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The Influence of Political Stability on Indonesia's Gross Domestic Product

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Abstract

The goal of this study is to examine how political stability impacts Indonesia's Gross Domestic Product (GDP). Political stability is a crucial factor in a country's economic development, because it can affect the investment climate, economic growth, and people's welfare. The Central Bureau of Statistics and other relevant organizations' secondary data were used as secondary data sources in this study's qualitative descriptive analysis of the literature. The data collected covers a specific relevant time period and includes indicators of political stability and GDP. The results of the analysis show that political stability has a significant influence on GDP in Indonesia. High political stability tends to create conditions conducive to sustainable economic growth. This is reflected in increased investment, expansion of the industrial sector, and increase in national income. In the Indonesian context, good political stability can increase investor confidence, both domestic and foreign, to invest in various economic sectors. In addition, political stability also provides legal certainty and consistent policies, which help create a favorable investment climate. The government needs to maintain political stability through actions that promote inclusive political participation, fair law enforcement, and consistent and transparent policies. These efforts will strengthen investor confidence, stimulate investment, and promote sustainable economic growth.

Keywords: Political Stability, Investment, Policy, Indonesia

JEL Classification : F13, F15, F23

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Background

The value of all finished products and services produced inside a nation's boundaries over a given time period, often one year, is calculated as the gross domestic product, or GDP. In order to gauge a nation's economic activity and get a sense of its size and growth, GDP is a crucial

measure (Irshad, Hussain, & Baig, 2022). GDP encompasses all forms of output in a nation, including those produced domestically and by international businesses doing business there. Consumer goods, investments, government purchases, and net exports, or the difference between exports and imports, are all included in the GDP (Sujianto & Azmi, 2020).

Political stability is an important factor in maintaining the continuity and progress of a country. Political stability reflects conditions of calm, security and certainty in a country's political system. In this context, political stability has a significant influence on various aspects of life, including economic, social and security. In the economic field, high political stability creates a conducive environment for investment and sustainable economic growth (Khan, Sharif, Golpîra, & Kumar, 2019). When a country has good political stability, investors have trust and confidence in investing their capital. They feel safe and confident that economic policies will not change suddenly or undergo drastic changes. This encourages an increase in domestic and foreign investment, which in turn will encourage economic growth and an increase in gross domestic product (Montes & Nogueira, 2022).

Political stability also has an impact on the social stability of a country. When the political system is stable, people feel safe and guaranteed the continuity of their daily lives. This reduces the potential for social conflict, riots, or instability that could disrupt social order and welfare (Uddin & Rahman, 2023). Societies living in politically stable environments tend to focus more on development and progress, and are more involved in economic and social activities that contribute to the country's growth. In addition, high political stability also plays a role in maintaining national security and regional stability. When a country's political system is stable, the country's security stability becomes more secure. This creates conditions conducive to infrastructure development, improved quality of life, and sustainable socio-economic development (Bayu, Kim, & Oki, 2020). Countries with high political stability are also better able to maintain harmonious relations with other countries, reduce potential conflicts and increase regional cooperation (Lee & Wang, 2021). The goal of this study is to ascertain Indonesia's GDP growth and the impact of political stability on Indonesia's GDP.

Research Method

A qualitative approach to literature study is used in this study. The goal of this study is to ascertain Indonesia's GDP growth and the impact of political stability on Indonesia's GDP. We study by tracing past research and processing it into a descriptive analysis that is convincing and can be justified in the literature.

Results and Discussion

The entire value of all finished products and services produced inside Indonesia's boundaries during a certain time period—typically one year—is calculated as the country's gross domestic product, or GDP. The GDP gives a broad picture of Indonesia's economic activity and is a key measure of the nation's economic growth (Rosyadi, Mulyo, Perwitasari, & Darwanto, 2021). The GDP growth of Indonesia has fluctuated in recent years, but it displays an upward trend overall (Warsito, 2020). According to the Central Bureau of Statistics (2022), the following is an overview of GDP growth in Indonesia in recent years:

- 2017: This year, Indonesia recorded a GDP growth of 5.07%. This growth was driven by increased investment and exports, as well as recovery in the mining and industrial sectors.
- 2018: Indonesia's GDP growth this year reached 5.17%. The construction, manufacturing and financial services sectors are the main drivers of economic growth.
- 2019: Indonesia's GDP grew by 5.02% this year. The downturn in the world economy and the U.S.-China trade spat had an impact on this growth. The construction, manufacturing and trade sectors are the biggest contributors to GDP growth.
- 2020: Worldwide, particularly in Indonesia, the COVID-19 epidemic has had a substantial influence on economic growth. Due to decreased economic activity, constrained mobility, and decreased worldwide demand, Indonesia's GDP contracted by 2.07% this year.
- 2021: In an effort to recover from the impact of the pandemic, Indonesia recorded a GDP growth of 3.94%. This increase was due to the recovery in the construction, manufacturing and trade sectors. Although this growth is still below pre-pandemic levels, it shows signs of economic recovery.

Indonesia's GDP growth is influenced by various factors such as investment, export-import, domestic consumption, and government policies. Additionally, the state of the world economy has a significant impact on the expansion of the Indonesian economy, especially in terms of export demand and foreign capital flows. Political stability has a significant influence on GDP in Indonesia. GDP is a gauge of a nation's overall output of goods and services during a specific time period. Good political stability creates a conducive environment for sustainable economic growth, while political instability can disrupt economic activity and potentially reduce GDP (Silaban, Aadilah, & Matondang, 2023). The following are some of the effects of political stability on GDP in Indonesia:

1. Investment

High political stability gives confidence to investors in the long term. Investors tend to be more interested in investing in a politically stable country because they feel safer and believe that economic policy will not change drastically. This has the potential to increase the amount of domestic and foreign investment entering Indonesia. Increased investment can encourage economic growth and contribution to GDP (Yusuf, Shittu, Akanbi, Umar, & Abdulrahman, 2020).

2. Domestic Consumption

Political stability also has an impact on the level of public trust and certainty in the economic situation. When political stability is maintained, people feel safer in spending and investing their money. This can increase domestic consumption, which is an important factor in GDP growth in Indonesia. Increased domestic consumption can drive demand for goods and services, encourage growth in the economic sector, and ultimately increase GDP (Gholipour, 2019).

3. International trade

Political stability can also affect a country's international trade relations. When a country has high political stability, trade relations with other countries tend to be better and run more smoothly. This can increase exports and imports, as well as expand the market for domestic products. In this case, good political stability can contribute to an increase in GDP through the expansion of international trade (Sabir, Rafique, & Abbas, 2019).

4. Economic Policy

Good political stability is also important in making consistent and sustainable economic policies. When a stable government is in place, the economic policies that are planned and implemented tend to be more consistent and long term. Sustainability of stable economic policies can create a favorable climate for sustainable economic growth and contribution to GDP.

5. Employment

Good political stability can also have a positive impact on employment and employment in a country. When political stability is maintained, companies tend to be more confident in expanding their business, generating new jobs, and increasing production. Increasing employment opportunities and reducing unemployment will contribute to increasing household income and people's purchasing power, which in turn will boost domestic consumption growth and GDP. On the other hand, political instability is significantly impacted inversely on a country. Political instability can create uncertainty, internal conflicts, social tensions and riots. This can hamper economic growth, reduce investment, increase unemployment, and reduce people's purchasing power. In addition, political instability can also disrupt regional cooperation, increase security risks, and create uncertainty at the international level (Dunz, Naqvi, & Monasterolo, 2021).

Conclusion

Indonesia's GDP growth has fluctuated in recent years, influenced by internal and external factors. Despite the challenges, the government's efforts to encourage inclusive and sustainable economic growth continue to be made to achieve better social welfare. Good political stability plays an important role in economic growth and GDP in Indonesia. This creates trust, encourages domestic and foreign investment, increases domestic consumption, expands international trade, ensures the sustainability of economic policies, and promotes increased employment. Therefore, maintaining high political stability is an important factor in building a sustainable economy in Indonesia.

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