

COMPETITIVENESS AND ECONOMIC GROWTH OF 5 ASEAN COUNTRIES

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Abstract

This study aims to analyze the state competitiveness condition of the Corruption Perception Index, political risks, and Foreign Direct Investment and their effects on ASEAN economic growth. The data used is panel data consisting of time series data for 2009 - 2019 and cross sections of five ASEAN developing countries with the highest level of competitiveness, namely Malaysia, Indonesia, the Philippines, Thailand and Vietnam. The variables used are economic growth, competitiveness, Corruption Perception Index, political risk, and Foreign Direct Investment. The analysis tool used is panel data regression, the Fixed Effect Model (FEM). The results showed that competitiveness, Corruption Perception Index, political risk, and Foreign Direct Investment had a positive and significant effect on the economic growth of the five ASEAN countries in 2009-2019. In an effort to increase the country's daylight power, of the 12 pillars, Indonesia, Vietnam and the Philippines are superior in market value that are ranked 7th, 26th and 31st. Malaysia and Thailand are superior in financial system values which are ranked 15th and 16th This shows that there is a need to improve the other pillars to encourage increased daytime power and can increase a country's economic growth.

Keywords: ASEAN, Competitiveness, Economic Growth, and Fixed Effect Model (FEM).

Abstrak

Penelitian ini bertujuan untuk menganalisis kondisi daya saing negara Indeks Persepsi Korupsi, risiko politik, dan *Foreign Direct Investment* dan pengaruhnya terhadap pertumbuhan ekonomi ASEAN. Data yang digunakan merupakan data panel yang terdiri dari data *time series* tahun 2009 – 2019 dan *cross section* lima negara berkembang ASEAN dengan kategori tingkat daya saing tertinggi yaitu Malaysia, Indonesia, Filipina, Thailand, dan Vietnam. Variabel yang digunakan adalah pertumbuhan ekonomi, daya saing, Indeks Persepsi Korupsi, risiko politik, dan *Foreign Direct Investment*. Alat anaalisis yang digunakan adalah regresi data panel yaitu *Fixed Effect Model* (FEM). Hasil penelitian menunjukkan bahwa daya saing, Indeks Persepsi Korupsi, risiko politik, dan *Foreign Direct Investment* berpengaruh positif dan signifikan terhadap pertumbuhan ekonomi lima negara ASEAN pada tahun 2009-2019. Dalam upaya peningkatan daya saing negara, dari 12 pilar tersebut Indonesia, Vietnam, dan Filipina unggul pada nilai ukuran pasar yang berada pada peringkat 7, 26, dan 31. Malaysia dan Thailand unggul pada nilai sistem keuangan yang berada pada peringkat 15 dan 16. Hal ini menunjukkan bahwa perlunya meningkatkan pilar lainnya untuk mendorong peningkatan daya saing dan dapat meningkatkan pertumbuhan ekonomi suatu negara.

Kata Kunci: ASEAN, Daya Saing, Fixed Effect Model (FEM), dan Pertumbuhan Ekonomi.

INTRODUCTION

Economic growth can be interpreted as a process of changing the economic conditions of a country on an ongoing basis towards a better condition, namely a physical increase in the production of goods and services prevailing in a country. The success of the performance of the government and related institutions and agencies in the economy is measured by the resulting economic growth. Therefore, economic growth is important in assessing the success of a country in achieving its economic development during a certain period.

The problem of economic growth increases when there is a population explosion. Economic growth is a process of increasing output that is continuous in the long term. High and sustainable economic growth is an important condition or a necessity for the continuity of economic development and increased welfare (Machmud, 2016).

Economic growth is a prerequisite for achieving human development because economic development guarantees increased productivity and increased income through the creation of job opportunities. A relatively high level of human development will affect the performance of economic growth through the capabilities of the population and the consequence is an increase in the productivity and creativity of the community. With the increased productivity and creativity, the population can absorb and manage resources that are essential for economic growth.

One of the theories of economic growth is the theory of Mankiw, Romer, & Weil (1992). The importance of the role of Human Resources in Mankiw, Romer, & Weil's Theory cannot be separated from the competitiveness of Human Resources. Competitiveness can be measured by indicators including: institutions, infrastructure, macroeconomic environment, health and basic education, education and training, market efficiency, labor market efficiency, financial market development, technology availability, market size, updating of the business world, and innovation. In other words, indicators contributing to competitiveness are a reflection of the economic growth of the Mankiw, Romer, & Weil Model. When the competitiveness of a country is getting better, it will open up opportunities for the entry of sources of capital originating from investment, the additional investment can encourage economic growth in developing countries.

Competitiveness is one of the criteria for increasing a country's income and economic growth. The results of a survey by the World Bank and The World Economic Forum (WEF) show that competitiveness affects a country's economic growth (Schwab, 2020). Several empirical studies on competitiveness against economic growth are described below: Mihaela Simionescu (2016), Petrariu Ioan R, Robert Bumbac, and Radu Ciobanu (2013), Chung Sungchul (2011), Verner Tomas (2015), Pilinkiene Vaida (2016), and Webster Craig and Stanislav Ivanov (2014) study the relationship between competitiveness and economic growth. The results of the study indicate that the competitiveness of a country has a positive and significant effect on the country's economic growth. This shows that there is an increase in economic growth due to an increase in the country's competitiveness.

Apart from competitiveness, economic growth is also affected by governance, including corruption control. Corruption is still a hot global issue today. Corruption causes losses in various sectors, where the impact is to suppress the economic growth of a country (Machmud, 2016). Eradicating corruption is the core goal of Sustainable Development Goals (SDG's), because of its impact that can affect the economy and economic development. Based on the report from Transparency International's Corruption Perception Index (2018), "not one single country, anywhere in the world, is corruption-free" which means that no country is truly free from corruption. Corruption can weaken the ability of a state to provide inclusive economic growth because it will disrupt macro stability, investment, capital accumulation and productivity.

The Corruption Perception Index (CPI) is an indicator of corruption. The Corruption Perception Index uses a scale from 0-100. If the GPA is close to "0", it means that the level of corruption in the country is very high and vice versa. Several studies on the corruption perception index on economic growth are described as follows: Boris Podobnik, Jia Shao; Djuro Njavro, and H.E. Stanley (2008), and Toke Aidt, Jayasri Dutta; Vania Sena (2008) shows that an increase in corruption control or the corruption perception index leads to an increase in the GDP per capita growth rate. Meanwhile, Zvika Neeman, M. Daniele Paserman, Avi Simhon (2008) stated that in an open economy, corruption is negatively related to economic growth. The existence of high corruption cases can have an impact on the poor image of the country in the eyes of other countries,

so that it will reduce the interest of investors to invest, this has an impact on decreasing the level of economic growth of a country.

Another non-economic factor affecting economic growth is political risk. Political risk determines the continuity of investors in investing their capital so that it will determine a country's economic growth (Bilson, Brailsford, & Hooper, 2002). Haan, & Clemens (2018) and Fuso, (2002) show that political risk has a positive and significant effect on economic growth. Meanwhile, Brempong & Thomas (1999) state that political risk has a negative and significant effect on economic growth.

Apart from competitiveness, corruption, and political risk, economic growth is influenced by investment. Foreign direct investment or foreign direct investment plays an important role in driving the rate of economic growth. Foreign Direct Investment technology from more developed countries and therefore plays a major role in improving technology for recipient countries. This means that Foreign Direct Investment can accelerate economic growth because with incoming foreign investment it can increase domestic production factors for better quality and quantity (Rohmana, 2010).

Some research on Foreign Direct Investment are as follows: Dkhili Hichem and Lassad Ben Dhiab (2018), Alzaidy Ghait, Mohd Naseem Bin Niaz Ahmad and Zakaria Lacheheb (2017), Alfaro Laura, Areendam Chanda, Sebnem Kalemli-Ozcan, and Selin Sayek (2004) and (2010), Mehdi Behname (2012), and Mohamad Riyad (2012) examined the relationship between foreign direct investment and economic growth. The results show that the Foreign Direct Investment variable has a positive and significant effect on economic growth variables. Meanwhile, Alfaro Laura (2003) states that Foreign Direct Investment has a negative and significant effect on economic growth. Therefore, the author wants to examine the influence of competitiveness, corruption perception index, political stability, Foreign Direct Investment on economic growth in 5 ASEAN countries.

METHOD

This type of research is descriptive quantitative. The data used in this research is secondary data which consists of time series and cross section data in annual form during the period 2009 to 2019 in five ASEAN countries, namely Malaysia, Indonesia, Thailand, Vietnam, and the Philippines. The selection of these countries was based on ASEAN

countries which are classified as developing countries with the five highest competitiveness values in 2019, while the research was started from 2009 because the author wanted to analyze economic growth after the global crisis in 2008. Data was obtained from the World Bank, Transparency International, and The Global Competitiveness Report.

Economic Model Specifications

The economic growth model used in this study, Mankiw, Romer, & Weil (1992), is as follows;

$$Y = f(K, H, L, A)$$

Where,

K = Capital

H = Human Capital Accumulation

L = Labor

A = Technology

The capital component (K) in this study is proxied by Foreign Direct Investment, while labor (L) and technology (A) are proxied in competitiveness. The corruption variable is proxied in the corruption perception index (Mihaela, 2016). Furthermore, the model is transformed into a panel data regression equation model:

$$PE_{it} = \beta_0 + \beta_1 DSN_{it} + \beta_2 IPK_{it} + \beta_3 RPN_{it} + \beta_4 FDI_{it} + \varepsilon_{it}$$

Where:

PE_{it} = Economic Growth (Percent)

β_i = Constant

DSN_{it} = Competitiveness (Points)

IPK_{it} = Corruption Perception Index (Points)

RPN_{it} = Political stability (Points)

FDI_{it} = Foreign Direct Investment (Percent)

ε_{it} = error term

$i = 1, 2, \dots, n$, the number of individual cross

$t = 1, 2, \dots, t$, dimension of time series

Data analysis method

The analytical tool used in this research is the panel data method (pooled data), in conducting this research the researcher uses the help of the E-Views 9 analysis tool. Estimation using panel data generally uses one of three calculation methods, namely the Pooled Least Square method (PLS), Fixed Effect (FEM) method, and Random Effect (REM) method.

Selection of Panel Data Regression Method

Panel data estimation consists of 3 kinds of methods, namely Common Effect (PLS), Fixed Effect (FEM), and Random Effect (REM). Of course, in testing it is necessary to choose the best modeling. So, there are two commonly used testing methods, namely the Chow test (a test conducted to select the best approach model between Common Effects and Fixed Effects) and the Hausman test (this test is for selecting the best model between Fixed Effects or Random Effects), and the Breusch Test. -Pagan (this test is to choose the best model between Common Effect or Random Effect).

Classic Assumption Testing

Multicollinearity Test

Multicollinearity test is to test whether the regression model found a correlation between the independent variables. If there is a correlation, it is called the multicollinearity problem. With the rule of thumb, if the correlation coefficient > 0.80 , it can be concluded that there is a multicollinearity problem in the model used (Farrar, D.E. and Robert R. Glauber. 1967).

Heteroscedasticity Test

Heteroscedasticity is a deviation from the assumption of homoscedasticity which is not constant. The quickest way to test the heteroscedasticity problem is to detect residual patterns through a graph. If the residues have the same variant (homoscedasticity) or the data does not form a pattern. Conversely, if the residual has heteroscedasticity, then this residual will form a certain pattern (Rosopa, Patrik J and Meline M. Schaffer, 2013).

Autocorrelation Test

The autocorrelation test is related to the effect of observers or data in one variable that is related to one another. This study uses the Durbin Watson test (DW Test). Basis of decision making, Durbin-Watson test method (DW test) (Durbin J and G.S. Waston, 1951).

Statistical Hypothesis Testing

The parameters to be estimated can be seen based on statistical assessments, which include the individual parameter significance test (t-test), simultaneous parameter significance test (F-test) at $\alpha = 5\%$.

Partial Test (t-test)

The t test is used to see the significance of the effect of each independent variable on the dependent variable at $\alpha = 5\%$ with the assumption that other variables are considered constant. In this case, the value between the t-count and the t table (Ugoni, Antony and Bruce F. Walker, 1995).

F Test Statistics

Overall significance testing is carried out through the f statistical test (simultaneous significance test). To test whether the regression coefficients β_1 and β_2 together or as a whole affect the dependent variable at $\alpha = 5\%$ (Box G.E.P., 1953).

DISCUSSION

The choice of the research model was determined using the Chow test, Hausman test and Lagrange Multiplier (LM) test. The Chow test is used to compare the Common Effect Model (CEM) method with the Fixed Effect Model (FEM) method, then followed by the Hausman Test by comparing the Random Effect Model (REM) method with the Fixed Effect Model (FEM) method, and the last one is the Test Lagrange Multiplier (LM) by comparing the Random Effect Model (REM) method with the Common Effect Model (CEM) method.

Table 1.
Panel Data Regression Results

	CEM	FEM	REM
Constanta	6,252213 (0,2199)	-25,532750 (0,0001)*	6,252213 (0,0768)**
Competitiveness	0,310096 (0,6657)	1,197170 (0,0265)*	0,310096 (0,5302)
Corruption Perception Index	-0,008941 (0,8609)	0,124383 (0,0095)*	-0,008941 (0,7988)
Political Stability	-0,045693 (0,5671)	0,251874 (0,0012)*	-0,045693 (0,4060)
Foreign Direct Investment	0,363273 (0,0195)*	0,674613 (0,0001)*	0,363273 (0,0010)*
Chow Test		14,944832 (0,0000)*	
Hausman Test		59,779329 (0,0000)*	

Source: Output Eviews 9,

Information: *) significant at $\alpha = 5\%$ and **) significant at $\alpha = 10\%$

Based on the results of the chow test, it shows that the value of Prob. Cross-section F of 0.0000 is smaller than the real level (α) of 5 percent, ($0.0000 < 0.05$) then H_0 is rejected and accepts H_a , so it can be concluded that the Fixed Effect Model (FEM) method is better than the method. Common Effect Model (CEM), while the results of the Hausman test show that the p-value of 0.0000 is smaller than the α significance level of 5% (0.05), it can be concluded that the fixed effect model (FEM) method is better used. rather than the random effect model (REM) method, it can be concluded that the fixed effect model (FEM) method is better used in this study.

Based on Table 1, it shows that all variables have a significant effect on economic growth. The constant coefficient is -25.532750, this shows that if all the independent variables used are equal to 0 (zero), then economic growth in the 5 ASEAN countries will be -25.53 percent. Competitiveness coefficient (DSN) is 1.197170, country competitiveness has a positive and significant effect at $\alpha = 5\%$ (0.05). These results indicate that if there is an increase in the country's competitiveness by 1 point ceteris paribus, then economic growth will increase by 1.20 percent. The Corruption Perception Index (GPA) coefficient is 0.124383, the Corruption Perception Index has a positive and

significant effect at $\alpha = 5\%$ (0.05). These results indicate that if there is an increase in the Corruption Perception Index by 1 point *ceteris paribus*, then economic growth will increase by 0.12 percent. Political stability coefficient (RPN) is 0.251874, political stability has a positive and significant effect at $\alpha = 5\%$ (0.05). These results indicate that if there is an increase in political stability by 1 point *ceteris paribus*, then economic growth will increase by 0.25 percent. The coefficient of Foreign Direct Investment (FDI) is 0.674613, the Foreign Direct Investment variable has a positive and significant effect at $\alpha = 5\%$ (0.05). These results show that if there is an increase in Foreign Direct Investment by 1 percent *ceteris paribus*, then economic growth will increase by 0.67 percent.

Classic Assumption Testing

Normality test

Based on Appendix 5, the probability result is 0.394187 greater than $\alpha = 5\%$ (0.05), it can be concluded that the data is normally distributed.

Multicollinearity Test

Table 2.
Multicollinearity Test Results

Variabel	DSN	IPK	RPN	FDI
DSN	1,000000	0,708755	0,535830	0,053788
IPK	0,708755	1,000000	0,592840	0,063057
RPN	0,535830	0,592840	1,000000	-0,428298
FDI	0,053788	0,063057	-0,428298	1,000000

Source: Output Eviews 9

From the multicollinearity test that has been carried out, it is found that there are no variables that have a value of more than 0.85, therefore this means that it can be concluded that the variables used are not multicollinear or in other words there is no linear relationship between the independent variables used. in this research.

Heteroscedasticity Test

Table 3.
Heteroscedasticity Test Results

Dependent Variable	Chi Square Statistic	Chi Square Table	Conclusion
1	8,946795	7,814730	Homoskedasticity

Source: Output Eviews 9

In Table 4, it is shown that the calculated Chi Square (8,946795) > Chi Square Table (7,814730) at df of the independent variable = 4 and a significance level of 5%. This means that receiving H_0 , there is no heteroscedasticity problem in the equation.

Autocorrelation Test

Table 4.
Autocorrelation Test Results

Dependent Variable	Chi Square Statistic	Chi Square Table	Conclusion
1	7,504475	5,99148	Free Autokorelation

Source: Output Eviews 9

In Table 4 it is shown that the calculated Chi Square (7.504475) > Chi Square Table (5.99148) at df is equal to the indolence variable = 2 and the significance level of 5%. This means that accepting H_0 means that there is no autocorrelation problem in the equation.

Statistical Hypothesis Testing

Hypothesis testing is used to draw research conclusions and determine the accuracy of the data by performing the t-test, F test and the coefficient of determination (R^2).

Partial t-test

The t-test aims to test how the influence of each independent variable individually on the dependent variable. In this study, the t-test was carried out at a confidence level of 95 percent ($\alpha = 0.05$) with a n-k-1 degree of freedom (n = number of observations, k = number of independent variables).

Table 5.
t-test results

Variable	t-Statistic	t-Tabel	Prob.	Conclusion
DSN	2,292140	1,67591	0,0265	H ₀ is rejected
IPK	2,708229	1,67591	0,0095	H ₀ is rejected
RPN	3,442422	1,67591	0,0012	H ₀ is rejected
FDI	4,375632	1,67591	0,0001	H ₀ is rejected

Source: Output Eviews 9

The influence of each independent variable on economic growth in ASEAN.

1) The Effect of Competitiveness on Economic Growth in ASEAN

Based on Table 6, it shows the variable t-statistic value of 2.292140 while the t-table value is 1.67591. This shows that the t-statistic value is greater than the t-table value. Thus, H₀ is rejected and H_a is accepted, meaning that competitiveness partially has a positive and significant effect on economic growth. Mihaela (2016), Pilinkiene (2016), Bleotu (2012), Chung (2003) and Webster & Stanislav (2014) stated that the country's competitiveness will encourage an increase in capital which has an impact on increasing economic growth.

2) The Effect of Corruption Perception Index on Economic Growth in ASEAN

Based on Table 6, it shows the variable t-statistic value of 2.708229 while the t-table value is 1.67591. This shows that the t-statistic value is greater than the t-table value. Thus, H₀ is rejected and H_a is accepted, meaning that the Corruption Perception Index partially has a positive and significant effect on economic growth. Boris, Jia, Djuro, & Stanley (2008), Rock & Haeidi (2003) and Huang (2015) state that controlling corruption has a positive effect and can increase economic growth.

3) The Effect of Political Stability on Economic Growth in ASEAN

Based on Table 6, it shows the variable t-statistic value of 3.442422 while the t-table value is 1.67591. This shows that the t-statistic value is greater than the t-table value. Thus, H₀ is rejected and H_a is accepted, meaning that political stability partially has a positive and significant effect on economic growth. Research conducted by Haan, & Clemens (2018), Fuso (2002), and Alesina, Sule, Nouriel, & Phillip (1996) Aisen, A., &

Francisco, J.V. (2011) show that controlling political instability has a positive and significant effect on economic growth.

4) The Influence of Foreign Direct Investment on Economic Growth in ASEAN

Based on Table 6, it shows the variable t-statistic value of 4.375632 while the t-table value is 1.67591. This shows that the t-statistic value is greater than the t-table value. Thus, H_0 is rejected and H_a is accepted, which means that partially Foreign Direct Investment has a positive and significant effect on economic growth. Research conducted by Kalai & Nahed (2017), Alzaidy, Mohd & Zakaria (2017) and Alfaro, Areendam, Sebnem, & Selin (2007), Alfaro, Areendam, Sebnem, & Selin (2004) shows that Foreign Direct Investment has a positive and significant to economic growth.

Statistical F-Test

Based on the calculation results, the F-statistic value is 10.70470 and the F-table value is 2.56. It can be seen that the F-statistic value is greater than the F-table, so H_0 is rejected and H_a is accepted, which means that competitiveness, Corruption Perception Index, political stability, and Foreign Direct Investment simultaneously affect economic growth.

Determinant Coefficient (R^2)

The coefficient of determination (R^2) is used to see how well the regression line matches the data or to measure the percentage of the total variation Y described by the regression line using the concept of the coefficient of determination (R^2). The coefficient of determination is 0.650556 or 65.05%. This shows that the country's competitiveness, Corruption Perception Index, political stability, and Foreign Direct Investment are able to explain the actual data of 65.05% and the remaining 34.95% are factors that are not included in the study.

CONCLUSION

Based on the results of data processing and discussion that has been done, it can be concluded as follows. Competitiveness, Corruption Perception Index, political stability, and Foreign Direct Investment has a positive and significant effect on economic

growth in 5 ASEAN countries in 2009-2019. In an effort to increase the country's daytime power, of the 12 pillars, Indonesia, Vietnam and the Philippines excel in market size values, which are at 7th, 26th, and 31st ranks. Malaysia and Thailand excel in the value of the financial system, which are ranked 15th and 16th. This indicates that there is a need to improve other pillars to encourage increased daylight power and increase a country's economic growth.

In an effort to increase economic growth, policy makers need to pay attention to non-economic factors such as the country's competitiveness, corruption and political stability of a country. The increase in the independent variables will increase economic growth. Economic factors also need to be considered in increasing economic growth, one of which is Foreign Direct Investment.

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