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# Decomposed Impact of Democracy on Indonesia's Economic Growth

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### Abstract

Indonesia's democratic performance is still classified as a 'moderate' and 'flawed democracy' according to the latest report, even though the ongoing progress of national democracy continues to advance every year. This study addresses the issue by offering a more comprehensive perspective and distinguishes itself by employing a decomposition approach that incorporates 25 indicators of the Indonesian democracy index to assess their individual effects on economic growth, which no prior Indonesian study has explored. The study classifies these indicators into six distinct categories: freedom and civil rights issues, discrimination issues, political and electoral issues, social and cultural issues, law and justice issues, and demonstration and community participation issues. The findings reveal that five out of the six categorized indicators have a crucial role and significantly impact economic growth. This evidence suggests that policymakers should prioritize a multifaceted approach, which includes bolstering the protection of civil rights and freedoms, combating discrimination, as well as reforming electoral and political processes. If implemented with transparency and inclusivity, this approach can pave the way for a more robust and prosperous democracy, leading to better and sustainable economic growth in Indonesia.



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## 1. Introduction

Indonesia faces a range of obstacles in its democratic journey. These include widespread corruption, unfair competition due to political favoritism, violence during elections that disrupt the democratic process, tensions based on ethnicity and religion that strain national unity, and worries about freedom in the media [1–5]. However, despite these challenges, Indonesia's shift from

authoritarian rule to a robust democracy highlights its dedication to democratic values. The participation of civil society, media organizations, and engaged citizens is actively advocating for changes and accountability to strengthen its democratic institutions and procedures. Their collective efforts serve a crucial and pivotal role in propelling the continuous development of Indonesia's democratic framework [6–8].

Democratic performance in Indonesia is still categorized as a 'moderate' according to the Indonesian Democracy Index (IDI) and as a 'flawed democracy' based on the global democracy index, despite the ongoing yearly increase in the progress of democracy in the country [9, 10]. These indications certainly highlight that the level of democracy in Indonesia still requires significant improvement and has the potential to hinder national economic growth.

The connection between democracy and economic growth is typically marked by a positive relationship [11–13]. This is because democracies commonly display characteristics like political stability, safeguarding of property rights, and accountability, all of which promote economic well-being [14–17]. Democracies usually invest in developing human capital, stimulate innovation and entrepreneurship, attract foreign investments, and implement policies to reduce income inequality, all contributing to economic advancement [18–20].

Previous research, conducted using panel data from 175 countries, suggests a robust relationship between democracy and economic growth [21]. Furthermore, an investigation covering 24 post-communist economies revealed that strong democratic institutions are correlated with greater economic freedom, leading to accelerated economic growth [22]. Similarly, a meta-regression analysis, derived from a pool of 84 studies investigating the relationship between democracy and economic growth, has determined that democracy exerts a positive impact on economic growth, achieved through enhanced human capital, diminished political turbulence, and heightened economic liberty [23].

Another study observed an inverted U-shaped relationship between the level of democracy and economic performance. Consequently, an increase in democracy tends to boost economic growth [24]. Furthermore, the analysis covers data from up to 43 countries in sub-Saharan Africa, providing strong evidence that democracy is positively correlated with economic growth [25]. Additionally, empirical investigations conducted in 17 MENA countries, using various democracy indices, reveal a robust and significant impact on economic growth [26].

Numerous studies have also examined the link between democracy and economic growth in Indonesia, but they still lack comprehensiveness. Some of these studies, such as investigations based on data spanning from 2011 to 2019 across 33 provinces, have found a statistically significant relationship between democracy and economic growth in Indonesia. However, the study relied

on a single composite index of democracy [27]. Furthermore, another study, which also utilized data spanning from 2009 to 2020 across 33 Indonesian provinces, demonstrated that democracy significantly supports economic growth. Similarly, this one also relied on a single composite index of democracy [28]. In contrast, a separate study that utilized data from 33 Indonesian provinces spanning from 2010 to 2020 found that democracy is detrimental to regional economic growth. This study, like the others, also used a single composite index of democracy [29].

Based on the research gap that still exists in Indonesian economic growth literature related to democracy issues, this study stands out by employing a decomposition approach that includes 25 indicators of the Indonesian democracy index to examine their individual effects on economic growth, an aspect no previous Indonesian study has explored. The novelty of this study lies in its potential to provide more comprehensive empirical evidence regarding the impact of democracy on Indonesia's economic growth.

This study is organized as follows: section 2 presents the database used, introduces the decomposed model employed, and provides explanations regarding the methods utilized. Section 3 presents the empirical outcomes and delves into a comprehensive discussion of these findings. Finally, Section 4 offers the study's conclusions and policy recommendations based on the discoveries.

## 2. Materials and Methods

The information and specifics about the data employed in this study are presented in Table 1. All variables consist of annual time-series data covering the years 2009 to 2020, obtained from World Development Indicators (WDI) [30] and Statistics Indonesia (BPS) [9].

The democracy index employed in this study gauges the state of democracy's development in Indonesia through an examination of 25 different indicators. These indicators have been categorized into six distinct groups: freedom and civil rights issues, discrimination issues, political and electoral issues, social and cultural issues, law and justice issues, and demonstration and community participation issues. The assessment of these 25 indicators is conducted on a scale that ranges from 0 to 100, where higher scores signify a higher degree of democracy, while lower scores signify a lower degree of democracy. However, this study did not use the democracy index for the year 2008 and earlier due to data unavailability, and for the year 2021 and beyond because it employed a different calculation method [9].

**Table 1.** Variable synopsis.

Variable	Description	Units (Sources)	Variable's detail
GDP	Gross domestic product	Constant LCU (WDI)	The sum of gross value added by all resident producers in the economy [30].
K	Gross fixed capital formation	Constant LCU (WDI)	The sum of gross value added by land improvements; plant, machinery, and equipment purchases; and the construction of public goods [30].
L	Labor force	Person (WDI)	Comprises people ages 15 and older who supply labor for the production of goods and services during a specified period [30].
<b>Democracy Indicators</b>			
<i>Freedom and Civil Rights Issues</i>		<i>Scale</i>	
FCR1	Freedom and Civil Rights 1		Government officials' threats or use of violence that inhibit freedom of assembly and association [9].
FCR2	Freedom and Civil Rights 2		Community threats or use of violence that inhibit freedom of assembly and association [9].
FCR3	Freedom and Civil Rights 3	0-100 (BPS)	Government officials' threats or use of force that inhibit freedom of expression [9].
FCR4	Freedom and Civil Rights 4		Community threats or violence that inhibit freedom of expression [9].
FCR5	Freedom and Civil Rights 5		Written rules restricting freedom of religious worship [9].
FCR6	Freedom and Civil Rights 6		Officials' actions or statements limit the freedom to practice religion [9].
FCR7	Freedom and Civil Rights 7		Violence or threats from a group linked to religious teachings [9].
<i>Discrimination Issues</i>			
DCM1	Discrimination 1		Written rules that are discriminatory based on gender, ethnicity, or group [9].
DCM2	Discrimination 2	0-100 (BPS)	Discriminatory actions or statements by officials based on gender, ethnicity, or group [9].
DCM3	Discrimination 3		Violence or threats by society based on gender, ethnicity, or group [9].
<i>Political and Electoral Issues</i>			
PTE1	Political and Electoral 1		The right to vote or be elected is being hampered [9].
PTE2	Political and Electoral 2		Quality of Final Voter List (DPT) [9].
PTE3	Political and Electoral 3		Voters Turnout [9].
PTE4	Political and Electoral 4	0-100 (BPS)	The percentage of women elected to total Provincial Regional People's Representative Assembly (DPRD) members [9].
PTE5	Political and Electoral 5		The Regional General Election Commission's (KPUD) bias in conducting elections [9].
PTE6	Political and Electoral 6		Fraud in the counting of votes [9].
PTE7	Political and Electoral 7		Regional Regulations (Perda) initiated by the DPRD [9].
PTE8	Political and Electoral 8		DPRD recommendations to the executive [9].
<i>Social and Cultural Issues</i>			
SCT1	Social and Cultural 1	0-100 (BPS)	The absence of facilities prevents persons with disabilities from exercising their right to vote [9].
SCT2	Social and Cultural 2		Regeneration activities conducted by election participants [9].
SCT3	Social and Cultural 3		Percentage of female political party administrators [9].
<i>Law and Justice Issues</i>			
LJT1	Law and Justice 1		Controversial judge's decision [9].
LJT2	Law and Justice 2	0-100 (BPS)	A controversial termination of an investigation by the prosecutor or the police [9].
<i>Demonstration and Community Participation issues</i>			
DCP1	Demonstration and Community Participation 1	0-100 (BPS)	Violent demonstrations or strikes [9].
DCP2	Demonstration and Community Participation 2		Public complaints about governance [9].

It's worth noting that to generate a robust impact of democracy on economic growth, it requires a model that considers economic conditions, referring to the state of macroeconomic variables. In this regard, the Solow growth model is chosen to examine the relationship

between gross domestic product (GDP) and key explanatory factors. What sets the Solow model apart from other models is its inclusion of a pragmatic Cobb-Douglas production function, which takes into account the substantial contributions of both capital and labor to production. This model places a special focus on the role

**Table 2.** Descriptive statistic.

Variable	Minimum	Maximum	Mean	Median	Std. Dev.
lnGDP	36.4047	36.9320	36.6982	36.7103	0.1779
lnK	35.2125	35.8191	35.5631	35.5830	0.1966
lnL	18.5559	18.7297	18.6490	18.6463	0.0563
FCR1	77.2100	91.2100	83.8108	83.4500	4.7393
FCR2	82.2700	95.1500	88.2133	87.5650	4.5329
FCR3	58.8200	83.4300	69.8425	68.8800	6.2885
FCR4	42.2800	86.6700	53.1525	49.3100	11.9805
FCR5	80.4300	91.7000	84.1150	82.2900	3.8101
FCR6	78.1800	93.3800	84.4275	83.7950	4.3984
FCR7	76.9700	92.3500	84.9167	86.2150	5.6638
DCM1	80.3000	92.6500	86.5300	86.3650	5.0825
DCM2	82.5000	95.5900	89.3050	89.5600	4.0712
DCM3	86.2700	95.4500	90.9708	91.2950	2.9215
PTE1	84.5200	95.8300	90.9392	94.8000	5.6782
PTE2	30.0000	75.8000	55.9083	73.6700	22.8762
PTE3	73.8200	82.5400	75.8100	75.0700	3.2034
PTE4	51.4100	59.6100	55.0350	54.2950	2.9370
PTE5	81.5500	98.9300	92.9183	91.4600	6.3921
PTE6	83.8900	92.0300	88.2750	89.9500	3.9404
PTE7	5.6500	46.1600	25.5883	24.1700	14.1398
PTE8	2.8100	20.8000	12.1817	12.6650	5.8485
SCT1	50.0000	96.5300	61.9217	60.0000	16.8538
SCT2	13.3300	80.2500	56.4225	61.2300	21.6464
SCT3	72.9200	99.0700	86.7800	86.7550	10.3115
LJT1	76.9700	95.0400	89.9775	92.0000	4.9876
LJT2	75.1500	95.1500	86.6292	87.9700	6.5364
DCP1	18.7100	81.7500	36.1442	34.5250	16.7637
DCP2	28.5600	87.0400	69.1433	74.6700	16.6355

of saving and investment in driving economic growth. By increasing savings and investment, it leads to a growth in the capital stock, ultimately resulting in higher national income and product when the economy is at full employment. Consequently, the Solow growth model provides an advantage in analyzing the fundamental factors that influence economic growth [31, 32].

To measure the relationship between GDP and the main explanatory variables, this paper describes GDP as a function of gross fixed capital formation, labor force, and democracy. Therefore, the GDP function can be written as:

$$GDP_t = f(K_t, L_t, DC_t) \tag{1}$$

where GDP is the gross domestic product, K is the gross fixed capital formation, L is the labor, and DC is the indicators of democracy index.

The decomposed econometric model that represents the relationship for the category of freedom and civil rights issues is presented in Equations 2-8.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} FCR1_t \\ FCR2_t \\ FCR3_t \\ FCR4_t \\ FCR5_t \\ FCR6_t \\ FCR7_t \end{bmatrix} + \varepsilon_t \tag{2-8}$$

Furthermore, the decomposed econometric model that illustrates the connection for the category of discrimination issues is provided in Equations 9-11.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} DCM1_t \\ DCM2_t \\ DCM3_t \end{bmatrix} + \varepsilon_t \tag{9-11}$$

Moreover, the decomposed econometric model depicting the relationship for the category of political and electoral issues is presented in Equations 12-19.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} PTE1_t \\ PTE2_t \\ PTE3_t \\ PTE4_t \\ PTE5_t \\ PTE6_t \\ PTE7_t \\ PTE8_t \end{bmatrix} + \varepsilon_t \tag{12-19}$$

**Table 3.** RLS results for seven democracy indicators of freedom and civil rights issues impact on lnGDP.

Variable	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7
Constant	-2.8079 (-0.67)	-4.5149 (-1.03)	-7.0499 (-1.57)	-3.7051 (-1.02)	1.0355 (0.21)	3.1689 (1.02)	-1.0575 (-0.24)*
lnK	0.6835 ( 4.58)*	0.6389 (4.62)*	0.5811 (4.51)*	0.6766 (5.63)*	0.9767 (3.38)*	0.8512 (8.28)*	0.6794 (4.97)*
lnL	0.8112 (1.63)	0.9856 (2.03)**	1.2321 (2.59)*	0.8742 (2.11)**	0.0262 (0.03)	0.1634 (0.45)	0.7235 (1.46)*
FCR1	0.0008 (0.64)						
FCR2		0.0013 (0.99)					
FCR3			0.0015 (1.61)				
FCR4				0.0007 (1.72)***			
FCR5					0.0053 (1.31)		
FCR6						0.0025 (3.12)*	
FCR7							0.0012 (1.24)

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

**Table 4.** RLS results for three democracy indicators of discrimination issues impact on lnGDP.

Variable	Model 8	Model 9	Model 10
Constant	0.7288 (0.13)	-3.5155 (-0.89)	-2.2079 (-0.79)
lnK	0.7414 (4.34)*	0.5291 (3.79)*	0.6217 (6.87)*
lnL	0.5082 (0.81)	1.1350 (2.48)**	0.9134 (2.91)*
DCM1	0.0015 (1.11)		
DCM2		0.0026 (1.58)	
DCM3			-0.0026 (-2.26)**

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

Next, the decomposed econometric model that portrays the correlation for the category of social and cultural issues is displayed in Equations 20-22.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} SCT1_t \\ SCT2_t \\ SCT3_t \end{bmatrix} + \varepsilon_t \quad (20-22)$$

Additionally, the decomposed econometric model that depicts the relationship for the category of law and justice issues is presented in Equations 23-24.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} LJT1_t \\ LJT2_t \end{bmatrix} + \varepsilon_t \quad (23-24)$$

Finally, the decomposed econometric model that represents the linkage for the category of demonstration and community participation issues is showcased in Equations 25-26.

$$\ln GDP_t = \beta_0 + \beta_1 \ln K_t + \beta_2 \ln L_t + \beta_3 \begin{bmatrix} DCP1_t \\ DCP2_t \end{bmatrix} + \varepsilon_t \quad (25-26)$$

Where  $\beta_0$  is an intercept,  $\beta_1$ ,  $\beta_2$ , and  $\beta_3$  are the coefficients,  $\varepsilon$  represents the error term.

This study utilized the Robust Least Squares (RLS) approach to address a common problem in the conventional Ordinary Least Squares (OLS) method, which is its high sensitivity to outliers. Outliers are data points that deviate significantly from the general data pattern and can strongly affect estimated coefficients, consequently impacting the predictive performance of the model. RLS seeks to mitigate the influence of outliers by assigning lower significance to data points that deviate significantly from the expected model [33, 34].

### 3. Results and Discussion

An overview of the data variables used in this study is provided through descriptive statistics. As shown in Table 2, most of the democracy index indicators have high standard deviation values, indicating that the data are widely dispersed. The presence of widely dispersed data suggests the existence of numerous outliers. This justifies our use of the RLS method, which is designed to mitigate the influence of outliers on regression coefficients.

#### 3.1. Freedom and Civil Rights Issues

The Indonesian parliament has passed a new criminal code that infringes upon various fundamental rights, including freedom of speech, peaceful assembly, and association, as well as privacy, sexual, and reproductive

**Table 5.** RLS results for eight democracy indicators of political and electoral issues impact on lnGDP.

Variable	Model 11	Model 12	Model 13	Model 14	Model 15	Model 16	Model 17	Model 18
Constant	-3.6513 (-1.19)	-2.7636 (-0.87)	2.7396 (0.33)	-5.1944 (-0.78)	-8.3413 (-1.00)	-5.2805 (-1.65)***	-2.7969 (-0.65)	-3.3521 (-0.69)
lnK	0.4809 (4.07)*	0.5004 (4.24)*	0.7769 (3.69)*	0.6188 (4.10)*	0.4794 (1.83)***	0.4479 (3.51)*	0.5988 (3.63)*	0.6389 (4.55)*
lnL	1.2320 (3.33)*	1.1596 (3.11)*	0.3276 (0.38)	1.0711 (1.71)***	1.4959 (1.60)	1.3776 (3.46)*	0.9755 (1.97)**	0.9294 (1.84)***
PTE1	0.0029 (2.57)**							
PTE2		0.0007 (2.47)**						
PTE3			0.0029 (0.82)					
PTE4				-0.0016 (-0.38)				
PTE5					0.0010 (0.69)			
PTE6						0.0040 (2.47)**		
PTE7							0.0004 (0.45)	
PTE8								-0.0001 (-0.06)

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

**Table 6.** RLS results for three democracy indicators of social and cultural issues impact on lnGDP.

Variable	Model 19	Model 20	Model 21
Constant	4.7695 (0.59)	-6.3815 (-2.29)**	1.0675 (0.19)
lnK	0.8047 (4.21)*	0.6999 (8.08)*	0.5368 (3.51)*
lnL	0.1751 (0.22)	0.9777 (3.28)*	0.8765 (1.88)***
SCT1	0.0008 (1.14)		
SCT2		-0.0008 (-3.45)*	
SCT3			0.0022 (1.25)

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

rights [35]. This law will gradually replace the existing criminal code, reintroducing imprisonment as a penalty for insulting the president, vice president, government officials, and other state institutions, while also prohibiting unauthorized protests [36]. These restrictions on civil rights may hinder economic progress to growth by creating social tensions and limiting the full potential of a nation's workforce and creativity.

The results of the estimation of freedom and civil rights issues found that two democracy indicators have an impact on economic growth. As shown in Table 3, the FCR4 variable, which represents community threats or violence inhibiting freedom of expression, and the FCR6 variable, which denotes officials' actions or statements limiting the freedom to practice religion, both have a

positive impact on economic growth. Specifically, an increase in the absence of community threats or violence inhibiting freedom of expression may potentially increase economic growth by 0.0007%. Similarly, the reduction in officials' actions or statements limiting the freedom to practice religion can lead to an increase in economic growth by 0.0025%.

Based on this empirical evidence, highlights the positive impact of the absence of community threats or violence, which can create a peaceful and secure environment conducive to economic growth through increased firm investments, higher productivity, boosted tourism, and enhanced human capital development [37, 38]. Furthermore, reducing restrictions on religious freedom will make people feel secure in their ability to express their faith, likely leading them to actively participate in the broader societal fabric. This can contribute positively to economic growth by promoting social stability and inclusivity [39].

### 3.2. Discrimination Issues

As an archipelagic nation, Indonesia boasts a diverse society composed of numerous ethnicities, races, religions, and beliefs, with each region having its distinct culture [40]. While this diversity ideally should serve as a source of positivity for its citizens, it's important to acknowledge that it can also fuel conflicts, notably issues related to racial discrimination [41]. This can harm prospects for sustainable and inclusive economic development and growth.

**Table 7.** RLS results for two democracy indicators of law and justice issues impact on lnGDP.

Variable	Model 22	Model 23
Constant	-2.5018 (-0.58)	-1.7882 (-0.48)
lnK	0.6169 (4.36)*	0.6961 (5.69)*
lnL	0.9199 (1.89)***	0.7315 (1.72)***
LJT1	0.0012 (0.89)	
LJT2		0.0011 (1.64)

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

**Table 8.** RLS results for two democracy indicators of demonstration and community participation issues impact on lnGDP.

Variable	Model 24	Model 25
Constant	-0.7877 (-0.31)	0.3737 (0.09)
lnK	0.7967 (8.88)*	0.9225 (4.39)*
lnL	0.4893 (1.62)	0.1927 (0.32)
DCP1	0.0008 (3.72)*	
DCP2		-0.0011 (-1.61)

Note: Significant \*(1%), \*\*(5%), and \*\*\*(10%)

Table 4 displays the estimation results for discrimination issues and shows that the DCM3 variable, representing violence or threats by society based on gender, ethnicity, or group, has a significant impact on economic growth. An intriguing empirical finding reveals that it leads to a negative effect, implying that an increase in violence or threats by society based on gender, ethnicity, or group can push economic growth by 0.0026%.

Despite empirical evidence conflicting with the potential negative impacts of discrimination on economic growth – such as reducing workforce participation, lowering productivity, exacerbating income inequality, stifling innovation, eroding social cohesion, limiting consumer markets, and undermining investor confidence [42, 43] – it is evident that any form of violence or threats has a relationship with economic growth.

### 3.3. Political and Electoral Issues

Indonesia faces a significant challenge within its electoral framework. To begin with, the elections have led to the formation of an exceedingly diverse parliament, comprised of numerous political parties. Additionally, a substantial number of these political parties suffer from subpar quality and a deficit of public trust [44]. In conjunction with the issues posed by an overly diverse

multiparty system, the substandard quality of the Indonesian parliament can be linked to the inadequate quality of its political parties, which detrimentally affects the country's prospects for economic growth [45].

The econometrics results for political and electoral issues, as shown in Table 5, found that three indicators have a positive impact on economic growth: the PTE1 variable, which represents the right to vote or be elected being hampered; the PTE2 variable, which represents voter turnout; and the PTE6 variable, which represents fraud in the counting of votes. Specifically, the decrease in the right to vote or be elected being hampered will push economic growth by 0.0029%. Moreover, the increase in voter turnout will potentially boost economic growth by 0.0007%. Additionally, the decrease in fraud in the counting of votes can increase economic growth by 0.0040%.

This empirical evidence gives a strong argument that a decrease in the right to vote or be elected being hampered, increased voter turnout, and the elimination of fraud in the counting of votes can have positive implications for economic growth. This is primarily due to the potential for political stability, elevated accountability, and decreased inequality [46]. It's important to note that in democratic societies, the right to vote and be elected is considered a fundamental human right and a cornerstone of the democratic process [47].

### 3.4. Social and Cultural Issues

Indonesian society boasts a profoundly rich and diverse socio-cultural tapestry. This diversity encompasses regional arts, traditional architecture, languages, and customary ceremonies. This richness should serve as the nation's wealth and strength, fostering unity and integrity [48]. Nevertheless, on the flip side, this diversity can also give rise to socio-cultural challenges that pose a threat to the harmony of society and the stability of national economic growth [49–51].

Table 6 displays the estimation results for the social and cultural issues, and it was found that the SCT2 variable, which represents regeneration activities conducted by election participants, has a strong, significant impact on economic growth. However, interestingly, the findings show a negative impact, indicating that fewer regeneration activities conducted by election participants can increase economic growth by 0.0008%.

This evidence contradicted the potential influence of regeneration activities conducted by election participants on economic growth, as they can stimulate local economies through infrastructure development, education, community revitalization, and job creation

[52–54]. Successful regeneration activities attract investment, tourism, and business development, leading to increased economic activity and enhanced overall national prosperity [55, 56].

### 3.5. Law and Justice Issues

Legal problems in Indonesia often occur due to the weak integrity of law enforcement. Another factor contributing to the weakness of the law in Indonesia is the absence of effective supervision related to its enforcement, not to mention the legal structure in Indonesia, which sometimes overlaps with existing authorities [57, 58]. This has the potential to hinder the smooth operation of economic activities that could otherwise drive growth in Indonesia.

However, the results as shown in Table 7 indicate that neither of the democracy indicators within the category of law and justice has any influence on economic growth. This issue impacts economic growth by affecting property rights, contract enforcement, the regulatory environment, corruption levels, investor confidence, dispute resolution efficiency, and social stability. A strong legal system fosters trust, protects investments, and reduces corruption, while issues in these areas can hinder economic development and growth [59–61].

### 3.6. Demonstration and Community Participation Issues

Indonesia has made progress in terms of democratization and civil society engagement, but challenges remain in ensuring that citizens can freely express their views, participate in governance, and peacefully advocate for their rights and causes [62]. Balancing the need for public order with the protection of civil liberties is an ongoing issue for the Indonesian government that can potentially impact national economic growth [63].

The econometric results in Table 8 indicate that within the demonstration and community participation issues, the DCP1 variable, representing violent demonstrations or strikes, significantly affects economic growth. Specifically, a decrease in violent demonstrations or strikes can potentially increase economic growth by 0.0008%.

This evidence shows that violent demonstrations and strikes can harm economic growth by disrupting normal activities, damaging infrastructure, eroding investor confidence, reducing tourism, increasing government spending, fostering uncertainty, and lowering consumer confidence [64]. This issue carries far-reaching implications that reverberate through the very fabric of economic landscape and can impact a nation's long-term

reputation and attractiveness for investment and business, which is a crucial foundation for sustainable economic growth [65].

## 4. Conclusions and Policy Recommendations

This study provides more comprehensive empirical evidence regarding the relationship between democracy and economic growth by employing a decomposition approach that considers 25 different indicators from the Indonesian democracy index to examine their individual effects on economic growth, an aspect not explored in previous Indonesian studies. Analysis of the estimation results reveals that freedom and civil rights issues, discrimination issues, political and electoral issues, social and cultural issues, as well as demonstrations and community participation issues proved to significantly affect economic growth.

Specifically, indicators such as community threats or violence that inhibit freedom of expression and officials' actions or statements limit the freedom to practice religion within freedom and civil rights issues; indicators like discriminatory actions or statements by officials based on gender, ethnicity, or group within discrimination issues; indicators such like the right to vote or be elected is being hampered, voters turnout, and fraud in the counting of votes within political and electoral issues; indicators related to regeneration activities conducted by election participants within social and cultural issues; and indicators involving violent demonstrations or strikes within demonstration and community participation issues; all have a crucial role in impacting Indonesia's economic growth.

Based on the findings, this study recommends a comprehensive policy regarding the democracy issues in Indonesia. This policy includes strengthening protections for freedom of expression and religion through the establishment of a robust legal framework, combating discrimination through the enactment of laws and the promotion of affirmative action, enhancing electoral integrity and transparency by investing in voter education programs to ensure that citizens understand the electoral process, supporting cultural preservation and regeneration efforts through investments in cultural education programs in schools and universities, and managing social unrest through peaceful channels. These measures are expected to create a more inclusive and stable democratic environment, paving the way for sustainable national growth and economic prosperity.

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