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The Influence of Exports and the Labor Force on Economic Growth In 5 IDB Countries

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Abstract

The force of labor is very importance to support economics growth in the many countries. This research analyzes the influence of economic variables, namely exports and labor force, on economic growth variables in 5 Islamic Development Bank (IDB) member countries, which consists of Indonesia, Bangladesh, Qatar, Malaysia and Brunei Darussalam. The data used in this research is annual time data for the last 10 years, namely from 2013 to 2022. The panel data regression analysis method is used in this research to test the relationship between export and labor force variables and economic growth variables. The analysis results show that exports and the workforce have a significant positive impact on economic growth in the 5 IDB member countries. These findings show the importance of appropriate economic policies in encouraging exports and managing labor force availability as a strategy to increase economic growth in the 5 IDB countries. The policy implications of this research support the need for sustainable monetary and fiscal policies to maintain economic stability and encourage long-term growth in the five IDB member countries highlighted in this research.

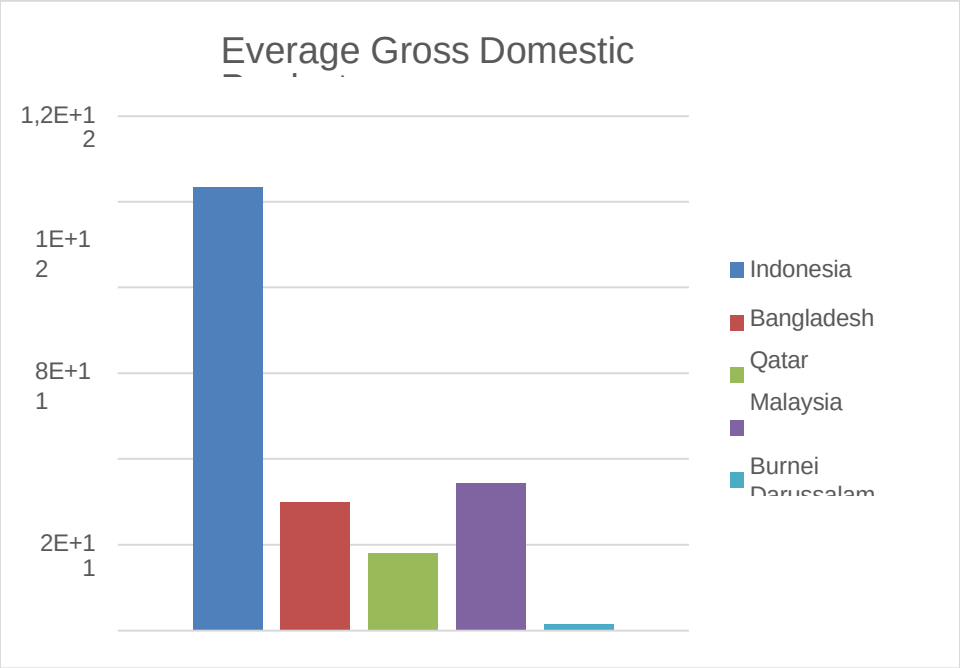
Keywords: Exports, Labor Force, Economic Growth, 5 IDB Countries

Introduction

This research examines the factors that influence economic growth in 5 Islamic Development Bank (IDB) member countries, namely Indonesia, Bangladesh, Qatar, Malaysia, and Brunei Darussalam. The reason these countries were chosen is because the five countries are IDB member countries located in Southeast Asia. Apart from that, the reason why Indonesia was chosen is because Indonesia is the largest Muslim country in the world, while Malaysia and Brunei are countries that are close to Indonesia. Meanwhile, Bangladesh is one of the most populous countries in Southeast Asia, and the reason Qatar was chosen is because it is a Middle Eastern country that combines modern infrastructure with ancient traditions.

The Islamic Development Bank (IDB) is a form of international economic organization/institution operating in a multilateral scope that works to improve the economic and social development of the world Muslim community and member countries (Widianto, 2022). The Bank's membership currently consists of 57 countries, the basic requirement for membership is that prospective member countries must become members of Islamic Coorporation Organization (OKI). This bank has the mandate to foster the socio-economic development of its member countries and Muslim communities in non-member countries, by the principles of Sharia (Islamic Law). The IDB Group's vision is to "Be at the forefront of fostering socio-economic development in member countries and Muslim communities in non-member countries by Sharia". The bank's mission states that "The IDB Group is committed to eradicating poverty, supporting human development, science and technology, the Islamic economy, banking, and finance, and enhancing cooperation between member countries, by collaborating with our development partners" (Islamic Development Bank, 2017).

Table 1: GDP of 5 IDB Countries



Source: Worldbank

In this research, the Gross Domestic Product (GDP) variable is used as a measurement of economic growth. One indicator of the success of economic development is to calculate economic growth at the macro level which is reflected in changes in a country's GDP (Sukirno, 2004). The higher the economic growth of a region, the better the region's economy. Most experts agree that real gross domestic product reflects economic growth better. In Table 1 you can see the average economic growth value seen from the Gross Domestic Product (GDP) level for the last 10 years, namely the 2013-2022 period in the five IDB member countries selected in this research. It can be seen that the highest average value is owned by the country of Indonesia, while the lowest average value is in the country of Brunei Darussalam. Economic growth is the development of activities in an economy in a more positive direction, which causes the production of goods and services in society to increase and the welfare of society increases. In international trade, export activities and the size of the workforce.

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Literature Review

Economic growth

1. Classical Economic Growth Theory

According to the views of classical economists, four factors influence economic growth, namely: population, stock of capital goods, land area, and natural resources, and the level of technology used. Although realizing that economic growth depends on many factors, classical economists mainly focused their attention on the influence of population growth on economic growth (Yunianto, 2021).

Based on classical economic growth theory, a theory can be put forward that explains the relationship between per capita income and population. This theory is called the optimum population theory. Classical growth theory can be seen that if there is a population shortage, marginal production will be higher than per capita income. However, if the population increases, the law of diminishing returns will affect the production function, namely marginal production will begin to decline. Therefore, national income and per capita income grow more slowly (Sukirno, 2004).

2. Harrod-Domar Growth Theory

The Harrod-Domar growth theory was developed by two economists after Keynes, namely Roy F. Harrod and Evsey D. Domar. In essence, the Harrod-Domar Theory is a development of Keynes' macro theory. Keynes's analysis was considered deficient because it did not reveal long-term economic problems. Meanwhile, the Harrod-Domar Theory analyzes the conditions necessary for an economy to grow and develop in the long term. According to the Harrod-Domar Theory, capital formation is an important factor that determines economic growth. This capital formation can be obtained through the process of accumulation of savings (Muharrika Izzah Rifai, 2022).

3. Neo-Classical Growth Theory

Neoclassical economic growth theory was developed by Robert M. Solow and TW Swan. This theory developed based on an analysis of economic growth according to the classical view. The Solow-Swan model uses elements of population growth, capital accumulation, technological progress, and the size of output which interact with each other (Dimand et.al., 2008). The conditions for good economic growth in the Solow-Swan model are less restrictive due to the possibility of substitution between labor and capital. The Solow- Swan theory sees that in many cases market mechanisms can create balance so that the government does not need to interfere or influence the market too much. Government intervention is limited to fiscal policy and monetary policy.

Export

Export and import activities are based on the condition that no country is truly independent because all countries need and complement each other. As explained by Appleyard (2008), in the Hecksher-Ohlin Theory, exports have a significant impact on a country's economic growth. In other words, the country exports products produced by intensive use of cheap and abundant production factors. This activity is beneficial for the country because it will increase national income and accelerate the process of development and economic growth.

In international trade, exports are a very important activity, as transactions to other countries using payments, by the quality, quantity, and other sales conditions agreed upon by the exporter and importer. Every country must strive to produce goods and services that can compete in the international market (Sonia & Setiawina, 2016). Based on the description above, it can be seen that exports reflect trade activities between nations which can encourage the dynamics of international trade growth as in the IDB organization, so that a developing country is likely to achieve economic progress on a par with more developed countries.

Labor Force

Tanjung et al. (2023) define the labor force as the working population and the population who have not yet worked but are ready to work or are looking for work at the prevailing wage level. The working population is those who carry out work to produce goods and services to earn income either by working full-time or working part-time. The definition of labor and non-labor is differentiated by the working age limit. The working age limit varies from one country to another, these differences are made based on the labor situation in each country. The labor force is the part of the population who is able and willing to do work, the meaning of capable is being able physically and physically, mentally, and legally capable and not losing the freedom to choose and do work and being willing to actively or passively do and look for work (Sumarsono, 2004). Classified as workers are residents who have worked or are currently working, who are looking for work, and who carry out other activities such as attending school and taking care of the household.

Ginting (2017) in his research concluded that exports influence economic growth. The analysis results show that in both the long and short term, exports have a positive and significant influence on economic growth. The results above reveal that to increase economic growth, it is necessary to increase Indonesia's export performance. There is also research conducted by Sophia & Sulasmiyati (2018) which states that exports have a significant influence on the economic growth of each of the three countries, namely Indonesia, Malaysia, and Thailand. The direction of the positive relationship between exports also applies to the economic growth of Indonesia, Malaysia, and Thailand.

Research conducted by Azizah (2023) shows that labor has a positive and significant influence on the economic growth of Indonesia, Malaysia, and Brunei Darussalam, which are among the ASEAN countries highlighted in the research. Labor makes a major contribution to driving economic growth because it influences production levels. Wau et al. (2022) also stated that increasing the labor force participation variable was able to encourage economic growth. The influence of the labor force participation rate is also relatively small on economic growth, where in his research, for every 10 percent increase in labor force participation, it was only able to encourage economic growth by 0.02 percent. Whereas Yakubu et al. (2020) found different results, namely that labor harmed economic growth in Nigeria, this result was due to income inequality caused by the gender gap.

Methodology

This research is quantitative in form which is based on quantitative data and is associative to see the relationship between or more variables (Sugiyono, 2007). This research takes the form of hypothesis testing which aims to test the influence of exports and the workforce on economic growth. Where in this research the dependent variable is Gross Domestic Product (GDP), and the independent variables are exports and Labor Force.

In this research, data collection techniques using library studies and documentation were used. Secondary data obtained from the World Bank website is used, namely panel data which is a combination of time series and cross sections. Substantially, panel data can overcome the problems caused by ignoring relevant independent variables (omitted variables). Therefore, to overcome the problem of intercorrelation which ultimately results in an inaccurate interpretation of regression, the panel data regression method is used (Bond, 2002) in (Hadya et al., 2018). Data taken from 5 countries members of the Islamic Development Bank (IDB), namely Indonesia, Bangladesh, Qatar, Malaysia, and Brunei Darussalam which is a cross-section unit and time series data from the period 2013 - 2022. The analytical method used in this research is panel data regression analysis with the help of the SPSS 17 program. The Panel regression equation used in this research is:

$GDPit = \alpha + \beta 1EXPit + \beta 2LFit + eit$

Where GDP it is the country's Gross Domestic Product (GDP) at time t; α is a constant (intercept); β1 and β2 are Regression Coefficients; EXPit is export or the country's export level at time t, LFit is the country's labor force or labor force participation at time t, and e is a disturbance factor (disturbance error). Common effect, fixed effect, and random effect approaches are also used in panel data regression analysis. Determining which model is most appropriate to use among the three models consists of several stages, namely: 1) Chow test, carried out to determine whether the Common Effect model is better to use than the Fixed Effect. 2) The Hausman test, was carried out to determine whether the Fixed Effect model is better to use than Random Effect.

A good regression model must produce unbiased linear estimates (Best Linear Unbiased Estimator). Panel data models have potential heteroscedasticity and autocorrelation problems. This problem generally occurs due to a combination of two forms of data, namely cross-section and time series. Therefore, it is carried out first classical assumption testing which consists of heteroscedasticity and autocorrelation tests. However, if it is known that the random effect model is a suitable model for panel data regression, then the classical assumption test is not relevant because random effects are believed to be able to overcome the problem of time series autocorrelation series) as well as the correlation between observations (cross-section). The method used to estimate the random effect model is known as the Generalized Least Square (GLS) method.

RESULTS AND DISCUSSION

Regression Model Selection

Test Chow

Table 2 Chow Test Results

Effect Test	Prob.
F(2.43)	422.27
Prob > F	0.0000

Source: Stata 17 Data Processing Results

Table 2 above shows that the p-value (Prob > F) of the Chow Test has a value of 0.0000 or smaller than alpha (0.05), so the decision taken is to reject H0, which means the best estimation model to be applied in this research is the Fixed Effect Model (FEM).

Hausman test

Table 3 Hausman Test Results

Effect Test		Prob.
Chi Square (2)		219.78
	Prob > chi2	0.0000

Source: Stata 17 Data Processing Results

Table 3 above shows that the p-value (Prob > Chi2) of the Hausman Test has a value of 0.0000 or smaller than alpha (0.05), so the decision taken is to reject H0, which means the best estimation model to be applied in this research is the Fixed Effect Model (FEM).

Panel Data Regression Analysis

Panel Data Regression Analysis The best regression model selected for this research based on the results of the model selection test is the Fixed Effect Model (FEM).

Table 4 Panel Data Regression Results

Fixed-effects (within) regression		Number of obs	= 50
Group variable: id		Number of groups =	5
R-squared:		Obs per group: min =	
Within	= 0.9516		
			10
Between	= 0.9049	avg =	10.0
Overall	= 0.8876	max =	10
		F(2,43) =	422.27
corr(u_i, Xb) = -0.9833		Prob > F =	0.0000

GDP	Coefficient	Std. err.	t	P>|t|	[95% conf. intervals]
EXP	1.153696	.1032858	11.17	0,000	1.361992
LF	18567.08	863.3758	21.51	0,000	20308.24
_cons	-5.69e+11	3.52e+10	-16.17	0,000	-4.98e+11
Sigma_u	7.297e+11				
Sigma_e	1.852e+10				
rho	.99935625				
		(fraction of	variance	due to u_i)	

Source: Stata 17 Data Processing Results

- **Panel Data Regression**

Based on Table 4 above, the equation for panel data regression is obtained as follows: GDPit = -5.69e+11 + 1.153696 + 18567.08 + e

From the results of this equation, it can be explained that:

1. The constant value is negative at -5.69e+11, indicating that if the Export and Labor Force variables in the five countries are considered constant or have not changed, then GDP has a value of -5.69e+11. A negative constant value can be interpreted as zero so in this study, it is stated that if there are no independent variables in this study then no GDP will be obtained.
2. The value of the Export coefficient (EXP) is 1.153696, meaning that in this study, every 1% increase in average ROE will increase GDP by 1.153696, assuming other variables are constant.
3. The Labor Force coefficient (LF) value is 18567.08, meaning that in this study, every 1% increase in average ROE will increase GDP by 18567.08 assuming other variables are constant or fixed.

- **T-Test Results**

Based on the results of the T-test that has been carried out, it can be described as follows:

1. The Export t-statistic probability value (EXP) is 0.0000, this value is smaller than the alpha level of 5%. So reject Ho and not reject Ha. Thus, it can be said that the Export variable (EXP) has a significant effect on the Gross Domestic Product (GDP) variable.
2. The probability value of the Labor Force (LF) t-statistic is 0.0000, this value is smaller than the alpha level of 5%. So reject Ho and not reject Ha. Thus, it can be said that the Labor Force (LF) variable has a significant effect on the Gross Domestic Product (GDP) variable.

- **F-statistics**

The f-statistic probability value of 0.0000, this value is smaller than the real level of 5%, so that the independent variables (exports and labor force) simultaneously have a significant effect on the dependent variable (economic growth).

- **Adjusted R-squared**

The Adjusted R-squared (R2) data processing results obtained from the estimation results are 0.95 or 95%. It can be interpreted that the contribution of the influence of the independent variables (export and labor force) is 95% while the remaining 5% is influenced by other variables outside the research.

Classic assumption test

In panel data regression, not all classical assumption tests in the OLS method are used, only multicollinearity and heteroscedasticity are needed (Iqbal, 2015). The following are the results of the multicollinearity and heteroscedasticity tests in this study:

Multicollinearity Test

Table 5 Multicollinearity Test

	EXP	LF
EXP	1,0000	
LF	0.3674	1,0000

Table 6 above shows that the correlation value for each variable is not greater than 0.9, meaning that the data in this study is free from multicollinearity problems.

Heteroscedasticity Test

Table 6 Heteroscedasticity Test H0: Constant variance

chi2(1) = 2.60
Prob > chi2 = 0.1069

Table 8 above shows that the Prob > Chi2 value is 0.1069 or greater than alpha (0.05), which means that in the regression analysis, there is no indication of heteroscedasticity problems or it can be considered that this research is free from heteroscedasticity problems.

DISCUSSION

Based on the results of the statistical tests that have been described, it can be seen that all independent variables used in this research have a significant influence as determinants of economic growth in the 5 Islamic Development Bank (IDB) member countries selected in this research, namely countries Indonesia, Bangladesh, Qatar, Malaysia, and Brunei Darussalam.

1. The Relationship of Exports to Economic Growth

There is a positive and significant relationship between export variables and economic growth in the 5 IDB countries selected in this research. This means that if exports increase, economic growth will also increase. This is in line with the Hecksher-Ohlin Theory which states that exports greatly influence a country's economic growth. This is in line with the research results Ginting (2017) which states that exports have a positive and significant influence on economic growth in Indonesia. These results are also by the research Pridayanti (2014) which explains that the export variable has a positive influence on economic growth in Indonesia. Exports will increase demand for domestic goods and services which will result in increased domestic productivity so that the increase in available jobs will increase the amount of output in the form of goods and services which will cause a country's economic growth to increase.

2. The Relationship of the Labor Force to Economic Growth

There is a positive and significant relationship between the labor force and economic growth in the 5 IDB countries, meaning that increasing the labor force can increase economic growth. This research follows Todaro's theory, which states that increasing the number of workers can increase the number of productive workers which in turn will increase the amount of consumption, where labor is used as capital to increase economic growth. This is also in line with research conducted byAzizah (2023), labor makes a major contribution to driving economic growth because it influences production levels. The country has had a positive impact from technological advances by being in a leading position in the dynamics of global e-commerce. Therefore, technological progress increases production and creates new job opportunities which contribute to accelerating economic growth.

Conclusion

This research produced findings namely the influence of economic variables, namely exports and exchange rates on economic growth in 5 IDB countries. The conclusion of this research shows that exports have a positive effect on economic growth, so it can be interpreted that if exports increase, economic growth will increase. The labor force also has a positive effect on economic growth in the 5 countries highlighted in this research, so if the labor force increases, growth will also increase.

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ATTACHMENT

Attachment 1: Chow Test Result

```
Fixed-effects (within) regression               Number of obs      =        50
Group variable: id                              Number of groups   =         5

R-squared:                                      Obs per group:
     Within  = 0.9516                                         min =        10
     Between = 0.9049                                         avg =      10.0
     Overall = 0.8876                                         max =        10

                                                F(2,43)            =    422.27
corr(u_i, Xb) = -0.9833                         Prob > F           =    0.0000
```

gdp	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
exp	1.153696	.1032858	11.17	0.000	.9454006	1.361992
labfrc	18567.08	863.3758	21.51	0.000	16825.92	20308.24
_cons	-5.69e+11	3.52e+10	-16.17	0.000	-6.40e+11	-4.98e+11
sigma_u	7.297e+11					
sigma_e	1.852e+10					
rho	.99935625	(fraction of variance due to u_i)				

F test that all u_i=0: F(4, 43) = 176.33 Prob > F = 0.0000

Source: Stata 17 Data Processing

Attachment 2 Hausman Test Results

```
Random-effects GLS regression                   Number of obs      =        50
Group variable: id                              Number of groups   =         5

R-squared:                                      Obs per group:
     Within  = 0.9078                                         min =        10
     Between = 0.9406                                         avg =      10.0
     Overall = 0.9253                                         max =        10

                                                Wald chi2(2)       =    219.78
corr(u_i, X) = 0 (assumed)                      Prob > chi2        =    0.0000
```

gdp	Coefficient	Std. err.	z	P>|z|	[95% conf.	interval]
exp	1.374593	.1883833	7.30	0.000	1.005369	1.743818
labfrc	11591.95	1131.633	10.24	0.000	9373.99	13809.91
_cons	-2.95e+11	8.98e+10	-3.29	0.001	-4.71e+11	-1.19e+11
sigma_u	8.939e+10					
sigma_e	1.852e+10					
rho	.95884279	(fraction of variance due to u_i)				

Source: Stata 17 Data Processing
Source: Stata 17 Data Processing

Attachment 3 Multicollinearity Test Result

(obs=50)

	exp	labfrc
exp	1.0000	
labfrc	0.3674	1.0000

Source: Stata 17 Data Processing

Attachment 4 Heteroskedasticity Test Result

```
H0: Constant variance

     chi2(1) =    2.60
Prob > chi2 =  0.1069
```

Source: Stata 17 Data Processing

A**ttachment 5 Panel Data Regression**

```
Fixed-effects (within) regression               Number of obs      =        50
Group variable: id                              Number of groups   =         5

R-squared:                                      Obs per group:
     Within  = 0.9516                                         min =        10
     Between = 0.9049                                         avg =      10.0
     Overall = 0.8876                                         max =        10

                                                F(2,43)            =    422.27
corr(u_i, Xb) = -0.9833                         Prob > F           =    0.0000
```

gdp	Coefficient	Std. err.	t	P>|t|	[95% conf.	interval]
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labfrc	18567.08	863.3758	21.51	0.000	16825.92	20308.24
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sigma_u	7.297e+11					
sigma_e	1.852e+10					
rho	.99935625	(fraction of variance due to u_i)				

F test that all u_i=0: F(4, 43) = 176.33 Prob > F = 0.0000

Source: Stata 17 Data Processing