ABSTRACT

This study attempts to analyze the relationship between export volume, as the dependent variable, and export price (export unit value), inflation (growth of consumer price index), exchange rate of Rupiah against US Dollar, economic structure, and foreign investment policy. In particular, the study examines the implication of economic structural changes on the supply of export of merchandises in Indonesia.

Indonesia provides a good case for the examination of the economic structural changes on the supply of export. This is because Indonesia is considered as a country characterized by small and open economy with managed floating exchange rate, export orientation, and is concerned with a structural change from primary sector orientation to industrial orientation. These characteristics allow the model to be developed and implemented according to the theories underlying the motive for economic structural changes.

The framework of analysis used in this study was developed following the studies of Muscatelli, et al (1992) and Riedel (1988). The model employed is an Error Correction Model (ECM) developed by Lucas and applied in demand and supply factors in the determinants of NICs by Muscatelli, et al (1992). The study did not only apply an ECM, but also employed some procedures to account for some weaknesses in applied Ordinary Least Square (OLS) standard procedure. For example, the study uses the General Least Square (GLS), in particular the Weighted Least Square (WLS) to estimate the data with heteroschedasticity problem. The Johansen Cointegration Method rather than Engle-Granger Cointegration was also used to encounter for heteroschedasticity problem.

The data used for the analysis were collected from various sources, such as Notes of the Indonesian Budget of Financial Planning and Disbursement (RAPBN), Economic Statistics and Indonesian Finance of Bank Indonesia (BI), Indonesian Statistics (BPS), and International Financial Statistic of International Monetary Fund (IMF). These secondary data were reasonably easy to collect. The data consisted of a time series form spanning from 1983.I to 1997.IV. In other words, the data were in the form of four-monthly.

The study found that economic structure changes had a positive effect both in the short-run and long-run, but its significance diminished in long-run. This evidance supports one of Iqnacy theory can applied to Indonesia economy, as long as 1987-1997 periods. Foreign investment policy had a positive and significant effect on export supply of merchandises. Exchange rate, in the short-run, had a positive effect, but it had a negative effect in the long-run. In the short-run export supply of merchandises had a positive relation with export price, but a negative relation in the long-run. Finally, the study found that inflation had a negative and significant relationship in the long-run but the significance lowered in the short-run with a negative effect.

This study also analyzes structural stability of the model estimation with some statistical tests like Chow's test using 1992.1 as the break point, the CUSUM test of Brown, Durbin, and Evans analysis, and the CUSUM of Squares test (CUSUMQ). The results of the structural stability tests are showed evidence that some model estimations have no stability. Export price was found to be the cause of the instability of the model analysis. This finding indicated that export tended to be unstable over the horizon of analysis and was difficult to predict.

Keywords : *Error Correction Model, Weighted Least Square, Structural Economic Change.*