

**DETERMINANTS OF ECONOMIC GROWTH IN LOWER-MIDDLE AND
UPPER-MIDDLE INCOME ASEAN COUNTRIES: THE ROLE OF FOREIGN
DEBT, FOREIGN CAPITAL INVESTMENT, TRADE OPENNESS, LABOR,
AND GOVERNMENT EXPENDITURE**

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Abstract

This research aims to determine the influence of foreign debt, foreign investment, trade openness, labor, and government expenditure on economic growth in ASEAN middle to lower-middle-income countries from 2000-2019. This research uses panel data with secondary data obtained from reports published by the World Bank and the Malaysian Authority. The analytical model used in this research is a multiple linear regression model equipped with the help of the Eviews 10 program. To see the influence of the independent variable on the dependent variable, the best estimation model was chosen, namely the fixed effect model (FEM). The results of this research show that foreign debt, foreign investment, trade openness, labor, and government expenditure simultaneously have a significant influence on the economic growth of ASEAN lower-middle-income countries in 2000-2019. Meanwhile, partially it shows that the foreign debt variable has a negative but not significant effect on the economic growth of ASEAN lower middle - upper middle-income countries. The variables of foreign investment, labor, and government expenditure have a positive and significant effect on the economic growth of lower-middle and upper-middle-income ASEAN countries. Meanwhile, the trade openness variable has a positive but not significant effect on economic growth in ASEAN lower middle - upper-middle-income countries

Keywords: *Economic growth, foreign investment, labor, government expenditures, and fixed effect model (FEM).*

1. INTRODUCTION

Economic growth is a very important indicator for analyzing the economic development of a country. Economic growth shows the extent to which economic activities will generate additional community income within a certain period of time. The indicator used to measure economic growth is the growth rate of gross domestic product (GDP). The GDP growth rate is a comparison of the GDP value of a particular year with previous years. The economy is said to be growing if the GDP value increases from year to year (Todaro, 2000). The World Bank classifies the per capita income of countries in the world into four categories, namely low-income, lower-middle income, upper-middle

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income, and high-income. Per capita income is measured by gross domestic income divided by the population of a country. GDP per capita is used as a benchmark for determining how successful a country is in managing its economy.

The Association of Southeast Asian Nations (ASEAN) is a regional organization that facilitates cooperation between ten countries in Southeast Asia. ASEAN countries that fall into the lower-middle income and upper-middle income categories are Indonesia, Thailand, Malaysia, the Philippines, Vietnam, and Cambodia. This research uses ASEAN countries in the lower-middle income and upper-middle income categories because Indonesia is included in this category so the comparison is more uniform. Apart from that, countries in the lower-middle-income and upper-middle-income categories are more likely to be trapped in the middle-income trap. If a country is trapped in the middle-income trap, then that country will not be able to make the transition to becoming a developed country. Apart from that, the middle-income trap will indirectly give rise to social conflict, making it not only difficult to compete with developed countries, but also with other developing countries (Lumbagaol and Pasaribu, 2018).

Foreign debt is a source of foreign funds that can help finance a country's development. Foreign debt is used to maximize infrastructure development to support economic activities, provide new job opportunities, increase production, increase foreign exchange reserves, etc. (Saputra and Kesumajaya, 2016). However, on the other hand, in the long term, foreign debt can cause various economic and political problems, and in some developing countries it even becomes a burden that seems inseparable, which actually causes slow economic growth and a decline in the level of welfare of its people (Febrianti, 2012).

Foreign investment also influences economic growth. Foreign investment is expected to increase GDP by adding new jobs, increasing production output, filling the shortfall in savings that can be collected domestically, increasing foreign exchange reserves, increasing state income, and developing management skills in the recipient country's economy (Jaya, 2014). In a study conducted by Putri (2014), foreign investment has a positive correlation with economic growth because the more investment a country has, the higher the level of economic growth that can be achieved.

A country's economic growth is also influenced by the contribution of trade openness as an engine of growth. Trade openness is an interaction between two or more countries that exchange goods and services through imports and exports to gain profits from product specialization resulting from the comparative advantages of each country (Astuti, 2020). According to a study conducted by Rini (2019), trade openness can encourage the expansion of domestic markets into international markets, and increase the competitiveness of domestic products, which will encourage new innovations to face tighter competition. However, a study conducted by Kim (2011) explains that trade openness has a negative impact on the economic growth of several developing countries because developing countries are not fully ready to face global competition so domestic industrial products cannot compete with foreign products.

Economic growth will also create new jobs so that it can reduce poverty and improve community welfare and support economic independence. According to Todaro (2002), population growth and labor force growth are traditionally considered as one of the positive factors that encourage economic growth. A larger workforce means

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increasing production levels, while greater population growth means a larger domestic market. Government expenditure also has a significant role in influencing the economic conditions of a country. The government not only plays a role in regulating economic activities but can also influence the total level of expenditure in the economy (Sukirno, 2013). According to research conducted by Swararinda and Indriani (2011), government expenditure, namely routine state spending, has an impact on increasing employee or public consumption, thereby increasing the consumption function which contributes to total national income and economic growth. Then according to research by Hariyani et al. (2012), government expenditure plays an important role in a country. Increasing government expenditure on providing and improving infrastructure will expedite the process of producing goods and services. This will encourage increased production processes, thereby increasing economic growth.

Based on the background description above, although many factors influence economic growth, the effects of foreign debt, foreign investment, trade openness, labor and government spending are still being debated. Previous research shows mixed results and there are no consistent conclusions about the influence of these variables on economic growth, especially in the context of lower middle - upper middle income ASEAN countries. Previous research on the influence of foreign debt, FDI, trade openness, labor and government spending on economic growth has produced different conclusions, some even contradictory. In addition, many studies focus on developed countries or certain groups of countries, so they do not provide a comprehensive understanding of the dynamics of economic growth in ASEAN countries. Meanwhile, global and regional economic dynamics that continue to change, such as fluctuations in commodity prices, changes in trade policies, and technological advances, require more up-to-date research. This research aims to analyze and examine the influence of foreign debt, FDI, trade openness, labor and government spending on the economic growth of lower middle - upper middle income ASEAN countries for the 2000-2019 period. This research is important because it provides a better understanding of the factors driving economic growth in lower middle - upper middle income ASEAN countries. Provides empirical evidence that can be used to formulate more effective economic policies in ASEAN countries. In addition, this research fills the literature gap by providing a comprehensive and up-to-date analysis of the influence of key variables on economic growth in ASEAN. Overall, this research makes a significant contribution to the field of economic growth by providing new insights into the factors that drive economic growth in ASEAN countries. The results of this research can be useful for policy makers, investors and academics in understanding and responding to economic dynamics in the ASEAN region.

2. LITERATURE STUDY

Economic growth

Economic growth is an effort to increase production capacity to achieve additional output as measured using gross domestic product (GDP) (Adisasmita, 2013). Gross domestic product is an important indicator to determine the economic condition of a country in a certain period of time. Basically, GDP is the amount of added value produced

by all business sectors in a particular country, or the number of final products and services produced by all economic sectors (Central Statistics Agency, 2020). Changes in GDP values will show changes in the quantity of goods and services produced within a certain period of time.

There are several theories of economic growth put forward by experts, namely Classical, Harrod-Domar, and Neo-Classical. Classical growth theory shows how population growth impacts economic growth. If there is a population shortage, the return on investment capital will be higher, and investors will get more profits, thereby realizing new investment and economic growth. Meanwhile, if the population is too large, it will reduce the level of economic activity, because the productivity of each resident becomes negative, thereby reducing community welfare (Sukirno, 2004). Harrod-Domar's growth theory shows the importance of capital accumulation in the growth process, where capital accumulation has a dual role, namely increasing income and increasing production capacity by increasing the capital stock (Tarigan, 2014). Economic growth can be achieved by balancing available development funds (measured by the percentage of national production) and the incremental capital-output ratio (k), which is the amount of capital required to increase one unit of production (Sukirno, 2004). Meanwhile, Neo-Classical growth theory (Solow) shows how savings, population growth, and technological progress affect output and economic growth rates. This model aims to show how growth in the capital stock, growth in the labor force, and technological progress interact in the economy which ultimately affects a country's output (Mankiw, 2006).

Foreign debt

Foreign debt is a source of financing for the government budget and economic development. Foreign debt is used to fund state expenditure so that it can support economic activities, especially production activities, which in the end can encourage economic growth (Arsyad, 2010). According to Harrod-Domar, foreign debt has a positive impact on economic growth, so it can increase people's income. This is because the flow of foreign aid can increase investment, thereby increasing domestic income and savings. Meanwhile, two other economists, Keith Griffin and John Enos, explained that foreign debt had a negative impact on economic growth because foreign debt caused the government to increase spending, thereby reducing incentives to increase taxes (Juoro, 1994). According to the Ricardian view, in the short term, foreign debt will increase current income, but in the long term, foreign debt will not change future income or consumption so it will burden future generations of society (Mankiw, 2007).

Foreign investment

Foreign investment is the activity of investing capital to conduct business in the territory of a country carried out by foreign investors, either using foreign capital entirely or jointly with domestic investors. Investment has a very important influence in advancing the economy of a country, especially developing countries, where in limited government funding for various types of development needs, investment becomes an alternative to overcome government funding difficulties in accelerating national development, helping industrialization and improving technology in developing countries. and will encourage private participation to make the national development plan

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a success. In addition, foreign capital is needed to create new jobs and improve workforce skills (Jhingan, 2000). According to Dumairy (1996), sources of financing in the form of foreign investment are encouraged to play a role in development activities that cannot be carried out with domestic capital and technological capabilities. Foreign direct investment is expected to encourage economic growth and equality, increase the positive role of society, and expand business opportunities and employment opportunities. So direct investment will create a balance between government expenditure and national income.

Trade Openness

Trade openness is the activity of exporting goods and services abroad and importing goods and services that cannot be produced domestically. According to traditional neo-classical growth theory, economic growth in countries whose economies tend to be closed or not involved in international trade activities is slower than countries with open economies. This is because in an open economy, capital flows will trigger investment returns and converge to higher levels of income (Todaro and Smith, 2011). According to the classical trade theory put forward by Adam Smith and David Ricardo, international trade can encourage production specialization. When a country has special specialization conditions obtained from labor productivity, then trade openness can increase the country's per capita income. Apart from that, trade openness can also provide opportunities for export commodities whose production factors use large amounts of resources and for imported commodities whose domestic production factors are scarce or require expensive costs if produced alone, so that resources can be used effectively because of the total output. individuals can be maximized and can optimize welfare (Salvatore, 1997).

Labor

According to Todaro (2000), population growth and labor force growth are traditionally considered to be one of the positive factors that encourage economic growth. A larger workforce means increased production levels and greater population growth means an enlarged domestic market. According to Lewis, a labor surplus in one sector will encourage economic growth and the supply of labor in other sectors. Lewis believes there are two sectors in the economy of developing countries, namely the modern sector and the traditional sector. The surplus of labor in the informal sector in the modern industrial sector will one day result in an increase in rural wages. An increase in wages will reduce the difference in income levels between urban and rural areas, so that an excess supply of labor will not cause problems for economic growth (Todaro and Smith, 2006).

Government Expenditure

Government expenditure has a significant role in influencing the economic conditions of a country. The government not only plays a role in regulating economic activities but can also influence the total level of spending in the economy. On the one hand, activities carried out by the government through taxation will reduce total

expenditure, but on the other hand, the tax will be spent again by the government and will further increase total expenditure (Sukirno, 2013). According to Mankiw (2006), government expenditure can increase production by increasing subsidies to producers. The greater the government expenditure, the greater the possibility of a multiplier effect on the economy, thereby bringing enormous benefits to economic growth. Meanwhile, according to Wagner's Law, if per capita income increases, relative government expenditure will also increase. This is because the government must regulate relationships that arise in society, law, education, tourism, culture, and so on. Increased government expenditure will also trigger market failures and externalities. Peacock and Wiseman argue that economic development will cause an increase in tax revenues even though tax rates do not change. Meanwhile, an increase in tax revenue will lead to an increase in government expenditure. Therefore, under normal circumstances, an increase in GDP will lead to an increase in government income and an increase in government expenditure. However, in certain situations, the government is required to increase spending, so the government uses taxes as an alternative method to increase state income. If the tax rate is increased, investment spending and public consumption will decrease (Mangkoesoebroto, 1997).

Factors That Influence Economic Growth

The traditional view argues that foreign debt can stimulate growth by financing investment and covering the domestic savings deficit. A critical view states that excessive foreign debt can hinder growth due to the burden of interest payments and the risk of a debt crisis. Recent studies show a non-linear relationship between external debt and growth, with a positive effect at low debt levels and a negative effect at high debt levels. Spillover theory states that FDI can increase growth through technology transfer, increasing workforce skills, and increasing competitiveness. While some studies found positive effects of FDI on growth, others found insignificant or even negative effects. The effectiveness of FDI is influenced by factors such as institutional quality, availability of human resources, and government policy.

The theory of comparative advantage states that international trade can increase growth by allowing countries to specialize in the efficient production of goods and services. Meanwhile, empirical evidence generally supports the positive effect of trade openness on growth. However, current issues focus on the role of trade policy, global value chains, and the distributional impacts of trade. Neo-Classical growth theory emphasizes the importance of human capital accumulation and public investment for long-term economic growth. Meanwhile, empirical studies generally support the positive effects of an educated workforce and productive government spending on growth. However, current challenges include skills gaps, structural unemployment and the efficiency of government spending.

This research provides a unique contribution by focusing on ASEAN, namely analyzing specifically the influence of key variables on economic growth in lower middle - upper middle income ASEAN countries. This research uses the latest data (2000-2019) to capture the current economic dynamics in this region. This research comprehensively evaluates the impact of foreign debt, FDI, trade openness, labor, and government

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spending on economic growth. Thus, this research will provide valuable insights for understanding and encouraging sustainable economic growth in ASEAN countries.

3. RESEARCH METHODOLOGY

Operational Definition of Variables

The operational definition of each variable in this research is as follows:

- a. Economic Growth (Y)
Economic growth is measured using total GDP data based on current prices from 2000 to 2019, expressed in billions of US\$. Economic growth data in this research was obtained from reports published by the World Bank.
- b. External Debt (X_1)
Foreign debt is measured using total external debt stocks data from 2000 to 2019 which is expressed in billions of US\$ based on annual calculations. Foreign debt data in this research was obtained from reports published by the World Bank and the Malaysian Financial Institution.
- c. Foreign Investment (X_2)
Foreign investment is measured using foreign direct investment net inflows data from 2000 to 2019 which is expressed in billions of US\$ based on annual calculations.
- d. Trade Openness (X_3)
Trade openness is measured using data on the number of exports of goods and services and imports of goods and services divided by GDP data based on current prices expressed in percent from 2000 to 2019 based on annual calculations.
- e. Labor (X_4)
The labor force is measured using total labor force data from 2000 to 2019 which is expressed in million people based on annual calculations.
- f. Government Expenditures (X_5)
Government expenditure is measured using general government final consumption expenditure data from 2000 to 2019 which is expressed in billions of US\$ based on annual calculations.

Data Types and Sources

The data used in this research is secondary data, namely data collected by data collection institutions and released to the data user community. The type of data used is a combination of time series data and inter-unit data (cross-section). The time series data used is 2000 – 2019, while the cross-section data used is ASEAN countries that are included in the lower middle - upper middle-income category, namely: Indonesia, Thailand, Malaysia, the Philippines, Vietnam, and Cambodia, so that panel data is obtained totaling 600 data. This secondary data was obtained from various sources such as records or reports published by the World Bank and the Malaysian Ministry of Finance.

Analysis Method

In panel data, observations are made on various subjects that are analyzed over time. To determine the magnitude of the influence of the independent variable on the dependent variable, this research uses a multiple linear regression model (multiple regression) with the fixed effect model (FEM) method which aims to determine the influence of foreign debt, foreign investment, trade openness, labor and expenditure variables. the government on the economic growth of ASEAN lower middle - upper middle-income countries, both directly and indirectly. The panel data regression equation can be formulated as follows:

$$PDB_{it} = \beta_0 + \beta_1 ULN_{it} + \beta_2 PMA_{it} + \beta_3 TO_{it} + \beta_4 TK_{it} + \beta_5 PP_{it} + \varepsilon_{it} \dots\dots\dots(3.1)$$

- GDP* = Gross Domestic Product of ASEAN lower middle countries - upper middle income (billion US\$)
- ULN* = External Debt (billion US\$)
- PMA* = Foreign Direct Investment (billion US\$)
- TO* = Trade Openness (percent)
- TK* = Labor (million people)
- PP* = Government Expenditure (billion US\$)
- β_0 = Regression Constant
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Slope or regression coefficient
- i* = Cross section ASEAN lower middle - upper-middle-income countries
- t* = Time series (2000-2019)
- ε = Error term

The use of the logarithmic equation (Log) in the panel data model aims to make estimation easier. Gujarati and Porter (2015) suggest that the logarithmic model is used to measure the elasticity of the dependent variable towards the independent variable. So, the panel data regression equation can be formulated as follows:

$$LogPDB_{it} = \beta_0 + \beta_1 LogULN_{it} + \beta_2 LogPMA_{it} + \beta_3 LogTO_{it} + \beta_4 LogTK_{it} + \beta_5 LogPP_{it} + \varepsilon_{it} \dots\dots\dots(3.2)$$

- LogGDP* = Logarithm of Gross Domestic Product of ASEAN countries lower middle - upper middle income (billion US\$)
- LogULN* = Logarithm of Foreign Debt (billions of US\$)
- LogPMA* = Logarithm of Foreign Direct Investment (billion US\$)
- LogTO* = Logarithm of Trade Openness (percent)
- LogTK* = Logarithm of Labor (million people)
- LogPP* = Logarithm of Government Expenditures (billions of US\$)
- β_0 = Regression Constant
- $\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = Slope or regression coefficient
- i* = Cross section ASEAN lower middle - upper middle-income countries
- t* = Time series (2000-2019)
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4. RESULT AND DISCUSSION

Selection of the Best Estimation Model

In analyzing panel data, there are three estimation models used, namely common effect, fixed effect, and random effect. The selection of the best estimation model is based on the results of formal testing, namely: the Chow test to choose between the common effect model (CEM) or fixed effect model (FEM) and the Hausman test to choose between the fixed effect model (FEM) or random effect model (REM). Testing this estimation model aims to determine which model is most suitable for use in this research. The results of model testing using the Chow test can be seen in Table 1.

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	103,473642	(5,109)	0,0000
Cross-section Chi-square	209,830861	5	0,0000

Source: Results of data processing with Eviews 10

Based on the Chow test results in Table 1, the Chi-Square statistical value is 209,830861 and the probability is 0,0000 or smaller than the significance level ($\alpha = 0,05$), which means H_0 is rejected and H_1 is accepted, so it can be concluded that the better model to use in this research is the fixed effect model (FEM). The Hausman test results can be seen in Table 2.

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	517,368036	5	0,0000

Source: Results of data processing with Eviews 10

Based on the Hausman test results in Table 2, the statistical Chi-Square value is 517,368036 and the probability is 0,0000 or smaller than the significance level ($\alpha = 0,05$), which means H_0 is rejected and H_1 is accepted, so it can be concluded that the better model to use in this research is the fixed effect model (FEM).

Classic Assumption Test

Normality Test

The normality test aims to test whether the residual variables in the regression model have a normal distribution. In the research, the normality test was carried out using the Jarque-Bera test statistic. The results of the normality test can be seen in Figure 1.

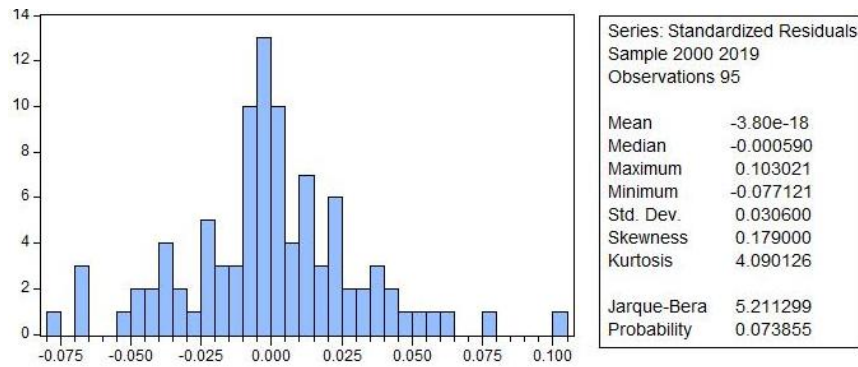


Figure 1. Normality Test Results

Based on the results of the normality test in Figure 1, the Jarque-Berra value is 5,211299 with a probability value of 0,073855 or greater than the significance level value ($\alpha = 0,05$), so it can be concluded that the data used in this research are distributed normally.

Multicollinearity Test

The multicollinearity test was carried out to determine whether there was a correlation between the independent variables. If there is a correlation, it shows that there is multicollinearity in the regression model. In this research, multicollinearity detection was carried out by looking at the correlation coefficient values from the correlation matrix between different regression variables. The results of the multicollinearity test can be seen in Table 3 below:

Table 3 Multicollinearity Test Results

	ULN	PMA	TO	TK	PP
ULN	1,000000	0,277271	0,101489	0,485568	0,388015
PMA	0,277271	1,000000	0,174714	0,121667	0,204694
TO	0,101489	0,174714	1,000000	0,048457	-0,057264
TK	0,485568	0,121667	0,048457	1,000000	0,325479
PP	0,388015	0,204694	-0,057264	0,325479	1,000000

Source: Results of data processing with Eviews 10

Based on the results of the multicollinearity test in Table 3, after correction using the variable transformation method, it shows that there is no correlation coefficient value between regression variables that exceeds the rule of thumb (0,8), so it can be concluded that there is no multicollinearity in the regression model.

Heteroscedasticity Test

The heteroscedasticity test is carried out to see whether there is an inequality of variance from the residuals of one observation to another in the regression model. In this research, the heteroscedasticity test was carried out using the Glejser test, namely by regressing the absolute residual value ($AbsUi$) on other independent variables. The results of the heteroscedasticity test can be seen in Table 4 below:

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Table 4 Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ULN	-18,05626	16,16851	-1,116754	0,2673
PMA	3,201448	3,020454	1,059923	0,2922
TO	15,46941	52,48126	0,294761	0,7689
TK	18,16480	67,13085	0,270588	0,7874
PP	-0,018386	8,899966	-0,002066	0,9984

Source: Results of data processing with Eviews 10

Based on the results of the heteroscedasticity test in Table 4, after correction using the variable transformation method, it shows that all independent variables have a probability value greater than the significance level value ($\alpha = 0,05$), which means that the residual variance is homoscedastic, so there is no heteroscedasticity in the model.

Autocorrelation Test

The autocorrelation test aims to see whether there is a correlation between the residual error in period t and the error in period $t-1$ (previous) in the regression model. In this study, the autocorrelation test was carried out using the Durbin-Watson test. This test uses a significance level of 0,05, the number of independent variables (k) is 5 and the number of observations (n) is 120, resulting in a dL value of 1,6164 and dU of 1,7896. The results of the autocorrelation test can be seen in Table 5 below:

Table 5 Autocorrelation Test Results

DW	dL	dU	4-dU	4-dL
2,017602	1,6164	1,7896	2,2104	2,3836

Source: Results of data processing with Eviews 10

Based on the results of the autocorrelation test in Table 5, after correction using the variable transformation method, the Durbin-Watson (DW) value was 2,017602. When compared with the values in the Durbin-Watson table, the DW value is greater than the dL value or lies between the dU and $4 - dU$ values, which means that the autocorrelation coefficient is zero, so there is no autocorrelation.

Discussion of Research Results

This analysis aims to prove the research hypothesis or find out the influence of foreign debt, foreign investment, trade openness, labor, and government expenditure on the economic growth of ASEAN lower middle - upper middle-income countries for the period 2000 to 2019. Table 6 shows the estimation results using the fixed effect model (FEM) method.

Table 6 Estimation Results of the Fixed Effect Model (FEM) Method

Variable	Coefficient	t-Statistic	Prob.	Note
ULN	-0,245844	-1,402518	0,1638	Not significant
PMA	1,247048	3,830290	0,0002	Significant
TO	0,204893	1,182537	0,2397	Not significant
TK	5,975993	2,891710	0,0047	Significant
PP	8,555585	16,82165	0,0000	Significant
R-squared	0,839102			
Adjusted R-squared	0,823481			
F-statistic	53,71568			
Prob(F-statistic)	0,000000			
Durbin-Watson stat	2,017602			

Source: Results of data processing with Eviews 10

Based on the panel data estimation results using the fixed effect model (FEM) method in Table 6, the following equation is obtained:

$$PDB = -2.877812 - 0,245844ULN + 1,247048PMA + 0,204893TO + 5,975993TK + 8,555585PP + \varepsilon_{it} \dots\dots\dots(3.3)$$

The panel data estimation results produce an adjusted R2 value of 0,823481, which means that the percentage contribution of the independent variable to the dependent variable is 82,35 percent. In other words, the independent variables used in the model can explain 82,35 percent of the dependent variable. Meanwhile, the remainder, or 17,65 percent is influenced by other factors outside the regression model. Based on the results of the significance test, foreign debt, foreign investment, trade openness, labor, and government expenditure simultaneously have a significant influence on the economic growth of ASEAN lower middle - upper middle-income countries. Based on the partial test results, it was found that the foreign debt and trade openness variables had no significant effect on the economic growth of ASEAN lower middle - upper middle-income countries. Meanwhile, the variables of foreign investment, labor, and government expenditure have a significant effect on the economic growth of ASEAN lower middle - upper middle-income countries.

The Influence of Foreign Debt on the Economic Growth of ASEAN Lower Middle - Upper Middle-Income Countries

The estimation results show that foreign debt partially has a negative effect on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the coefficient value of -0,245844, which means that for every 1 percent increase in foreign debt, economic growth will decrease by 0,25 percent. Based on these results, it can be concluded that the hypothesis which states that foreign debt has a negative effect is accepted. This is in accordance with the theory of Classical/Neo

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Classical economists, which states that increasing foreign debt for government expenditure will only encourage economic growth in the short term, but in the long term it will not cause a significant impact due to crowding out, namely the situation when if there is a budget deficit, the government will tend to increase loan interest rates which will cause investment to decrease (Mankiw, 2006).

The results of this research are in line with research conducted by Kurniasari (2017) which explains that in the short term, foreign debt does not have a significant effect on economic growth. Foreign debt will become a burden on the budget because of the requirements for payment of interest and principal installments of foreign debt in the APBN posture. Therefore, an increase in debt will cause the rupiah exchange rate to fall (inflation), which will then affect interest rates, so that investment will be lower and the tax burden in the future will be greater, which will slow down the rate of borrowing and economic growth.

Apart from that, the results of this research also show that the foreign debt variable has an insignificant influence on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the probability value which is greater than the significance level value ($\alpha = 0,05$). This is in accordance with the results of research by Yudiantmaja (2012) which shows that the foreign debt variable has a negative effect on economic growth. The reason is, the APBN is burdened by debt payments. Foreign debt is a financial obstacle for the government to increase economic growth and provide funding for community development through public expenditure instruments in carrying out state functions, especially in the fields of education, health, subsidies, and defense.

The Influence of Foreign Investment on the Economic Growth of ASEAN Lower Middle - Upper Middle-Income Countries

The estimation results show that partially foreign investment has a positive effect on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the coefficient value of 1,247048, which means that for every 1 percent increase in foreign investment, economic growth will increase by 1,25 percent. Based on these results, it can be concluded that the hypothesis which states that foreign investment has a positive effect is accepted. Apart from that, the results of this research also show that the foreign investment variable has a significant influence on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the probability value which is smaller than the significance level value ($\alpha = 0,05$). This is in accordance with the Harrod-Domar theory which states that to increase the rate of economic growth, new investment is needed as additional share capital. Each net increase (new investment) in the capital stock will result in an increase in the total output according to the capital-to-output ratio. As investment increases, this will encourage the growth of the private sector and households to allocate available resources, which in turn will lead to an increase in gross domestic product (GDP) and economic growth.

The results of this research are also in line with research conducted by Kurniasari (2017) which explains that the influence of foreign investment on economic growth in the short term is statistically proven that foreign investment has a positive and significant effect on economic growth. A government expenditure budget that is greater than government income requires additional income, one of which is through foreign investment to increase economic growth, so as to reduce the burden of the budget deficit by increasing foreign exchange and state revenues in the APBN.

The Influence of Trade Openness on the Economic Growth of ASEAN Lower Middle - Upper Middle-Income Countries

The estimation results show that partial trade openness has a positive effect on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the coefficient value of 0,204893, which means that for every 1 percent increase in trade openness, economic growth will increase by 0,21 percent. Based on these results, it can be concluded that the hypothesis which states that trade openness has a positive effect is accepted. This is in accordance with modern economic growth theory which states that trade openness can encourage a country's economic growth. Trade openness can provide opportunities for export commodities whose production factors use large amounts of resources and for imported commodities whose domestic production factors are scarce or require expensive costs to produce themselves.

This is also in accordance with the results of research conducted by Rini (2019) which shows that trade openness has a positive influence on economic growth in ASEAN+3 countries in the 2001-2017 period. This is because trade openness can encourage the expansion of domestic markets into international markets, increasing the competitiveness of domestic products, which in turn will encourage new innovations to face tighter competition. Trade openness can absorb technological changes from developed countries with the support of quality human resources, thereby increasing the level of technological progress, which will then increase productivity and economic growth.

The results of this research also show that the trade openness variable has an insignificant influence on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the probability value which is greater than the significance level value ($\alpha = 0,05$). This is in line with research conducted by Bibi et al. (2014) which shows that the trade balance deficit caused by trade activities means that trade openness has no effect on economic growth.

The Influence of Labor on the Economic Growth of ASEAN Lower Middle - Upper Middle-Income Countries

The estimation results show that partially the number of workers has a positive effect on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the coefficient value of 5,975993, which means that for every 1 percent increase in the number of workers, economic growth will increase by 5,98 percent. Based on these results, it can be concluded that the hypothesis which states that labor has a positive influence is accepted. Apart from that, the results of this research also

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show that the labor variable has a significant influence on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the probability value which is smaller than the significance level value ($\alpha = 0,05$).

This is in accordance with the theory explained previously, which states that population growth and labor force growth are traditionally believed to be one of the positive factors driving economic growth. A large number of workers means higher production levels and greater population growth means a larger domestic market (Todaro, 2002). The results of this research are also in line with research conducted by Kurniasari (2017) which explains that in the short term, the influence of labor on economic growth is statistically proven to have a positive and significant effect on economic growth. The increasing number of workers is supported by increased capacity or ability and investment, so that it can contribute to increasing national income and closing the budget deficit by increasing income, thereby turning the budget into a surplus.

The Influence of Government Expenditures on the Economic Growth of ASEAN Lower Middle - Upper Middle-Income Countries

The estimation results show that partial government expenditure has a positive effect on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the coefficient value of 8,555585, which means that for every 1 percent increase in government expenditure, economic growth will increase by 8,56 percent. Based on these results, it can be concluded that the hypothesis which states that government expenditure has a positive effect is accepted. Apart from that, the results of this research also show that the government expenditure variable has a significant influence on the economic growth of ASEAN lower middle - upper middle-income countries. This can be seen from the probability value which is smaller than the significance level value ($\alpha = 0,05$).

This is in accordance with the expenditure approach theory explained previously which states that the relationship between government expenditure and GDP is reflected in the following statement: $Y = C + I + G + (X - M)$. In other words, when government expenditure increases, it will increase gross domestic product (GDP) as long as government expenditure can increase public consumption through subsidies, infrastructure development, market operations, etc., which in turn will encourage liquidity so that it can increase economic growth and increase national income (Dumairy, 1996).

This is also in line with the research results of Swaramarinda and Indriani (2011) which show that during the research period there was a positive correlation between government consumption expenditure and economic growth. This is because government expenditure, namely routine state spending, in this case employee spending which includes salaries and pensions, allowances and spending on household goods, regional routine funds, and other daily spending, has an impact on increasing employee or public consumption, thereby increasing the consumption function. contributes to total national income and economic growth. In addition, Hariyani et al. (2016) explain that the public

sector or government expenditure plays an important role in a country. Increasing government expenditure on providing and improving infrastructure will expedite the process of producing goods and services. This will encourage increased production processes, thereby increasing economic growth.

5. CONCLUSION

Based on the results of the analysis that has been carried out to determine the influence of foreign debt, foreign investment, trade openness, labor, and government expenditure on economic growth in ASEAN lower middle - upper-middle-income countries, the following conclusions can be drawn:

- a. The foreign investment variable has a positive and significant effect on the economic growth of ASEAN lower middle - upper-middle-income countries in 2000-2019. This is in accordance with the research hypothesis, which states that the foreign investment variable has a significant effect on the economic growth of ASEAN lower middle - upper middle-income countries.
- b. The labor variable has a positive and significant effect on the economic growth of ASEAN lower middle - upper-middle-income countries in 2000-2019. This is in accordance with the research hypothesis, which states that labor variables have a significant effect on the economic growth of ASEAN lower middle - upper middle-income countries.
- c. The government expenditure variable has a positive and significant effect on the economic growth of ASEAN lower middle - upper-middle-income countries in 2000-2019. This is in accordance with the research hypothesis, which states that government expenditure variables have a significant effect on the economic growth of ASEAN lower middle - upper middle-income countries.
- d. The variables foreign debt, foreign investment, trade openness, labor and government expenditure simultaneously have a significant influence on the economic growth of ASEAN lower middle - upper middle-income countries in 2000-2019. The independent variables used in the research can explain the economic growth variable for ASEAN lower middle - upper middle-income countries of 82,35 percent.

The following are several specific and actionable policy recommendations based on the findings of this research to encourage economic growth:

- a. Encourage foreign investment with a focus on increasing ease of doing business by simplifying business regulations, developing priority sectors that are attractive to foreign investors, such as technology, renewable energy and high added value manufacturing.
- b. Improving the quality of human resources by investing in vocational education and training to meet the need for skilled workers in the targeted sectors.
- c. Optimize government spending by increasing the efficiency and effectiveness of spending. Ensure that government spending is directed at programs that have a high impact on economic growth, such as infrastructure, education and health.
- d. Ensure debt sustainability by using foreign debt wisely to finance productive projects that can generate high economic returns.

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- e. Promote intra-ASEAN trade by deepening regional economic integration by reducing trade and investment barriers among ASEAN countries.

By implementing these policy recommendations effectively, ASEAN countries can harness the full potential of foreign investment, employment and government spending to drive sustainable and inclusive economic growth.

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