

CHAPTER I

INTRODUCTION

A. Background

GDP is defined as the expansion of economic activities that result in a rise in both the quantity and quality of products and services produced in society and in individual affluence. GDP thus assesses the success of an economy's progress from one era to another. A nation's capacity to generate products and services will rise. This improved capacity is the result of rising production factors in both quantity and quality. Investment will increase capital goods, and technology is also developing. Additionally, as people's education and skill levels have improved due to population growth, the labor force has grown.

In general, GDP is defined as an increase in the ability of an economy to produce goods and services. GDP is a very important indicator in analyzing the economic development that occurs in a country. GDP shows the extent to which economic activity will generate additional income for the community in a certain period. Because basically economic activity is a process of using factors of production to produce output, then this process on the part of the parties will produce a flow of remuneration for the factors of production owned by the community with GDP it is expected that the income of society as a factor of production owners will also increase.

Economic experts say that ASEAN's GDP has several key factors that play an important role in this demand. First, economic integration among ASEAN member countries has provided a significant boost. Efforts to increase trade, investment and service cooperation between member countries have opened up new opportunities and strengthened economic connectivity.

In addition, the industrial and manufacturing sectors in ASEAN have also developed rapidly. Countries such as Indonesia, Thailand and Vietnam have become global production bases, attracting foreign direct investment and creating jobs. This has made a positive contribution to GDP in the region.

Increased investment in infrastructure is also an important factor in ASEAN's GDP. Infrastructure projects such as building roads, bridges, ports, and energy facilities have increased regional connectivity, streamlined the flow of goods and services, and accelerated economic development.

In addition, the technology and innovation sectors also play a role in ASEAN's GDP. Countries such as Singapore and Malaysia have become centers of innovation and technology in the region, attracting investment in research and development and advancing knowledge-based sectors.

Overall, ASEAN's GDP has become one of the success stories in global economic development. Economic integration, industrial development, infrastructure investment and technological innovation have been important drivers behind this achievement. By overcoming existing challenges, ASEAN has the potential to continue to grow and contribute to economic prosperity in the Southeast Asian region.

The United Nations (UN) assesses that the economies of Laos and Myanmar are vulnerable. In fact, both countries could experience an economic crisis that could lead to bankruptcy. The causes of bankruptcy come from various things, ranging from debt mismatch, significant weakening of the exchange rate, to changes in the political climate. A country generally relies on financing through securities. If a payment default occurs, the trust of domestic bond holders, banks and business actors will decrease. As a result, domestic stability will be disrupted. If the country does not have the resources to meet people's needs, it can also be said to be bankrupt. For example, not being able to meet fuel needs, then not being able to provide goods at affordable prices because the people of that country find it difficult to buy goods because they are expensive. That could be an

indicator that the country is bankrupt. In a UN report, Laos' economy was described as depressed since the pandemic. This condition was made worse by the Russia vs Ukraine war. Laos also experienced a surge in debt which resulted in it having to beg for debt restructuring worth billions of US dollars. Laos' economic downturn is getting worse because its foreign exchange reserves are dwindling and it is only able to finance less than two months of imports. The currency fell 30 percent, exacerbating the country's woes. Then, inflation in Laos also jumped by 9.9 percent (year on year) in April 2022. Based on Tradingeconomics, Laos inflation was the second highest spike among other ASEAN countries.

Myanmar's economy is also being shaken. The cause is Myanmar's political instability, especially after the military coup in February 2021 against the elected government of Aung San Suu Kyi. Myanmar's economy contracted minus 18 percent last year and is not expected to grow this year. Currently, Myanmar is the country with the highest inflation rate among ASEAN countries. Inflation was recorded at 13.82 percent in January 2022, higher than the position in December 2021 which was 12.63 percent. Table 1.1 below shows the movement of GDP from eight ASEAN countries namely; Philippines, Vietnam, Malaysia, Singapore, Thailand, Cambodia, Indonesia and Brunei Darussalam. These are some of the reasons why Myanmar and Laos could not be included in my research.

Table 1. 1
GDP of Eight ASEAN Countries in 2012-2021 (Billion USD)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Philippines	261	283	297	306	318	328	346	376	361	394
Vietnam	195	213	233	239	257	281	310	334	346	366
Malaysia	314	323	338	301	301	319	358	365	337	372
Singapore	295	307	314	308	318	343	376	375	345	396
Thailand	397	420	407	401	413	456	506	544	499	505

Cambodia	14	15	16	18	20	22	24	27	25	26
Indonesia	917	912	890	860	931	1.015	1.042	1.119	1.058	1.186
Brunei	19	18	17	12	11	12	13	13	12	14

Source : Worldbank 2012-2021

Table 1.1 can explain, in 2019 Cambodia also experienced a high GDP with figures reaching \$27 billion US. Vietnam also experienced a very high increase in GDP, which occurred in 2021 with the number \$366 billion US. Meanwhile, Vietnam also experienced the lowest GDP in 2012 at \$195 billion US. Likewise with Malaysia, which has a high growth rate in 2021 with a figure of \$372 billion US and the lowest GDP occurred in 2016 at \$301 billion US. Furthermore, Singapore has an increase in GDP from year to year. In 2021, the highest GDP was recorded at \$396 billion US and the lowest GDP was in 2012 with \$295 billion US. Furthermore, the country of Thailand also experienced an increase in recorded GDP from 2012-2021 with the highest GDP occurring in 2019 with the number \$544 billion US and the lowest GDP occurring in 2012 with the number \$397 billion US. In Cambodia, a high GDP increase was recorded from 2012-2021 with the highest recorded GDP occurring in 2019 with the number \$27 billion US and the lowest GDP increase occurred in 2012 with the number \$14 billion US. Meanwhile, in Indonesia, the highest increase in GDP was recorded in 2021 reaching \$1 trillion US and the lowest increase in GDP was \$860 billion US. The country with the lowest average GDP in ASEAN is Brunei Darussalam with an average of \$14 billion US, although the average growth rate differs each year. Brunei Darussalam itself experienced a corrected GDP in 2016 and 2017, where growth fell to \$11 billion US and \$12 billion US. Brunei Darussalam's GDP performance has again improved in subsequent years with the figure of \$13 billion US in 2018 and decreased in 2020 to \$12 billion US.

The GDP of the ASEAN country that achieved the highest score was Indonesia in 2021 with a GDP value of US\$1 trillion per year and in the same year Brunei experienced the lowest GDP with a figure of US \$14 billion. In 2020, the GDP of all ASEAN countries experienced a significant decline, the cause was due to the Covid-19 pandemic which occurred in all countries in the world, especially ASEAN countries. Overall, GDP data from ASEAN countries in the period 2012 to 2021 tends to fluctuate, but there is an upward trend in GDP.

The Covid-19 pandemic has hampered the economy and daily lives of people in the Southeast Asia region from 2019 until 2020, so it is clear that GDP in 2020 experienced a decline due to several factors, including restrictions on economic activity to control the spread of the virus, in many countries in Asia. The Southeast has imposed restrictions on various economic activities such as lockdowns, business closures and travel restrictions. This results in a decrease in production and sales of goods and services, which in turn affects GDP. The second factor is the decline in consumption, the uncertainty caused by the pandemic makes many people reduce their spending so that consumers become more careful in spending their money, which reduces demand for various products and services. The third factor is the decline in investment, the pandemic created economic uncertainty which made many companies postpone or cancel investment plans. This includes investment in new projects, business development, and production expansion, as a result, a decline in investment dampens GDP.

One of the factors that influence GDP is the human development index. One of the main benefits of the human development index is to show that a country can actually commit far better crimes even though its income level is low. Conversely, a high level of income is not always followed by high human development achievements. The human development index shows that differences in income are larger than differences in other income indicators, at least in the areas of health and education. In addition, the human development index reminds us that real development means human

development in a broad sense, not just higher incomes. According to Todaro and Smith (Rahmawati, 2019) Health and Education are components of human capital and inputs to the national production function. An important independent objective of development work is to improve health and education. The Human Development Index (IPM) is a comparative measure of life expectancy, literacy, education and standard of living for all countries around the world. HDI is used to classify whether a country is a developed country, a developing country or an underdeveloped country and also to measure the effect of specific economic skills on quality of life. The quality of human resources can be seen from the quality of life index/human development index. The low Human Development Index will result in low work productivity of the population. Low productivity results in low revenue gain. GDP is always prioritized because GDP indicates an increase in per capita income. This is because GDP enables economic development in many fields. According to Kuznets (Fitriani, 2015) GDP is a long-term increase in a country's ability to provide more and more types of economic goods to its population; this capability grows according to technological progress, and the institutional and ideological adjustments it requires.

Table 1.2 shows the movement of human development index from eight ASEAN countries namely; Philippines, Vietnam, Malaysia, Singapore, Thailand, Cambodia, Indonesia and Brunei Darussalam.

Table 1. 2
Human Development Index ASEAN Countries 2012-2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Philippines	0.69	0.69	0.70	0.70	0.70	0.71	0.71	0.72	0.54	0.70
Vietnamese	0.67	0.68	0.68	0.68	0.69	0.70	0.70	0.70	0.71	0.70
Malaysia	0.78	0.79	0.79	0.80	0.80	0.81	0.81	0.81	0.81	0.80
Singapore	0.92	0.92	0.93	0.93	0.93	0.93	0.94	0.94	0.94	0.94
Thailand	0.75	0.75	0.78	0.78	0.79	0.77	0.77	0.77	0.78	0.80

cambodia	0.56	0.56	0.57	0.57	0.58	0.58	0.59	0.58	0.59	0.59
Indonesia	0.68	0.68	0.69	0.70	0.70	0.71	0.71	0.71	0.72	0.73
Brunei	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.84	0.83	0.83

Source : Country Economy

Table 1.2, it can be explained that Singapore has the highest human development index value with a figure of 0.94 occurring from 2018 to 2021, while from 2012 Singapore has also achieved a high human development index value, namely above 0.92 and continues to increase from year to year. Then followed by the country of Brunei Darussalam which had the second human development index value with the same number from 2012 to 2019 with the number 0.84, but experienced a decrease in value to 0.83 which occurred in 2020 to 2021. Followed by the country of Malaysia which had the highest human development index value. occurred from 2017 to 2020 with a figure of 0.81 and experienced a decrease in value to 0.80 in 2021. Then there is Thailand where there is an increase every year, starting with a figure of 0.75 in 2012 and then increasing and reaching the highest value in 2021 with a figure of 0.80 . Meanwhile, the Philippines experienced an increase from 0.62 in 2021, then increase to 0.70 in 2014 and there was the highest increase in 2017 to 2019 with figures of 0.71 and 0.72. For the country of Indonesia itself, it also experiences an increase every year, in fact every year there is never a decrease, starting from 2012 with a value of 0.68 then increasing to 0.70 then increasing to 0.71 until finally there was the highest increase in 2021 with a number of 0.73. Then there is the country of Vietnam which also experienced an increase from year to year, starting with the number 0.67 and the highest peak increase reached 0.70 which occurred in 2021. The last country which had the lowest human development index value was Cambodia, which had a value of 0.56 in 2012 and then increased. to 0.57 and there was the highest increase in 2021 with a value of 0.59.

The second factor affecting GDP is foreign investment or investment. According to Tandelilin (Hardinata, 2022) the notion of investment is a commitment to a number of funds or other resources made at this time, with the aim of obtaining a number of benefits in the future. But in an economic sense that investment is expenditure to buy capital goods and equipment which will later be used as a substitute for and add to capital goods to produce goods and services in the future. The role of investment in the economy has an important position. This is explained by Todaro and Sukirno (Agma, 2015) Todaro contends that economic development requires capital accumulation, population growth, and technological advancement. The resources that make up this capital accumulation are people, equipment, and land. Success in capital accumulation is defined as when revenue is saved and invested to boost production in the future. The growth of the necessity in issue requires that it be accompanied by a rise in labor knowledge in order for manufacturing to become effective and efficient. Sukirno asserts that community investments will consistently lead to the creation of new job opportunities, a rise in national income owing to international trade, and an improvement in people's welfare as a result of the creation of new work chances. The three purposes of investment—increasing production capacity, improved job possibilities as a result of investment as a part of overall spending, and the subsequent technological advancements in a nation—all contribute to this. Foreign Investment has a role in a country's GDP. The first foreign capital can be used as a tool to accelerate investment and GDP. Both increased GDP must be followed by the structure of production and trade within the country (Sustari, 2022). Finally, foreign capital as the mobilization of funds has an important role. These three things must also be supported by the role of the government which uses foreign capital for the purposes of building infrastructure. Foreign direct investment where the capital owner has the right to supervise assets by means of direct investment in the form of buying a majority share. This foreign direct investment can be in the form of forming a branch

company, forming a company from the majority owner of capital (Pratiwi, 2022)

From an economic point of view, Islam does not prohibit someone from investing because Islam prohibits that existing assets are not only stored but must be multiplied so that they can benefit other people or humans. Based on Surah Al-Hasr Verse 7

لِئَلَّا تُقْرَىٰ لِلَّهِ لِلرَّسُولِ إِيذَىٰ تُقْرَبَىٰ لِمَسْكِينٍ لِّسَبِيلِ اللَّهِ لَأَغْنَىٰ يَأْتِهَا لَّهُ لِي

Meaning: *"Whatever Allah gave to His Messenger (wealth) of the people in the city, belongs to Allah, the Messenger, relatives, orphans, people in need, and people in need on the road, so they don't circulate. the hand of the rich among them."*

Islam is a pro-investment religion, because it is in Islamic teachings resources (assets) that exist are not only stored but must be productive, so that they can provide benefits to the people (Hidayat 2011). This is based on the word of Allah swt in the letter QS. al-Baqarah [2] : 268:

الشَّيْطَانُ يُبْعِدُكُمُ الْفَقْرَ وَيَأْمُرُكُمْ بِالْفَحْشَاءِ وَاللَّهُ يُعِدُّكُمْ مَغْفِرَةً مِّنْهُ وَفَضْلًا وَاللَّهُ وَسِيعٌ عَلِيمٌ:

Meaning: *"The parable (income issued by) those who spend their wealth in the way of Allah is similar to a seed that grows seven ears, in each ear a hundred seeds. Allah multiplies (rewards) for whom He wills and Allah is All -Wise (His gifts) and All-Knowing."*

The legal basis for investing in Islam is the Qur'an and the Hadith of the Prophet. In addition, because investment is part of the economic activities of fiqh muamalah (muamalah maliyah). Basically, all forms of muamalah, including economic activities, are permissible unless there is evidence against or prohibiting it (Pardiansyah, 2017).

Table 1.3 below shows the movement of foreign investment from eight ASEAN countries namely; Philippines, Vietnam, Malaysia, Singapore, Thailand, Cambodia, Indonesia and Brunei Darussalam.

Table 1.3
Foreign Investment (Billion USD) ASEAN Countries 2012-2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Philippines	0,95	0,09	1	0,09	5	6	5	5	3	8
Vietnamese	7	6	8	10	11	13	14	15	15	15
Malaysia	8	2	5	0,06	3	3	2	1	0,67	7
Singapore	34	19	16.	24	28	36	59	55	42	58
Thailand	1	3	0,07	3	9	5	4	5	23	5
cambodia	1	2	1	1	2	2	3	3	3	3
Indonesia	13	12	14	10	16	18	12	20	14	17
Brunei	0,85	0,77	0,57	0,17	0,15	0,47	0,51	0,37	0,56	0,20

Source: Worldbank 2012-2021

Table 1.3, it can be explained that Singapore has the highest foreign investment of several ASEAN countries, namely with the highest figure of \$59 billion US in 2018 and the lowest value occurred in 2014 with a figure of \$16 billion US. Then followed by Thailand which had the highest foreign investment value which occurred in 2016 with a figure of \$23 billion US and the lowest in 2014, namely \$0,07 billion US. Next, there is the country of Indonesia with the highest value occurring in 2019 reaching \$20 billion US, and having the lowest value with the figure \$10 billion US occurring in 2015. Followed by Vietnam with the highest value occurring in 2019 to 2021 with a figure reaching \$15 billion US. with the lowest value of up to \$6 billion US occurring in 2013. Then there is the country of Malaysia with foreign investment reaching \$8 billion US which occurred in 2012, then it fell to \$0,06 thousand US with the lowest value in 2015. Next there is the country of Cambodia with the highest value reaching \$3 billion US which occurred in 2018 to 2021 and the lowest value was \$1 billion US in 2012.

Thailand	40	39	39	39	38	38	39	38	39	39
Cambodia	8	8	8	8	8	8	9	9	9	9
Indonesia	120	120	122	124	126	129	133	136	136	139
Brunei	0,19	0,19	0,19	0,20	0,20	0,20	0,21	0,21	0,21	0,21

Source: World Bank, 2021 (Processed)

Table 1.4, it can be explained that the Philippines had the highest number of workers in 2019 with 44 million people and the lowest number of workers occurred in 2012 with 40 million people. Then Vietnam had the highest score in 2021 with 56 million people, and had the lowest labor force in 2012 with 52 million people. Next there is Malaysia with the highest total labor force in 2021 with 16 million people, and the lowest in 2012, namely 13 million people. Then followed by Singapore with an annual average of 3 million people from 2012 to 2021. Next there is Thailand with the highest number of workers at 40 million people which occurred in 2012, with a low average number of 39 million people which occurred in 2012. 2013 to 2021. Next there is Cambodia with a labor force of 8 million people in 2012 to 2017 which then rose to 9 million people in 2018 to 2021. Next, Indonesia has the highest number of workers among other ASEAN countries, reaching 139 million. people in 2021 and the lowest in 2012, namely 120 million people. Then there is Brunei which has the lowest average number of workers, namely 0,19 million people which occurred in 2012 until 2015 and has the highest value in 2021 reaching 0,21 million people.

The fourth factor is the money supply, money is an object with a certain unit of measurement that can be used as legal tender in various transactions and is valid in certain areas. The money supply is the product of the base money multiplied by the multiplication of money. The amount of money circulating in society can be described as a market process.

Table 1.5 shows the movement of money supply from eight ASEAN countries namely; Philippines, Vietnam, Malaysia, Singapore, Thailand, Cambodia, Indonesia and Brunei Darussalam.

Table 1. 5
Money Supply Growth (current %) ASEAN Countries 2012-2021

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Philippines	7	29	12	9	13	11	9	10	9	8
Vietnamese	25	21	20	15	18	14	13	14	14	11
Malaysia	9	7	6	3	3	5	8	3	5	5
Singapore	7	4	3	2	8	3	4	5	13	10
Thailand	10	7	5	4	4	5	5	4	10	5
cambodia	39	22	31	17	21	23	27	18	15	12
Indonesia	15	13	12	9	10	8	6	7	13	14
Brunei	1	1	3	2	2	0	3	4	4	4

Sources : Worldbank 2012-2021

Table 1.5, it can be explained that the Philippines had the highest money supply in 2013 with 29% and the lowest money supply occurred in 2012 with 7%. Then Vietnam had the highest score in 2012 with 25%, and had the lowest money supply in 2021 with 11%. Next there is Malaysia with the highest money supply in 2012 with 9%, and the lowest in 2015 and 2016, namely 3%. Then followed by Singapore had the highest money supply in 2020 with 13% and the lowest number of workers occurred in 2015 with 2%. Next there is Thailand with the highest money supply is 10% which occurred in 2012, with a low average number of 4% which occurred in 2015 until 2016. Next there is Cambodia had the highest money supply in 2012 with 39% and the lowest money supply occurred in 2021 with 12%. Next, Indonesia had the highest money supply in 2012 with 15% and the lowest money supply occurred in 2018 with 6%. Then there is Brunei which had the highest money supply in 2019 until 2021 with 4% and the lowest money supply occurred in 2012 with 1%.

Money supply is also tied to deposit rates, the more money circulating in society, the more attractive investment becomes compared to saving in the form of savings.

Various kinds of empirical studies have been carried out by academics and practitioners to explain the influence of the Human Development Index, Foreign Investment, Total Work Force and Total Money Supply both at home and abroad. Empirical studies that have been carried out show varying results due to differences in research periods, research objects and analytical methods used.

The first variable is the human development index, a research conducted by ([Rahmawati, 2019](#)) with regression analysis of time series data using Vector Autoregression (VAR) analysis in 1995-2017. The results of his research explain that the Human Development Index (IPM) has a significant and positive effect on short-term GDP in Indonesia. The second variable is foreign investment, research conducted by ([Akbar, 2019](#)) with data from selected ASEAN in 2008-2017. The results of his research explain that foreign investment has a positive and significant effect on ASEAN GDP. The third variable is the size of the labor force, research conducted by ([Afifah, 2019](#)) used econometric model with the OLS (Ordinary Least Square) method, which is estimated using the Eviews 6 program with the results that the number of labor force has a positive and significant effect on the GDP of several ASEAN countries. The fourth variable is the amount of money in circulation, research conducted by ([Aryanto, 2022](#)) The criteria taken for analysis are monthly data on for 2015-2020, data on the amount of money in circulation was obtained from the Bank Indonesia website. The result of this research is the amount of money in circulation negative and significant effect on GDP.

Although there is a lot of research on the factors that influence GDP at the global level, there is still a lack of research that focuses on its influence in certain ASEAN countries, taking into account other factors such as the human development index, foreign investment, labor and money supply. There are significant differences in the level of economic, social and infrastructure development between the ASEAN countries studied.

Based on the explanation above, researchers are interested in conducting research with the title "The Influence of the Human Development Index, Foreign Investment, Labor Force, and Money Supply On The GDP of Selected ASEAN Countries in 2012-2021"

B. Limitation Of The Research

The scope of this research has to be clarified and expanded upon by narrowing the problem. The problem in this study has the following limitations:

1. Case studies conducted in ASEAN countries.
2. The research data period is 2012-2021.
3. The dependent variable in this study is the GDP (Y) and the dependent variables are Human Development Index (X_1), Foreign Investment (X_2), Labor Force (X_3), and Money Supply (X_4).

C. Research question

Based on the description above, the main problems in this study are:

1. How does the human development index variable influence GDP in ASEAN countries?
2. How does the influence of foreign investment variables on GDP in ASEAN countries?
3. How does the effect of the variable number of the labor force on GDP in ASEAN countries?
4. How does the money supply variable affect GDP in ASEAN countries?

D. Research purposes

Based on these problems, the objectives of this research are:

1. To Analyze the effect of the human development index on GDP in ASEAN countries for the 2012-2021 period.

2. To analyze the effect of foreign investment on GDP in ASEAN countries for the 2012-2021 period.
3. To Analyze the effect of the size of the labor force on GDP in ASEAN countries 2012-2021.
4. To analyze the influence of the money supply on GDP in ASEAN countries 2012-2021.

E. Research Benefit

The benefits that can be taken from this research are as follows:

1. Theoretical Benefits

- a. Researchers can broaden their knowledge and understanding, as well as integrate and popularize the theory they learned during lectures.
- b. For further research it will be used as a reference on human development index, foreign direct investment, labor force and money supply of GDP in selected ASEAN Countries on 2012-2021.

2. Practical Benefits

- a. For Government, the study's findings are anticipated to serve as information and assessment material for the government's decision-makers as they formulate strategies to raise the GDP of a subset of ASEAN nations.
- b. For Universitas Muhammadiyah Yogyakarta, the findings of this study should contribute reading materials and knowledge so that they may be used in the future to offer more comprehensive insights and reading materials.