



**FACULTY OF ECONOMICS  
ANDALAS UNIVERSITY**

**THESIS**

**THE CONTRIBUTION OF OPEN ECONOMY TO ECONOMIC  
GROWTH IN WEST SUMATERA**

**BY:**

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**The Contribution Of Open Economy To Economic Growth Of West Sumatera**  
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ABSTRACT

The modern economy can not separated with open economic systems, open economy also called international trade that are always connected with export and import activity. In the theory of economics activity, export and invesment has positive relationships with economic growth, investment unidirectionally cause the capital goods import that are significantly cause economic growth. This research is a study about the contribution of open economy to economic growth of West Sumatera. The analyzes using OLS (Ordinary Least Square) of time series data of 1983 to 2009. The varibales uses here are Gross Regional Domestic Products as dependent variable and Export, Import (including capital goods import), Investment as independent variables. Based on empirical result, writer suggest that export and capital goods import has big contribution to the Gross Regional Domestic Products. Furthermore, capital goods import also has positive relationships to investment in the case of West Sumatera.

Keywords: International trade, economic growth, ordinary least square, contribution

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## CHAPTER I

### INTRODUCTION

#### 1.1. Background

Global economic relationships in the world are stay in the purpose of welfare. To reach this purpose each country try to be the best in global market. There are many theory expanded by the masters of economic, all of the theroy are end in the reason that how to fulfill nessecity. In the theory we know open economic systems and closed economic system, both of them have different role to reach welfare of their country. Closed economic systems are the economic without foreign trade, they are try to fulfill all of the nessecity in their country, sometimes this theory of closed economic systems are separated from the problem of currency. Vice versa of that, the open economic systems is the theroy that allow the relationships between countries and no trade barriers. There are many bennefits of this, but the problem also big, especially for the currency value.

The open economy also called international trade, modern economy today can't separated from international trade, we can't avoid international trade, becouse people needs to fulfill their nessecity and the best reason of why people do international trade is to rising welfare. International trade helps us to fulfill nessecity and consume more than what we can produce, rise welfare but also can worse economics in a country, becouse each of countries fight to be the best in the world market. Sometimes, developed countries are powerful than developing and under developed countries in the global market.

According to Crisholm (1981) on his book *The Priciples Of Economics*, The pure theory of international trade has microeconomic and macroeconomic implications. Its microeconomic aspects refer to the interaction of demand and supply in individual markets. As in domestic markets, trade establishes an equilibrium price and quantity for traded goods and services. When markets

are linked through trade, equilibrium occurs at the intersection of global demand and global supply.

The demand and supply between countries we called export and import activity, export means when you trade goods and services out of your country, and import means when the foreign product enter to our country. A country try to be the best each other in the market, because it's not easy to challenge in the world market, quality and price are some reason by the consumers to accept our product. Every government in the world always support an effort in order to increase export than import, because a country will get trade surplus when export more than import, vice versa when import is greater than export means trade deficit for a country. We know balance of trade, which known as comparison between export and import. Balance of trade hopefully always positive, because it will bring us to be trade surplus, trade surplus bring welfare to people.

In open economic country of international trade, export has the important role to accelerated domestic growth. Export can be rise economic growth in one side, but also can worse the others side (Syafuddin Karimi, 1986). Indonesia as one country that hold open economy can't separated from the positive and negative effect of international economy, because most of Indonesian economy are dependent to international trade, especially for natural resources that are export to others countries of destiantions. Besides that export will help this country to rise the useful of capital goods import, in the side to reach good economic cooperations.

To rise welfare in a country, economic development is significant factor here. The new interest in the determinants of economic development has reignited the debate on openness and growth. The new growth theories suggest that trade policy affects long run growth throught its impact on tehnological change. Openness to trade provides access to imported inputs, which embody new technology, increases the effective size of the market producing producers. Which raises the returns to innovation and affects countries specialization in research intensive production (Ann Harrison, 1995).

## CHAPTER VI

### CONCLUSSION AND RECOMMENDATION

#### 5.1. Conclusion

According to the result of this research, writer conclude that:

1. International trade significantly cause economic growth. According to the result of this reseach export and import have big contribution to the growth of economy (Gross Regional Domestic Product), especially in the case of West Sumatera. The effect of international trade to Gross Regional Domestic Product not just from export sector, but also from capital goods import, that is undirectly rise economic growth,
2. The growth of investment, capital goods import, and export together significantly cause the level of Gross Regional Domestic Products. Using the data of 1983 to 2009 export cause economic growth about 23 % in percentage, 17,7 % cause the growth of capital goods import. Besides that capital goods import contribute 29,7 % of Investment,
3. Economic crisis at 1998 causing three factor of growth (export, capital goods import, and investment), it is directly cause economic growth. The evidence shows that Gross Regional Domestic Product of West Sumatera too fall reach minus level of GDP, investment also fall down whereas it not too fall, beside that export also down. But, althought export fall down, the balance of trade of West Sumatera still in the positive side. Means that, West Sumatera have good cooperation to face economic crisis,
4. The balance of trade of West Sumatera shows good cooperations after economics crisis facing by Indonesia at 1997. Balance of trade that is known as the comparison between the amount of export and import in a country shows the positive relationships in the year of 2003 until 2009 in the West Sumatera economy.
5. West Sumatera export to many countries of destination, this activity are very important to increase growth in West Sumatera. The biggest mount

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