

CHAPTER 1

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

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

of double-standard; (e) Equality instead of discrimination; (f) Democracy instead of oppression.

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

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

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

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

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).