

CHAPTER 1

INTRODUCTION

A. Background

Economic growth is a process of changing economic conditions in a country on an ongoing basis towards a better state over a certain period. The economy in a country is said to be good if it experiences a change in the level of economic activity that is higher than that achieved in the previous period. Countries that can maximize the driving factors will find it easier to achieve economic growth and vice versa, countries that are not able to minimize the inhibiting factors will find it more difficult to increase economic growth.

One indicator that can be used to measure a country's economic growth is the GDP growth rate (Gross Domestic Product). GDP is the amount of added value generated by all production activities in the economy, this means that an increase in GDP also reflects an increase in remuneration for the production factors used in these production activities, in the context of the regional economy, the measure that is often used is Regional Domestic Product. Gross (GDP) is the total gross value added generated by all economic sectors in the region. Meanwhile, per capita income is the total income of the region/region divided by the total population for the same year (Tarigan, 2005).

Talking about the economic growth of a country, many organizations were formed with objectives related to economic growth in recent years. One of them is ASEAN (Association of Southeast Asia Nation), an organization or association of ten countries geographically located in the Southeast Asian region. ASEAN has been formed on August 8, 1967, in Bangkok. This International Organization was formed to achieve the objectives of the interests of member countries both in terms of economic, social, cultural, etc. The formation of ASEAN for

approximately 5 decades has resulted in the fading of the boundaries of economic activity. Where this is one of the influences of the demands of the era of globalization that every country is expected to be able to carry out trade and an open economy. With this regional economic cooperation, it is intended to increase ASEAN's economic growth from the time it was formed, until the next period.

The economic growth of a country does not always rise but will experience tidal fluctuations, among others experienced by Indonesia in 1997 and the global crisis, in 2008. The global economic crisis that occurred in 2008 started with the United States economic crisis that spread to other countries around the world, including ASEAN countries, which triggered a slowdown in world economic growth and led to an economic downturn. The slowdown in growth caused trading volumes to decline sharply and had an impact on large industries that were in danger of going bankrupt. The impact of the global economic crisis has affected the current economic growth.

In recent years, ASEAN countries increasingly have an important role at the global level, this can be a driving force for ASEAN in the formation of the 2015 ASEAN Economic Community (AEC). The global economy, as well as strengthening the economies of ASEAN countries, which in the end the competition among ASEAN member countries can be more mutually beneficial. Countries in Southeast Asia often referred to as ASEAN has ten participating countries, namely Indonesia, Thailand, Malaysia, Vietnam, Singapore, Laos, Cambodia, Myanmar, the Philippines, and Brunei Darussalam. The following is a table of economic growth for ASEAN countries for the 2010-2019 period:

Table 1.1 Gross Domestic Product of 10 ASEAN Countries 2010-2019 (Billion US\$)

Year	Indonesia	Thailand	Malaysia	Vietnam	Singapura	Laos	Kamboja	Myanmar	Filipina	Brunei
2010	755.094	341.105	255.017	115.932	239.809	7.128	11.242	51.518	208.369	13.707
2011	801.682	343.971	268.517	135.539	255.008	8.749	12.830	54.148	216.408	18.525
2012	850.024	368.884	283.214	155.820	266.836	10.191	14.054	53.255	231.334	19.048
2013	897.262	378.797	296.507	171.222	279.272	11.942	15.228	58.175	246.950	18.094
2014	942.185	382.526	314.318	186.205	290.269	13.268	16.703	59.640	262.626	17.098
2015	988.129	394.514	330.321	193.241	294.944	14.390	18.050	60.292	279.299	12.930
2016	1.037.860	408.043	345.020	205.276	308.640	15.806	20.017	61.449	299.267	11.401
2017	1.090.480	424.635	365.075	223.780	322.025	16.853	22.177	67.145	320.009	12.128
2018	1.146.850	442.261	382.489	245.214	333.096	17.954	24.572	68.698	340.303	13.567
2019	1.204.480	452.675	398.394	261.921	335.359	18.246	27.089	79.844	360.859	13.469
Rata-rata	971.405	393.741	323.887	189.415	292.526	13.453	18.196	61.416	276.542	14.997

Based on the above data obtained from the World Bank, in 2010-2019 the country with the highest average was Indonesia at US\$971,405 billion while the lowest average was in Laos at US\$18,196 billion. It can be seen that the economic growth value of the countries of Indonesia, Thailand, Malaysia, Singapore, and the Philippines has increased every year and has the highest average in ASEAN.

The country of Malaysia has increased from year to year, the highest increase in Malaysia occurred in 2017 which was an increase of US\$20.055 billion, while the lowest increase occurred in 2013 which was an increase of US\$13.293 billion. Malaysia in 2015 to 2019 was above the average score. Second, Thailand which is a neighboring country to Malaysia also experienced an increase from year to year, the lowest increase in the previous year was in 2011 an increase of US\$2.866 billion while the highest increase occurred in 2012, namely an increase of US\$24,913 billion. Thailand was above the average value from 2015 to 2019. Third, the State of Singapore experienced an increase from year to year, the highest increase in Singapore in 2010-2019 was in 2011, which experienced an increase of \$15.199 billion US, while the lowest increase in 2019, an increase of \$15.199 billion. \$2,263 billion

US. Singapore in 2015 to 2019 was above the average score. Fourth, the Philippines also experienced an increase year on year. The highest increase occurred in 2019, which was US\$20,556 billion while the lowest increase occurred in 2011 which was US\$8,039 billion, the Philippines was above the average value in 2015-2019. Finally, Indonesia is the same as the previous three countries, Indonesia has also experienced an increase from year to year. The highest increase in Indonesia occurred in 2019 with an increase of US\$57,630 billion, while the lowest increase was in 2014, which was an increase of US\$44,923 billion. Similar to the previous three countries, Indonesia's value was also above the average from 2015 to 2019. Each country experiences different increases and decreases each year, this can be influenced by the level of production in each country.

Economic growth is one of the conditions for a country to develop or advance the welfare of its country. There are many ways to develop Gross Domestic Product, one of which is through investment, which includes foreign direct investment and domestic investment, as well as international trade. Investment or investment is the purchase of capital goods and the completion of production to increase the ability to produce goods and services needed in the economy (Sutawijaya, Adrian, & Zulfahmi, 2010).

Every country is in dire need of large capital to finance its economic development. If the domestic savings supply is insufficient, then one way is to get capital from foreign direct investment and domestic investment. Foreign Direct Investment is an important source of capital and can make a major contribution to the development of every country, both developed and developing. Likewise, with domestic investment which includes Gross Fixed Capital Formation, namely physical investment, this investment is as important as foreign investment,

which is the same as financing and increasing economic growth. Therefore, a high level of sustainable economic growth is generally supported by increased investment.

Likewise, the relationship between the inflation rate and the labor force on economic growth, according to (Tahir & Azid, 2015) a low inflation rate in a country indicates a more stable economic environment so that it has a positive impact on economic growth. However, if the inflation rate fluctuates (easy to change), it will make it more difficult or slow the increase in a country's economic growth. Meanwhile, the workforce of a country will greatly affect the level of the country's human resources (HR). Where a country that can manage its workforce resources into a productive workforce will accelerate economic growth and vice versa.

Economic growth can increase due to several factors that drive a country. In developed countries, relying on production results in the form of goods and services, and investment. Furthermore, developing countries will find it difficult to rely solely on goods and services. Therefore, developing countries need the role of investment and foreign debt which will be a supporting factor in determining more advanced economic growth.

Foreign debt is a variable that one of its functions can be one of the drivers of a country's economy. Encouraging the economy referred to here is if the debt is used to create jobs and investment in development, which in turn can encourage the economy or hinder economic growth. However, this can also be the opposite or can be an obstacle to economic growth if the debt is not utilized optimally due to the lack of a supervisory function of the person in charge of the debt itself. (Ulfa & Zulham, 2017). The Qur'an also explains debt in Surah Al-Baqarah verse 282 which reads:

يَكْتُبُ أَنْ كَاتِبُ يَأْبُ وَلَا ۖ بِالْعَدْلِ كَاتِبٌ بَيْنَكُمْ وَلْيَكْتُبْ ۖ فَالْكُتُبُوهُ مُسَمًى أَجَلٍ إِلَىٰ بَدَيْنِ تَدَايِنْتُمْ إِذَا ءَامَنُوا الَّذِينَ أُيُّهَا
أَوْ سَفِيهَا الْحَقُّ عَلَيْهِ الَّذِي كَانَ فَإِنْ ۖ شَيْئًا مِنْهُ يَنْحَسُ وَلَا رَبَّهُ اللَّهُ وَلَيَتَّقِ الْحَقُّ عَلَيْهِ الَّذِي وَلِيْمَلِّ فَلْيَكْتُبْ ۖ اللَّهُ عَلَمَهُ كَمَا
وَأَمْرًا تَانِ فَرَجُلٌ رَجُلَيْنِ يَكُونَا لَمْ فَإِنْ ۖ رَجَالِكُمْ مِنْ شَهِيدَيْنِ وَأَسْتَشْهَدُوا ۖ بِالْعَدْلِ وَلِيُّهُ فَلْيُمَلِّ هُوَ يُمَلِّ أَنْ يَسْتَطِيعَ لَا أَوْ ضَعِيفًا
تَكْتُبُوهُ أَنْ تَسْمُوا وَلَا ۖ دُعُوا مَا إِذَا الشُّهَدَاءُ يَأْبُ وَلَا ۖ الْأَخْرَىٰ إِحْدَاهُمَا فَتَذَكَّرَ إِحْدَاهُمَا تَضَلَّ أَنْ الشُّهَدَاءُ مِنْ تَرْضَوْنَ مِمَّنْ
بَيْنَكُمْ تُدِيرُونَهَا حَاضِرَةً تَجْرَةً تَكُونُ أَنْ إِلَّا ۖ تَرَ تَابُوا إِلَّا وَأَنْتَىٰ لِلشُّهَدَةِ وَأَقْرَمُ اللَّهِ عِنْدَ أَقْسَطُ ذَلِكَ ۖ أَجَلَةً إِلَىٰ كَبِيرًا أَوْ صَغِيرًا
اللَّهُ وَأَتَّقُوا ۖ بِكُمْ فَسُوقٌ فَإِنَّهُ تَفَعَّلُوا وَإِنْ ۖ شَهِيدٌ وَلَا كَاتِبٌ يُضَارَّ وَلَا ۖ تَبَايَعْتُمْ إِذَا وَأَشْهَدُوا ۖ تَكْتُبُوهَا إِلَّا جُنَاحٌ عَلَيْكُمْ فَلَيْسَ
عَلَيْمٌ شَيْءٍ بِكُلِّ وَاللَّهُ ۖ اللَّهُ وَيُعَلِّمُكُمْ ۖ

Meaning: "O you who believe, if you are not in cash at a certain time, you should write it down, let one of you write correctly, and do not hesitate to write it as Allah has taught, they let him write. , and let the debtor imitate (what is to be written), and let him fear Allah his Lord, and let him not deduct anything from his debt. If a debtor is a person who is weak in mind or weak (his condition) or he is unable to punish him, let the guardian do it honestly, and testify with two male witnesses (among you). If there are not two men, then (permissible) a man and two women from the witnesses that you like, so that if anyone forgets, someone will remind him. Witnesses should not hesitate (to testify) when summoned; and never tire of writing down debts, both small and large, until the deadline for payment. That is, it is more just with Allah and strengthens your testimony and is closer to not (causing) your doubts. Unless muamalah is a cash trade that you carry out among yourselves, then there is no sin for you, (if) you do not write it down. And watch as you buy and sell; and let the writer and the witness not find it difficult to complicate one another. If you do (that), when in fact it is a vile deed in you. And fear Allah; Allah teaches you, and Allah knows all things."

The economic freedom of a country can be considered important as an indicator of the progress of a country's welfare level. Economic freedom must be able to provide space for the

state to empower people to work, produce, trade, and invest according to personal choices. According to (Gwartney & Lawson, 2004), the higher the level of economic freedom in a country, the higher the prosperity of that country. In addition, in the current era of globalization and democracy, the existence of an index of economic freedom plays an important role in achieving the freedom that every country wants.

This study seeks to examine in depth the relationship between the influence of foreign direct investment, labor force, foreign debt, and economic freedom on economic growth. The author chose several countries, namely Indonesia, Malaysia, Singapore, Thailand, and the Philippines because these five countries have the highest average GDP among other countries. Therefore, the author with the title "**Determinants of Economic Growth in ASEAN Countries (Indonesia, Malaysia, Singapore, Thailand, and the Philippines) for the period 2010-2019**" is expected to be able to research wisely to help increase the economic growth of five ASEAN countries that were chosen wisely.

B. Research Limits

Based on the background of the problem above, it is necessary to limit the problem so that the scope of this research becomes clearer. The author limits the problem to:

1. Research data collection time is 2010-2019.
2. This study was conducted to determine the effect of Macroeconomics (Foreign Direct Investment, Labor Force, Foreign Debt, and Economic Freedom) on GDP.
3. The dependent variable in this study is GDP.
4. The independent variables in this study are Foreign Direct Investment, Labor Force, Foreign Debt, and Economic Freedom.

C. Problem Formulation

Based on the description of the background that has been described above, the formulation of the problem in this study is as follows:

1. How is the influence of foreign direct investment variables on GDP in ASEAN countries?
2. How is the influence of the labor force variable on GDP in ASEAN countries?
3. What is the effect of foreign debt on GDP in ASEAN countries?
4. How is the influence of the variable of economic freedom on GDP in ASEAN countries?

D. Research Objectives

1. Analyzing the effect of foreign direct investment on GDP in ASEAN countries.
2. Analyzing the influence of the labor force on GDP in ASEAN countries.
3. Analyzing the influence of foreign debt on GDP in ASEAN countries.
4. Analyzing the effect of economic freedom on GDP in ASEAN countries.

E. Research Benefits

Some of the benefits that researchers expect from this research on Indonesia's GDP are:

1. Theoretically

The researcher hopes that this research can be used as a reference for further researchers and the researchers themselves, hopefully, they can add insight into the research being studied.

2. Practically

- a. For researchers

Sharpen the power of analysis to solve economic problems in Indonesia and the influence of these variables.

b. For the government

For the government, this research is expected to be an input for policies taken by the government itself, whether in the country where the research is located or not.