and develop the potential it already has so that it will form achievements in economic growth.

B. Economic Growth Theory

There are many theories put forward regarding economic growth in countries. This theory becomes the basis and reference in understanding the meaning and purpose of the country's economic growth. Of course, this theory has been tested and evaluated in advance so that it can get the right answer to interpret economic growth in each of the different countries.

1. The Classical Approach

The theory of economic growth was first coined by Adam Smith and David Ricardo in the 18th and 19th centuries, later this theory became known as classical economic theory. The interest of the classical economists in economic growth derived also from a philosophical concern with the possibilities of 'progress' an essential condition of which was seen to be the development of the material basis of society. Accordingly, it was felt that the purpose of the analysis was to identify the forces in society that promoted or hindered this development, and hence progress, and consequently to provide a basis for policy and action to influence those forces. Ricardo's campaign against the *Corn Laws* must be seen in this light, as also Malthus's concern with the problem of population growth and Smith's attacks against the monopoly privileges associated with mercantilism (Harris, 2007). Then Harris continue, Of course, for these economists, Smith especially, progress was seen for the growth of national wealth. Hence, the principle of national advantage was regarded as an essential criterion of economic policy. Progress was

conceived also within the framework of a need to preserve private property and hence the interests of the property-owning class. From this perspective, they endeavored to show that the exercise of an individual initiative under freely competitive conditions to promote individual ends would produce results beneficial to society as a whole. Conflicting economic interests of different groups could be reconciled by the operation of competitive market forces and by the limited activity of 'responsible' government.

a. Adam Smith

Adam Smith describes his opinion on how to analyze economic growth with two factors they are, the total output factor and the population growth factor. Calculation of total output can be used on three variables they are: First, natural resources; Second, human resources; Third, and capital stock. Whereas if the second factor is population growth, it is carried out in determining market area and economic growth (Sengupta, 2011).

b. David Ricardo

David Ricardo is thinking about the well-known economic growth, which is about *the law of diminishing returns*. David Ricardo's thinking about how population growth can affect the decline in marginal products due to the limited amount of land. According to David Ricardo, increasing productivity in the workforce requires more technological advances and considerable capital accumulation. That way, economic growth will be achieved (Sengupta, 2011). The essence of David Ricardo's theory is he believed that for every

increase in population there must be increased land and employment. On the other hand, (Brito, 2011) explains that the modern economic growth process has been contemporaneous with a demographic revolution; except this, it seems to be independent of the rate of growth of the population.

According to Smith and Ricardo, the macroeconomic problem of the 'laws of motion' of capitalism appeared as the primary problem on the agenda, and it seemed necessary that the whole of economic analysis – including the basic theories of value and distribution – should be deliberately oriented towards its solution (Harris, 2007).

Based on these basic thoughts, it is concluded that classical economic theory, has the assumption, that the market can achieve its balance through market mechanisms, where supply will always create its demand. Supriyanto (2016) explains that classical economic theory believes that economic activity will develop efficiently, economic growth will increase, and full employment, in the long run, will be achieved.

In 1929 - 1939 there was a Great Depression in the United States of America, this crisis occurred due to falling buyer demand while the high level of production, high debt levels, overly high speculation at the stock market, unemployment due to high levels of dismissal, and the absence of government interference (Komalasari, 2015). This crisis creates a new thought on the theory of growth called the theory of Keynesian in 1939.

2. Keynesian Approach

John Maynard Keynes wrote a book called *The General Theory of Employment of Interest and Money*, 1936. This book was written as a reaction to the great depression that occurred in the 1930s which was unsuccessful with Classical and Neo-Classical thinking. Keynesian growth theory explains that consumption by one person in the economy can help increase the income of others. at the time of the great depression crisis, people refrained from consuming and instead hoarded money. this is what causes the cycles of money circulation to stop and causes the economy to paralyze. The solution to this problem according to Keynes is by government intervention. Principles in Keynesian Economic theory according to (Komalasari, 2015) :

- The market is unstable and cannot self-regulate
- The economy cannot achieve full employment
- The supply of production will adjust demand
- Wages and prices are relatively fixed
- The existence of government interference in the economy

Short-term models refer to the scientific achievements of Keynes. Their main purpose is to identify the possibility of having the level of actual production approach the level of potential output (Piętak, 2015).

3. Neo-Keynesian Approach

In the Neokeynes theory, 2 figures are well known, namely Roy F. Harrod and Evsey D Domar. This approach is also often referred to as the modern growth theories in economics or the Harrod – Domar

model. Roy Harrod and Evsey Domar developed a model that sought the possibility for sustainable growth. They extended the short-term Keynesian model, that assumes the instability of the capitalist economy (Piętak, 2015). This approach explains that capital investment is the key to economic growth measured in terms of real income. This theory explains the positive relationship between investment and growth, this theory is assumed to increase production, with increasing capital. If it is assumed there is a direct relationship between capital capacity (K) and economic growth (Y), then every addition of one unit of capital stock will increase the level of output (Y) (Sengupta, 2011). In other words, the effect of investment in aggregate demand and growth on production capacity can increase economic growth. In the model of Harrod-Domar growth is sustainable if three growth rates are equal: the actual growth rate, guaranteed growth rate, and natural growth rate. Harrod called such a situation the "*golden age*", whereby the achieved macroeconomic balance ensures the full use of capital and labor. However, equilibrium requires equalization of savings, which are dependent on households and investments that are in the hands of the capitalists (Piętak, 2015). Principles in the Harrod – Domar model according to (Sukirno, 2017) :

- 1) At the initial stage, the economy has reached full employment
- 2) The economy itself consists of two sectors namely the household sector and the corporate sector

- 3) The amount of community savings is proportional to the amount of national savings
- 4) The inclination to save is fixed, wherein, the ratio of production capital and the ratio of production allowances are fixed or unchanged

According to Sukirno (2017) Harrold-Dommar model, explaining the factors causing slow economic growth or stagnation are:

- 1) The technological development that is saving capital. Then the development of technology of this nature leads to a reduction in the ratio of production capital and pushes down prices, which in turn reduces the occurrence of capital investment.
- 2) Population growth is very slow. Different from the classical theory which considers that population growth is an economic hindrance. Harrold - Dommar believes that a large number of productive population is an expansion of the market, which in turn can increase public demand. public demand for goods and services reduces the drive for capital investment.
- 3) Reduced *Frontier Spirit*, or the desire to develop new regions and natural resources. this is due to reduced area and natural resources that can be developed. this can reduce the urge for capital investment.

4. Neo Classic Approach

a. Robert Solow and Trevor Swan

The two problems identified by the Harrod – Domar model, instability of the economy and the impossibility of full use of the labor, were solved in the Solow – Swan model by introducing the assumption of substitution of factors of production, which in turn removed the assumption of a constant ratio of capital or production (Piętak, 2015). Solow-Swan used the neoclassical growth model as the basis for decomposing the growth in output per capita into portions accounted for by increased inputs and the portion attributable to increases in productivity (Masoud, 2013). Solow-Swan growth model has the following assumptions, they are: First, assuming a permanent workforce and technology; Second, assuming only fixed technology; Third, workforce and technology are changing.

Solow-Swan growth model explains that interest rate and income affect the level of savings and investment. If the interest rate is low then the investment rate will be high, so is the reverse. As a result of increased investment, the interest rate rises thereby increasing the amount of savings (Acemoglu, 2009). In other words, economic growth is a series of activities originating from four main factors namely human, capital accumulation, modern technology, and output.

b. Joseph A Schumpeter

Schumpeter in the book "The Theory of Economic Development" explains, that the main factor causing economic

development is the process of innovation. In this theory, economic growth is defined as an increase in the total output of society (Acemoglu, 2009). Other aspects involve three main mechanisms that guide the process of industrial evolution according to Schumpeter model:

- 1) Mechanisms for creating diversity in the fields of goods and services and technology,
- 2) A mechanism for transmitting diversity to other sectors through backward and forward linkages. For example, "More use of inputs and more demand for output,
- 3) The selection mechanism with which to succeeding terms of innovation emerged as a leader.

New technology and innovation create a very competitive world, where Schumpeterian competition plays a dynamic role (Jati Sengupta, 2011). The essence of Schumpeter's theory shows the importance of innovation and the role of entrepreneurs in economic growth. The neo-classical theory emphasized the competitiveness of markets as central to economic growth and ignored the roles of governance and the legal framework.

Developing countries have fuelled the world output growth rate since 2011, but the growth rates in these countries are steadily declining. While major developed economies remained sluggish, their overall growth performance started to improve. On the other hand, D-8 is a prominent economic organization that collectively accounts for

5 percent of the global GDP and 15 percent of the population with an expected upward trend soon (TEPAV, 2018).

From Table 2.1 we can find the rate of economic growth in countries D-8 countries from 2011 to 2013 are quite diverse between one another. Bangladesh leads with the highest growth (6.16%), followed by Turkey (5.80%), Malaysia (4.43%) and Indonesia (3.92%) in 2017. Then the lowest growth of D-8 countries is Nigeria (-1.77) in 2017.

Table 2.1. Growth Rate of Real GDP per Capita (%) in D-8 Countries

Countries	Growth Rate of Real GDP per Capita (%)				
	2013	2014	2015	2016	2017
Malaysia	2.80	4.18	3.40	2.67	4.43
Turkey	6.75	3.47	4.40	1.57	5.80
Egypt	-0.08	0.67	2.18	2.26	2.19
Iran	-1.46	3.30	-2.50	12.10	2.62
Pakistan	2.21	2.51	2.61	3.38	3.63
Nigeria	2.61	3.52	-0.02	-4.16	-1.77
Bangladesh	4.77	4.84	5.37	5.96	6.16
Indonesia	4.24	3.73	3.65	3.85	3.92

Source: World Bank (2018)

Unfortunately, D-8 has not moved at the envisaged pace to achieve its objectives. This is even though the member states have complementary economies and can do a lot to intensify intra-group trade and economic cooperation. It is because of the lack of commitment on the part of its member states. Except for Bangladesh, all members signed the PTA on May 14, 2006, at the fifth D-8 Summit at Bali, Indonesia. So far, six members have ratified the agreement. Bangladesh and Egypt are reluctant to ratify the treaty.

Egypt is demanding a 50 percent value addition; while the "Bangladesh Tariff Commission" has advised the country not to ratify the treaty saying that it will not help boost the country's exports. During the eighth Summit in Islamabad, Chairman of the D-8 Federation of Chambers and Commerce and Industries, Dr. Herbert Ademola of Nigeria, expressed his concern that "implementation of PTA is still pending." Despite the constraints that be, the D-8 governments have taken many practical steps to facilitate the promotion of trade. Besides the PTA, other important frameworks such as Agreement on Visa Facilitation, Cooperation on Customs and Memorandum of Understanding (MoU) on Civil Aviation have been concluded. Forums have also been created to promote institutional linkages among the business communities of member states (Iqbal, 2013).

According to Iqbal (2013) strategy for future growth for D-8 countries are as follows:

- 1) D-8 Strategy towards achieving its long-term ideals and objectives should be based on an objective assessment of the potential of the community and analysis of the commonalities, particular characteristics and challenges faced by the member states, and their resolve to overcome such challenges through cooperation and collective effort.
- 2) D-8 should collaborate with other compatible entities following its charter.

- 3) D-8 should explore, in consultation with national investment and trade promotion agencies, the strategies and plans of action for increasing D-8 trade and investment with special emphasis on the energy sector through public-private partnerships.
- 4) D-8 should broaden and deepen cooperation in critical areas and stress the importance of collaborative efforts on capacity-building.

On the other hand, the results of Insani's research (2013) on OIC countries, to improve economic growth the government paid more attention to the agriculture and trade sector as a sector that could sustain the economy of the OIC country, in addition to that efforts were also made to increase economic growth in each country relies on its potentials and can overcome the problem of unemployment by facilitating business establishment permits so that greater employment opportunities and open up potential employment opportunities so that it can absorb a large workforce. Furthermore, FDI flows flowing into the OIC to be controlled and not concentrated in several developed countries. Finally, for the government to make effective policies in controlling inflation. It is hoped that the growth rate in OIC countries can continue to increase (Insani, 2013).

According to Khan (2012), factors that can increase economic growth, in the long run, are trade liberalization and capital account liberalization. Developing countries must meet prerequisites such as basic infrastructure and institutional development before embarking

on a broad liberalization program. In particular, the development of the real sector must precede the development of the financial sector.

According to Sengupta (2011) four factors are a challenge and at the same time encouraged for developing countries in their economic growth they are:

1) Information technology

An economy characterized by this new technology is often called “the new knowledge economy,” and it has four fundamental characteristics: accumulating knowledge capital, improving competitive efficiency, expanding export markets through global trade, and increasing collaboration and mergers in the creation and diffusion of new knowledge capital, which has significant spillover effects. Some countries such as Korea and Japan have successfully utilized the development of information technology to increase their economic growth and succeed in increasing the wealth and welfare of their countries. developing countries have limited information and knowledge technology, until now developing countries only utilize large and vast countries by developed countries.

The effects of technology can be different in each country where countries that have many young populations are worried about having difficulty in getting jobs because of technological change that replaces routine work. In fact, according to a World Bank report, Technological change that replaces routine work is estimated to have created more than 23 million jobs across Europe from 1999 to 2016, or almost half of the total increase in employment over the same

period. Recent evidence for European countries suggests that despite technology may be replacing workers in some jobs, overall it raises the demand for labor. Technological progress leads to the direct creation of jobs in the technology sector.

People are increasingly using smartphones, tablets, and other portable electronic devices to work, organize their functions, secure and heat their homes, and have fun. Workers create online interfaces that drive this growth. With consumer interests changing fast, there are more opportunities for people to pursue careers in mobile and virtual app development reality design (World Development Report, 2019).

Approaching with Sengupta, Brown further says that future growth will need to be based on an increasingly globalized world that offers new opportunities but also new challenges. New technologies offer not only 'catch-up' potential but also 'leapfrogging' possibilities. New science offers better prospects across both product and service sectors (Brown, 2007).

2) Productivity

In global markets today competitive efficiency holds the key to success. Several important aspects of this efficiency have to be noted. The most important aspect of competitiveness is national productivity and especially the productivity of those sectors using information technology and software services. First, sustained productivity growth at the industry level requires that an economy continually upgrades itself. An upgrading economy is one that

develops the capability of competitive success in entirely new and sophisticated industries. Doing so absorbs human resources released in the process of improving productivity in existing fields. The second aspect of competitive advantage is to compete in international trade by eliminating the need to produce all goods and services within the country itself and therefore specializing in goods and services where it is most cost-efficient.

Finally, one must note that governments cannot create competitive industries, only private firms and industries can. Efficiency-driven growth in the knowledge capital intensive industries today It has always drastically changed the market structure. there are four basic elements of core competence are as follows: learn, coordinate, integrate, and innovate. Another concept of efficiency which is important for economic growth is "adaptive efficiency." The incentives embedded in the institutional framework motivate the process of learning by doing and adopt the desired systems of economic structure. Adaptive efficiency provides the mechanism to encourage the development of decentralized decision making that allows societies to maximize their efforts required to explore alternative ways of solving inefficiency problems. Institutional change and reforms offer important strategies here. Two forces shape institutional change. One is IR and the other is imperfect markets characterized by significant transaction costs. In a world where there are no IR and markets are perfectly competitive, institutions do not matter.

3) Inequality

Kuznets (1955) examined the historical relationship between income per capita and income distribution. His analysis based on international cross-section data suggested that at low-income levels economic growth and average income tended to create more income inequality as measured by the Gini coefficient. Kuznets found in his empirical investigation that as per capita income continues to increase, a critical threshold level of income is reached and further economic growth and even higher average income tended to reduce income inequality. Another important reason for increasing inequality is the role of increasing monopoly elements due to the emergence of large and dominant firms in modern technology-intensive industries. Since these investments have high fixed costs, they generate substantial scale economies. The scale economies act as a deterrent to the new entry of smaller and medium-sized firms. Taiwan's economic policy prevented this from happening by encouraging the smaller and medium-sized firms to have easy access to the technology-intensive fields. Also, software technology and R&D activity requiring skilled human capital were strongly supported by the state policy. This helped maintain a more equalitarian distribution of income.

Then, Acemoglu (2009) defines economic growth is generally good for welfare but it often creates inequality. Joseph Schumpeter's famous notion of creative destruction emphasizes precisely this aspect of economic growth; productive relationships, firms, and sometimes individual livelihoods will be destroyed by the process of economic

growth, because growth is brought about by the introduction of new technologies and creation of new firms, replacing existing firms and technologies. Growth in developing countries is generally high but this does not always represent the welfare of the country, in developing countries inequality between the highest-income people and the lowest income people has a very high distance. This process creates a natural social tension, even in a growing society. Another source of social tension related to growth (and development) is that, as emphasized by Simon Kuznets. Then institutions and policies can be arranged to resolve the problem of inequality in developing countries.

On the other side Brown, 2007 explained that growth does not necessarily lead to an increase in inequality. While some theoretical research shows a causal relationship between growth and inequality (and vice versa), the consensus of the latest empirical research is that there is no consistent relationship between inequality and changes in income.

4) Market Failure

Dynamics of industry growth, technology, and globalization have a dramatic impact on the current economic growth of nations today. In the world of innovations and the spillover of R&D effects, various forms of non-competitive market structures have evolved in recent times. This has sometimes been characterized as "market failures" associated with the deviations from the competitive market

model. Four types of market failure would be discussed in this section as follows:



- Externalities and spillover effects
- Risk and uncertainty in financial markets
- Transparency in information and technology markets
- Market power and limit pricing

Many theories of economic growth that state excessive population growth will negatively affect economic growth. The population of D-8 member countries constitutes 14,6 % of the world's population (D-8 Economic Outlook 2017). the results of the research conducted by (Dao 2012) are, in a developing country the effect of population growth on per capita GDP growth is linear and everywhere negative. Governments in developing countries can influence population growth to stimulate growth. China provides a clear example by suddenly introducing a collection of highly coercive methods to reduce the total fertility rate from about 5.8 to 2.2 births per woman between 1970 and 1980.

On the other hand, a similar opinion was put forward by (Mohd Khairul Amri Kamarudin 2018) who explained, that the relationship between population growth and economic development has become a recurring theme in economic analysis. High population growth creates pressure on limited natural resources, reduces the formation of private and public capital, and shifts additions to capital resources to maintain rather than increase capital stock per worker. Positive effects, such as economies of scale and specialization, are

likely to spur favorable motivations caused by increased dependence. To overcome this, the governments of developing countries issue human capital policies to enhance economic growth that will increase the level of state income.

Shaari (2019) added that developing countries incorporate less value added of services than developed countries in many sectors and are lagging in particular when it comes to exploiting the potential of services, especially in agriculture. The meeting will aim at strengthening value-added services that will nurture agriculture value chains, with a focus on small-holder farmers (Shaari, 2019). Hereinafter, Semmler (2014) explains that economic growth in developing countries depends on natural resource management which often does not pay attention to environmental welfare factors. developing countries must pay attention to sustainable economic growth, with the depletion of natural resources and the environmental impact of economic activities that need to be maintained. Policies must be developed to conserve resources and preserve the environment such as natural resources, land, air, water, climate, and biodiversity (Willi Semmler, 2014).



CHAPTER 3

PUBLIC POLICY

REFORM

CHAPTER 3

PUBLIC POLICY REFORM

A. Public Policy

Public policy is a multidisciplinary science because it involves many disciplines such as political science, social science, economics, and psychology. Public policy can be described as the overall framework within which government actions are undertaken to achieve public goals, with a good working definition of public policy, for our purposes, being the study of government decisions and actions designed to deal with a matter of public concern (Cochran & Malone, 2014). In line with Cochran & Malone (2014) (Uddin, Ali, & Masih, 2016) define public policy as a government action form government programs for the achievement of goals or objectives. Than (Hayat, 2018) explain that public policy is decisions made by someone who has authority in the government, both formal and informal or everything that is done or not done by the government is public policy. Doing by making a decision or not doing by not making a decision is a public policy.

Furthermore, Maulana and Nugroho define public policy as the impact of government activity or in other words defines it as a series of actions proposed by someone, a group, or the government in a particular environment, with existing threats and opportunities (Maulana & Nugroho, 2019). Whereas, according to (Munro, 2009)

determine public policy is not just a governing tool to raise or lower taxes as a tool for price manipulation and revenue terms in the general demand function. On the other hand, public policy as a series of actions/activities proposed by a person, group, or government in a particular environment where there are obstacles and opportunities for implementing the proposed policy to achieve certain goals (Leo Agustino 2008; Taufqurakhman, 2014). Then, public policy can be seen as the preferences and values of the government elite. Although public policy often reflects the needs of the community. This can happen through:

- 1) Public policy is made incrementally and accommodates the values of the interests of the elite. The values of the elite will greatly affect the public. However, elitism does not mean that the public policy is anti-community (welfare) but the existing public policy responds to the people's welfare prioritizing the interests of the elites rather than the interests of the community in general,
- 2) The elite sees that most of the people are passive, there is an information situation, people's sentiments are manipulated by the elite (Taufiqurokhman, 2014).

According to Cochran & Malone (2014), there are different models can identify important aspects of policy problems and provide explanations for public policy and even predict consequences. The following is a selection of some of the models frequently used by policy analysts to highlight certain aspects of policy behaviors :

1) Institutional Model

The institutional model focuses on policy as the output of government as the ultimate decisionmaking authority. The model emphasizes constitutional provisions, judicial decisions, and common law obligations. Strictly speaking, a policy process does not become a public policy until it is adopted, implemented, and enforced by some government institution. Government institutions are crucial in that once a policy is officially adopted, the government provides legitimacy to that policy by enforcing it through government institutions. Government policies provide reciprocal-Public Policy legal rights and duties that must be recognized by involved citizens. Governmental policies also extend universally to all members of society. Finally, governments alone have a monopoly on the legitimate use of coercive force in society and on sanction violators. Some very successful interest groups focus their efforts on influencing critical institutions of government rather than winning popular support. phenomenal success closely tracks the institutional model as it demonstrates how policy output can be influenced by agents' putting pressure on government institutions. Its efforts recognize that both the national and state governments receive independent legal authority from their citizens.

2) Incremental Model

This model focuses on how public policy decisions are made. Those who support this model suggest that public policy is primarily a continuation of past government activities with only incremental changes. Incrementalism, a conservative ideal, holds that current policy and programs possess a certain legitimacy as they already exist. Groups who are beneficiaries support the continuation of the status quo, and politicians generally accept the legitimacy of established programs and are inclined to continue them because the consequences of adopting and implementing completely new or different programs are not easy to predict. In short, concentrating on increases, decreases, or modifications of current programs is simpler and less risky for policymakers than embarking on totally new programs. The model is often criticized because it does not require the establishment of clear goals. It tinkers with current programs with the hope that goals and alternatives will become clearer over time. However, this model is defended as the way that policymakers make decisions. Some argue that breaking down the implementation of major changes into smaller steps is necessary to make the changes more acceptable. For example, an administration proposal to raise the minimum wage by a significant amount is broken down into smaller increments over several years.

3) Group Theory

This model, also called pluralism, holds that politics represents the struggle among groups to influence public policy. Public policy at any given time represents the equilibrium reached in the group struggles. The role of government is primarily to establish the legal and regulatory rules in the group struggle. Politicians engage in bargaining and negotiating with groups to form a majority coalition of groups. The political parties are viewed as coalitions of interest groups. The model holds that individuals and groups have overlapping memberships, which prevents anyone from the group from moving too far from moderate values and any single interest from consistently dominating other groups. Pluralists claim that the power of each group is checked by the power of competing groups, resulting in a marketplace of policymaking in almost perfect competition. Critics of pluralism claim that in fact, different groups have vastly different resources. Some interests, such as those representing businesses or affluent professions, are very well organized and financed, while others, such as those representing poor or immigrant groups, have fewer financial resources and are more poorly organized, undermining any claim of group equilibrium. Some critics of the theory claim that the model ignores the role public officials play in public policymaking.

4) Model Elite

The elite model views public policy as reflecting the preferences and values of the power elite. This theory claims that society is divided between elites who have power and those who are not. Every society has more nonelites than elites. Democracy is often considered good for the poor because the poor far outnumber the elite. Conventional wisdom shows that democracy will lead to policy choices that reflect the preferences of the poor. In a democratic society, elites are worried about the dangers posed by nonelites who can unite and overwhelm them in the ballot box and redistribute wealth to the bottom. The elite is united in values protecting limited private and government property. They tend to have higher incomes, education, and status, which more than makeup for their lack of numbers compared to nonelites. They use their money and organization to maintain the status quo. Elites form mass opinions while mass opinions have little influence on elites. In general, government officials tend to adopt and implement policies decided by the elite, which flow toward the masses.

5) Scope of the Conflict Model

A competitive political system in which competing leaders and organizations define the alternatives of public policy in such a way that the public can participate in the decision-making process. To understand the meaning of democracy, one must

be aware of how conflict determines the role people play in the political system. All conflicts contain the elements that give rise to a riot. A conflict between two individuals always attracts bystanders who want to know what the fight is about. If the spectators do not get involved, the outcome of a quarrel or a fight will depend on the skill of the two participants. Because the bystanders outnumber the original participants, their role is crucial. If they get involved in the conflict, they will determine the outcome. The outcome of every conflict is determined by the extent to which the audience becomes involved. Those who are winning in a conflict will try to limit the scope of the conflict to those already involved, to ensure their preferred outcome. Those who fear that they will lose will try to enlarge the scope by drawing in bystanders sympathetic to their cause. Politics is the socialization of conflict. When bystanders join the conflict, they change the nature of the original quarrel so much that the original participants may lose control of the conflict altogether.

B. Public Policy Reform

Public policies Reform pursue the public interest by attempting to correct for market imperfections, lower transaction costs, effectively regulate externalities or enhance productivity (Rausser, 2012). According to (Just, Hueth, & Schmitz, 2004) argues that public economic policy can be issued only with a quote analysis

of economic welfare, policymakers can make decisions based on information with an understanding of the level and magnitude of the consequences from their economic policies. Then policies, reform is purposive courses of action devised in response to a perceived problem. Public policies are filtered through a specific policy process, adopted, implemented through laws, regulatory measures, courses of government action, and funding priorities, and enforced by a public agency. Individuals and groups attempt to shape public policy through the mobilization of interest groups, advocacy education, and political lobbying (Cochran & Malone, 2014). Than Hayat (2018) explains that policy reform is a policy formulation, policy implementation, and policy evaluation are public policy actions that are based on the interests of the public. Also, to form an achievement of the objectives of the policy to be achieved as expected. Of course, the policy formulation is based on an evaluation of the previous policy. Each policy does not stand alone and is a continuation of the policy that ever existed. As a series that can not be separated to find patterns that are relevant and good for the interests of the community. Policies must be based on improvements to previous policies based on the results of policy evaluations. In other words, policy reform becomes the transmission between evaluation and policy formulation. Various inputs in policy evaluation serve as guidelines for making changes in policies. This includes whether replacing existing policies with new ones or continuing existing policies with better patterns and methods. Meanwhile, economic reforms according to (Adams, 2010) are

usually political because by changing the distribution of benefits in society, economic reforms benefit some social groups and others are detrimental.

While according to (Rausser, 2012) in the policymaking process endogenization of the instrument arrangement as a function of government bureaucracy and the actions of stakeholders. Still, another public policy reform is the result of manipulation by powerful groups actively engaged in the pursuit of their self-interest. On the other side, (Lofits, 2017) explains that public policy can change over time, policy reform is a picture of the weight of decision-makers from evaluating important things for the welfare of society, Lofits continued the determinants of policy reform can change over time. Meanwhile, according to (Adams, 2010) policy reform is often delayed and affected in developing countries. apart from positive contributions from policy reforms such as currency devaluation, privatization of state enterprises and the elimination of consumer subsidies might create trade and budget deficits and general economic prosperity, a recent study by the International Monetary Fund (IMF) found that "*economic reforms remain incomplete and external eligibility difficult to understand*" in many developing countries.

Public policy reforms can be done by selecting country-specific policy priorities, such as differences in income levels, institutional capacity and macro policy attitudes and can be seen through learning from previous public policy reforms about failure and success (OECD, 2017). Furthermore, a change in public policy cannot occur

just because the government issued a policy, but the policy must have the support of the community so that the policy change can go well (Moran, Rein, & Goodin, 2006). Then, according to Taufqurakhman (2014), several new problems arise as a result of new policies or a public policy reform :

- 1) **Rule**, understanding of the rules here all the public problems or also problems caused by the public. Public problems can arise if: (a) the ambiguity or confusion of the language used in regulations, such as not explaining things that are prohibited and which must be done by the community, (b) some regulations have the potential to cause problematic behavior, (c) regulations often expand the division of problem behaviors, not even eliminate them, (d) regulations open opportunities for non-transparent behavior. Fifth, regulations give excess authority to implementing regulations to act repressively.
- 2) **Chance**, an individual can perform problematic behavior if the opportunity is wide open. The meaning is that if the opportunity is open then it can influence an individual to deviate behavior.
- 3) **Capacity**, it is related to the exchange that is caused by not being able to order individuals to do things beyond their ability. For that, there needs to be an understanding of the conditions of each individual in a country.

- 4) **Communication**, the emergence of problematic behavior can be caused by people's ignorance of a regulation. Ignorance is triggered by communication that is not going well. The issue of communication is a classic problem in a country that is rich in culture and very plural.
- 5) **Interest**, this category can be used to explain an individual's views about the consequences and benefits of each behavior. The consequences and benefits that can arise can be in the form of material (economic benefits) and also non-material (recognition and appreciation).
- 6) **The process** is an instrument used in finding problematic behavior caused in or by an organization. Some of the processes used to formulate problems in organizations include: First, the process of gathering input. Second, the process of input processing becomes a decision. Third, the output process, and the fourth, the feedback process.
- 7) **Ideology**, a set of values held by society to feel, think, and act. A value that applies in society is usually the result of mutual agreement in a group. The possibility of conflict is very large given the value of living in a pluralistic and heterogeneous society (a value that is held is often not following the views of each group).

The seven factors above are intended to narrow and systematize the scope or views of policymakers or policy analysts in making new policies or reforming public policies in society.

Policy reforms in parliamentary democracies result from the activity of politicians who belong to government and opposition parties (Konig, Tsebelis, & Debus, 2010). inline with Koning, Tesibels, and Debus, (Case & Fair, 2007) explain that actors from policymakers are the government. Furthermore, the role of government as social planners according to Semmler (2006) is including raising taxes optimally without distortion and choosing four types of public expenditure: (a) public investment to improve education and health services that increase the stock of human capital, (b) investment in public infrastructure assets (transportation and communication systems as well as energy, water supply, and sanitation), to support market production and the creation of human capital, (c) transfers and public consumption represent expenditures with characteristics of public goods that can fit into home preferences stairs (public parks), civic facilities and consumption transfers, and (d) public administration required for the functioning of the government (including justice, security, and tax collection). On the other hand, the role of government in the economy: to overcome market failures such as price rigidity, monopoly, and adverse externalities, the role of government is needed in a country's economy. This role can be done in the form of interventions directly or indirectly. The following are direct and indirect government interventions in determining market prices to protect consumers or producers through a floor price policy and a ceiling price policy (Case & Fair, 2007).

To overcome economic problems, the government uses certain policies. There are three government policies in the macroeconomic field. The policy is as follows:

- 1) Fiscal policy is closely related to government activities as a public sector actor. Fiscal policy in government revenue is considered as a way to regulate the mobilization of domestic funds, with its main instrument being taxation. In developing countries such as Indonesia, monetary policy and foreign policy have not proceeded as expected. Thus, the role of fiscal policy in the economic field becomes increasingly important. Fiscal Policy is an economic policy used by the government to control or direct the economy when conditions are better. The method is to regulate government revenues and expenditures. the use of fiscal policy not only for economic stabilization but also to promote growth and the increase of per capita income (Semmler, 2006).
- 2) The main instruments of fiscal policy are tax (T) and government expenditure (G). Government fiscal policy can be expansive or contractive. Expansive policies are carried out when the economy is facing a problem of high unemployment. The action taken by the government is to increase government spending or reducing the tax rate. The contractive fiscal policy is a form of fiscal policy that is carried out when the economy reaches full employment or

faces inflation. The action taken is to reduce government spending or increase tax levels (Case & Fair, 2007).

- 3) Monetary policy is an economic policy that is used by Central Bank as a monetary authority, to control or direct the economy in better or desired conditions by regulating the money supply and interest rates. The main objective of monetary policy is to control the amount of money in circulation. Monetary policy has the same objectives as other government economic policies. The difference lies in the policy instruments. If in fiscal policy the government controls government revenues and expenditures, in monetary policy the Central Bank controls the amount of money in circulation. Through monetary policy, Central Bank can maintain, or reduce to spur economic growth while maintaining the stability of prices. Monetary policy has three instruments there are, open market operations, discount rate policy, and the reserve requirement ratio included:
- 1) Open market operations, that is the government policy to control the amount of money outstanding by selling or buying government-owned securities. Open market operations are carried out by selling or buying Bank Central Certificates and Money Market Securities.
 - 2) Discount Rate, One of the facilities is the discount rate, which means the interest rate set by the government for

public banks that borrow from the central bank (Case & Fair, 2007).

Furthermore (OECD, 2017) explains that the government problems in the economic field do not only cover micro problems such as price rigidity, monopoly, and externalities that require government intervention. Economic problems also occur in the macroeconomic sphere that requires government policy. In developing countries, there are generally three major problems with economic development. These three problems are related to poverty, economic inequality, and increasing unemployment. The explanation is as follows:

- 1) **Poverty Problem** is a state of economic disability so that a person cannot meet basic needs because his income is low. Poverty occurs due to several factors. Because of the low income that causes low purchasing power. Also, because of the low education of the people, people do not get a decent life (OECD, 2017).
- 2) **Underdevelopment Problems**, characteristics of developing countries are low levels of income and equity, low levels of progress and public / public facility services, low levels of community discipline, low levels of population skills, low levels of formal education, lack of capital, and low labor productivity, and weak levels of labor business management. To overcome the problem of underdevelopment, the government seeks to improve the quality of human resources by conducting educational programs and conducting training.

Besides, exchanging experts, transferring technology from developed countries. The problem of underdevelopment is a problem that we must overcome together. Because we are the subject or object of this problem. The effort we can do is to have a passion to move forward so that we have the desire to learn and keep learning. The effort that can be done is to improve science and technology because it is the key to overcoming the problem of underdevelopment (OECD, 2017).

Then (Gray, 2007) explains that larger governments can inhibit growth in countries with weak governance, but this effect is not linear. where are the results of this study is below about one-third of GDP, the size of government is not correlated with growth, but once public spending exceeds 35 percent or so of GDP, increasing government size can harm growth. Strong governance reduces this negative impact, which is one of the reasons that big governments do not necessarily reduce economic growth in several high-income developing countries. Various reasons explain why large governments can stunt growth in countries with weak governance, with the following description:

- 1) large governments are more likely to run fiscal deficits during economic downturns, particularly where public spending is inflexible because of weak budgeting systems, reliance on earmarks, and high public employment.

- 2) The high rates of taxation needed to fund big governments can distort private activity, particularly if tax administrations are weak and thus not able to tap a broad tax base.
- 3) A large government presence in particular sectors may be accompanied by anti-competitive regulations on private sector participation.
- 4) Government spending may be misallocated as a result of corruption or poor capacity, sapping productive resources from the economy. While strong and capable governments may be able to avoid many of these problems through tight budget planning and execution and efficient tax administration, countries with weaker governance would be well advised to keep public spending and taxation to more modest levels if they want to spur rapid rates of economic growth.

According to D- 8 Economic Outlook low-income countries are particularly in need of improved education and infrastructure, good quality economic institutions, reduced barriers for better market efficiency and effective competitiveness. Low-income countries need to achieve rapid accumulation of capital, raising agricultural productivity and technology diffusion in labor-intensive industries to maintain a dynamic growth path supported by productivity growth. Some of this problem can resolve with public policies reformed. According to D-8 Economic Outlook 2017, several public policies must be reformed by D-8 countries member they are : (1) institutional

equality and, (2) research and development fund, (3) financial development, which will be explained below.

a. Institutional Equality

Institutions can be defined in terms of property rights' protection and regulatory frameworks by authorities to defend their population against economic shocks and provide social protection (SESRIC, 2016). On the other hand, institutions are the core component of the institutional matrix. They set stages for other institutions to be devised and influence economic growth (Slesman, Baharumshah, & Azman-Saini, 2019). Furthermore, the institutional model focuses on policy as the output of government as the ultimate decisionmaking authority. The model emphasizes constitutional provisions, judicial decisions, and common law obligations. Strictly speaking, a policy process does not become a public policy until it is adopted, implemented, and enforced by some government institution. Government institutions are crucial in that once a policy is officially adopted, the government provides *legitimacy* to that policy by enforcing it through government institutions (Cochran & Malone, 2014).

In the literature, economists agree on at least five types of institutions that they consider vital for economic development (Rodrik & Subramanian, 2008; SESRIC, 2016). The evolution of institutions that create a hospitable environment for cooperative solutions to complex exchange provides for economic growth. On the other side, (Sengupta, 2011) explains that growth is institutional change. Both economic and extra-economic institutions must change if economic

growth must continue. Economic institutions include, for example, markets and banks. Extra-economic institutions consist of governance, for example in terms of laws and regulations and the bureaucratic system. Both types of institutions are important for economic growth.

The central focus here is on the problem of human cooperation, specifically the cooperation that permits economies to capture the gains from trade that were the key to Adam Smith’s Wealth of Nations. These are institutions that government property rights, regulatory institutions, institutions for macroeconomic stability, social insurance institutions, and institutions of conflict management. Rule of law and regulatory quality is one of the categories for institutional equality, D-8 country is still low (SESRIC, 2016).

Table 3.1

Rule of Law and Regulatory Quality in D-8 Countries

Countries	2015	
	Rule of law	Regulatory Quality
Malaysia	0.4	0.7
Turkey	-0.1	0.3
Egypt	-0.5	-0.7
Iran	-0.9	-1.3
Pakistan	-0.8	-0.6
Nigeria	-1.1	-0.8
Bangladesh	-0.3	-0.8
Indonesia	-0.4	-0.2

Source: World Bank (2017)

In table 2.2, only Malaysia get positive scores in both of these categories and Turkey in only one category. Iran has the lowest score of regulatory quality and, Nigeria has the lowest score in the rule of

law. The cost of inefficiency in governance and lack of suitable progressive economic laws favorable to sustaining competitive efficiency have acted as great deterrence to economic growth in developing countries (Sengupta, 2011). Inefficiency in governance can be analyzed in several ways. One is the transaction cost approach emphasized by the Coase theorem and North's theory. As North (1990) argued that in a world where there are no transaction costs and increasing returns, institutions do not matter. Institutional reforms, both political and economic, involve providing adaptive efficiency, which provides incentives to encourage the development of decentralized decision making. Second, organizations are subject to path dependence, where history matters. Political and legal institutions can either facilitate or hinder the process of innovations and technology transfer. The fixed cost for any change to decentralized forms is very high, and it causes significant deviations from competitive efficiency. Finally, economic laws generate significant inefficiency due to a lack of decentralization. Bureaucratic control and outdated laws of land reforms create stumbling blocks to incentive creation and dispersion. Some progressive laws are not adequately enforced (North, 1990; Sengupta, 2011).

b. R&D Fund

Then R&D expenditures may be considered as an investment in new technologies, and knowledge base, which can be then transformed into more efficient production methods for available resources Innovation requires significant investment and a long-term

perspective (Tunaa, Kayacana, & Bektaúa, 2015). In other words, R&D activities are the foundation of the company's long-term sustainability in developing and developed countries. Sengupta (2011) in his book entitled "*Understanding Modern Theory and Experience*" said that the learning process involves several forms. The first is to learn by imitation. Some of these countries imitated the new up-to-date technology and improved it. The modern endogenous growth theory emphasized the dynamic role of the spillover effect by which industrial knowledge shifts from the advanced countries to the developing ones. To catch this affect the industries in the developing countries have to practice organizational learning and management, and dynamic flexibility in their decision making.

The basic driver of economic growth is R&D activities. The common prediction claims that any rise in the level of resources allocated to R&D should inevitably increase the economic growth rate (Genç and Atasoy, 2010; Tunaa, Kayacana, & Bektaúa, 2015). Then, according to (Sengupta, 2011) economic development is driven by innovation through a dynamic process in which new technologies replace the old, a process in this context, is specified that innovation consists of the following five circumstances:

- Introduction of a new good
- Introduction of a new method of production
- Opening of a new market
- Conquest of a new source of supply of raw materials or semi-manufactured goods

- Implementation of a new form of organization.

D-8 countries' innovation activities in each industry hinge on the nature of the industry. Some industries are dominated by large innovative firms while others may be dominated by smaller firms with the ability to provide specialized products. In other industries, the capability to innovate is based on only the ability to exploit economies of scale (SESRIC, 2016).

Table 3.2.

R&D Expenditure of GDP in D-8 Member Countries (%)

Countries	2010	2014
Malaysia	1.3	1.26
Turkey	-	1.01
Egypt	0.68	0.68
Iran	0.12	0.33
Pakistan	0.29	0.29
Nigeria	0.22	0.22
Bangladesh	-	-
Indonesia	0.08	0.08

Source: World Bank (2017)

R&D expenditure in D-8 countries it is still not satisfactory (Table 2.3). Only Malaysia and Turkey spend more than 1% of their GDP on research and development, in this figure is as low as 0.08% in Indonesia. This is because developing countries specifically D-8 countries allocate more funds for education than research and development funds. However, low government spending on research and innovation sector need to be allocated according to national development strategies and priorities in D-8 countries member (SESRIC, 2016). On the other hand, the government 's spending on



education at all levels and also on research in new areas such as solar and renewable energy or agricultural research provides an important strategy for augmenting the learning process. Finally, management skills in organizational learning are the most essential. Hence, the state policy should support and encourage the management of education and research activities in the country. Problems of coordination and organization inefficiency are the two most basic problems that hinder economic growth (Sengupta, 2011).

c. Financial Development

Finance is defined as the management of money and includes activities such as investing, borrowing, lending, budgeting, saving, and forecasting (Kim, Yu, & Hassan, 2017). Than (İnancli, Altintas, & İnal, 2016) devine that financial development was represented by loans to the private sector. As we know the Muslim population reaches 1/4 of the world's population. In recent years, due to the emergence of Shariah-based finance products and insurance, which is following a flexible interpretation of shariah. It plays an important role in increasing the level of financial development of Islamic countries (Akin, Iqbal, & Mirakhor, 2016). A commonly used indicator for determining the degree of financial deepening is the ratio of broad money to GDP. The average of broad money relative to the GDP of D-8 countries was recorded at 54.6% and 116.2% of the world average in 2015 and the financial sector on average provided credit to the domestic economy is 65.4% of the GDP in D-8 countries in 2015 (SESRIC, 2016). Then (İnancli, Altintas, & İnal, 2016) found,

that financial development for D-8 countries had a positive effect on economic growth. Then (Slavtcheva, 2015) argues when a country has a low level of financial development, a flexible exchange rate leads side to lower productivity growth than a fixed exchange rate side, while the effect is insignificant in financially developed countries.

On the other hand, (Akin, Iqbal, & Mirakhor, 2016) as a result of his study that revealed the OIC countries have not fulfilled the basic requirements of risk-sharing financial arrangements and thus the framework for the comprehensive development of Islamic finance. Unfortunately many members of the D-8 countries not getting benefit greatly from financial development. In D-8 countries except for Malaysia, financial depth, as measured by the volume of broad money relative to GDP, is still below the average world level in 2015. In Malaysia, the total size of broad money which includes, inter alia, all narrow money, and deposits, was more than 1.3 times of GDP (135.1%) (SESRIC, 2016). Further Sengupta (2011) clarifies that Financial reform is essential for economic growth. This is because of two basic reasons. One is the credit and loan facility, which helps private investment to grow. Good monetary policy is, therefore, essential for economic development. The financial crisis of 2007-2009 affects the USA and the world economy is basically due to the failure of the banking system and the economy-wide credit policies. A second reason is that the networking strategy by the domestic banking sector can set up very profitable links with banks abroad and this facilitates the expansion of the world market.



CHAPTER 4
MACROECONOMICS
PROFILE OF D-8
MEMBERS

CHAPTER 4

MACROECONOMICS PROFILE OF D-8 MEMBERS

A. Profile of D-8 Organization

The D-8 Organization for Economic Cooperation, also known as Developing-8, is an organisation for development co-operation among the following countries: Bangladesh, Egypt, Nigeria, Indonesia, Iran, Malaysia, Pakistan, and Turkey. The objectives of D-8 Organization for Economic Cooperation are to improve member states' position in the global economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at international level, and improve standards of living. D-8 is a global arrangement rather than a regional one, as the composition of its members reflects. Organization for Economic Cooperation (D-8) is a forum with no adverse impact on bilateral and multilateral commitments of the member countries, emanating from their membership to other international or regional organisations.

The idea of co-operation among major Muslim developing countries was mooted by Necmettin Erbakan, the Prime Minister of Turkey, during a Seminar on "Cooperation in Development" in October 1996. The group envisioned co-operation among countries stretching from South East Asia to Africa. Representatives from Bangladesh, Egypt, Indonesia, Iran, Malaysia, Nigeria and Pakistan

attended the Seminar. This conference was the first step towards the establishment of D-8 and it was only after a series of preparatory meetings that D-8 was set up officially and began its activities with the Istanbul Declaration issued at the end of the summit of Heads of State and Government held in Istanbul on 15 June 1997.

The objectives of D-8 are to improve developing countries' positions in the world economy, diversify and create new opportunities in trade relations, enhance participation in decision-making at the international level, and provide better standards of living. The main areas of co-operation include finance, banking, rural development, science and technology, humanitarian development, agriculture, energy, environment, and health.

In the first Summit Declaration (Istanbul, 1997), the main objective of D-8 is stated to be socio-economic development in accordance with following principles: (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.

By the same token, D-8 is a forum with no adverse impact on bilateral and multilateral commitments of the member countries, emanating from their membership of other regional or international organizations.

The fifth D-8 Summit Declaration (Bali, 2006) produced the following, as illustration of the application of the group's objectives:

- Commitment to work together to solve the problem of economic disparities within our countries.
- Reaffirm commitment to enhance co-operation in the field of energy to develop alternative and renewable energy resources.
- Emphasize the importance of D-8 in contributing to the economic development of its member countries and ensure that it promotes global trade

The principal organs of D-8 are:

1. The Summit. The Summit, which is the supreme organ of D-8, is composed of the Heads of State/Government of member states. It is convened once every two years.
2. The Council is composed of the Minister of Foreign Affairs of member states. It is the political decision-making organ of D-8, and acts a forum for thorough and comprehensive consideration of the issues at hand.
3. The Commission is the executive body of D-8. It is composed of senior officials appointed by their respective governments. Each Commissioner is responsible for the national coordination in his/her respective country.

Currently serving as commissioners of the D-8 organization are:

1. Mohammad Khorshed Alam Khastagir (Bangladesh).
2. Omar Aboueich (Egypt)
3. Febrian Alphyanto Ruddyard (Indonesia)
4. Majid Bizmark (Iran)
5. Ahmad Kamrizamil bin Mohd. Riza (Malaysia)

6. Mustapha Lawal Sulaiman (Nigeria)
7. Tariq Karim (Pakistan)
8. Faruk Kaymakci (Turkey)

The group of D – 8 developing countries, are eight developing countries that have a majority Muslim population with the aim of increasing cooperation in development. The eight members include countries: Malaysia, Turkey, Egypt, Iran, Pakistan, Nigeria, Bangladesh, and Indonesia. The D-8 country group was first established in 1997 in Istanbul, Turkey. The population of D-8 member countries constitutes 14,6 % of the world's population (SESRIC, 2016). In this chapter we will discuss the economic profile of D-8 countries will be explained as follows.

B. Macroeconomic Profile of Bangladesh

Republic of Bangladesh is a country in South Asia which borders India. Bangladesh became independent in 1971. The years after independence were marked by hungers, natural disasters, poverty, unstable politics, corruption, etc. Bangladesh has the eighth largest population in the world and is one of the most populous countries in the world with a high poverty rate to date. however, Bangladesh's per capita income has increased since 1975 and the poverty rate has fallen by 20% since the early 1990s (Raihan, 2011). Inequality in Bangladesh can be seen from the GNI index, in 2016 the GINI coefficient in Bangladesh was 32.6 from these data it can be concluded that income inequality in Bangladesh is moderate, where

the Gini coefficient ranges from 0 to 1. If the coefficient $G < 0.3$ means low inequality, $0.3 \leq G \leq 0.5$ means moderate inequality $G > 0.5$ means high inequality (UNDP, 2020).

Population growth in Bangladesh reaches 1% annually. according to the IMF (International Monetary Fund) in 2015 the population of Bangladesh reached 159,857 million. In 2016 it increased to 161,513 million. In 2017 a significant increase occurred again in the amount of 163,187 million people. In 2018 it reached 164,877 million, and finally in 2019 the population of Bangladesh reached 166,586 million people. Bangladesh's large population is a large potential market for the industry. however it is unfortunate that the poverty rate is also very high in Bangladesh. Than in Bangladesh, around 70 percent of the poor people live in the rural areas (Raihan, 2011).

Bangladesh was ranked 135th in the HDI index ranking. in 2014 the HDI bangladesh index reached 0.572, then in 2015 it reached 0.588. the increase continues to occur in 2016 the HDI index reaches 0.599 and continues to increase to 0.609 in 2017 and 0.614 in 2018. HDI bangladesh indkes belongs to the medium development group. however, the overall increase in the Bangladesh HDI index from 1990 (0.388) to 2018 was quite significant, as was the past five years (UNDP, 2020).

Table 4.1.
Economic Performace in Bangladesh

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billion USD	208.322	235.623	262.077	288.424	317.465
2	Average of inflation	%	6.161	5.678	5.611	5.608	5.459
3	Investment of Total GDP	%	29.295	30.11	30.896	31.216	31.179
4	Exports of Goods and Services of Total GDP	%	-	17.18	16.65	15.04	14.80
5	Imports of Goods and Services of Total GDP	%	-	25.73	21.30	20.27	23.44
6	Current account balance	Billion USD	3.877	1.466	-5.556	-7.839	-6.422
7	Government Expenditure on Education of Total GDP	%	-	1.54	2.47	1.99	-

Source: International Monetary Fund (2020) & SESRIC (2020)

A comprehensive program of market-oriented liberalization policy reforms might have facilitated the macroeconomic development in Bangladesh. A record-low rate of inflation until the middle of the last decade, an earlier build-up of external reserves after 2001, and an improved resource position of the government suggest those measures have been successful. In the macroeconomic crisis of

the 1980s, the Bangladesh government implemented stabilization programs to force the economy to get back on track by the middle of 2000s, following which the economy has maintained strong economic fundamentals including satisfactory growth and a sound fiscal stance (Hossain, 2013). However, inflation rate is still higher than target. It was off-track in the first two years as excessive monetary growth and instability of the commodity prices fueled higher-than-targeted inflation. Subsequent correction of monetary policy put inflation back on course, although at 7.3% it is still higher than the Sixth Plan target (6%). This requires continuous monitoring and management. In the area of fiscal policy, although performance indicators are broadly on track, there are a number of concerns.

Public Policy Reform in Bangladesh

Economic liberalization in developing countries such as Bangladesh refers to both macroeconomic stabilization and micro-structural changes. Following the IMF and World Bank's advice, Bangladesh follows reforms to liberalize her economy, by reallocation in government expenditure, opening of the economy to trade and foreign investment, adjustment of the exchange rate, deregulation in most markets and the removal of restrictions on entry, on exit, on capacity and on pricing (Hossain, 2013).

Trade liberalization

In Bangladesh, trade liberalization has been one of the major policy reforms during 1990s and 2000s. Trade policy during 1972-1980 consisted significant import controls. During the 1980s,

moderate import liberalization took place. In 1984, a significant change was made in the import policy regime with the abolition of the import-licensing system, and imports were permitted against letters of credit (L/C). Since 1986, there had been significant changes in the import procedures and in the IPOs with respect to their contents and structure. Whereas, prior to 1986, the IPOs contained a lengthy Positive List of importables, in 1986 the Positive List was replaced by two lists, namely the Negative List (for banned items) and the Restricted List (for items importable on fulfillment of certain prescribed conditions). Imports of any items outside the lists were allowed. These changes might be considered as significant moves towards import liberalization, since no restrictions were then imposed on the import of items that did not appear in the IPOs. With the aim to increase the elements of stability and certainty of trade policy, IPOs with relatively longer periods replaced the previous practice of issuing import policy annually. Since 1990, the Negative and Restricted Lists of importables had been consolidated into one list, namely the 'Consolidated List' (Raihan, 2011).

Bangladesh initiated trade liberalization by the relaxation and withdrawal of import quota restrictions along with the unification of the exchange rate and devaluation of the domestic currency. Starting from mid-1980s tariff and non-tariff barriers were reduced substantially; the un-weighted average import duty rate declined from 74% in the early 90s to 24.3% in 2006. However, cuts in custom duties were offset by other protective measures like para-tariffs.

Bangladesh reduced protection to make import less costly and helped the export sector to improve its performance, and reduced protection policies which had retarded the growth of the domestic economy (Hossain, 2013).

In the year of 2007, the interim government of Bangladesh proposed a three-year import policy order (from the year 2006 to 2009). During this time, efforts have been made to reduce the number of restricted items from 60 to 24. The policy has relaxed some raw materials' imports in terms of tariff rate and also kept some items, i.e., polypropylene, coarse sugar, and pork (Haq & Zakaria, 2011).

In the 2009-2012 Import-Export Policy recentl is a big step for the continuation of international trade liberalization. Reforms instigated during this period included reducing and suppressing tariffs, implementing and issuing less complicated import tax structures, gradually removing non-tariff import restrictions, and promoting exports through exemption from income taxation, bonded warehousing, and flexible exchange rate management (Hossain, 2013).

Financial liberalization

The government created a comprehensive *Financial Sector with Reform Programme* (FSRP) in early 1990s and mandated an authority to design policy aimed at liberalizing the economy from government control, bringing indirect control in monetary policy, enhancing efficiency of financial institutions especially the banking sector, and restoring order in the financial sector. To bring all of these

policy measures to effect, a ‘National Commission on Money, Banking and Credit’ was established in 1984 with the assistance of the World Bank. The Financial Sector Adjustment Credit (FSAC) was also contracted simultaneously with the help of World Bank (Hossain, 2013).

Monetary Policy Reform

Until the early 1980s, Bangladesh maintained an overvalued and fixed exchange rate system in order to facilitate the inward-looking development strategy. The Taka was pegged to the Pound Sterling and the exchange rates with other currencies were determined by the rates between Pound and respective currencies in London. In 1980, the fixed exchange rate regime was replaced by a managed system of floating. Later, Bangladesh adopted a freely floating regime on 30 May 2003 by abandoning the adjustable pegged system. The transition to the floating regime was smooth and in the initial years the exchange rate remained stable, experiencing a depreciation of less than 1 per cent from June 2003 to April 2004.

As a result of the increased balance of payments deficit in the previous year, the Bank of Bangladesh began to shift from accommodative monetary policy to a more prudent attitude in 2012. The January 2012 *Bank of Bangladesh Monetary Policy* (MPS) statement, is an explicit policy from the previous policy stance with a tight money policy to curbing inflation and the external sector, while ensuring adequate private sector credit to stimulate inclusive growth.

Bangladesh opened its door to foreign entrepreneurs during 1980s in order to reap the benefit of overseas capital investment. The government built up the Board of Investment (BOI), lifted restrictions on capital and profit repatriation, and opened the industrial sector for FDI. Other government reform measures included tax exemptions for investors in the power generation industry, withdrawal of import duties from export oriented machineries, offering tax holiday schemes for investment in priority and less developed sectors, reducing restriction on entry and exit, and lowering bureaucratic barriers in getting approvals for foreign projects (Adhikary, 2011; Hossain, 2013). However, no strong evidence is found to indicate that the market reforms have reduced the incidence of poverty and Capital market liberalization has a positive impact economic growth in Bangladesh (Tisdell & Alauddin, 2002).

Fiscal reform

In the early stages of independence, the majority of government spending was spent on reconstruction and rehabilitation work. However, the government began a number of fiscal reforms in accordance with the IMF's *Enhanced Structural Adjustment Facility* (ESAF) in the early 1990s. *Value added tax* (VAT) largely replaces the previously differentiated version of sales tax. On the expenditure side, increased emphasis is placed on developing human resources and poverty alleviation programs, giving priority to education and providing health and family planning services and social safety net programs to serve vulnerable people (Bahar, 2009; Hossain, 2013).

Agricultural Subsidy Policy

The agricultural reforms have been undertaken from the early 1980s to the mid-1990s. Two waves of reforms took place namely in the early to mid-1980s where subsidies on inputs were cut back and domestic trading of inputs was liberalised. The second wave of reforms showed up in late 1980s and early 1990s that included the liberalisation of imports of inputs, private trading in grain markets both domestically and internationally and major reductions to longstanding programmes for public distribution of grains.

Table 4.2.

Public Policy Reforms in Bangladesh

Policy phases	Major policy interventions	Outcomes
1972–1975	High tariff regimes and high protection; import substituting; state-centric development policies; planned form of development.	Economic reconstruction; public sector dominance; limited role of private sector; low investment levels.
1975–1990	Gradual opening up; import and tariff liberalisation; privatisation; market orientation; outward orientation.	Rise of domestic entrepreneurial class; emergence of export-oriented RMG sector; rise of the middle class; strengthening of rent-seeking class
	Macroeconomic reforms:	Parliamentary democracy;

Policy phases	Major policy interventions	Outcomes
1990–2000	introduction of value-added tax (VAT); currency convertibility in the current account; further reduction of import tariffs; attempts at institution building; banking regulations, Company Act; further privatisation.	acceleration in trade openness; strengthening of private sector; acceleration in poverty alleviation; many Millennium Development Goals (MDGs) attained; increasing dominance of business class in economics and policy.
2000–till now	Deepening of import liberalisation; market-based (managed) exchange rates; political-business nexus; industrial-financial nexus; attempts at modernisation (telecommunication, digitisation); rise of the winner-takes-all politics.	Moderately high GDP growth rate of five to six percent; institutions remain weak; good governance deficits; low levels of FDI; rentseeking; confrontational politics; rising inequality.

Source: Rahman & Bari (2019)

Over the era of fifteen years, comprehensive and widespread reforms in agriculture policy were initiated. As a result, the market for both inputs and outputs had been almost completely liberalized than any previous time of considerable and pervasive state interventions and controls. Domestic support and subsidies to agriculture shrink

down than public investment in agriculture research and extension, flood control and rural infrastructure development (Hasan, 2012).

Even a liberalized trade policy of Bangladesh would not automatically guarantee increasing incomes for farmers. The policies aimed at increasing production and stabilizing prices should not necessarily rely mainly on price subsidies or large increases in public stocks. Instead, investments in agricultural research and extension service that increase agricultural productivity and efficiency, improvements in post-harvest management and agro-processing, and investments in market infrastructure can complement agricultural price and trade policies and support rapid agricultural growth and increasing farmer earnings in Bangladesh, even in the environment of shifting world prices (Hasan, 2012).

Industrial Policy Reform

The industrial policy 2010 is an apparent shift from the existing policy direction. The new plan has put stress on strengthening state-owned enterprises to both supplement and compete with the private sector whereas the previous policies laid emphasis on privatisation and denationalisation of *State-Owned Enterprises* (SOEs). It strikes that foreign entrepreneurs might be invited to run those loss-making state enterprises, or shares be offloaded to make it sure that those stay competitive, if needed. It has also noted that establishing Public Private Partnership (PPP) and running industries through private management will be given priority (Haq & Zakaria, 2011).

C. Macroeconomic Profile of Egypt

Egypt, is one of the major economies of the southern Mediterranean group of countries. Accounting for 0.89 per cent of global GDP calculated at PPP, within this group Egypt is the second largest economy (after Turkey) among those classified as net importers of oil. Egypt is one of the countries with the most Muslim population in the world. the number of Egyptian people is increasing every year, the average population growth of Egypt reaches approximately 2.7% per year. while in 2015 Egypt's population reached 89 million people, then in 2016 it reached 90.2 million people, in 2017 there were 94.8 million people, and in 2018 it reached 96.98 million, and finally in 2019 it reached 99.211 million people. the same as developing countries in general population growth in Egypt is still high (International Monetary Fund, 2020).

Table 4.3.
Economic Performance in Egypt

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billion USD	332.075	332.484	236.528	249.559	302.256
2	Average of inflation	%	10.994	10.199	23.537	20.86	13.866
3	Investment of Total GDP	%	34.911	33.534	35.704	38.689	40.829
4	Exports of Goods and	%	13.19	10.35	15.82	18.91	-

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
	Services of Total GDP						
5	Imports of Goods and Services of Total GDP	%	21.66	19.90	29.31	29.37	-
6	Current account balance	Billion USD	-12.143	-19.831	-14.394	-5.962	-9.301
7	Unemployment Rate of Total Labor Force	%	12.859	12.705	12.245	10.932	8.612

(International Monetary Fund, 2020) (SESRIC, 2020)

The rate of growth of state revenues does not always represent the welfare of the people. Besides unemployment, a problem that is often encountered in developing countries is inequality. The level of inequality can be seen from the GINI index. The GINI index in Egypt in 2012 amounted to 29.80 and increased in 2015 to 31.80, which reflects the current inequality in Egypt (SESRIC, 2020). Human Development Index or (HDI) is an index that is a measurement of economic policy results on the quality of life of people in a country. Egypt ranks 116th. The HDI index in Egypt in 2015 was 0.69, then 0.69 in 2016, 0.70 in 2017, and 0.70 in 2018, while this index showed Egypt was still in the moderate human development group (UNDP, 2020).

In Egypt, policies designed to support growth and sustain low incomes with generous subsidies have led to large public deficits and debt. Egypt also records a large trade deficit (12.4 per cent of GDP on average over the last 10 years) due to the limited diversification of the production base, which tends to direct the demand for capital goods and durable consumer goods towards imports and to a positioning of exports in the range of medium / low-tech goods, where the competition from other low-cost emerging economies, particularly those of Asia, is strong (Salsecci, Frigoli, & Eskander, 2015).

Egypt's economic reforms reflect the desires and needs of factions of officials and people in power rather than the public. This can be seen in the steps and levels of liberalization and privatization contested by the factions of officials and capitalists in the ruling coal.

Public policy reforms during 1991 - 1998

Public policy reforms in Egypt during 1991 - 1998 were divided into three generations of policies, three generations can be identified in the current economic reform process that began in 1991 with the main objectives of stabilizing the economy and generating sustainable economic growth according to Alissa, 2007. To achieve these objectives, the government has adopted reform programs based on reducing the role of the state in the economy (including liberalization and privatization), adopting market-based economic principles, increasing the global integration of the Egyptian economy by opening it to outside competition, encouraging exports, and increasing the economy's dependence on domestic revenue. The first

generation of reform, from 1991 to 1998, started with the launching of a successful stabilization effort. In January 1991, the interest rate on Egyptian pounds was liberalized; and in February 1991, the government decided to liberalize the foreign exchange market and to establish primary and secondary markets (Alissa, 2007).

Public policy reforms during 1998 - 2004

The second generation of reform, from 1998 to 2004, focused on trade and institutional measures. During this period, efforts to introduce new legislation intensified. In 2001, a Real Estate Mortgage Law was enacted. The year 2002 witnessed extensive economic reform measures on the legal level. Laws were promulgated pertinent to Special Economic Zones, export promotion, intellectual property rights, chambers of commerce, and money laundering. These were followed by a unified banking and Central Bank Law in 2003. In January 2003, the exchange rate was liberalized. As the currency depreciated, the prime minister issued Decree 506 binding exporters to sell 75 percent of the foreign currency they received to banks in Egypt. But this decision was canceled at the end of 2004 because it was deemed unconstitutional, and the currency has since depreciated (Alissa, 2007).

During the same period, Egypt signed a number of trade agreements, including the Trade and Investment Framework Agreement with the United States in 1999; a free trade agreement with other countries belonging to the Common Market for Eastern and Southern Africa in 2000, and the Agadir free trade agreement with

Jordan, Morocco, and Tunisia in 2004. The EU Association Agreement came into force in June 2004, after trade-related issues came into force on a provisional basis in January 2004. Egypt's participation in the World Trade Organization, combined with the various trade agreements it has signed, has pushed the country to reform its trade policies and to be more sensitive to international standards, especially in the agriculture and industrial sectors (Alissa, 2007). Egyptian economy became more sensitive to growth in countries belonging to the *Organization for Economic Cooperation and Development* (OECD).³ They show that in the period 1988–2003, GDP growth rates in high-income OECD countries had a simple correlation of 0.70 with GDP growth rates in Egypt, 0.53 with the *growth of gross domestic fixed investment* (GDFI), and 0.69 with the ratio of GDFI to GDP (OECD, 2017).

Public policy reforms during 2004 - 2011

The third generation from 2004 to 2011. The Government under Prime Minister Dr. Nazif is working with determination since its appointment in 2004 to foster sustainable economic growth in order to raise living standards. Egypt's long term vision of development includes two main goals: achieving high and sustainable growth and alleviating poverty and income disparity. To this end Egypt is implementing a five-year national development plan seeking to achieve growth by maximising use of the private sector as a catalyst for development, as well as changing the role of the government in managing the economy. In the past four years,

economic reform has been a top priority on the government's agenda. Egypt has focused on changing the business environment to facilitate investment by reducing tax burdens, providing clear and stable investment policies and regulations, and improving then interface between business and government. Within a relatively short period these reforms succeeded in boosting GDP and FDI to record levels.

Egypt has delivered one of the best performing emerging stock markets worldwide. With new, more transparent monetary policies and a renewed privatisation program, Egypt has revitalised the business community and fostered a worldwide confidence in Egypt's economy. The transformation to an open market economy is influencing Egypt in different ways: more business is in the hands of the private sector, markets are liberalised through bilateral trade agreements and attractive investment opportunities have been created in a variety of sectors that reflect the diversity of the Egyptian economy. Results of this policy are already visible: economic growth has increased from 3% in 2003 to 7.2% in 2007; the currency has stabilised and the foreign reserves have increased while the exports are growing at 20% a year (Alissa, 2007).

Public policy reforms in 2016 to the present

Public policy reform from 2016 to the present di Egypt dilansir dari The IMF stated that the policies and reforms developed by the Egyptian government were aimed at restoring stability and promoting inclusive growth through exchange rate stabilization and monetary, and financial-sector policies; fscal policy, social protection,

and public financial management; and structural reforms and inclusive growth. These included: (1) The liberalization of the foreign exchange system; (2) Containment of inflation through controlling credit to the government and banks and boosting the Central Bank's management of liquidity; (3) Improving banking; (4) Restoring debt sustainability; (5) Reduction of subsidies and containment of the wage bill; (6) Increased transparency; (7) Streamlined business licensing; (8) More finance for small and medium enterprises; (9) New insolvency and bankruptcy procedures; (10) Training programs for youth; (11) Increased availability of nurseries and safer public transportation to encourage women's employment; and strengthening social protection programs through additional food subsidies, cash transfers, and free school meals (The Tahrir Institute for Middle East Policy, 2019).

Reform Measures begin On November 3, 2016, the government removed restrictions on the pound, moving to a flexible exchange rate. The currency, which was held at just under 9 pounds to the dollar in the months prior to the float, lost nearly half its value overnight, and ended the year close to 19 pounds to the dollar. Despite difficulties with high inflation and rising costs, the bank has adhered to the flexible rate and the pound has remained between 17 and 18 pounds to the dollar since then. A series of laws had been passed from 2014 to reform the tax scheme, with the 2016 passage of a VAT required by the IMF. After legislation passed in 2014 to expand the tax base (including a 10 percent tax on profits from stocks, a 10 percent capital gains tax, both of which were later canceled, and a

property tax, all enacted by executive decree), the August 2016 approval of the VAT marked a significant tax reform, abrogating the previous sales taxes. The VAT began at 13 percent, rising to 14 percent by 2017. Immediately upon floating the pound, the government announced new subsidy cuts. While cuts had been rolled out since 2014, with the announcement of the float the government also announced that fuel prices would increase by 40 percent, with further cuts to energy subsidies to come afterward. The cuts resulted in significant price increases, including an increase of about 300 percent in the price of Cairo Metro tickets in April 2018, sparking protests that led to the arrest of at least 30 protesters. Further cuts in water subsidies (with price increases up 45 percent), electricity (raising prices by 21 percent for households and 42 percent for factories), and gasoline (up 50 percent) occurred in 2018. By contrast, the government increased food subsidies by 5 percent in budget; these subsidies have also been reformed since 2014, with greater targeting and increased cash transfers, in an effort to focus subsidies at the end of the supply chain.

After the public backlash against these subsidy cuts and in line with recommendations from the IMF, the government increased social welfare spending in the form of food cash transfers, welfare payments, and pension payments. Active since 2015, the Takaful and Karama cash transfer programs are estimated to cover about 10 percent of Egypt's population. The Karama program targets the elderly and those with disabilities, whereas Takaful targets poor

households with children under 18 and without assets such as land or cars. Food ration cards have also increased from 14 to 50 Egyptian pounds (LE) per person, allegedly a result of the fiscal space from the reduced subsidies. And in June 2018, parliament approved legislation intended to increase bonuses for about five million government employees pensions for about 9.5 million people, and to expand tax credits to benefit 20 million. The government passed a number of laws designed to make the Egyptian business and investment climate more attractive for both domestic and foreign capital. Such reforms include an industrial licensing law intended to reduce the wait time for new projects, an investment law that guarantees for international investors and reduces barriers for foreign company operations, and a bankruptcy law that streamlines the post-bankruptcy process, minimizing court involvement in such cases. Additionally, in March 2018, the government announced that it would begin a program of privatizing state companies, with 23 set to sell minority shares in the stock market beginning the fourth quarter of 2018. In an effort to encourage domestic industrialization, Sisi issued decrees to adjust tariffs on imported goods. The first adjustments were decreed in January 2016 and the second round in September 2018. The second round of changes included increases of up to 60 percent for over one thousand imported items, including foods and other household items (The Tahrir Institute for Middle East Policy, 2019).

D. Macroeconomic Profile of Indonesia

Indonesia's population is among the top 5 largest population in the world. Indonesia's population growth averaged 1.1% annually. according to the IMF Indonesia's population in 2015 reached 255,588 million people, and in 2016 it reached 258,497 million, then in 2017 and 2018 there were 261,356, and 264,162 million people, most recently in 2019 it reached 266,998 million people. The rate of growth Indonesia revenues does not always represent the welfare of the people. Besides unemployment, a problem encountered in developing countries is inequality. the level of inequality can be seen from the GINI index. GINI index in Indonesia in 2014 amounted to 39.40, and experienced an increase in 2015 GINI index reached 39.70 and in 2016 experienced a decline to 38.60, most recently in 2017 reached 38.10, although there was a decline from 2015 to 2017 inequality in Indonesia is still in the group moderate inequality (International Monetary Fund, 2020). The level of the Human Development Index of Indonesia in 2018 was ranked 111. in 2014 the Indonesian HDI index reached 0.68, and in 2015 it was 0.69, and finally in 2018 there was an increase to 0.71. Indonesia is included in the middle human development group (UNDP, 2020).

Economic Reform During 1983-1991

Economic deregulation – which was implemented through structural adjustment packages reform of Soeharto significantly liberalizing trade, such as simplifying export/import approval procedures, giving exporters greater freedom in the use of their export

proceeds, providing subsidized export credit, and significant across the board tariff reduction. Approval procedures for foreign investments were also simplified (Kuncoro & Resosudarmo, 2015). the government's monetary policy was conservative and generally based on maintaining low rates of inflation. A major reform of the banking system was undertaken to oblige banks to follow market principles in attracting deposits and allocating credit.

Table 4.4.

Economic Performance in Indonesia

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita	Billion	860.7	932.0	1,015	1,022	1,111
	of Current Prices	USD	41	66	.29	.45	.71
2	Average of inflation	%	6.363	3.526	3.809	3.198	3.205
3	Investment of Total GDP		34.06	33.85	33.71	34.46	34.51
			3	9	7	5	9
4	Exports of Goods and Services of Total GDP	%	21.16	19.09	20.19	20.97	-
5	Imports of Goods and Services of Total GDP	%	20.78	18.33	19.17	22.06	-
6	Current account balance	Billion	-	-	-	-	-
		USD	17.51	16.95	16.19	31.05	31.75
			8	3	6	1	2

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
7	Unemployment Rate of Total Labor Force	%	6.18	5.61	5.5	5.34	5.2

(International Monetary Fund, 2020) (SESRIC, 2020)

In its fiscal policy, the government undertook major changes in the level and pattern of expenditures and revenues. On the expenditure side, a major budget retrenchment effort was made. However, expenditures on education, health and “other wages and salaries” was cut relatively less than subsidies and capital expenditures on investment projects in the various sectors. Several large public investment programs were cancelled or postponed. On the revenue side, important reforms in the corporate tax structure and income tax were conducted. A value-added tax replaced an old sales tax system. New property tax (PBB) and income tax were introduced, replacing several previous land and wealth taxes (Kuncoro & Resosudarmo, 2015).

Outcomes of the reform were positive. The primary objective of stimulating non-oil exports was achieved in a relatively short period of time. In terms of government revenue, the reform was able to reduce the government’s dependency on the revenue from oil and gas taxes. The share of oil and gas taxes on the total government revenue dropped from approximately 62 percent in fiscal year 1982/83 to approximately 27 percent in 1991/92. There are several reasons behind the relative success of this reform: (1) the financial

liberalization program led to an increase in banking intermediation, hence making private investment easier; (2) the step-by-step investment and trade liberalization program not only improved the efficiency of the economy and attracted foreign investors to invest in Indonesia, but also supported national industrial development; (3) Two devaluations in the 1980s restored the competitiveness of non-oil tradable goods; (4) tight monetary control kept the inflation rate low, so capital flight was avoided; (5) the new tax program increased government revenue, so that government expenditure for the development of infrastructure, education and health could be maintained (Kuncoro & Resosudarmo, 2015).

Economic Reforms During 1994-1997

The government announced a bold economic deregulation, mainly related to investment and trade policies, which included the abolition of the limitation on foreign ownership, a reduction of the trade barrier in the form of tariff cuts, and the opening up of nine previously closed sectors to foreign investment. The divestment rule, which had been a major deterrent to foreign investors, was abolished. It also opened up nine sectors previously closed to foreign investment, which included sea ports; production, transmission and distribution of electricity; telecommunications; shipping; civil aviation; drinking water; railways; nuclear power generation; and the mass media (Kuncoro & Resosudarmo, 2015).

Another trade reform, called the May package, was introduced. The package encompassed a significant and almost across

the board reduction in tariffs, as well as a pre-announced schedule of further tariff reductions to the year 2003. Further, more transparent tariff surcharge was enacted to replace the remaining non-tariff barrier. However, this growth masked two important developments in the Indonesian economy. First, financial liberalization had attracted a huge capital inflow, in the form of corporate to corporate loans as well as through commercial banking. Second, there was erosion in the fiscal discipline that changed many aspects of economic incentives including consumption and investment activities (Abonyi, 2005). The overall objective of the Program was to improve the governance of financial and public sector allocation of resources through: (i) adopting best financial governance practices; (ii) increasing the disclosure and transparency of financial information; and (iii) strengthening the legal and regulatory framework for the financial sector. To achieve these objectives the Program was very comprehensive in scope, including 83 reform measures (many with submeasures), and involving a number of implementing agencies. The Program timetable required the government to implement this comprehensive and wide-ranging program of policy reforms in the financial sector within a relatively short period of approximately 18 months (Abonyi, 2005)

Economic Reforms under IMF Supervision during 1998-2003

The first program was the financial restructuring program, which was aimed at strengthening the weak banking system plagued by large non-performing loans (Abonyi, 2005). The second program

was the liberalization of both trade and foreign investment. The medium-term tariff reduction was broadened so that motor vehicles and alcohol products were the only categories remaining outside the general commitment to lower tariffs to a maximum of 10 percent by the year 2003 (Kuncoro & Resosudarmo, 2015). In the area of domestic trade, restrictive marketing arrangements for manufactured goods such as cement, paper and plywood, and agricultural goods such as cloves, cashew nuts, oranges and vanilla were abolished, while the control on the pricing of cement was removed. In the case of investment policy, restrictions on foreign investment in the palm oil industry were removed in February 1998 (Kuncoro & Resosudarmo, 2015). In the field of governance, proper bidding processes for government contracts such as infrastructure development, and a more transparent mechanism to evaluate private sector proposals for government projects was to be adopted. In the case of fiscal discipline, it was also decided to consolidate off-budget items spread all over government ministries into the budget (Abonyi, 2005). The government also promised to conduct a more vigorous and genuine privatization. There has been a growing public perception that the IMF reform program has not shown much progress in boosting economic growth and creating jobs. Since 1998, the recovery process has been slow and often painful, so that the reform has lost much of its credibility. The legislative body voted in 2002 not to extend the contract with the IMF beyond 2003 (Kuncoro & Resosudarmo, 2015).

Economic Reforms During 2004-2014

President SBY. Therefore, the government held an Infrastructure Summit in January 2005 to attract private participation in infrastructure development. However, this effort was less successful because it required the government to carry out reforms and produce the assistance needed to improve investment infrastructure. December 2004 to cancel the new Electricity Law, which replaced it to compete with sectors in the sector. Improving, Indonesia continues to improve the infrastructure deficit during SBY's administration. Hill, 2015 Published, cited by Aswicahyono & Christian, 2017 encouraging infrastructure development (for example through the Master Plan for the Acceleration and Expansion of Indonesian Economic Development or MP3EI), but the progress in reality is quite disappointing. Indonesia continues to lag behind opposing countries in the quality of infrastructure and logistics indicators. New infrastructure investment makes it very difficult and impeded, making investment difficult in Indonesia. Meanwhile, to improve the investment climate, in February 2006, the government issued a package of policy reforms, which are steps for economic reform. The three main characteristics of this reform are: First, it is top-down or bottom-up.

Second, it has a specific purpose and time period, and specifically appointed implementing reforms. Third, for each reform, there are sub-reforms that are more specific with measurable targets and concrete steps for action. This policy package is quite extensive,

covering 85 reform efforts, including the new Investment Law, the new Taxation Law, and the amendment to the Customs Law and the revision of the Labor Law. As of the end of 2006, only 35 of the 85 policy measures had been approved. However, this policy reform was less effective in its implementation, partly due to chronic problems such as lack of capacity and coordination between ministries, as well as slow progress in the DPR (Aswicahyono & Christian, 2017). In the era of President Yudhoyono's administration, there were three major changes in the political and economic landscape that affected the efforts and practices of liberalization or economic reform. First, there is a transition of authority from the president to parliament. Unlike the Suharto era, presidential powers began to be reduced, and parliament had more power and influence in determining the direction of certain policies or economic reforms (Aswicahyono & Christian, 2017).

This was particularly demonstrated by SBY, who appeared to lack the courage to carry out the necessary economic reforms but was unpopular, for fear of experiencing the same fate as the two previous presidents who had been imposed by the DPR. Second, key ministers who are related to the economy are now political offices, and are mostly taken from various political parties (known as the Pelangi Cabinet in the first SBY administration). This was done as an effort to get political support from parliament. Third, decentralization and regional autonomy, which have transferred many political and economic management responsibilities to regional governments. As a result of the three institutional changes, there is fragmentation in the

policy making process. In practice, each ministry or local government can operate according to its own agenda, and not carry out a big vision at the national level (Aswicahyono & Christian, 2017).

Economic Reforms From 2014 to the present

External conditions were less conducive to Indonesia's economic growth in 2014, which was marked by a slowdown in the global economy (especially recessions in Europe and Japan and slowing growth in China and India), drying up global liquidity, and falling export commodity prices. In such a situation, Jokowi's approach to stimulating economic growth is through domestic economic reforms which mainly focus on supply-side reforms, including through infrastructure development and improving the investment climate. One of the radical reforms carried out by Jokowi came less than a month after the inauguration, namely a significant cut in fuel subsidies (BBM) in an effort to reduce fiscal burdens. On 18 November 2014, the government raised prices subsidized fuel (Premium) to Rp 8,500 per liter, and the price of subsidized diesel to Rp 7,500 per liter. In fact, taking the momentum from the fall in world oil prices, Jokowi made further reforms, by removing premium fuel subsidies, providing subsidies Rp 1,000 per liter for diesel, and follow the market mechanism in determining prices. This bold reform move succeeded in creating the fiscal space that was badly needed to finance a number of other development agendas, especially infrastructure development. President Jokowi decided to return to economic reform through the launch of the Economic Policy Package

in September 2015. Until June 2016, there have been 12 Economic Policy Packages (PKE), each of which is trying to resolve different policy issues. Most of the reforms carried out through the policy package seek to remove regulatory and bureaucratic obstacles that prevent the private sector from conducting its business efficiently, as well as providing investment incentives for private businesses in certain sectors. In conclusion, in this period, the Jokowi government could no longer rely on exports as a source of growth due to a slowing global economy and low commodity prices. Government spending is also less reliable, given the very low tax revenues in recent years (Indonesia's tax ratio is only around 10-11% of GDP) (Aswicahyono & Christian, 2017).

E. Macroeconomic Profile of Iran

Iran has a strong foundation for rapid growth and development, with the world's second largest petroleum reserves, a young, well-educated population and a well-developed industrial and commercial infrastructure. But revolution, war, mismanagement and factional feuds over economic policy have undercut potential since the Islamic Republic's birth in 1979 (Maloney, 2008). The average population growth rate in Iran reaches 1.1% per year. the rate of population growth in Iran shows an increase in the last five years. in 2015 it reached 79,476 million people, in 2016 it reached 80.46 million people, in 2017 it reached 81,423 people, then in 2018 and

2019 it was 82.36 and 83,269 million people (International Monetary Fund, 2020)

GINI index in 2013 was 37.40, and increased to 38.80 in 2014, then the increase continued to occur in 2015 reaching 39.50, and finally in 2016 it reached 40.00. From this data for several years the inequality of income distribution in Iran has continued to increase. From the index value we can conclude that the inequality of Iran is quite high (International Monetary Fund, 2020). For human quality in Iran it is quite good that Iran is ranked 56th in HDI. The HDI index in the Iranian state has continued to increase over the past five years according to UNDP data, in 2015 HDI index reaching 0.79, and in 2018 reaching 0.80, this shows the quality of development in the good Iranian society (Ghodsi, Astrov, Grieveson, & Stehrer, 2018). This put Iran among the countries ranked as 'high human development' states. Based on the United Nations Development Programme (UNDP) education levels index, Iran is slightly above the simple average of comparator countries, and notably scores higher than Turkey.

The Iranian economy has greatly benefited from the lifting of the nuclear sanctions in 2016, when the Joint Comprehensive Plan of Action (JCPOA) nuclear deal was signed. Oil production and exports rebounded strongly, leading to a 27% increase in the overall exports (of goods and services, in US dollar terms) and real GDP growth of 12.5% in 2016/17. The boom in the oil sector spilled over into the non-oil sector of the economy as well, and the unemployment rate

declined somewhat, to 11.7% in the first half of 2017/18 (International Monetary Fund, 2020).Iran’s economic performance over the past several decades has been rather dismal: oil production and exports have been at best stagnant, real GDP per capita has never reached its historical peak of 1976, and the economy has been adversely affected by the Western sanctions in a number of ways. Although there have been a few instances of double-digit GDP growth (notably in 1990-1991 and most recently in 2016, following the JCPOA-related relief of sanctions), on several occasions the economy slid into recession. At least to some extent, economic problems have been also related to the demographic developments: population has grown strongly and faster than the labour market could absorb, resulting in unemployment rates in excess of 10%. Unemployment would probably have been even higher, had it not been for the low activity rate, hovering below 50% (SESRIC, 2020).

Tabel 4.5.

Economic Performance in Iran

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billion USD	375.404	404.445	430.709	446.105	458.5
2	Average of inflation	%	11.919	9.05	9.641	30.486	35.678
3	Investment of Total GDP		34.911	33.534	35.704	38.689	40.829
4	Exports of	%	12.15	41.34	1.80	-17.77	

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
	Goods and Services of Total GDP						
5	Imports of Goods and Services of Total GDP	%	19.27	20.81	23.84	21.28	
6	Current account balance	Billion USD	1.237	16.283	16.453	18.271	- 12.268
7	Government Expenditure on Education of Total GDP	%	7.76	8.10	-	-	-
8	Unemployment Rate of Total Labor Force	%	11	12.425	12.075	14.481	16.784

Source: International Monetary Fund (2020), SESRIC (2020)

Iran's gross national income per capita (in current price) was USD in 375.404 billion in 2015 and increase to 458.5 billion in 2019 according to the IMF. GDP, is negligibly low. Quite on the contrary, due to persistent current account surpluses, Iran has accumulated sizeable claims against the rest of the world. The financial account of the balance of payments has been mostly negative (table above), implying persistent capital outflows. On top of that, foreign exchange reserves of the CBI have been generally on the rise. As a result, foreign assets of Iran's banking system, including the CBI, stand now

at 50% of GDP. The foreign exchange reserves of the CBI alone reached USD 120.7 billion at the end of 2016/17, corresponding to 16 months of imports, although reportedly not all these funds can be accessed. This is because of the remaining US sanctions that have been waived since the implementation of the JCPOA in 2016 but have not been completely removed (Ghodsi, Astrov, Grieveson, & Stehrer, 2018).

In 1997 President Mohammad Khatami was elected president. President Mohammad Khatami pointed out that efforts were ultimately ineffective in reforming the power structure. From the beginning, this movement focused on social, cultural and political issues. He argues that strengthening the rule of law and regional declarations represent the prerequisites needed for growth and development. This strategy reflected the reformists' discomfort with the free market, their inherited leftist heritage. They also worry that the impact of destabilization from real economic liberalization might require public support, which is their strongest asset. During his two terms, Khatami reached a strong start for a serious economic restructuring. Among his achievements:

- Unifying the exchange rate
- Establishing an Oil Stabilization Fund as a cushion against market volatility
- Authorizing the first post-revolutionary private banks
- Pushing through some improvements to the framework for foreign investment

- Stewarding the economy through a tumultuous period of unprecedented low oil revenues
- And luring new interest and investment from the West.

More ambitious plans, including efforts to reduce the costly energy subsidies, met opposition from conservative parliamentarians. They adopted an obstructionist approach to Khatami's economic agenda, as a means of subverting his political and cultural reforms (Azadi, 2019). In 2005 president Ahmadinejad was elected president of Iran. President Ahmadinejad in 2005 emphasized the theme of economics with a populist cry. He promised to distribute oil revenues to the entire population, and showed a modest lifestyle compared to its competitors. He took office at the height of a substantial increase in oil prices, which sustained an illusionary growth rate and brought in epic income and foreign exchange earnings. Another factor that benefited Ahmadinejad was the rise of Asia as a commercial counterweight to Iran's historic trading partners in Europe, which allowed Tehran to blunt the effects of US and US sanctions (Maloney, 2008). After the United Arab Emirates, China is the biggest source of Iranian imports. And Asia buys more Iranian oil than any other region. Ahmadinejad took an assertive and problematic role in policy by:

- Extending credit and expenses by way of freewheeling
- Fighting openly with a series of cabinet ministers and heads of the Central Bank
- Dismantling the planning bureaucracy

- Weakening government technocrats
- And enjoy the reverberation of the global economic crisis.

Ahmadinejad did move boldly, however, to address longstanding distortions plaguing Iran's economy, such as subsidies and state dominance, but in a counterproductive way. Privatization benefited mainly state-affiliated companies, particularly those associated with the Revolutionary Guards, whose retirement funds took a majority stake in the state telecommunications firm in 2009 (Maloney, 2008). Ahmadinejad's assiduous use of economic issues made him especially vulnerable. The mood inside Iran soured as the global economic slowdown began to impact Iran and the price of oil crashed to less than one-third of its 2008 high. Senior political figures and renowned economists were sharply critical of Ahmadinejad's spending and interventionist approach, while strikes by bazaaris in 2008 and 2010 forced the government to delay or abandon planned tax hikes. The economy featured prominently in the 2009 presidential campaign (Habibi, 2008). Ahmadinejad countered withering attacks on his record with misleading statistics and corruption allegations against his rivals. The post-election unrest aggravated Iran's economic dilemmas, intensifying the brain drain and capital flight. It also fueled European support for vigorous economic pressure. New U.N. sanctions in mid-2010 boosted the U.S. effort to cut off Iran's access to the international financial system. They also provided a platform for surprisingly robust measures by the European Union (Habibi, 2008). The 2010 sanctions also provided a modest,

temporary boost. The departure of foreign investors opened opportunities for domestic firms, particularly those with Revolutionary Guard connections, and boosted the Tehran Stock Exchange. Sanctions also generated new pragmatism on economic liberalization. They galvanized support for previously unattainable reforms to the subsidies and even the investment framework. Yet early evidence suggests the 2010 sanctions may have hurt the regime, forcing costly and time-consuming shifts in banking and trade relations (Habibi, 2008).

Starting in October 2010 the reform, officially referred to as Targeted Subsidies Reform, made Iran the first major energy producing and exporting country to cut drastically massive indirect subsidies to energy products and replace them with across the board energy dividend transfers to the population (Guillaume, Zyteck, & Farzin, 2011). furthermore, these reforms call for a gradual increase in energy prices over the next five years (2010-2015). The retail prices of gasoline, diesel, fuel oil, kerosene and liquefied petroleum gas (LPG) are required to increase by no less than 90 percent the price of the Persian Gulf free on ships (FOB). The retail price of natural gas is also expected to increase to at least 75 percent of the average export price after reducing transmission costs and export taxes. For electricity and water, prices are set to increase to cover the full cost price. The Reform Law also stipulates the gradual elimination of subsidies for wheat, rice, cooking oil, milk, sugar, and postal services, air and rail in the same five-year period (Hassanzadeh, 2012). To

compensate the state for higher energy prices, the law has authorized a maximum payment of 50 percent of fiscal revenue resulting from price increases in the population in the form of:

- In-cash and in-kind payments bearing in mind each family's level of income.
- Social security system, including introduction of national health insurance, job creation and house mortgage loans.

After the end of the Ahmadinejad era, one of the veteran political figures in Iran, Hassan Rouhani assumed office on August 4, 2013 and put special emphasis on problems of corruption and shrinking economy in Iran. He firmly decided to solve the Iranian nuclear conflict with the West in order to get rid of the burden of sanctions on economy and enable Iran's re-integration into world politics. Upon taking office, Rouhani fulfilled his promise to strictly adhere to the Additional Protocol of the United Nations Security Council (UNSC) that required the suspension of nuclear enrichment activities. By paying charm offensive to the UN General Assembly (UNGA), he declared his opposition to nuclear weapons and his support for peaceful nuclear activities. Unlike the traditional and hardline conservatives, it is obvious that Rouhani's foreign policy objectives are very well compatible with the interests of the reformist camp. After a series of negotiations, the Geneva Interim Deal, officially titled as the Joint Plan of Action, was signed between Iran and the EU/ E3+3 (United Kingdom, France, Germany, USA, Russia and China) on November 24, 2013.

According to this alliance, Iran agreed to restrict its nuclear programme in exchange for limited sanctions relief within six months. This interim agreement was faced with the opposition of hardliners, Iran's Majlis and Republicans in the US Congress who were skeptical about the enrichment technology of Iran and demanded the discontinuation of negotiations and increase in enrichment activities. The framework agreement, the Lausanne Treaty, which was agreed upon on April 2, 2015, constituted the second step toward a final comprehensive deal. This framework agreement provided the International Atomic Energy Agency with inspection power and proposed reduction in Iran's enrichment capacity in exchange for phased sanctions relief. This deal includes the reduction of all installed centrifuges by two-thirds and Iran's stockpile of low-enriched uranium, bringing back the EU and US sanctions unless Iran meets the requirements and the redesign of Irak heavy-water reactor so that it cannot produce weapons grade plutonium (Kaya & Şartepe, 2015). Choices made by Iran in the post-nuclear agreement period will entail reappraisal of U.S. policy toward not only Iran but also the region. Iranian strategy has typically been governed by attempts to balance: (a) the domestic objective of sustained economic growth with preservation of the domestic political structure, and; (b) the external objective of securing a favorable regional strategic position (Iqbal Z. , 2016).

F. Macroeconomic Profile of Malaysia

Population growth in Malaysia is the lowest among other D-8 countries. recorded population growth in Malaysia reached 31,186 million people in 2015, in 2016 reached 31,634 million people, 32,023 million in 2017, and in 2018 it reached 32,385 million people, in 2019 it became 32,801 million people (International Monetary Fund, 2020). The quality of human development in Malaysia is included in the high development group where Malaysia ranks 61st in the HDI rank. HDI index in Malaysia is quite volatile over the past few years, where in 2013 it reached 0.67, in 2015 it reached 0.66, and in 2016 it declined again to 0.65, then in 2017 it increased to 0.68 (UNDP, 2020). The level of income distribution inequality in Malaysia is also quite high, the GINI index recorded in 2011 was 43.90, and in 2013 it declined to 41.30, then in 2015 it declined again to 41.00 (International Monetary Fund, 2020).

Tabel 4.6.

Economic Performance in Malaysia

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billio n USD	301.35	301.25	318.95	358.57	365.30
2	Average of inflation	%	2.104	2.076	3.799	0.969	1.024
3	Investment of Total GDP		25.424	25.996	25.56	23.614	22.484

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
4	Exports of Goods and Services of Total GDP	%	69.45	66.78	70.05	68.76	-
5	Imports of Goods and Services of Total GDP	%	61.92	60.12	63.17	61.75	-
6	Current account balance	Billio n USD	9.001	7.21	8.905	7.523	11.444
7	Government Expenditure on Education of Total GDP	%	4.97	4.82	4.74	4.53	4.97
8	Unemployment Rate of Total Labor Force	%	3.15	3.45	3.425	3.325	3.425

Source: International Monetary Fund (2020), SESRIC (2020)

Public Policy Reform During 1970-1986

Immediately after independence, Malaysia began aggressively pursuing an import substitution industrialization strategy to supplement its already-vibrant commodity export industries.¹⁷ In 1957 the government enacted the Pioneer Industrial Ordinance, which

provided investment incentives for labor-intensive manufacturing for the domestic market. At the same time the government imposed import tariffs to protect these nascent industries. The combination resulted in brisk, although uneven, economic growth throughout the postindependence decade. Significant strides were also made in technological upgrading within several primary commodity industries, notably rubber and palm oil (Ritchie, 2004).

Public Policy Reform During 1986-1996

The deepening financial and capital crisis of the early 1980s further bifurcated the Malaysian economy. A combination of dwindling foreign loans and the sudden expansion of available investment capital due to the Plaza Accord yen revaluation pressured the government to intensify earlier reform to encourage FDI. Virtually overnight the government relaxed all restrictions on capital flows and ownership that might impede the inflow of FDI, resulting in a tremendous upsurge of incoming FDI into Malaysia. Yet although growing FDI shifted coalitional priorities and generated dramatic social and economic transformation, entrenched institutional legacies and coalitional preferences impeded more comprehensive economic reform. 1992 Mahathir unveiled “vision 2020,” a plan to transition Malaysia into a developed economy by the year 2020. In addition to growth, innovation and technological development were now needed to create the capacity for sustainable, long-term upgrading (Ritchie, 2004).

Many of the new policy initiatives built on earlier investment liberalization. In 1986 the government restructured the investment regime by all but eliminating the application of NEP or ICA requirements for any company exporting the bulk of its production as well as for domestic firms with less than RM 1 million shareholder capital. In the same year the Malaysian Industrial Development Authority (MIDA) was overhauled as a one-stop investment shop where new and potential investors could go to resolve all of their problems and concerns. The tax code was liberalized and rewritten. But perhaps most important, in July 1985 the government significantly liberalized ownership restrictions, and not just for firms exporting all of their production, but also for those producing for the local market (Ritchie, 2004).

Public Policy Reform During 1987 - 1997

The Malaysian economy plunged into its 1985 and 1986 recession notwithstanding that the long boom in the US began in the early 1980s (Taylor, 2009). Public sector finances were in an acute state as a result of excessive reliance of the Government on borrowings and spending to support growth (in the face of weak external demand in the late 1970s and early 1980s), as well as to finance its ambitious distribution program that led to a ballooning of its deficits and debt and to a bloated and poorly managed public enterprise sector. The Government had therefore no choice but to turn to the private sector through privatization, but with the original objective of NEP emerging intact. This took the form of a program of

ownership liberalisation and privatisation as well as a reform of the tax system (through a big cut in the tax rate on a phased basis), and of the labour market. The focus of ownership liberalisation was the manufacturing industry. Foreigners were now allowed to own 100% of shares in a manufacturing firm compared to only 30% before so long as it exported at least 50% of its output (whereas the export requirement before was set at 80% and above) or employed at least 350 persons (whereas employment was not given any weight before) (Thillainathan & Cheong, 2016).

More than any other prime minister of Malaysia, Mahathir wanted to transform Malaysia into a newly industrializing country under indigenous Bumiputera corporate leadership. While Mahathir's policies eventually favoured various well-connected business interests, he has to be credited with the major development policy innovations from 1981 until his retirement in late 2003, including the 'Look East' policy, his labour policy, the 'Malaysia Incorporated' policy, the privatization policy, 'Vision 2020', and the policy responses to the 1997–1998 crisis, among others (Thillainathan & Cheong, 2016). Three distinguishable economic policy regimes characterized the Mahathir administration according to S. Jomo & Hui, 2010 are as follows :

Mahathir regime 1: new roles for the state (1981–1985)

After taking over as Prime Minister, Mahathir introduced a second round of import substitution to promote various heavy industries, similar to the heavy and chemicals industrialization drive

in South Korea under General Park Chung Hee in the 1970s. He initially continued to increase public sector employment in the face of global recession from the early 1980s onward. As the world economic slowdown dragged on and commodity prices continued to decline, continued economic growth became more dependent on public—rather than private—investment. The new Mahathir administration also hoped to secure a strong electoral mandate through such deficit spending. Soon after winning the April 1982 general elections, the government announced an austerity drive, cutting back public spending and reducing earlier job creation commitments (S.Jomo & Hui, 2010).

Mahathir regime 2: inducing private investments (1986–1997)

By the mid-1980s, there was growing dissatisfaction with the government among many, including Bumiputeras, both in the public and private sectors, with some criticizing what they considered government interference unfair in the business world. Large Malay-controlled business groups had emerged on the corporate scene and were calling for a less regulated economy. Indeed, some of them blamed excessive state intervention for slowing economic growth and undermining private business interests. Partial deregulation of the economy was probably a boon to the corporate sector, with most businesses benefiting, and hence supportive of further liberalization (S.Jomo & Hui, 2010). The Government also embarked on privatisation to provide a more favoured access of the Bumiputera community into privatised activities. These privatisation exercises afforded the

Government an alternative way to realise its goal of increasing Bumiputera participaton in equity ownership and management. To that extent it reduced the risk and cost arising from a forcible redistributon of the shares of the non-Bumiputera group in the private sector, as had been the case under the ICA until then. However, much of this transfer consisted of sales to Malay enttes close to the politcal leadership, thus embedding further patronage networks in the name of the NEP. This undermined the effectiveness of the privatsaton program and made it a risky undertaking (Thillainathan & Cheong, 2016).

Mahathir regime 3: crisis management, 1997–2003

The 1997– 1998 East Asian economic crises began as currency crises following deregulation and other developments associated with financial liberalization and globalization, i.e. the subversion of effective financial governance at both international and national levels (Jomo 2004, 2007a; Wong and Jomo with Chin 2005). Crony capitalism and rentseeking had also been rife, but did not precipitate and cannot explain the crisis. However, cronyism, nepotism and new crisis-induced political developments compromised official policy responses as the crisis unfolded. With confidence undermined, the crisis worsened, further delaying recovery. The currency and financial crises thus became a crisis of the ‘real economy’ in Malaysia mainly due to poor government policy responses. Despite the official claim that the ringgit was pegged to a ‘basket of the currencies of Malaysia’s main trading partners’, it was virtually pegged to the US dollar for decades from the mid-1970s,

albeit at different rates. This offered certain advantages, especially exchange rate stability. Low inflation was desired by the politically influential financial sector. Such priorities reflected the weaker influence of export manufacturers in Malaysia on economic policy-making (where much industrial capability outside of ethnic Chinese dominated resource-based manufacturing is foreign-owned), compared to the financial community (S.Jomo & Hui, 2010).

G. Macroeconomic Profile of Nigeria

According to the International Monetary Fund, Nigeria is a country with a high population. the population growth rate in Nigeria is around 5% per year. in 2015 the population in Nigeria reached 181,137 million, in 2016 it increased to 185,960,000, and in 2017 the population was 190,873,000, in 2018 and 2019 it reached 195,875 million and 200,964 million. The level of distribution of community income in Nigeria was quite high reaching 43.00 in 2009 (International Monetary Fund, 2020). By most measures, human development indicators in Nigeria are comparable to those of low quality in the 158th HDI development rankings. Unfortunately widespread corruption undermines the effectiveness of various public expenditure programs (Iweala & Kwaako, 2007). The quality of human development in Nigeria in 2015 was recorded 0.53, the HDI index in Nigeria did not change until 2018 to remain at 0.53 (UNDP, 2020).

Nigeria is the most populous country in Africa, with a GDP second only to South Africa's. Yet, following several years of military rule and poor economic management, Nigeria experienced a prolonged period of economic stagnation, rising poverty levels, and the decline of its public institutions. Moreover, the lack of public investments in previous decades meant that there were severe infrastructural bottlenecks that hindered private sector activities. In particular, the poor condition of the power sector prior to economic reforms illustrated the severity of Nigeria's infrastructure deficit (International Monetary Fund, 2020). Nigeria is rated the 7th largest producer of oil in the world, with a population in excess of 140 million citizens, offering a rich source of cheap and enterprising labour, and the largest market in Africa. Her non-oil mineral resources remain largely un-utilized, including bitumen, uranium, gold and bauxite, tin, coal, and indeed, practically every known global revenue spinner (Osisioma & Azikiwe, 2012).

Table 4.7.

Economic Performance in Nigeria

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billion USD	493.84	405.4	376.3	398.1	446.5
			1	42	61	86	43
2	Average of inflation	%	9.01	15.69	16.50	12.09	11.31
				6	2	4	9
3	Investment of Total GDP	%	15.49	15.36	15.47	13.80	14.15
				7	4	3	3
4	Exports of Goods	%	10.66	9.22	13.17	16.62	-

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
	and Services of Total GDP						
5	Imports of Goods and Services of Total GDP	%	10.79	11.50	13.18	17.51	-
6	Current account balance	Billion USD	-3.192	0.669	2.758	1.34	- 0.224
7	Unemployment Rate of Total Labor Force	%	9	13.37	17.46	22.56	- 5 2 2

Source: International Monetary Fund (2020), SESRIC (2020)

Public Policy Reform in Nigeria

The return to democracy in 1999 signaled the dawn of a new set of economic reform agenda viz: 1) *National Economic Empowerment and Development Strategy* (NEEDS); 2) *State Economic Empowerment and Development Strategy* (SEEDS); 3) *Local Economic Empowerment and Development Strategy* (LEEDS); 4) *Small and Medium Scale Enterprises development agency of Nigeria* (SMEDAN) and; 5) *National Agency for Poverty Eradication Project* (NAPEP) (Adeyemo & Salami, 2008). *The National Economic Empowerment Development Strategy* (NEEDS) was instituted by the Government of President Olusegun Obasanjo in 2003, designed to address the structural and institutional weaknesses of the economy, tackle corruption and overhaul public expenditure management. These policies were encapsulated in an allembicing

home-grown program known as the National Economic Empowerment and Development Strategy (NEEDS). Further NEEDS is an instrument and framework for development planning in Nigeria (Max & Aduma, 2016). According to the National Planning Commission (2004) the specific reform programmes in NEEDS include Government and institutional reforms which entails: improving the macroeconomic environment, pursuing structural reforms, strengthening public expenditure management, and implementing institutional and governance reforms (Osisioma & Azikiwe, 2012).

Macroeconomic Reforms

A major challenge for the Nigerian economy was its macroeconomic volatility driven largely by external terms of trade shocks and the country's large reliance on oil export earnings. Fluctuations in public expenditure reflected both the over-reliance on oil earnings and weak fiscal discipline by previous governments. Volatile fiscal spending also tended to cause real exchange rate volatility. In particular, fiscal expansions financed by oil revenues often resulted in domestic currency appreciation, creating Dutch-disease concerns and reducing competitiveness of the non-oil economy (Iweala & Kwaako, 2007). Therefore, a central objective of the macroeconomic reform was to stabilize the Nigerian economy, to improve budgetary planning and execution, and to provide a platform for sustained economic diversification and non-oil growth (Adeyemo & Salami, 2008).

Structural Reforms

A broad range of structural reforms were also needed to improve the domestic business climate and enhance competitiveness, to deregulate and reduce government activity in various economic sectors, and to address various structural constraints to growth. In this section, we review four major areas of recent structural reform: privatization, the civil service, the banking sector, and trade policy (Osisioma & Azikiwe, 2012). Privatization, prior to recent reforms, the Nigerian public sector underperformed and imposed significant financial drain on cash. In the public sector, underperformance from state-owned companies is very expensive. Large public investments in state-owned companies in previous decades have yielded very few tangible benefits. State-owned companies are often poorly managed, with a lot of hidden and hidden corruption. They suffer recurring losses and require annual government transfers to continue operating.

One solution is to privatize several state-owned companies, as well as deregulate government activities in several sectors, therefore it is needed to improve the efficiency of these companies, to reduce corruption, and also to reduce financial costs to the federal government. Between 1999 and 2006, around 116 companies were privatized, including various loss-making government companies operating in industries such as aluminum, telecommunications, petrochemicals, insurance, and hotels (Iweala & Kwaako, 2007). The main component of the privatization program from *the Power Holding Company of Nigeria* (PHCN) became 18 companies

responsible for power generation, transmission and distribution. In some cases, state-owned companies such as ports are also concessions for private sector operators. Recently, the government concluded a successful sale of 51 percent of its shares in the Hilton Hotel (in Abuja) and the sale of the state-owned *Nigeria Telecommunications Limited* (NITEL). Privatization is also accompanied by deregulation of various economic sectors to encourage private sector participation, especially in the telecommunications, electricity and downstream oil sectors. The liberalization of the telecommunications sector has been very successful, resulting in an increase in the number of telephone lines in the country from around 500,000 telephone lines in 2001 to more than 32 million GSM lines (Iweala & Kwaako, 2007).

Banking Sector Reform

Prior to reforms, the Nigerian banking sector was weak and fragmented, often financing short-term arbitrage opportunities rather than productive private investments. The roots of the financial sector weakness may be traced to its poorly managed liberalization during the structural adjustment program of the 1980s. Reform Measures in financial system to strengthen the financial sector and improve availability of domestic credit to the private sector, a bank consolidation exercise was launched in mid 2004. The Central Bank of Nigeria requested all deposit banks to raise their minimum capital base from about US\$15 million to US\$192 million by the end of 2005. Banks failing to meet the new requirements were expected to merge or else have their licenses revoked. Implementation of the

consolidation exercise triggered various mergers in the banking sector and reduced the number of deposit banks in Nigeria from 89 to 25. Moreover, in the process of meeting the new capital requirements, banks raised the equivalent of about \$3 billion from domestic capital markets and attracted about \$652 million of FDI into the Nigerian banking sector (Iweala & Kwaako, 2007).

Reform of the banking and insurance sectors is complemented by improved regulatory oversight of the central bank. The central bank's supervisory powers are being strengthened with a migration from a prudential supervision system to a risk-based approach. To strengthen the capacity of central bank officials, various training programs in risk assessment tools have been organized and supervisory software used by officials has been upgraded. The central bank is also reviewing a New Draft Code of Conduct and of Corporate Governance with stakeholders in the financial sector and is also adopting a zero-tolerance approach on issues related to misreporting and lack of transparency in the banking sector. Various measures were similarly implemented to ensure a smooth liquidation of banks that failed to meet new capitalization requirements. As a precautionary measure, contingency plans have been drawn up to ensure the smooth handling of merger breakdowns, if they occur in the future. Three important pieces of legislation have been developed to strengthen the banking sector and its supervision and have been submitted to the National Assembly. First, the CBN/BOFI Act Amendment Bill will improve autonomy of the central bank in its

monetary policy decisions; second, the Nigeria Deposit Insurance Corporation (NDIC) Act establishes a comprehensive framework for addressing the case of private depositors who may be affected by the liquidation process; third, a new Microfinance Act seeks to support development of the microfinance industry in Nigeria (Iweala & Kwaako, 2007).

Trade Policy Reform

Nigeria liberalized its import tariff regime by adopting the Common External Tariff (CET) of the Economic Community of West African States (ECOWAS). This was in keeping with the government's commitment to simplify the tariff structure and improve the transparency and predictability of Nigeria's trade policies (NPC, 2004). Under the new ECOWAS tariff structure, Nigeria has adopted a four-band arrangement with duty rates of zero, 5, 10, and 20 percent for capital goods, raw materials, intermediate products, and finished goods, respectively. A temporary 50 percent band exists but is to be phased out by the end of 2007, while a few import prohibitions will be eliminated progressively. The use of the 50 percent tariff band is permitted under current ECOWAS trade rules and provides Nigeria with some flexibility in its future industrial policies (Iweala & Kwaako, 2007).

Tax policies and reforms

Nigeria's fiscal policy measures have been largely driven by the need to promote such macroeconomic objectives as promoting rapid growth of the economy, generating employment, maintaining

price levels and improving the balance-of-payment conditions of the country. Although policy measures change frequently, these objectives have remained relatively constant. Until the mid 1980s, tax policies, for instance, were geared to achieving such specific objectives as: 1) Ensuring effective protection for local industries; 2) Encouraging greater use of local raw materials; 3) Enhancing the value added of locally manufactured and primary products; 4) Promoting greater geographical dispersion of domestic manufacturing activities; and 5) Generating increased government revenue (Oduola, 2006).

Since the implementation of the *structural adjustment programme* (SAP), however, taxes have been used to enhance the productivity and competitiveness of business enterprises. Consequently, attention has been focused on promoting exports of manufactures and reducing the tax burden of individuals and companies. In line with this change in policy focus, many measures were undertaken. These involved, among others, reviewing custom and excise duties, continuing with the reduction of company and income taxes, expanding the range of tax exemptions and rebates, introducing capital allowance, expanding the duty drawback scheme and manufacturing-in-bond scheme, abolishing excise duty, implementing VAT, monetizing fringe benefits and increasing tax relief to low-income earners (Oduola, 2006). Thus, the federal government controls most of the buoyant tax handles, an issue that has been severely criticized over the years. As pointed out by the

Study Group on Tax Reform (2003), the federal government accounts for 99 per cent of the tax revenue in Nigeria, but the concentration of fiscal power with the central government conflicts with the tenets of fiscal federalism, where some degree of autonomy is assumed.

The major tax laws in existence as of September 2003, and various related amendments include the following: 1) Personal Income Tax Act of 1993; 2) Company Income Tax Act of 1990; 3) Petroleum Profits Tax Act of 1990; 3) The Petroleum Act of 1990; 4) Value-Added Tax Act of 1993; 5) Education Tax Act of 1993; 6) Capital Gains Act of 1990; 7) Customs and Excise Management Act of 1990; 8) Minerals and Mining Act of 1999; 9) Stamp Duties Act of 1990; 10) Taxes and Levies (*Approved List for Collection*) Act of 1998; and 11) 1999 Constitution of the Federal Republic of Nigeria (Odusola, 2006).

H. Macroeconomic Profile of Pakistan

The average population growth rate in Pakistan reaches 4% per year. From the IMF, the population of Pakistan in 2015 reached 189.87 million, in 2016 it increased to 193.56 million, and in 2017 and 2018 it reached 197.26 million and 200.96 million. most recently in 2019 the population of Pakistan reached 204,729 million. In 2010 the GINI index in Pakistan was 29.80, then it increased to 30.90 in 2011, and in 2013 it decreased to 30.70, and in 2015 it increased again to 33.50. GINI index shows a moderate level of inequality in Pakistan (International Monetary Fund, 2020). Poverty, inequality and

unemployment have increased since 1988 with the adoption of neoliberal economic reforms and the country has also witnessed high inflation and slower GDP growth (Siddiqui, 2011). For the quality of community development, Pakistan itself is at the 152nd HDI range. In 2015 Pakistan's HDI index was 0.55, and in 2016 it reached 0.556 and in 2017 0.558, then in 2018 it became 0.56 (UNDP, 2020). More broadly, the Pakistan economy continued to be trapped in a vicious circle of poverty, low growth, low savings, and low investment, which further hampered growth and poverty alleviation. Moreover, these structural problems eroded the institutional fabric of society, contributing to deterioration in governance and in security conditions. (Khan, 2010).

One of the foremost long run effects that can be posited is on the level, as well as nature, of private investment in the country over the past few decades. As a result of an environment of deep political uncertainty prevailing in the country for much of the 1970s and 1990s and then again starting from 2007 onwards, it appears reasonable to conclude that actual private investment has been lower than what would have been the case otherwise (i.e., in the counter-factual case). Investor perceptions of a high-risk scenario alters — as well as constricts — the portfolio of projects that a potential investor would look at, thus, potentially lowering the overall investment envelope of a riskier country as well as affecting the “quality” of investment undertaken. In the presence of political instability and policy uncertainty, “political risk” is deemed to rise, resulting in new

investment in a country attracting higher risk premiums (Sherani, 2017).

Table 4.8.
Economic Performance in Pakistan

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita	Billion	270.5	278.6	304.5	314.5	284.2
	of Current Prices	USD	56	55	67	88	14
2	Average of inflation	%	4.526	2.863	4.148	3.925	7.336
3	Investment of Total GDP	%	15.70	15.68	16.15	16.73	15.44
			7	6	1	9	9
4	Exports of Goods and Services of Total GDP	%	10.60	9.15	8.24	8.53	-
5	Imports of Goods and Services of Total GDP	%	17.05	16.16	17.55	19.44	-
6	Current account balance	Billion	-	-	-	-	-
		USD	2.709	4.867	12.62	19.89	13.09
					1	7	6
7	Government Expenditure on Education of	%	2.69	2.75	-	-	-

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
	Total GDP						
8	Unemployment Rate of Total Labor Force	%	5.9	5.958	6.018	6.079	6.14

(International Monetary Fund, 2020) (SESRIC, 2020)

In Pakistan, agriculture is the largest part of the economy, employing 44.2% of the work force. A large gap exists between the potential and realized yield for almost all major crops. The country is the world's fourth largest producer of cotton but output will drop by about 15% in 2010. The country has failed to change the structure of industrial output and its export. Pakistan's export share in the GDP has been stagnant for the last 25 years. For example, textiles, leather, agricultural products etc. constitute about 80% of the total export, which are low technology and low value added products. This market is now declining, having failed to penetrate foreign markets, given its narrow and mostly agricultural based export items (Siddiqui, 2011).

Public Policy Reform in 1988–1998

Monetary Policy, to support structural reforms in the areas of fiscal and trade policies, the Government initiated reforms in the financial sector and in monetary policy in 1987/88. While continuing to exercise credit control through direct methods, it took steps to improve debt management and promote the establishment of a capital market. It also rationalized the rate structure of the National Savings Scheme (NSS) and introduced market-oriented rates of return on

government debt instruments, including short-term Treasury bills (T-bills), as a prelude to eventually adopting market-oriented techniques of monetary control.

Market-Based Monetary Control, considerable progress has been made in the years prior to 1997 in the use of market-based instruments for monetary control. Building on the introduction of an auction system for government securities, the SBP has been managing domestic liquidity, to a large extent, by intervening in the secondary market through open market operations. During 1997/98, monetary reforms were carried out further with greater reliance on market-based instruments, as follows: 1) the authorities initiated a reform of the primary dealer system for government securities; 2) T-bills covering a range of maturities (three and six months, and one year) were introduced by steps in 1997/98; and 3) the existing six-month federal bonds were eliminated as they were not well suited for trading in the secondary market (Anwar, Abbas, & Ashfaq, 2017).

Regulatory And Supervisory Reforms, the government views the weaknesses of the financial system as a leading factor behind the slowdown in the real growth of the economy, the decline in domestic savings, and the emergence of unsustainable macroeconomic imbalances. Accordingly, it has endorsed and is fully implementing legal and regulatory/supervisory reforms in this area, specifically: 1) laws have been enacted to strengthen the authority and autonomy of the SBP, to insulate the State-owned banks and DFIs from political interference, to facilitate loan recovery, and to unify the banking court

system; 2) banking regulations have been upgraded and the SBP's supervision capacity is being strengthened; and 3) the management of the State-owned banks and DFIs has been professionalized while action plans to reduce operating losses, principally through appropriate downsizing, are being implemented under the direction of the SBP (Anwar, Abbas, & Ashfaq, 2017).

Tax Reform, the thrust of the tax reform program is to promote a more equitable distribution of the tax burden and greater compliance with tax documentary requirement. The salient features of the reforms are reductions in tax rates and a broadening of the tax base to include previously untaxed income and undertaxed sectors, supported by improvements in tax administration. These actions are being taken in the context of a new revenue-sharing arrangement under the 1997 National Finance Commission Award between the federal Government and the provinces, which has incorporated all federally collected taxes into the divisible pool and established a uniform sharing ratio across taxes. The new arrangement has removed the strong disincentive to tax reform that was associated with the allocation of most import taxes to the federal government and the bulk of revenues from domestic taxes to the provinces (Khan, 2010).

Fiscal Policy, the consolidated federal and provincial fiscal deficit, which was 6 percent of GDP or more in the 1980s, reached 8.5 percent of GDP in 1987/88, and became unsustainable. The overall public sector borrowing requirement was even larger due to large deficits incurred by public enterprises, the main factor behind

Pakistan's economic difficulties. Thus fiscal reforms have remained the main focus of the continued stabilization and structural reform efforts of successive governments since 1988 (Khan, 2010).

Exchange Rate Policy, before 29 May 1998, the exchange rate arrangements of Pakistan consisted of a managed float under which the SBP set the daily exchange rate at which it would purchase and sell dollars (the intervention currency) in its dealings with authorized dealers (Khan, 2010).

Policy Reform in 1999- 2007

The Musharraf Government that assumed power in October 1999 did undertake major economic reforms in the six year period between 2000 and 2006 which slowed down in 2007 due to the impending elections and confrontation with the judiciary. The intensity and frequency of the reforms were high in the initial three year period before the transition to the elected government in end 2002. Pakistan successfully met all the performance criteria under the Stand-by programme and the *Poverty Reduction and Growth Facility* (PRGF) negotiated with the IMF. The major areas of successful reforms were Trade and Tariff, Financial Sector including the privatisation of nationalised commercial banks, breaking up the monopoly of Pakistan Telecommunication Corporation and opening up the sector to the private sector and Promotion of Higher Education. Devolution to Local Governments and Police Reforms were highly significant but got embroiled in controversy, back tracking and power struggle between the Provincial Governments and Local

Governments. Accountability, transparent and effective acted as a powerful deterrent against corruption and misuse of public offices in the first three years (Husain, 2012). All the economic policies like economic liberalization, stabilization and structural adjustment were prepared in Washington and imposed over hundred countries round the globe including Pakistan. Each and every decision was adopted under the directions of IMF and World Bank. In real sense this was the loss of economic sovereignty of Pakistan and the people of Pakistan (Anwar, Abbas, & Ashfaq, 2017).

Policy Reform in 2008 - 2013

The PPP's tenure under Asif Ali Zardari was very critical in the sense that a military dictator has just left the chief executive's office. However, President Zardari kept the democracy intact for five years and completed the first democratic era in Pakistan's history. Firstly, he gave the presidential powers to the parliament. In this era, Pakistan's economy saw many positive swings and negative as well. During PPP government, the country was facing severe economic problems. The economic situation called for difficult decision at micro and macro level (Anwar, Abbas, & Ashfaq, 2017). The lingering crisis became quite unmanageable in 2009 forcing Pakistan to approach the IMF in November 2009. A 'homegrown' reform package consisting mainly of mobilising additional taxes to bring fiscal deficit under control was agreed upon (Husain, 2012). As a result of bold decisions, the stock markets reached to newer heights. Macroeconomic stabilization programme was also launched in

consultation with IMF in this era. During the era of Zardari, tight monetary policy was adopted in order to address the problem of inflation and many other measures were taken to curtail the fiscal deficit problem in Pakistan. As a result Economic growth has been anaemic in the 2008-12 period, public finances have been heavily distressed, and huge borrowing from the banking system to finance widening fiscal deficit resulted in double digit inflation. Exchange rate depreciated crossed \$13 billion steeply and private domestic and foreign investment dried up. Inflation decreased to almost half in 2009, fiscal deficit was brought down to 4.3% of GDP, current account balance declined to 5.3% of GDP. The decrease in fiscal deficit was mainly due to cut in oil subsidies and developmental spending (Anwar, Abbas, & Ashfaq, 2017; Husain, 2012). Lack of political consensus on General Sales Tax (GST) and Agriculture Income Tax (AIT) among the coalition partners led to the breakdown of the agreement with the Fund but after incurring a heavy financial obligation of \$8 billion to be repaid in 2012 and 2013 (Husain, 2012).

I. Macroeconomic Profile of Turkey

The average rate of growth of Turkey's population is 1% per year. Turkey's population in 2015 was 78,741 million, in 2016 it increased to 79,815, and in 2017 it became 82,004 million, and in 2019 Turkey's population was 83,023 million. Human development in Turkey is ranked 59th. in the report from UNDP human development in Turkey is included in the high human development group. HDI

Turkish index in 2015 was 0.8, and in 2018 the HDI Turkish index was 0.807. The GINI index in Turkey was recorded in 2014 the GINI index reached 40.20, then increased to 42.90 in 2016 and the increase occurred again in 2017 to 41.90. from these data it can be said that inequality in income distribution in Turkey is still high.

Table 4.9.

Economic Performance in Turkey

No	Economic Indicators	Units	Year				
			2015	2016	2017	2018	2019
1	GDP per Capita of Current Prices	Billion USD	859.4	863.3	852.6	771.2	743.7
2	Average of inflation	%	7.671	7.775	11.14	16.33	15.68
3	Investment of Total GDP	%	28.36	28.22	30.99	29.57	25.62
4	Exports of Goods and Services of Total GDP	%	23.35	21.97	24.77	29.53	-
5	Imports of Goods and Services of Total GDP	%	25.95	24.85	29.28	30.63	-
6	Current account balance	Billion USD	-	-	-	-	-
8	Unemployment Rate of Total Labor Force	%	10.27	10.90	10.90	10.95	13.83

(International Monetary Fund, 2020) (SESRIC, 2020)

In the period of 2018, exports increased by 4.76 percent compared to the same period of the previous year and amounted to 154.2 billion dollars, due to the increase in the EU's external demand and the impact of production and export support. The concerns of trade war in the global economy limit the increase in exports (SESRIC, 2020). In the same period, imports increased by 1.35 percent and reached USD 206.5 billion. In addition to these developments, the annualized current account deficit in 2019 as 4.389 billion dollars due to the improvement in the tourism sector (SESRIC, 2020). In 2017, the CBRT maintained a policy stance that was tight against the inflation outlook, stabilizing for the foreign currency liquidity and supportive of financial stability (Republic Of Turkey, 2019). Tight money policy were intended to take exchange rate-driven cost pressures on inflation without causing additional tightening in financial conditions, high inflation and developments in core inflation indicators posed risks to the pricing behavior.

Public Policy Reform in Turkey

Throughout the 1980s and 1990s, Turkey's economic policy framework was driven by a symbiotic relationship between discretionary policy and rent seeking behavior. As a result, Turkey's macroeconomic performance has deteriorated over time and the prospect of EU membership is becoming increasingly difficult to understand. Given such findings, it would not be an out of bounds statement to describe the 1990s as a 'lost decade' for economic

development in Turkey. The financial crisis occurred in February 2001 and a 9.5% decline in real GDP (Ugur, 2008).

Erdogan with his neoliberalism economic principle succeeded in bringing the Turkish economy to be better and changed Turkey from a secular state to a religious state. Adalet ve Kalkinma Partisi (AKP) or the Justice and Development Party with 34.3% of the vote. With the acquisition of a majority in parliament, the AKP has the right to hold its own government without a coalition. The success of the AKP in the 2002 Turkish general election was repeated in the next two consecutive elections, namely in 2007 and 2011. Erdogan continued to pound and the Turkish economy stretched. Erdogan is a Turkish politician who has served as President of Turkey since 2014. Previously, he served as Prime Minister of Turkey from March 14, 2003 to August 28, 2014. Erdogan began to lead, in 2003, Turkey's gross domestic product (GDP) was only 3,492 US dollars, but at 2010 changed to 10,079 US dollars. in the economic field, Erdogan cooperated with various parties, especially with Arab countries. following economic reform in erdogan's leadership which economic policies are basically in line with the IMF-sponsored stabilization program there are, in 2002 a AKP party campaigned based on a pro-EU, pro-reform and pro-stability platform., consists of fiscal discipline, central bank independence, implicit inflation targeting, flexible exchange rates, and broad structural reforms ranging from banking, corporate governance, public administration. In addition, the party leader, Mr Erdogan, was involved in face-to-face diplomacy

with European leaders to convince them of his personal commitment and the AKP's determination to maintain an 'EU perspective' (Ugur, 2008).

Structural economic reforms implemented by the IMF and World Bank have resulted in: 1) Lower inflation with inflation rate decrease 80% from the 1990s to single digits; 2) Financial sector reform; 3) Fiscal discipline with, public sector debt has fallen to 35% of GDP from its peak in 2001 of 75%; 4) Policy making based on rules by autonomous institutions; 5) Transparency in government procurement. Then the purpose of the EU Accession is to function as an anchor pressure for political reform and a template for best practice legislation. A closer bond with the EU results in: 1) Increased rule of law; 2) Higher levels of investor confidence; 3) Stronghold against military coups.

Economic Reform 2019 to the present

Structural Reform measures in ERP (2019-2021) are reviewed in coordination with all institutions after the reorganization of ministries and institutions following the transition to Presidency system. Measures were re-evaluated and new measures were included in ERP just for this year instead of past measures. Moreover, measures are included in line with the new guideline. Energy and Transport Markets Reform. Increasing share of renewable energy regarding electricity generation. Development of financial mechanisms regarding energy efficiency. Turkish Railway Transport Liberalization. Sectoral Developments. Increasing the capacity of

improvement and evaluation in agricultural statistics data collection processes. Project proposal call and implementation within the scope of KOBIGEL-SME Development Support Program. Supporting domestic manufacturing of products with high import and strategic importance to reduce the current account deficit. Increasing tourism market share and brand value. Business Environment and Reduction of the Informal Economy. Supporting the cooperation between SMEs or SMEs and large enterprises. Establishment of SME Guidance and Counseling System. Increasing private sector investments by carrying out more effective support and promotion activities. Research & Development and Innovation and Digital Economy. Increasing the number and efficiency of business development, incubation and accelerator centers in order to support innovative entrepreneurship. Enhancing the R&D and innovation activities of SMEs. Supporting competent research infrastructures on a performance basis within the new legal framework. Trade-related Reforms Update of Turkey-EU Customs Union. Education and Skills Dissemination of Pre-School Education Increasing the reading culture Updating curricula and strengthening the implementation pillar of education. Employment and Labor Markets. Redirection of workable social assistance beneficiaries into active labor programmes in order to increase their productivity and allow them to a sustainable. Social Inclusion, Poverty Reduction and Equal Opportunities. Social Assistance Plus (Republic Of Turkey, 2019).

CHAPTER 5
EXPORT, POLITICAL
STABILITY, AND
GROWTH
IN DEVELOPING-8
COUNTRIES

CHAPTER 5

EXPORT, POLITICAL STABILITY, AND GROWTH IN DEVELOPING-8 COUNTRIES

A. Data and 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:

$$\text{Growth}_{it} = \alpha + \beta_1 \text{Ln_Exp}_{it} + \beta_2 \text{PolStab}_{it} + \beta_n \text{Z}_{it} + \varepsilon_{it}$$

Where:

$$\text{Z} = \beta_3 \text{HDI}_{it} + \beta_4 \text{Pop}_{it} + \beta_5 \text{Inf}_{it}$$

So, the model became:

$$\text{Growth}_{it} = \alpha + \beta_1 \text{Ln_Exp}_{it} + \beta_2 \text{PolStab}_{it} + \beta_3 \text{HDI}_{it} + \beta_4 \text{Pop}_{it} + \beta_5 \text{Inf}_{it} + \varepsilon_{it}$$

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. The second model is the fixed-effect model. Next, the third model is 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.

B. Export, Political Stability and Growth

Table 5.1. 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.

Table 5.1. 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

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 5.2.
Chow-Test for Model 1

Redundant Fixed Effects Tests			
Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	27.906716	(7,107)	0.0000
Period Chi-square	124.649589	7	0.0000

Table 5.2. 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.

Table 5.3.
Hausman Test for Model 1

Correlated Random Effects - Hausman Test			
Test period random effects			
	Chi-Sq.		
Test Summary	Statistic	Chi-Sq. d.f.	Prob.
Period random	7.686655	5	0.1744

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 (See Table 5.3).

Table 5.4. 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 5.4.
The Empirical Result of Model 1

Variable	Model 1: PLS	Model 2: FEM	Model 3: REM*
C	12.44505*** (2.930925)	26.13588*** (14.5272)	0.954284*** (5.206940)
LN_EXPORT	0.000192 (0.000227)	4.14E-05 (0.000140)	4.62E-05 (0.000139)

Variable	Model 1: PLS	Model 2: FEM	Model 3: REM*
POLSTAB	0.030757*** (0.011713)	0.048481*** (0.010197)	0.044422*** (0.009608)
HDI	7.098906*** (0.753092)	5.189701** (2.259340)	8.385611*** (0.938916)
LN_POPULATION	0.609902*** (0.130741)	2.684547*** (0.850849)	1.207190*** (0.268479)
INFLATION	-0.017749 (0.010970)	-0.009078 (0.007900)	-0.009315 (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%)

Table 5.4 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.

The result of this research also different from Ostadi & Shoaee (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. The countries 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 4.13. 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).

CHAPTER 6
THE GROWTH IN D-8
COUNTRIES AND NON
D-8 COUNTRIES

CHAPTER 6

THE GROWTH IN D-8 COUNTRIES AND NON D-8 COUNTRIES

A. Data and Methods

To answer the third research objective, namely whether the D-8 organization has an influence on the economic growth of its member countries, eight D-8 member countries and eight OIC member countries that are not members of the D-8 will be used. The countries that are the objects of this research can be seen in Table 6.1.

Table 6.1.

Object of Research

No.	D-8 Countries	Non-D8 Countries
1	Bangladesh	Algeria
2	Egypt	Brunei Darussalam
3	Indonesia	Iraq
4	Iran	Kazakhstan
5	Malaysia	Kuwait
6	Nigeria	Morocco
7	Pakistan	Saudi Arabia
8	Turkey	Tunisia

To answer the third research objective related to the impact of the D8 organization on the economic growth of its member countries, a panel regression with dummy variables will be used. Adding eight OIC countries that are not members of D8 does the dummy variable. It aims to determine whether there are differences in economic growth

between D8 member countries and non-D8 member countries. The mathematical equation proposed to answer the purpose of this study is:

$$\text{Growth}_{it} = \alpha + \beta_1 \text{D_members}_{it} + \beta_2 \text{Pol_Stab}_{it} + \beta_3 \text{Ln_population}_{it} + \beta_4 \text{Ln Export}_{it} + \beta_5 \text{HDI}_{it} + \varepsilon_{it}$$

Where:

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

D_members = dummy variables for members countries, which:

0 : non-D8 member countries

1 : D8 member countries

PolStab_{it} = political stability index from each countries;

Ln_Pop_{it} = population from each countries;

Ln_Exp_{it} = amount of export from each countries;

HDI_{it} = human development index from each countries.

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).

B. The Growth Differences Between D-8 and Non D-8 Countries

In this section, we will test whether there is a difference in growth between D8 member countries and non-D-8 countries. The first step in this section is to find the best model between the ordinary least square model and the fixed effects model. Testing to find the best model is done using the Chow test. Table 4.14. shows a significant Chow test results, the results show that the null hypothesis is rejected, so the model chosen is the fixed effect model. The result implies that the fixed effect model is better used than the ordinary least square model. This shows that each individual in the research model has a different intercept for each subject (cross-section), but the slope of each subject does not change over time.

Table 6.2.

Chow-Test for Model 2

Redundant Fixed Effects Tests			
Test period fixed effects			
Effects Test	Statistic	d.f.	Prob.
Period F	2.708890	(14,220)	0.0011
Period Chi-square	38.169413	14	0.0005

The second test is to choose the best model between the fixed effect model and the random effect model. The random effect model is due to variations in the value and direction of the relationship between subjects and is assumed to be random, specified in the form of a residual. The random effect model estimates panel data where the residual variable is thought to have a relationship between time and between subjects. Tests are carried out using the Hausman test. The results in Table 6.3. show that the null hypothesis is rejected, so a more stable model to use is the fixed effect model.

Table 6.3.

Hausman Test for Model 2

Correlated Random Effects - Hausman Test			
Test period random effects			
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Period random	35.904856	5	0.0000

Table 6.4. shows the empirical results of the overall model, both ordinary least square, fixed effect, and random effect. The empirical results show that the entire model shows a significant constant value. This result shows that if all variables are considered zero, then a country will still have economic growth as the coefficient stated in the empirical results.

The results of the research are in Table 6.4. indicates that the dummy members variable shows a significant result. This shows that there is a difference in economic growth between D-8 and non-D8 member countries. A positive sign indicates that joining the D-8

organization makes a positive difference for its members. Iqbal (2013) states that developing eight organization aspires to become a dynamic economic group for promoting sustainable development. Trade organizations will be able to have a positive impact on their member countries (Lawton et al., 2017). D-8 member countries must be able to play a role in world trade, especially to fight the hegemony of the world trade organization. Although, Fung et al. (2010) shows that the developing country will have fewer 'unfair' concession of market openings, and will be better of with the WTO and with rules of non-discrimination.

The second factor that affects economic growth is political stability. The three models show significant results on the political stability variable (See Table 6.4). A positive sign indicates that the more stable the political condition of a country is, the higher its economic growth will be. A conducive political situation, one of which is the result of a good democratic climate which will have a significant impact on the economy in a country (Abu et al., 2015; Radu, 2015a). Chen & Feng (1996) show that several conditions such as the instability of the regime of power, political and group polarization, and repression by the government will have a negative impact on economic growth in a country. Polachek & Sevastianova (2012) added that the high intensity of conflict in a country will have a direct impact on the economy. The same thing is shown by Aisen & Veiga (2013), where their study shows that political instability will

reduce economic growth through decreased productivity and physical and capital accumulation.

Table 6.4.
The Empirical Result of Model 2

Variable	Model 1: PLS	Model 2: FEM*	Model 3: REM*
C	3.680704*** (0.518975)	3.840533*** (0.501595)	3.680704*** (0.494320)
D_Members	0.180852*** (0.049531)	0.182480*** (0.047194)	0.180852*** (0.047178)
Pol_Stab	0.010417*** (0.002219)	0.005863*** (0.002275)	0.010417*** (0.002114)
Ln_Population	0.319406*** (0.026864)	0.2970245*** (0.026700)	0.319406*** (0.025588)
Ln_Export	0.642073*** (0.028653)	0.664807*** (0.029436)	0.642073*** (0.027291)
HDI	1.849610*** (0.339711)	0.976528*** (0.369409)	1.849610*** (0.323572)
R-squared	0.936547	0.945877	0.936547
Adj R-squared	0.935191	0.941202	0.935191
F-stat	690.7496	202.3573	690.7496

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

The empirical results are in Table 6.4. also shows that the population has a positive impact on economic growth in a country. This shows that the amount of human resources will be a positive driving factor in the economy. Headey & Hodge (2009) show that there is an influence between population growth and economic growth, although the effect is weak. Garza-Rodriguez et al. (2016) find that population has a positive effect on per capita GDP, and per capita GDP akan berpengaruh positif terhadap populasi. Peterson (2017) shows the opposite result, where in his research find that low population growth in high-income countries is likely to create social and economic problems while high population growth in low-income countries may slow their development. International migration could help to adjust these imbalances but is opposed by many.

Table 6.4. shows that export has a positive impact on growth. This result is consistent with Dritsaki (2013) that 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. Ostadi & Shoaie (2015) also 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. This result is opposite with Nushiwat (2008) states that the early experiences of the economic growth of the industrialized countries were not export-led growth. This result also opposite with Edo et al (2020) that also found the insignificant impact of export on economic growth in the short-run.

The last factor affecting economic growth in this study is the quality of human resources as measured by the human development index. The results are in Table 6.4. shows that the quality of human resources has a positive effect on economic growth in a country. This result is consistent with Chirwa & Odiambo (2016) that also shows the direct relationship between human capital development and economic growth.

CHAPTER 7

CONCLUSION

CHAPTER 7

CONCLUSION

A. Conclusion

This study is trying 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.

The results also show that the choice to join the D-8 organization has a positive impact on its members. This is indicated by the results of the significant relationship between the dummy variables and economic growth. In addition, the results of this study indicate that other variables such as political stability, exports, population, and human quality have a positive impact on economic growth.

B. Recommendations

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 be 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, 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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