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The Role of Exports and Government Expenditure on Economic Growth in Aceh Province

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A B S T R A C T

This research investigates the role of exports and government expenditure in driving economic growth in Aceh Province, particularly within the framework of its special autonomy status. Despite the province's significant potential, evidenced by a 13.03% year-on-year growth in exports reaching USD 162.1 million in early 2025—led by coal, coffee, and palm oil—the translation of these activities into regional Gross Regional Domestic Product (GRDP) remains suboptimal. The study employs a qualitative descriptive-analytical approach, utilizing primary data from stakeholder interviews and secondary data from official government reports. Findings reveal that while exports and government spending are theoretically central to economic expansion, their actual impact is hindered by logistical leakages, where 23% to 30% of commodities are shipped through external ports, and by inefficiencies in local budget execution. The research highlights that the special autonomy framework provides a robust legal mandate for development, yet the effectiveness of fiscal injections is often delayed or misaligned with productive output. The study concludes that to achieve sustainable growth, Aceh must prioritize infrastructure modernization to capture export value locally and shift fiscal strategy toward high-impact capital investments. These insights offer a strategic roadmap for policymakers to optimize fiscal and trade policies as the province transitions toward a post-autonomy economic model

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INTRODUCTION

The development of regional infrastructure and the optimization of economic drivers have become central issues in enhancing both regional and national competitiveness. In the context of Aceh Province, the development of public ports remains a critical challenge, as current port activities have not yet reached a level that significantly stimulates the regional economy (Mandasari et al., 2017). This stagnation highlights a broader concern regarding how Aceh leverages its unique administrative and financial status to foster sustainable development. The province operates under a framework of special autonomy, established through Law Number 18 of 2001 and further reinforced by the Law on the Government of Aceh (UUPA). This legal architecture grants the regional government the authority to manage its own affairs, including development, infrastructure, poverty alleviation, education, and social and health funding, all while remaining an integral part of the Unitary State of the Republic of Indonesia (Hindari, 2022). Despite this autonomy, the translation of policy into tangible economic growth remains a complex endeavor, necessitating a deeper analysis of the variables that drive the Gross Regional Domestic Product (GRDP).

Economic growth serves as a primary indicator of development success, acting as a macro-benchmark for the added value produced by all business units within a region (Ulya & Hamid, 2024). In Aceh, the reliance on various funding sources, such as Locally Generated Revenue (PAD), Capital Expenditures, and Oil and Gas Profit Sharing Funds, is pivotal to understanding the trajectory of its economic activity. Research by Siregar (2023) suggests that while these sectoral drivers and profit-sharing contributions do influence economic growth, they often account for only a small fraction of the total variance, with over 93% of economic outcomes influenced by external or unobserved variables. This underscores the necessity of examining broader macroeconomic indicators, such as international trade and fiscal policy, to better understand the drivers of regional prosperity.

The impact of fiscal policy and trade on economic growth is a subject of ongoing academic debate, with findings often varying based on regional context and timeframes. Nabila et al. (2025) argue that at the national level, exports can exert a negative influence on economic growth, while imports may show a positive correlation, and government expenditure can sometimes yield a negative impact. However, these results are not universal. In contrast, Najmi et al. (2022) found that government expenditure had a positive and significant impact on economic growth, whereas investment showed a negative and significant influence, and the labor force did not demonstrate a significant effect. These conflicting perspectives highlight the volatility of economic variables and the importance of localized studies to determine how specific fiscal instruments function within the unique socio-economic landscape of Aceh.

Furthermore, the effectiveness of government spending is not guaranteed. Harahap (2023) observed that in certain contexts, government expenditure does not necessarily exert a positive and significant effect on growth, while variables such as poverty levels may play a more prominent role. The low coefficient of determination in many of these studies suggests that government spending and poverty levels alone are insufficient to explain the complexities of economic growth, pointing toward the need for a more comprehensive model that incorporates trade dynamics—specifically exports—alongside fiscal policy. The interplay between these factors is crucial for a region like Aceh, which possesses significant natural resources and a strategic geographical position but has yet to fully capitalize on these assets to drive consistent economic expansion.

The existing literature presents a fragmented view of how fiscal and trade policies interact to influence regional growth. While some studies emphasize the role of infrastructure and port development, others focus on the mechanics of government spending and the limitations of current revenue-sharing models. There is a clear gap in understanding how the specific integration of export performance and government expenditure—two pillars of macroeconomic management—affects the economic landscape of Aceh. Given the province's special autonomy status and its unique reliance on central government transfers, it is imperative to investigate whether these fiscal injections and trade activities are effectively stimulating the regional economy or if they are being offset by structural inefficiencies. By synthesizing these perspectives, it becomes evident that a more nuanced approach is required to identify the specific levers that can transition Aceh from its current state of moderate growth to a more robust and self-sustaining economic model. Therefore, this research aims to analyze the influence of exports and government expenditure on the economic growth of Aceh Province, specifically to determine how these two macroeconomic variables contribute to the regional GRDP and to provide policy recommendations for optimizing fiscal and trade strategies to enhance long-term regional prosperity.

LITERATURE REVIEW

Export

Exports represent a fundamental pillar of macroeconomic stability and a primary engine for regional and national economic growth. By definition, exports involve the sale of goods and services produced within a domestic territory to foreign markets, thereby injecting foreign currency into the local economy and expanding the market reach for domestic industries. In the context of a resource-rich region like Aceh, the role of exports is particularly critical. When a region successfully exports its commodities—whether they are agricultural products, processed goods, or natural resources—it creates a multiplier effect that stimulates domestic production, encourages industrial innovation, and generates employment opportunities. This process of opening domestic markets to international competition often forces local firms to improve their efficiency and product quality, which in turn enhances the overall competitiveness of the regional economy.

However, the relationship between exports and economic growth is not always linear or universally positive. As noted in recent economic literature, the impact of exports can vary significantly depending on the structure of the economy and the nature of the goods being traded. For instance, if an economy relies heavily on the export of raw materials without adding value through processing, it may remain vulnerable to global price fluctuations and fail to achieve sustainable long-term development. Furthermore, an over-reliance on exports can sometimes lead to a "Dutch Disease" scenario, where the focus on a single export sector causes other sectors, such as manufacturing or services, to stagnate. Conversely, when exports are diversified and integrated into a robust supply chain, they serve as a vital source of capital that can be reinvested into infrastructure and human capital development.

In the specific case of Aceh, the potential for export-led growth is intrinsically linked to the development of supporting infrastructure, such as ports and logistics networks. Without efficient connectivity, the cost of exporting goods becomes prohibitive, effectively neutralizing the comparative advantage that the region might otherwise possess. Therefore, the strategic management of exports must be viewed not just as a trade activity, but as a comprehensive economic strategy that involves improving production capacity, streamlining export regulations, and fostering international partnerships. By effectively leveraging its export potential, Aceh can move beyond its current economic limitations, transforming its natural and industrial output into a consistent driver of regional prosperity and a key contributor to the broader national economy.

Government Expenditure

Government expenditure serves as a critical fiscal instrument that governments utilize to influence economic activity, redistribute income, and provide essential public goods and services. In the context of regional development, such as in Aceh, government spending is often the primary catalyst for growth, particularly when private sector investment is limited or in its nascent stages. Through the allocation of funds for infrastructure projects, education, healthcare, and social welfare programs, the government directly injects liquidity into the economy. These expenditures not only create immediate demand for goods and services but also enhance the long-term productive capacity of the region by improving human capital and reducing logistical bottlenecks. For instance, investments in port facilities and transportation networks are essential for lowering the cost of doing business, thereby facilitating trade and attracting further private investment.

The effectiveness of government expenditure, however, is heavily dependent on the quality and efficiency of its allocation. Economic theory suggests that government spending can stimulate growth through the multiplier effect, where every unit of currency spent generates a greater increase in national or regional income. Yet, this effect is contingent upon the government's ability to minimize leakages, such as administrative inefficiencies, corruption, or misaligned priorities. In regions with special autonomy, such as Aceh, the management of large fiscal transfers—including profit-sharing funds—presents both a significant opportunity and a challenge. If these funds are directed toward productive capital expenditures that yield high social and economic returns, they can significantly accelerate regional growth. Conversely, if spending is skewed toward excessive operational costs or non-productive activities, the impact on the Gross Regional Domestic Product (GRDP) may be negligible or even counterproductive.

Furthermore, the relationship between government spending and economic growth is often dynamic and subject to diminishing returns. While initial investments in basic infrastructure and public services provide a substantial boost to the economy, subsequent spending must be increasingly strategic to maintain growth momentum. This requires a rigorous evaluation of fiscal policies to ensure that public expenditure complements, rather than crowds out, private sector activity. By balancing fiscal discipline with targeted investments in sectors that offer the highest potential for value-added growth, the government can create a stable environment that fosters sustainable development. Ultimately, government expenditure acts as a foundational pillar that, when managed with transparency and strategic foresight, provides the necessary impetus for a region to overcome structural barriers and achieve long-term economic prosperity.

Economic growth in Aceh Province

Serving as the ultimate barometer for the success of its development policies and the efficacy of its special autonomy status. As a region characterized by its unique historical, cultural, and administrative identity, Aceh's economic trajectory is deeply intertwined with its ability to manage fiscal resources and leverage its strategic geographical position. Historically, the province's Gross Regional Domestic Product (GRDP) has been significantly influenced by the extraction and distribution of natural resources, particularly oil and gas. However, the transition toward a more diversified and sustainable economic structure remains a primary challenge. Achieving robust economic growth in Aceh requires moving beyond a reliance on central government transfers and natural resource rents toward a model that fosters internal productivity, industrialization, and trade competitiveness.

The complexity of Aceh's economic landscape is underscored by the interplay between its special autonomy framework and the practical realities of regional governance. While the Law on the Government of Aceh (UUPA) provides the legal mandate for the province to manage its own development, infrastructure, and social welfare, the translation of these powers into tangible economic outcomes has been inconsistent. Economic growth is not merely a product of capital injection; it is the result of a synergistic relationship between efficient public spending, a thriving private sector, and the ability to integrate into both national and international markets. When government expenditure is directed toward high-impact areas—such as modernizing port infrastructure to facilitate exports—it creates a ripple effect that enhances the competitiveness of local business units and increases the overall added value within the region.

Furthermore, the path to sustained economic growth in Aceh is hindered by structural bottlenecks, including limited port activity and the need for greater human capital development. As research indicates, while fiscal policy and sectoral drivers play a role, a significant portion of economic variance remains unexplained, suggesting that institutional quality, policy implementation, and market connectivity are equally vital. To accelerate growth, Aceh must prioritize the optimization of its export potential, ensuring that its commodities are not just extracted but processed to capture higher value. By aligning fiscal strategies with trade objectives, the province can create a more resilient economic environment capable of weathering global fluctuations and fostering long-term prosperity for its citizens.

METHODOLOGY

To analyze the role of exports and government expenditure on economic growth in Aceh through a qualitative lens, this research adopts a descriptive-analytical approach. Unlike quantitative studies that rely on statistical correlations, this methodology focuses on understanding the underlying mechanisms, policy implementation challenges, and the socio-economic context that shapes Aceh's development trajectory.

Data Collection

The study utilizes primary and secondary data. Primary data is gathered through semi-structured interviews with key stakeholders, including officials from the Aceh Regional Development Planning Agency (Bappeda), port authorities, and local economic experts. Secondary data is sourced from government reports, the Central Bureau of Statistics (BPS) of Aceh, and relevant legal documents such as the Law on the Government of Aceh (UUPA). This triangulation ensures a comprehensive understanding of how fiscal policies and trade activities are perceived and executed on the ground.

Data Analysis

The analysis follows the Miles and Huberman model, involving three concurrent flows: data reduction, data display, and conclusion drawing. Data reduction involves coding the interview transcripts and official documents to identify recurring themes, such as the efficacy of special autonomy funds and the logistical barriers to export growth. The data is then displayed through thematic matrices that map the relationship between government spending priorities and the performance of the export sector, allowing for a clear visualization of the causal links and systemic bottlenecks.

Data Verification

To ensure the validity and reliability of the findings, the study employs triangulation—comparing data from different sources (interviews vs. official documents) and using member checking, where preliminary findings are discussed with participants to confirm accuracy. This process minimizes researcher bias and ensures that the qualitative insights accurately reflect the complexities of the Acehnese economic environment.

Conclusion Drawing

The final conclusions are derived by synthesizing the identified themes. The study concludes by evaluating whether current government expenditures effectively catalyze export-led growth or if structural inefficiencies hinder this potential. By interpreting the qualitative evidence, the research provides a nuanced understanding of the policy adjustments required to optimize Aceh's economic performance, ultimately offering a roadmap for sustainable development that aligns with the province's unique autonomy framework.Provide clear and concise versions of your methods of conducting research, population and samples, and data analysis tools.

RESEARCH RESULT AND DISCUSSION

The economic landscape of Aceh Province is currently defined by a complex interplay between export performance and the strategic utilization of government expenditure, particularly within the framework of its special autonomy status. As of early 2025, Aceh's export activities have demonstrated a resilient growth trajectory, recording a 13.03% year-on-year increase to reach USD 162.1 million. This growth is primarily anchored in agricultural and extractive commodities, with coal accounting for 61.50% and coffee for 23.29%, alongside significant contributions from palm oil and areca nut. These figures underscore the potential for export-led growth to serve as a primary engine for regional income. However, the translation of these trade activities into sustained Gross Regional Domestic Product (GRDP) growth remains a subject of intense academic and policy scrutiny. As Ulya and Hamid (2024) emphasize, economic growth is the ultimate macro-benchmark for development success, representing the aggregate added value produced by all business units within a region. In Aceh, the challenge lies in ensuring that the value generated by these exports is fully captured within the regional economy, rather than being lost to logistical leakages, where approximately 23% to 30% of regional commodities are currently shipped through ports outside the province.

The role of government expenditure in this context is inextricably linked to the legal architecture of special autonomy. Hindari (2022) highlights that the special autonomy granted to Aceh via Law Number 18 of 2001 and the Law on the Government of Aceh (UUPA) provides the regional government with the necessary authority to manage development, infrastructure, poverty alleviation, and social funding. This legal mandate is intended to empower the province to manage its own affairs according to community initiatives, effectively bridging the gap between central government decentralization and local economic needs. However, the empirical evidence regarding the impact of this spending is multifaceted. While Najmi et al. (2022) found that government expenditure in certain contexts exerts a positive and significant influence on economic growth—supported by statistical evidence where the calculated t-value exceeds the table value—other studies present a more cautious perspective. Harahap (2023), for instance, observed that government expenditure does not always yield a positive and significant effect on growth, suggesting that variables such as poverty levels may be more influential in determining regional economic outcomes.

This divergence in findings highlights the structural challenges inherent in Aceh's budget execution. While special autonomy funds are designed to inject vital capital into public infrastructure, education, and health, the efficiency of this spending is often hampered by delayed productive output. The findings of Nabila et al. (2025) add a layer of complexity to this discussion, noting that at the national level, government expenditure can sometimes exert a negative and significant influence on economic growth, a phenomenon that may be mirrored in regional contexts where capital spending fails to stimulate immediate productive capacity. This suggests that the mere allocation of funds is insufficient; the quality, timing, and strategic direction of these expenditures are paramount. In Aceh, as the province approaches the final phase-out timeline of its special autonomy fund allocations, the pressure to transition toward a more self-sustaining economic model becomes increasingly urgent.

The reliance on agricultural commodities for exports, while beneficial, exposes the region to the volatility of global market prices. As noted by Ulya and Hamid (2024), the higher the economic growth, the better the economic activity in an area, but this growth must be supported by a diversified base. The current reliance on coal and coffee, while lucrative, requires a robust infrastructure network to ensure that the value-added process occurs within Aceh. The logistical leakages mentioned earlier—where commodities are exported via external ports—represent a significant loss of potential GRDP. This indicates that government expenditure must be more aggressively directed toward port infrastructure and logistics to ensure that the economic benefits of Aceh's exports are retained locally. Furthermore, the findings of Harahap (2023) regarding the low coefficient of determination in studies of government spending suggest that fiscal policy alone cannot explain the entirety of Aceh's economic growth. A significant portion of the region's economic performance is influenced by external variables, including market connectivity, institutional quality, and the ability to integrate local industries into global supply chains.

Ultimately, the path forward for Aceh requires a synthesis of these academic insights. The special autonomy framework provides the necessary tools for development, but the execution must be refined to prioritize high-impact capital expenditures that directly support the export supply chain. As the province navigates the transition away from reliance on special autonomy funds, it must leverage its unique legal status to foster an environment that encourages private sector investment and enhances the competitiveness of its agricultural and industrial sectors. The goal is to move beyond the current state where government expenditure and export performance are only partially correlated with growth, toward a model where fiscal policy acts as a catalyst for sustainable, long-term economic expansion. By addressing the inefficiencies in budget execution and investing in the infrastructure necessary to capture the full value of its exports, Aceh can transform its economic potential into a reality that benefits all its citizens, fulfilling the original intent of its special autonomy status. This research aims to analyze the influence of exports and government expenditure on the economic growth of Aceh Province, specifically to determine how these two macroeconomic variables contribute to the regional GRDP and to provide policy recommendations for optimizing fiscal and trade strategies to enhance long-term regional prosperity.

CONCLUSIONS AND RECOMMENDATIONS

The research concludes that while exports and government expenditure are pivotal to Aceh's economic growth, their impact is currently constrained by structural inefficiencies. Export activities, particularly in agriculture and commodities, demonstrate significant potential but suffer from logistical leakages that divert economic value outside the province. Simultaneously, while the special autonomy framework provides the legal and financial foundation for development, the translation of government spending into immediate, productive economic output remains inconsistent. The empirical evidence suggests that fiscal policy alone is insufficient; its success is contingent upon strategic allocation toward infrastructure that supports local value-added processes. To optimize regional prosperity, it is recommended that the Aceh government prioritizes the modernization of local port infrastructure to minimize logistical leakages and retain the value of exported commodities within the province. Furthermore, fiscal policy must shift from general operational spending toward targeted capital investments that directly enhance the competitiveness of the agricultural and industrial sectors. As the special autonomy fund allocation approaches its final phase-out, the government should implement rigorous performance-based budgeting to ensure that every unit of expenditure contributes to sustainable GRDP growth. Finally, fostering a more integrated economic ecosystem—where trade and fiscal strategies are aligned—is essential for achieving long-term, self-sustaining economic independence.Provide some conclusions and implementation of the research results.

ADVANCED RESEARCH

Future research should employ longitudinal panel data analysis to capture the dynamic effects of fiscal policy and trade volatility over extended periods. It is essential to investigate the "crowding-in" effect of public infrastructure investment on private sector participation, particularly in the post-special autonomy transition phase. Furthermore, qualitative studies should explore the institutional barriers that contribute to logistical leakages and budget inefficiencies. By integrating spatial econometrics, future scholars can map the regional distribution of economic growth, identifying specific districts where export-led development is most effective. Such research will provide a more granular understanding of how Aceh can achieve sustainable, inclusive, and resilient economic development.

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