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Original Article

Factors Promote the Economic Growth: What the Asian Countries Tell in 2010-2019

[1]Syadan Ismail, [2]Lilies Setiartiti
[1,2]Department of Economic and Business, Universitas Muhammadiyah Yogyakarta, Indonesia.

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Abstract: *The income level within an economy at any given moment is a reflection of the cumulative income growth over time. Therefore, investigating the factors that contribute to higher income is essentially an exploration of what promotes economic growth. This study aims to enhance our comprehension of the drivers of economic growth in ASEAN countries by incorporating variables such as Foreign Direct Investment, Labor Force, Foreign Debt, and Economic Freedom. To achieve the aims we conducted an annual data spanning from 2010 to 2019, using multiple regression analysis. The findings indicate that foreign investment, foreign debt, a qualified workforce, and economic freedom all have a positive and statistically significant influence on the economic growth of ASEAN countries. However, it is important to note that capital, as represented by foreign direct investment, has no significant impact on the economic growth of ASEAN countries.*

Keywords*: Economic Growth, ASEAN, Investigating, Promotes.*

I. INTRODUCTION

The level of income within an economy at any given moment reflects the accumulation of income growth over a period of time. Therefore, examining what leads to higher incomes essentially entails investigating the factors contributing to economic growth. However, this investigation is complicated by the fact that different countries have diverse and often perplexing experiences with growth (Ribaj and Mexhuani, 2011).

Economic growth is commonly understood as a process of continuous improvement in a country's economic conditions over a specific timeframe. An economy is deemed to be performing well if it demonstrates a higher level of economic activity compared to the preceding period (Mankiw et al., 1992). One key metric for gauging a country's economic growth is the GDP growth rate (Ivic, 2015), which represents an increase in compensation for the production factors used in various economic activities. Macroeconomic analysis commonly involves evaluating a country's economic well-being through the examination of its real national output, often denoted as GNP or GDP, which stands for Gross National Product (Mukupa & Chibangula, 2016).

A continuous upward trajectory does not characterize a country's economic growth; rather, it often experiences cyclical fluctuations. And not often that income grows faster in some countries than in others. Barro and Dolla (2000) report that there are similar important macroeconomic factors of economic growth that are not state-centralized but rather are efficiency-centralized. A World Bank (1990) mention that efficiency factors, while not directly impacting economic growth, are critical in impacting socio-economic, political, demographic, institutional, and legal factors, which, on the other hand, have a significant impact on economic growth. Institutions have a decidedly positive influence on economic growth, serving as a cornerstone in the intricate process of fostering economic development. (Osman et al., 2011; Roy et al., 2014; Ahmad & Hall, 2017). Enhancing the quality of institutions has the potential to draw in greater levels of foreign direct investment (Kandil, 2009). In recent years, proponents of the theory have adopted the notion of human capital as being a critical factor in economic development. On the other hand, Verter and Osakwe (2014) highlight that if there are expectations for increased government spending, inflation, shifting exchange rates, and population growth, the future economic growth projections are likely to be negatively affected and shrank or stalled. In agreement with the endogenous economic growth factors school of thought, the neoclassical approach acknowledges that human capital promotes economic growth by promoting education, productivity and the use of technology (Hundie, 2014; Wu and Si, 2018).

A country's economic growth is subject to fluctuations influenced by various external factors. Contrary to some perspectives, such as those found in the works of Rigobon and Rodrik (2004), it is argued that while openness can facilitate trade and trade can, in turn, promote growth, the causal relationship can also work in reverse. As economies expand, there is an increased demand for a variety of products, which, in turn, leads to expanded trade. Thus, econometric models that seem to demonstrate accelerated growth resulting from increased trade may actually be depicting the opposite scenario.

Over the course of history, various economic upheavals have left their mark on numerous nations. Take, for example, the worldwide financial crisis of 2008, which had its origins in the United States but sent shockwaves reverberating throughout the globe, extending its reach to ASEAN countries. This crisis resulted in a deceleration of global economic expansion and brought about an economic downturn. This deceleration in growth had profound and far-reaching consequences, manifesting in a significant reduction in trade volumes and posing a looming threat to major industries on the brink of bankruptcy. The repercussions of the global economic crisis persist, continuing to exert an influence on the ongoing trajectory of economic growth.

Numerous factors hold crucial significance in shaping a country's economic growth, and these encompass foreign direct investment as emphasized (Belloumi, 2014; Akisik and Mangaliso, 2020), a skilled workforce, foreign debt, and the degree of economic freedom. Among these factors, investment stands out as a key driver of economic growth due to its capacity to trigger multiplier effects across the broader economic landscape, a concept discussed (Long, 2014).

Economic freedom, on the other hand, pertains to the degree of governmental constraints or involvement in the production, consumption, and distribution of goods. The less the government's role and interference, the higher the level of freedom experienced within a country. Furthermore, a nation's economic freedom is regarded as a critical gauge of its economic growth potential, as it strives to create an environment where the state empowers individuals to engage in work, production, trade, and investment in alignment with their personal preferences.

As per the findings of Gwartney and Lawson in 2004, there is a positive correlation between the level of economic freedom in a country and its overall prosperity. Moreover, in the contemporary era marked by globalization and democracy, the presence of an economic freedom index holds significant importance in the pursuit of the freedom desired by every nation. Economic freedom serves to boost capital flows resulting from trade and investment activities within an economy by removing financial barriers and reducing export and import tariffs, as highlighted by Wu in 2011. Additionally, economic freedom promotes the mobility of highly skilled labor, thereby enhancing the quality of the workforce and subsequently stimulating economic growth, as pointed out by Keho in 2017.

Figure 1 illustrates the progression of economic freedom in ASEAN countries. This visual representation indicates that Singapore has the highest economic freedom index at 88.22%, followed by Malaysia at 69.78%, Thailand at 64.9%, the Philippines at 60.76%, with Indonesia having the lowest index at 59.27%.

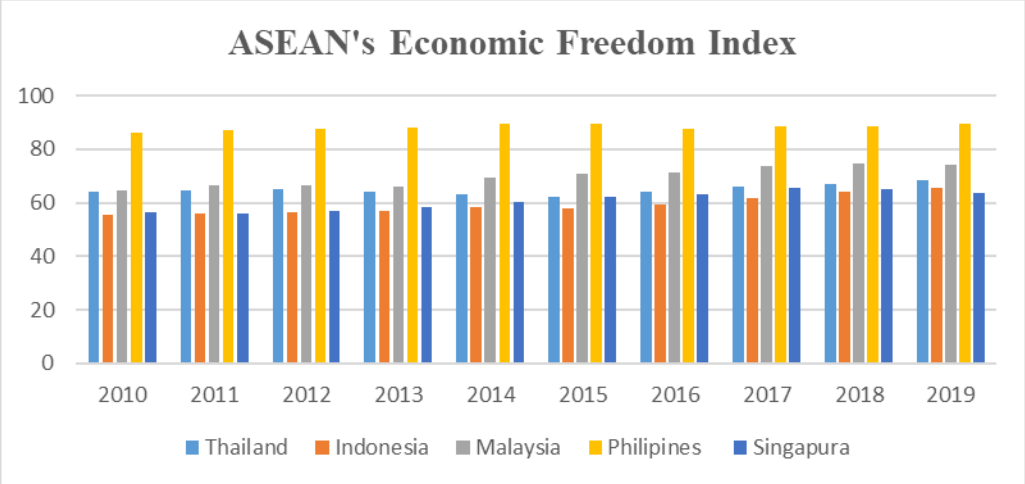

Figure 1: ASEAN's Economic Freedom Index

Source: *heritage, org 2021*

In recent years, ASEAN countries have assumed an increasingly significant role on the global stage, which has served as a driving force behind the formation of the 2015 ASEAN Economic Community (AEC). Within the ASEAN region, there has been rapid GDP growth that has outpaced the average growth in emerging markets and developing economies, as well as the global average growth, as noted by Victoria and Giovanni in 2020. In 2022, the ASEAN economy recorded a growth rate of 5.7%, primarily propelled by robust levels of domestic consumption, trade, and investment. Key industries, such as electronics, electric vehicles, and the digital economy, witnessed increased investments over the past year, contributing to a total FDI inflow growth of 5.5%.

This growth not only strengthens the economies of ASEAN countries but also fosters competition among the member countries, ultimately leading to mutual benefits. Southeast Asia, commonly known as ASEAN, comprises ten member countries, which include Indonesia, Thailand, Malaysia, and the Philippines. The table below presents the economic growth rates of ASEAN nations from 2010 to 2019:

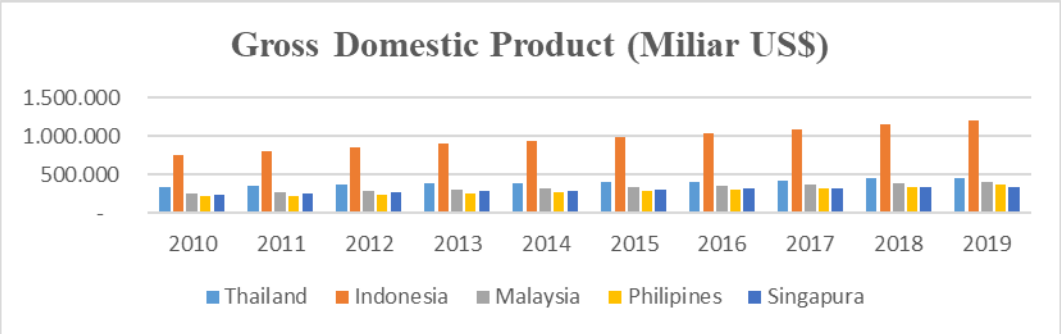

Figure 2: GDP of 5 ASEAN Countries 2010-2019 (Billion US$)

Source: *World Bank, 2020*

According to data from the World Bank, spanning the period from 2010 to 2019, Indonesia emerged as the ASEAN country with the highest average GDP, reaching a total of US$971.405 billion. In contrast, Laos had the lowest average GDP at US$18.196 billion. It is noteworthy that the economic growth values of Indonesia, Malaysia, Thailand, Philippines, and Singapore consistently exhibited annual increases, solidifying their positions as the primary drivers of economic growth within the ASEAN region.

Economic growth hinges on a multitude of factors, notably the production of goods and services and levels of investment. Another pivotal element that influences economic growth is the connection between inflation rates and the labor force. As Tahir and Azid (2015) have pointed out, a low and consistent inflation rate signifies a more stable economic environment, thereby exerting a positive influence on economic growth. In contrast, inflation rates that fluctuate or exhibit frequent changes can act as an impediment to a country's economic growth.

Furthermore, economic freedom plays a pivotal role in a nation's prosperity, as mentioned by Thi Ahn and Dao Tran (2014). In the current era marked by globalization and democracy, having an economic freedom index is vital for achieving the desired level of freedom in each country.

The primary objective of this study is to undertake a comprehensive examination of how foreign direct investment, the presence of a skilled workforce, foreign debt levels, and the extent of economic freedom collectively influence economic growth. The author has chosen to focus on several key ASEAN countries, namely Indonesia, Malaysia, Thailand, Philippines, and Singapore. These countries were selected due to their notable distinction of having the highest average GDP within the ASEAN region. This choice is anticipated to yield valuable insights into the determinants of economic growth within the broader Southeast Asian context.

II. THEORETICAL REVIEWS

Economic growth is a long-term process that entails an increase in output per capita. This growth is intricately connected to two essential components: the total output, typically measured as Gross Domestic Product (GDP), and the total population. Output per capita is calculated by dividing the total output by the population. Therefore, to analyze the process of increasing output per capita, one must consider both the total output and the population. A comprehensive theory of economic growth should be capable of explaining changes in both the total GDP and the population because these two elements are intertwined, and understanding their dynamics helps elucidate the development of output per capita (Budiono, 2002).
Various previous studies will be summarized briefly and clearly as the current research draws from them. While the scope may be similar, the objects of study and the time periods analyzed often differ, providing valuable points of reference to complement the present research. For instance, Boldeanu and Constantinescu (2015) It is arguable that foreign investment has a favourable and noteworthy influence on Indonesia's economic growth, affecting the nation's short- and long-term economic outcomes. Moreover, foreign direct investment is shown to have a significant effect on economic growth in the ASEAN region, as indicated by Melani and Sentosa in 2019.

The influence of various factors on economic growth is a subject of considerable research, and it is evident that different studies yield differing conclusions. Here is a summary of some findings:

1. Labor Force: Agrawal and Khan (2011) emphasize the significant effect of the labor force on economic growth, highlighting that a country's workforce greatly impacts its human resources. However, it is worth noting that Sari and Kaluge (2017) present empirical results contradicting this, asserting that in all ASEAN nations, the labor force has a major detrimental impact on economic progress. These opposing findings suggest the complex relationship between the labor force and economic growth, which various contextual factors can influence.
2. Foreign Debt: Alhazimi and Supriyono (2020) claim that foreign debt has a positive effect on economic growth in ASEAN countries, as observed from panel data involving five ASEAN nations. Similar findings are presented by Malik and Kurnia (2017), with a focus on Indonesia, indicating that foreign debt positively influences Indonesia's economic growth. Dauda, Ahmad, and Azman (2013) provide further evidence of the positive impact of foreign debt on economic growth, specifically in Malaysia. This suggests that when managed effectively, foreign debt can stimulate economic growth.
3. Economic Freedom: Research conducted by Suparyanti and Fadilah (2015) indicates that economic freedom has a significant effect on economic growth in both developed and developing countries. They suggest that countries with higher scores on the economic freedom index tend to experience greater economic growth. Conversely, Wulandari (2015) highlights that Indonesia falls into the "mostly unfree" category in terms of economic freedom, citing issues such as poor law enforcement, high corruption, political influence in the justice system, and property rights as contributing factors. This illustrates the multifaceted nature of economic freedom and its implications for economic growth.

It is important to recognize that a range of factors influences the relationships between these variables, and research findings can vary due to different methodologies, contexts, and time periods. Consequently, comprehensive analysis and consideration of multiple studies are essential for a nuanced understanding of the dynamics of economic growth.

III. RESEARCH METHOD

This research employed secondary panel data and utilized quantitative analysis. The study focused on economic indicators in selected 5 ASEAN countries: Singapore, Thailand, Malaysia, Indonesia, and the Philippines. These indicators encompassed economic growth, foreign direct investment, labor force, foreign debt, and economic freedom data. The data covered the same time period, from 2010 to 2019. The selection of these five countries was based on their highest average Gross Domestic Product (GDP) values in the ASEAN region, as evidenced by data from the World Bank. The panel data regression model in this study is as follows:

$$LnGDPi.t = \beta_0 + \beta_1.LnFDI.i.t + \beta_2.LnQWF.i.t + \beta_3.LnFD.i.t + \beta_4.EF.i.t + eit$$

Where:

LnGDP	: Natural Log Economy Growth in ASEAN Countries
β_0	: Intercept
β_1 to β_4	: Regression coefficient
LnFDI	: Natural Log of Foreign Direct Investment
LnQWF	: Natural Log of Labor Force
LnFD	: Natural Log of Foreign Debt
EF	: Economic Freedom Index
t	: Time
i	: Country
e	: Error Term

IV. RESULT AND DISCUSSION

A) Result

Based on the model specification test with the best value, the regression model used is the Fixed Effect Model. This model is one of the panel data regression models which combines times series and cross section data. See the Fixed Effect Model in the table.2 below.

Table 2: Estimation Results of Fixed Effect Model

Variabel Bebas LOG (GDP)	Model Fixed Effect
Konstan (C)	-10.61506
Standard Error	2.721274
Probability	0.0004
Ln (Labor Force)	0.875335
Standard Error	0.217735
Probability	0.0003

Ln (FDI)	0.028405
Standard Error	0.017528
Probability	0.113
Ln (EF)	1.342797
Standard Error	0.261363
Probability	0
Ln (ForDebt)	0.233149
Standard Error	0.068171
Probability	0.0015
R2	0.992478
F-Statistik	659.6792
Prob (F-Stat)	0
Durbin-Watson stat	0.695511

Source: *Result of Processed in Eviews*

Based on the results of this data processing, the panel data regression model on the factors that influence the economic growth of ASEAN countries is as follows:

$$LnGDPi.t = -10.615 + 0.875LnLF.i.t + 0.028LnFDI.i.t + 0.233LnFD + 1.3428.LnEF.i.t + eit$$

The findings provided in Table 2 reveal that within the fixed-effect model, each country under study possesses a unique constant value. This observation implies that every country exhibits a distinctive, inherent level of economic growth, irrespective of whether the variables related to foreign direct investment, labor force, foreign debt, and economic freedom are considered in the model or not.

In terms of the regional or cross-sectional economic growth impact, Thailand, Indonesia, and the Philippines demonstrate positive values, indicating that these countries experience an increase in economic growth. Thailand's coefficient is 0.382997, Indonesia's is 0.334059, and the Philippines' coefficient is notably high at 0.924278, implying that these countries have a positive influence on regional economic growth. Conversely, Singapore and Malaysia exhibit negative regional or cross-sectional effects on economic growth. Singapore's coefficient is -1.491513, and Malaysia's is -0.149820, signifying that these two countries may have a dampening effect on regional economic growth. These findings highlight the varying economic growth patterns and influences among the studied ASEAN countries when the specified variables are not taken into account in the model.

B) Discussion

a. The Effect of Foreign Direct Investment on Economic Growth

According to the results of the hypothesis testing for the Foreign Direct Investment (FDI) variable, the regression coefficient value is determined to be 0.028405. This implies that a 1% increase in foreign investment is associated with a mere 0.028405% increase in economic growth. However, the probability value for the FDI variable is 0.1130, which is greater than the conventional significance level of 0.05. As a result, (H1), which suggests that FDI significantly affects economic growth, is rejected. In other words, FDI is not a significant factor in this study, indicating that changes in FDI levels do not have a significant impact on economic growth.

This finding deviates from the Harrod-Domar theory, which posits that capital formation and the Incremental Capital-Output Ratio (ICOR) are crucial variables, suggesting that investment influences economic growth. According to this theory, investment, which is synonymous with capital in this context, is expected to enhance aggregate demand and expand production capacity.

The findings of this study are consistent with previous research carried out by Sari and Kaluge in 2017, which examined the determinants of economic growth in ASEAN Member Countries. Their research similarly concluded that Foreign Direct Investment (FDI) did not emerge as a significant driver of economic growth within the ASEAN countries. Instead, their work underscored the pronounced impact of consumption levels on economic growth in the region. The prevalent culture of high consumerism in Southeast Asia stands as both an indicator and a testament to the economic growth occurring within the respective countries.

In contrast, research conducted by Wahyudin and Yuliadi in 2013 supports the idea that FDI has a positive impact on economic growth. This perspective underscores the active role played by foreign investment in stimulating regional economies, particularly in terms of technological progress introduced by foreign entities and their significant presence in global markets and international institutions.

b. The Effect of Labor Force on Economic Growth

The Labor Force variable exhibits a regression coefficient of 0.875335 with a probability of 0.0003. Employing a significance level of 5%, it becomes evident that the Labor Force exerts a favourable and noteworthy influence on economic growth across several ASEAN nations. This implies that a 1% augmentation in the Labor Force will correspondingly elevate economic growth by 0.875335%.

Numerous investigations have scrutinized the labor force's role in driving economic growth. Manfred (2003) underscores in his research that subsidies directed towards enhancing education and workforce qualifications play a more pivotal role in economic growth than simply expanding the labor force's headcount, particularly in the contexts of Mexico, Asia, and various South American countries. Additionally, Christoper (2006) concludes that human capital is a pivotal factor in economic growth and greater skilled labor force quantities within a nation correlate with increased prosperity. This is because a larger skilled workforce contributes to the heightened production of goods and services, thereby boosting a nation's economic growth. Tahir and Azid (2015) affirm in their study that a country's economic growth tends to rise with an elevated labor force, which is potentially due to the substantial population levels in ASEAN countries (Singapore, Thailand, Malaysia, Indonesia, and the Philippines). Many of these individuals fall within the productive age group, making it possible to harness this large population as a valuable workforce.

Todaro and Munandar (2000) contend that conventional wisdom holds that both population growth and the expansion of the labor force are generally viewed as positive factors contributing to economic growth. A larger workforce population is linked to heightened levels of production, while greater population growth signifies a larger domestic market, which can stimulate economic activity. The emphasis placed on cultivating human resources, often referred to as human capital, is justified, as improvements in productivity play a pivotal role in propelling overall economic growth.

The connection between economic growth and human development is a mutually reinforcing one. Economic growth furnishes the resources necessary to facilitate sustainable development in human capabilities. Conversely, the cultivation of high-quality human resources makes a substantial contribution to driving economic growth.

c. The Effect of Foreign Debt on Economic Growth

The variable of Foreign Debt exhibits a regression coefficient of 0.233149 with a probability of 0.0015. Employing a significance level of 5%, it becomes evident that Foreign Debt exerts a positive and statistically significant impact on economic growth in multiple ASEAN countries. This implies that a 1% increase in Foreign Debt will lead to a 0.233149% rise in economic growth. These findings are consistent with prior research conducted by Herlambang (2018), which also affirms the positive and significant influence of foreign debt on economic growth. This is because creditor nations perceive favourable economic conditions in debtor nations, particularly within ASEAN, given its substantial economic potential and a population accounting for 8.8% of the world's total. Creditor countries, as a result, view investment in ASEAN as a promising avenue to enhance the economic structure within the region.

The constructive relationship between foreign debt and economic growth, as elucidated by the Keynesian perspective, has been studied by Eisner (1989) and Bernheim (1989). According to the Keynesian viewpoint, policies that involve augmenting the budget through foreign debt will notably stimulate economic growth. This occurs as a consequence of the heightened aggregate demand resulting from capital accumulation. Keynesian theory posits that a government budget deficit financed by foreign debt will boost income and overall welfare, leading to increased consumption. This, in turn, eases the current tax burden and ultimately enhances disposable income. The rise in national income acts as a catalyst for economic growth.

Keynes contended that foreign loans are frequently required to address a country's budget deficit and support the financing of development initiatives, bridging any financial gaps that may arise. In his macroeconomic model, Keynes underscored the significance of the government budget in regulating aggregate demand within an economy. In circumstances where a country's economy is not functioning at full capacity, the government can boost aggregate demand by either raising public expenditure or lowering taxes. This approach aims to stimulate economic activity and bridge the gap between actual output and potential capacity.

d. The Effect of Economic Freedom on Economic Growth

The findings of this study underscore a compelling relationship between the variable of Economic Freedom, which is evidenced by a substantial regression coefficient of 1.342797 along with a minuscule probability of 0.0000. When assessed at a 5% significance level, it becomes evident that the Economic Freedom variable exerts a notably positive impact on economic growth within a selection of ASEAN countries. In simpler terms, this suggests that a mere 1% increase in economic freedom leads to a corresponding 1.342797% upswing in economic growth. These results highlight the

substantial role that the degree of economic freedom plays in driving economic expansion and the considerable potential for fostering growth in the studied nations.

The theory of economic freedom suggests that to stimulate robust economic growth, it is essential to promote greater market flexibility and reduce government intervention. However, this theory has limitations as it often overlooks the need for specific institutional, cultural, and legal support, which is frequently lacking in many developing countries. In numerous developing nations, even when these instruments exist, they may be too weak to effectively and efficiently support market mechanisms. Without a well-established legal system, contracts and business agreements may remain unenforceable, intellectual property rights may be vulnerable, and currency exchange rates might fluctuate unpredictably. In such an environment of limited legal certainty, it is evident that businesses will struggle to thrive (Todaro, 2003).

It is worth noting that most ASEAN countries are considered developing nations, with the exception of Singapore. Developing countries often grapple with challenges like inadequate infrastructure and financial facilities. Without proper infrastructure, such as roads, telecommunications systems, electricity, and a robust banking system, it becomes challenging for a market-based economy to prosper. These limitations, coupled with the difficulty of achieving economies of scale necessary for profitable business activities, hinder the efficient functioning of supply and demand. In many cases, crucial assets remain in the public domain, making their commercial utilization problematic. Limited access to information often results in resource, goods, and financial inaccuracies. In light of these challenges, government intervention is essential to provide the necessary support (Todaro, 2003).

Furthermore, this research aligns with previous studies such as “The Impact of Economic Freedom on Economic Growth in Asian Countries” conducted by Agustina and Nurul Fadilah (2015). Their findings support the notion that economic freedom has a significant effect on economic growth, especially when measured through the economic freedom index. A higher economic freedom index score indicates a greater degree of economic freedom, and this is correlated with higher welfare levels, as suggested by Gwartney et al. (2004). The results of this study are also corroborated by Panahi, Hossein et al. (2014), who conclude that economic freedom positively and significantly influences economic growth. The size of the government is positively correlated with economic growth, as a larger government can lead to better resource allocation. Economic freedom fosters economic growth and innovation within a market economy. Market freedom and protection of property rights are seen as factors that promote economic growth (Bashir, M & Xu, C, 2014).

V. CONCLUSION

The research findings and data analysis allow for decisions that follow to be made:

1. Foreign Direct Investment (FDI) is found to have a positive, albeit non-significant, effect on economic growth in ASEAN countries. This suggests that changes in FDI levels, whether they increase or decrease, do not have a statistically significant impact on the economic growth of these nations.
2. Work Force: The Work Force is found to have a positive and significant impact on economic growth in ASEAN countries. Along with efforts to enhance their productivity, the effective management of a country’s workforce resources can accelerate economic growth. Essentially, a larger labor force that is well-utilized is conducive to fostering economic growth within these nations.
3. Foreign Debt: Foreign Debt is noted to have a positive and significant influence on economic growth in ASEAN countries. This is attributed to the role foreign debt plays in covering budget deficits in these nations, consequently supporting economic growth by furnishing the essential financial resources required for various economic activities and initiatives.
4. Economic Freedom: Economic Freedom is observed to have a positive and statistically significant influence on economic growth in ASEAN countries. When the size of government increases, which is positively associated with economic freedom, it aids in the more efficient allocation of resources. This improved resource allocation, in turn, fosters the production of goods and services, ultimately contributing to an overall enhancement of economic growth.
5. These conclusions highlight the complex interplay of various factors in shaping economic growth in ASEAN countries. While some variables, like Work Force and Economic Freedom, have a pronounced and beneficial impact, others, like Foreign Direct Investment, have a less pronounced effect. Foreign debt plays a significant role in supporting economic growth through budget deficit coverage. Overall, these findings can be valuable for policymakers and stakeholders interested in fostering economic development in the ASEAN region.

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