CHAPTER 6

CONCLUSIONS, LIMITATIONS OF THE STUDY AND SUGGESTIONS

Up to this chapter, we have figured out what happened in Indonesian economy during a quite long period, 1980-2005. As time goes which is divided between two periods, 1988-1997 that marks policy reform and 1998-2005 which marks major transition of political and economic system. As explained before, Indonesia seems to have experienced a unique blend between economic policy and politics, a distinct impact of stylized corruption, and tight boundary between authorities and businessmen.

6.1   Conclusion

There are several conclusions to be withdrawn from this study. First, it is found that the most binding constraint of Indonesian economy during the both periods of year 1988-2005 remains the low quality of human capital, which is approximated by educational attainment of secondary level. Hence, it can be said that in order for Indonesia to have higher long-term growth, the government should put the biggest concern on educational attainment. Second, considering empirical evidence given, it appeared that during 1988-1997 the government did not run the needed policy reforms properly since at that time it run major reforms in banking deregulations and investment climate without proper regulations and supervision. Third, institution's importance in explaining variation of growth in Indonesia after crisis increases more than prior period. Despite Rodrik's critics on high praise of the impacts of institutions on growth, the government should not take institutions as miniscule. Institutions should be taken seriously to maintain long-term growth, especially in nowadays intense global competition.

6.2   Limitations of the Research

There are limitations of the research that might obstruct accurate withdrawal of conclusions that are likely to be essential to Indonesian economic growth in the future. The conclusions provided here are to contribute to policy-making regarding higher growth. The limitations of the research are:

1.   **Endogeneity Problem**

This kind of problem is common in growth regression. There could be correlation between explanatory variables between the disturbance terms which might cause inconsistency of regressions estimate.

2.   **Omitted Variables**

Since the central of regression growth model used in this research is only investment determinants, it is highly probable that the parameters yielded are biased and inconsistent because there might be independent variables not included in the model.

3.   **Measurement Errors**

It is most likely that measurement errors problem occurs when a researcher employs data from somewhat various sources. This problem might lead to biased coefficient. This is due to different methodology used in collecting the data.

4.   **Parameter Heterogeneity and Outliers**

This problem is most likely to happen in panel data approach since there might exist high variances among variables.

5.   **Dummy Variables Problem**

Many dummy variables employed in the regression model might cause confusion in interpreting the signs of the coefficients because the signs could be wrong.

6.3   Suggestions

After considering the results and conclusions of this research, there are few suggestions that can be proposed for further research. First, 2SLS with instrumental variables could be employed to obtain more consistent regression

estimates if endogeneity problem exists. Obviously, valid instrument variables are needed. Second, future research should include more independent variables so that it shall produce more consistent and unbiased results. Last, one might want to run time series regressions to have prediction on how institution affects long-run growth rate.