

## Effect Of Consumption, Credit, And Capital Expenditure On Growth Economy In South East Asia

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### Abstract

This study investigates consumption, credit and government expenditure in the Southeast Asia region. The time period used in this study is the 2000-2021 period. The sort of data used in this study is panel data, which is secondary data. Data that is received from organizations or other parties is known as secondary data. The form of data can be obtained from publications presented by the parties concerned. The Panel Least Square (PLS) technique was used to analyze secondary data from the World Bank for this study. Although the PLS method is a variation of OLS, the data are presented as panels. The test results using the Panel Least Square (PLS) method show that credit and government spending are the dominant factors in driving economic growth in Southeast Asia. However, credit has actually become a burden for economic growth in Southeast Asia. The increase in debits in Southeast Asia actually put pressure on the economy, this was caused by an imbalance between the real and monetary sectors. However, government expenditure and domestic consumption have given a boost to production from the demand side so as to encourage an increase in national production which in turn boosts economic growth as indicated by an increase in GDP.

**Keywords :** Consumption, Credit, Capital Expenditure, Growth Economy, South East Asia

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### Background

The important macro policy goals because it can provide better welfare for the community (Widarni, Drean, & Bawono, 2022). Economic growth is a problem in the long term, which focuses on measuring the condition of the country's economy (Rachman & Sok, 2022; Harnani, Rusminingsih, & Damayanti, 2022). The GDP growth rate describes aggregate income development at a certain time period against the previous time period. This has also led to the many growth theories that were born from various economists (Prabowo, Sasongko, & Damayanti, 2022; Sasongko, 2022). On the other hand, one form of business that encourages the microfinance sector's development has also increased. Micro, Small, and Medium Enterprises (MSMEs), which are one of the forms of implementing microfinance activities, are increasingly demanding (Rusminingsih, Hidayanti, & Yanto, 2022).

Java Island is one of the several large islands in Indonesia located in the South of the Archipelago, so that it is known as a maritime country (Prabowo, Puspaningtyas, & Murniati, 2019). Geographically, the east of Java Island is bordered by the Bali Strait, the south is bordered by the Indian Ocean, the Java Sea borders on the north, and the West's Sunda Strait borders (Purba, Faizal, Cordova, Abimanyu, Afandi, Indriawan, & Khan, 2021). Java Island has several active volcanoes, such as Mount Bromo in East Java (Mujanah, Ratnawati, & Andayani, 2015),

an altitude of  $\pm 2,329$  m, and Mount Merapi in Central Java, with an altitude of  $\pm 2,930$  m (Sopha, Achsan, & Asih, 2019). Administratively, Java Island has 6 provinces consisting of Jakarta, Banten, West Java, Yogyakarta, Central Java, and East Java (Amalia & Woyanti, 2020). Java Island is also divided into 34 cities and 85 districts (Ayun & Mukhlis, 2022). Apart from being one of Indonesia's largest islands, the population on the island of Java has also increased continuously (Widiawaty, Lam, Dede, & Asnawi, 2022).

There are two methods for preparing the GRDP: business fields and expenditures, in which the GRDP from the business field side is the total of all gross value-added components that can be created by the economic sector from all production activities carried out (Ginting, Hutasoit, & Peranginangin, 2021). GRDP from the expenditure side is an illustration of the use of the added value. GRDP is divided into two types, namely GRDP, based on constant prices and current prices. GRDP can be classified as being based on constant prices because the valuation is based on a certain base year (Magdalena, & Suhatman, 2020).

Indonesia is part of ASEAN. ASEAN is an intergovernmental organization in the Southeast Asia region. The ASEAN is a political and economic organization and is the seventh largest economy in the world, founded in 1967 in Bangkok with the goal of fostering regional peace and stability as well as collaboration between member nations in the economic, social, cultural, technological, and educational spheres. The Lao People's Democratic Republic, Cambodia, Brunei Darussalam, Myanmar, and Vietnam eventually joined this alliance, which was originally founded by five nations: Indonesia, Malaysia, Philippines, Singapore, and Thailand, and aims to accelerate the growth of member countries, avoid armed conflict, and form free trade zone (Kisswani, 2021).

The idea started when Thailand mediated reconciliation between Indonesia, the Philippines, and Malaysia due to several disputes, and during the reconciliation meeting, the countries saw the need for regional cooperation between them, as conveyed by Thai Prime Minister Khoman to Indonesian Prime Minister Adam Malik with the idea of forming a cooperation organization, and Malik agreed reluctantly and asked his government to talk before announcing normalization with Malaysia. Accordingly, Thailand started preparing a draft charter for the new institution, and it took several months to prepare it, then summoned Malaysia, the Philippines, and Indonesia to a meeting in Bangkok, and Singapore sent its foreign minister, Rajaratnam, to study it. possibility of the state joining the new formation. In early August 1967, the foreign ministers spent 4 days in the coastal town of Pang Saen, located less than 100 km southeast of Bangkok, where they negotiated the document informally, which became known as sports jersey diplomacy (Queen & Sheng, 2020).

The Association of Southeast Asian Nations, whose goals focused on cooperation among member nations in the economic, social, cultural, technological, educational, and other spheres, was established under the Bangkok Declaration, a declaration with five sections. The agreement states that any nations in the Southeast Asian area are welcome to join the Association, in addition to supporting regional peace and stability via adherence to the UN Charter's values of justice and the rule of law (Weatherbee, 2019).

The countries stated that the Association of Southeast Asian Nations represents the collective will of the Southeast Asian countries, and the joint efforts and sacrifices between them to build friendly and cooperative relations, by making use of natural resources and manpower, preserving the independence of the countries and does not interfere in its internal policies, to ensure peace, freedom, and prosperity for the people of the world, the region, and future generations (Tan, 2020).

The existence of cooperation between these countries results in the mutual economic and political influence of countries in the Southeast Asian region (Arshad, Robaina, Shahbaz, & Veloso, 2020). Domestic consumption and government expenditure are the two driving forces of the economy in Southeast Asia (Khuong, McKenna, & Fichtner, 2019). However, credit given to countries in the Southeast Asian region has had a different impact after the 1997 crisis (Hidayanti, & Prabowo, 2021; Prabowo, Sulisnaningrum, & Harnani, 2021; Mutmainah, & Sulisnaningrum, 2019) and Covid 19 in 2021 (Zainuri & Bawono, 2022). Of course, this is important to be investigated in depth by a panel. So the purpose of this study is to investigate on a panel basis domestic consumption, government expenditure, and credit on economic growth in Southeast Asia.

### **Literature Review**

Generalizations about foreign trade in the field of international economic relations are one of the most fascinating topics for economic research and analysis in the third century because of the ongoing and consecutive changes and advancements that the global economic system has experienced from decade to decade other than their own (Kirylov, Hranovska, Boiko, Kwilinski, & Boiko, 2020). A favorable global economic climate and a worldwide trading system that promotes development processes and improves the conditions of international exchange are necessary for international commerce to fulfill its historical role as an engine of growth and development (Irawan, Sasongko, Mukhlis, Yanto, & Wulandari, 2022). Followers of international economic developments note that these conditions were met to some extent between the end of World War II and the early seventies thanks to the important role played by international monetary, trade, and finance (Keohane, 2019).

On the other hand, trade exchange between countries is a fact that today's world cannot be imagined without other people (Kurt, 2019). Foreign trade is international commercial transactions in three forms represented by the transfer of goods, individuals, and capital (Sharma, Leung, Kingshott, Davcik, & Cardinali, 2020). It occurs between people who are members of different political units, or between governments and economic organizations that are members of different political units, and it refers to the commercial exchange of goods, services, and other production-related elements between several nations with the intention of generating benefits for both parties involved (Viphindrartin & Bawono, 2021).

To satisfy the biggest demands feasible, diverse overseas commerce exchanges take the shape of goods, people, or capital between people who are located in different political entities (Albertoni & Wise, 2021). Two fundamental components of international trade are exports and imports, which can take visible or intangible forms (Yeo & Deng, 2020).

A country's capacity to meet long-term economic requirements is increased through economic growth (Laing, 2020). The increase that occurred was influenced by the development and advancement of technology and technological, institutional, and ideological adjustments in various circumstances (Damayanti, 2021). Economic growth conditions are influenced by two factors, namely economic and non-economic. Economic factors themselves include human resources, natural resources, technological advances, capital accumulation, and production scale. Meanwhile, non-economic factors include political, social, and cultural factors that can influence economic conditions (Nurlaili & Cahyadin, 2019).

Peacock and Wiseman's theory of government spending is known as The Displacement Effect (Kabayel & Doğan, 2022). The theory put forward is based on the view that the government always increases spending while people do not like to pay taxes, increasing government spending

(Purwantini, 2017). However, Peacock and Wiseman's theory also based their theory on the understanding that people have tax tolerance at a certain time because they understand the importance of government spending. However, this level of tolerance is also an obstacle for the government in increasing tax collection arbitrarily. The theory of Peacock and Wiseman also explains that if the economic growth that occurs causes tax collection to increase so that government spending is also higher (Syakur, Reviane, & Paddu, 2022).

On the other hand, economists such as David Ricardo, Keynes, and Solow proposed many thoughts and economic growth concepts, which have their respective assumptions (Thomas, 2019). Classic views that economic growth is influenced by three main elements, namely labor, capital costs, and natural resources (Saleh, Surya, Annisa Ahmad, & Manda, 2020). Keynes has a different idea, namely government intervention in maintaining the balance of the country's economy (Terra, Ferrari Filho, & Fonseca, 2021).

### Research Method

This study investigates consumption, credit and government expenditure in the Southeast Asia region. The time period used in this study is the 2000-2021 period. The sort of data used in this study is panel data, which is secondary data. Data that is received from organizations or other parties is known as secondary data. The form of data can be obtained from publications presented by the parties concerned. The Panel Least Square (PLS) technique was used to analyze secondary data from the World Bank for this study. Although the PLS method is a variation of OLS, the data are presented as panels. Numerous testing phases, including the t-test, F test, and coefficient of determination, are used in multiple regression employing OLS to determine and observe the effect of the independent variable on the dependent variable. Thus, the research model becomes:

$$Gdp_{it} = \alpha + \beta_1 Cm_{it} + \beta_2 Cr_{it} + \beta_3 Gx_{it} + e_{it}$$

Where,

Gdp = economic growth as indicated by changes in GDP every year

Cm = domestic consumption

Cr = domestic Credit

Gx = Changes in government spending each year

i = Cross section

t = Time series

e = Error term

In this study, two different variables were used, namely dependent and independent. The dependent variable in this study is economic growth represented by the economic growth variable. In contrast, the independent variable consists of consumption, credit, and government expenditure.

### Results And Discussion

This study uses PLS as an estimation method, which includes several stages, the three forms of model testing in panel data regression, such as the common effect model, fixed effect model, and random effect model. A number of tests, including the Chow test, the Hausman test, and the Lagrange multiplier test, are used in the second stage to find the optimal model outcomes. The statistical test, which is separated into t-test, f-test, and coefficient of determination, is the final step. To get the best findings, a traditional assumption test was run on the research model and estimation. The results of the Chow test are shown in the table below:

**Table 1.** Chow Test

	<b>Stat.</b>	<b>d.f.</b>	<b>Prob.</b>
Cross-sec. F	13.627908	(5,63)	0.0000
Cross-sec. Chi-sq.	52.785161	5	0.0000

Given that the results of the tests

conducted indicate that the fixed effect model is the best, a retest is required to determine whether the fixed effect model truly is superior to the random effect model. The Hausman Test must be applied in order to pick between the two models as a result. The table below displays the outcomes of the Hausman test:

**Table 2.** Hausman Test

	<b>Chi-Sq Stat.</b>	<b>Chi-Sq. d.f.</b>	<b>Prob.</b>
Cross-section Random	38.580060	3	0.0000

The estimation

outcomes for tabular 2 were attained using the fixed effect model, which was used for the estimation.

**Table 3.** Outcomes of the PLS Method with the Fixed Effect Model for Estimation

	<b>Coeff.</b>	<b>t-Stat.</b>	<b>Prob.</b>
C	2.912661	12.82624	0.0000
Cm	0.611211	1.32118	0.0000
Cr	-0.124422	-2.12344	0.0000
Gx	1.911232	1.743112	0.0000
<i>R-sq.</i>		0.841321	
<i>Adj R-sq.</i>		0.792214	

Table 3's estimation findings demonstrate that domestic consumption and government spending fuel Southeast Asia's economic growth, but credit has a significant negative relationship to economic growth in Southeast Asia. This shows that credit and government spending are the dominant factors in driving economic growth in Southeast Asia. However, credit has actually become a burden for economic growth in Southeast Asia.

**Conclusion**

Credit and government spending are the dominant factors in driving economic growth in Southeast Asia. However, credit has actually become a burden for economic growth in Southeast Asia. The increase in debits in Southeast Asia actually put pressure on the economy, this was caused by an imbalance between the real and monetary sectors. However, government expenditure and domestic consumption have given a boost to production from the demand side so as to encourage an increase in national production which in turn boosts economic growth as indicated by an increase in GDP.

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