



# PROCEEDING

The 41<sup>st</sup> Conference of  
Federation of ASEAN Economists Association (FAEA 41)  
“Four Pillars of Asean Economic Community:  
Implementations, Prospects and Challenges”



**Ikatan Sarjana Ekonomi Indonesia (ISEI)**  
**The Alana Hotel and Convention Center**  
**Yogyakarta, Indonesia**  
**November 23-25, 2016**

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**Proceeding, The 41st Conference of Federation of ASEAN  
Economists Association (FAEA 41)**

“Four Pillars of Asean Economic Community: Implementations,  
Prospects and Challenges”

Editor, Prasetyono Widjojo Malang Joedo...[et al.].  
Jakarta: Ikatan Sarjana Ekonomi Indonesia (2016)

ISBN: 978-602-60755-0-5

Published by : Pengurus Pusat Ikatan Sarjana Ekonomi Indonesia  
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Hak Cipta PP-ISEI, 2015

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## PREFACE

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The year of 2016 marks the first year implementation of ASEAN Economic Community (AEC), as a sign of economic openness between ASEAN countries. However, the economic performance of ASEAN, especially in the last four decades is certainly not independent of economic cooperation that has been done by ASEAN countries as their commitment so far. Four pillars of the AEC are namely: (1) single market and production base, (2) competitive economic region, (3) equitable economic development, and (4) integration with the global economy. The success of the AEC implantation in each country depends largely on the ability of government policy to translate the roadmap of the AEC four pillars into concrete actions. Moreover, the roles of private sector in AEC implementation should continue to be embraced, including improved production quality and added value through diversification of production.

Indonesia could play as important roles in the AEC implementations through series of meetings and negotiation, possibility trade patterns, investments and so forth. The most important points of economic integration in this region are (1) the intensity of intra-regional trade and (2) convergence of macroeconomic conditions. Instead of making single monetary unit, it is much better to harmonize the economy and monetary policy between ASEAN countries. Each country, however, should pay close attention on the downturn of the global economy and specific economic policy movements in China, the United States, European Unions and some emerging markets. These could provide some prospects of the future of AEC four pillars and new breeds of challenges that should be anticipated by ASEAN member countries.

The Indonesian Economists Association (ISEI) will host The 41<sup>st</sup> Conference of Federation of ASEAN Economists Association (FAEA), an annual calendar of the Federation that could provide avenues for prominent economists, scholars, private sectors and government officials in the region to meet and exchange views on important issues of ASEAN Economic Community (AEC). The Organizing Committee and Steering Committee at ISEI have agreed to bring out the theme of “Four Pillars of ASEAN Economic Community: Implementations, Prospects and Challenges” as the main theme of The 41<sup>st</sup> FAEA Conference this year. The FAEA Conference will be held on November 23-25 of 2016 in Yogyakarta, Central Java, Indonesia.

The objectives of the 41<sup>st</sup> FAEA Conference on “Four Pillars of ASEAN Economic Community: Implementations, Prospects and Challenges” are as follows:

- (1) to exchange views on research progress and new knowledge on the implementations, prospects and challenges of the Four Pillars of ASEAN Economic Community,
- (2) to encourage new research ideas, policy adaptation and implementation of the four pillars of AEC and other strategic and related issues in each ASEAN countries,
- (3) to stimulate academic exercise and policy dialogues on the four pillars of AEC, and
- (4) to contribute to the capacity building of young economists in ASEAN member countries on the theme.

This seminar proceeding of 41<sup>st</sup> FAEA Conference on “Four Pillars of ASEAN Economic Community: Implementations, Prospects and Challenges” collects all transcripts and papers of both all invited speakers and call for paper participants. We do hope that this proceeding provides benefits for documenting all critical thinking on about how AEC can be optimally implemented for ASEAN welfare.



Introductory Speech  
KETUA IKATAN SARJANA EKONOMI INDONESIA (ISEI)

The 41<sup>st</sup> Conference of  
Federation of ASEAN Economists Association (FAEA 41)  
“Four Pillars of Asean Economic Community:  
Implementations, Prospects and Challenges”

The Alana Hotel and Convention Center  
Yogyakarta, Central Java, Indonesia  
November 23, 2016

Good evening to all of you,

Distinguished guests:

- The Finance Minister of the Republic of Indonesia, Dr. Sri Mulyani Indrawati;
- Chairman of the Organizing Committee of ISEI, Prof. Dr. Edy Suandi Hamid;
- Vice Governor of Yogyakarta, KGPAA Paku Alam X;
- The heads of delegations and their esteemed members of *Economists Association* across the ASEAN region;

Ladies and gentlemen.

1. Let us first say our grace to the Almighty for all His blessings that brought all of us together to this *41st Conference of Federation of ASEAN Economists Association (FAEA 41)* on this beautiful evening.
2. Let me also extend my warmest welcome to all distinguished members of *delegates* who have kindly taken their time out of their busy schedules to attend this event. The *Conference of Federation of ASEAN Economists Association* (FAEA) is an annual event, comprises of economic associations from seven ASEAN countries, namely Singapore, Thailand, Vietnam, Cambodia, Indonesia, Malaysia, and the Philippines. It was established with the objectives of building and maintaining communications and sharing information among FAEA members. In addition, inputs on the economic development derived from this forum are expected to benefit the ASEAN region.
3. This conference takes up a theme: “*Four Pillars of ASEAN Economic Community: Implementations, Prospects and Challenges*”. This theme has become essential since our region was integrated in the beginning of this year. Together, we have entered an era as a single market, where free trade is central to our economies. Consequently, it has become crucial for us to fully understand the four pillars of the ASEAN Economic Community as well as the opportunities and challenges in implementing them at both the national and regional level.

**Esteemed colleagues, ladies and gentlemen,**

4. At the outset, I see that the ASEAN member countries are committed to implementing the economic integration in the region, particularly to maintaining the safety in the



region, creating more robust and integrated growth, more prosperous community free of poverty, as well as equitable and sustainable economic development.

5. It is evident that all efforts directed towards integration should take into account ASEAN primary principles, namely: mutual respect, non-interference, consensus building and effective cooperation.
6. In this connection, there are four pillars that have become key to ASEAN Economic Community implementation, namely:
  - a. The first one is **single market and production base**: where the countries within the ASEAN are considered one single market and production base. This was achieved through reducing trade costs in goods and services, as well as promoting investment, skilled labor and capital.
  - b. The second pillar helps create a **business-friendly and innovation-supporting regional environment**: where all ASEAN countries are directing their efforts on improving their competitiveness on many fronts such as through infrastructure, competitive market, investor protection and reducing tax barriers.
  - c. The third pillar is aimed at achieving **sustainable and balanced growth and development**; where efforts are focused on strengthening Small-Medium Enterprises and encourage them to participate in regional and global value chains, and thereby achieving a more equitable growth in the ASEAN countries.
  - d. The final pillar envisages **ASEAN's full integration into the global economy**. This is pursued through a coherent approach towards external economic relations, including through free trade areas and comprehensive economic partnership agreements, and enhanced participation in global supply networks.
7. These four pillars were set out in the ASEAN Economic Community Blueprint, that was rolled out last year and was previously initiated at the 38th ASEAN Economic Ministers' Meeting (AEM) in Kuala Lumpur, Malaysia, in August, 2006. This AEC Blueprint has clear targets and framework for the implementation of activities and has also accommodated some flexibility taking into account all member countries' interests and conditions.
8. The seminar focuses on the four pillars and its implementation as well as challenges. As may you well aware of, ASEAN Economic Community Blueprint 2025, have been announced, however it has become apparent that there are many ongoing discussions regarding the matter. Hopefully, today's discussion can be beneficial and shed some light for the implementation of ASEAN Economic Community Blueprint 2025.

**Distinguished colleagues, ladies and gentlemen,**

9. Still in the context of AEC implementation, we are all aware that although every economic sector has enjoyed the benefits of the ASEAN integration and that the integration has brought about many opportunities, some challenges remain.
10. I am optimistic that the AEC implementation brings forth positive impacts to the ASEAN countries. We already saw some business opportunities opened up and competitiveness increased quite significantly. The free market has also naturally boost the producers and business players to produce good quality of products and to do business effectively in the region. If done efficiently, the products as well as the market could very well compete with other markets at the global level.

11. It is acknowledged that the competition will trigger stakeholders in each economy to brace themselves, to build and strengthen their competitive advantages. Further, the Government's support through improving infrastructure, human resources and doing business regulations also helps create a business environment conducive for their respective domestic entrepreneurs.
12. Also worth to note is that free flow of capital encourage investors to expand their investment with no trade barriers within all ASEAN member countries. Competition among ASEAN countries in attracting investment from ASEAN investors also requires domestic entrepreneurs to be more creative and innovative in coming up with business models as it needs to succeed in an increasingly competitive market.

**Esteemed colleagues, ladies and gentlemen,**

13. In addition to opening up a set of new opportunities, AEC implementation also poses some challenges that demand our attention. These challenges are:
  - a. Many ASEAN members are emerging countries with various level of development. Some believed that this was the impediment to efforts on achieving successful economic integration in the ASEAN region, as emerging countries often attempt to protect certain sectors in their domestic.
  - b. Income disparity among the populations among ASEAN countries. This calls for intensive efforts to prevent even wider disparity after AEC implementation.
  - c. As some ASEAN countries have high inflation rates, dissimilar price levels and unequal purchasing power across ASEAN member countries could occur, giving some countries the ability to purchase more goods of another member country. Also, different levels of inflation could result in different levels of investment.
  - d. Different level of capital market development and financial regulations among ASEAN countries, where some countries have not had adequate regulations nor infrastructure in the financial sector, which would enable a smooth integration. Therefore, some challenges will remain in the efforts on developing capital market, financial sector liberalization, capital account liberalization, and an eventual ASEAN currency cooperation.
  - e. On the labor front, there are only eight sectors open for ASEAN workers. These eight sectors only amount to 1,5% out of total employment opportunity in the ASEAN region. In other words, it is not enough to meet the demand for employment in the region.
14. In addition, cultural and political differences among the ASEAN countries add to those sets of challenges in implementing the ASEAN integration. However, I believe that ASEAN countries will stay the course and continuously strive to find solutions to address those various challenges.

**Distinguished colleagues, ladies and gentlemen,**

15. I believe we need to stay optimistic and focused in addressing the challenges in implementing the regional integration. This is important as we need to succeed and to be able to reap the benefits that the free trade era has to offer. Furthermore, stakeholders in other ASEAN countries are also encouraged to prepare themselves effectively, seize the momentum and reap the benefits by expediting the efforts on

economic reforms in their respective countries to improve livelihood of their people and create prosperity in their country and in the Southeast Asia region.

16. This *41<sup>st</sup> Conference of Federation of ASEAN Economists* Association that we are having tonight is one of our efforts towards successful economic integration. Through information exchange, discussions and, providing advice to our respective Governments, we hope that we could contribute to the ongoing efforts on economic integration.
17. It is my hope that you all could derive some useful knowledge and excellent initiatives from the discussions at this conference that could be implemented in our jurisdictions, in our effort to achieve our common goal.
18. Lastly, welcome to Yogyakarta, Indonesia, I hope you do get to enjoy the beauty of the city and its surrounding areas, the excellent delicacies and the wonderful nature of Yogyakarta.
19. Thank you and have a safe trip home.



## OPENING REMARKS

**Prof. Edy Suandi Hamid**

Chairman of Organizing Committee

*Assalamualaikum wr. rb.*

Good evening,

First of all, praise our gratitude to Allah swt who has given us with good health and great opportunity to attend this forum, the 41st conference of Federation of ASEAN economist Association (FAEA) with the theme: “Four Pillars of ASEAN Economic Community: Implementation, Prospects and Challenges”.

Second one, It gives me a pleasure to extend to you, all the the participants of this annual conference, a very warm welcome in Yogyakarta, the city of education and culture.

On behalf of the organizing committee, I would like to welcome and express our gratitude to the Coordinator Ministry of Economy of Indonesia, Dr Darmin Nasion, who will deliver the keynote speech, The Regional Secretary of Yogyakarta Special Province, and all delegations of FAEA members and invited guest in this forum.

This year, FAEA conference is held in Indonesia. Actually, Indonesia’s turn as a host should be in 2017. However, as Cambodia Economist Society that should be the host for this year stated not ready to be thee host, it is decided that this year Indonesia or ISEI take over the role as a host for this annual conference. The topic that will be discussed in this conference has been decided in FAEA meeting last year. We thank all parties’ support, and of course other FAEA members, to make this conference happen as scheduled.

Distinguished ladies and gentlemen,

It is gratifying to announce that this conference, which will be running tonight to Friday, is having 200 participants. Delegates have been here, from Indonesia, Malaysia, Thailand, Singapore, Cambodia, Philippine, and Brunei Darussalam.

There will be around 44 papers will be presented related to the theme of this conference. Papers in the parallel session are selected among hundreds of papers received by the committee. We very much hope all of these papers can be discussed in this conference, and give optimum benefit to all of us.

Ladies and Gentlenments

Before concluding the remarks, on behalf of the of the organizing committee, I would like to convey high appreciation and gratitude to those who have supported this event, to all sponsors, and of course, to all the committee, especially local committee led by Prof. Lincoln Arsyad and Mr. Susilo, the highest appreciation is given for the hard work devoted for this event.

Again, thank you very much, and I hope all of you will enjoy the conference, and your stay in Yogyakarta.

*Wabilllahit taufiq wal hidayah*

*Wassalamualaikum wr. Wb.*

## INTRODUCTORY REMARKS

**Prof. Bustanul Arifin**

Chairman of Steering Committee

*Assalamu'alaikum wrwb*

Ladies and gentlemen, very good evening

The honorable guest, Prof. Dr. Sri Adiningsih, the Chief of Presidential Advisory Council

The honorable Dr Mualiaman D. Hadad, the Chair of Indonesian Economist Association

Our seniors and our founders of FAEA

Ladies and gentlemen

Welcome again to Jogjakarta, the capital of culture of Indonesia

The theme of 41st FAEA Conference is Four Pillars of AEC: Implementations, Prospects and Challenges. We have been talking about that years and years. It is our regular calendar of our FAEA. We have been gathering together from country to country. This year we are hosting after the 2010 in Bali so we glad we have 200 participants this evening for the next 3 days

Ladies and gentlemen

This regional integration has been in away. This year is really the implementation stage. It is enough for talking should we continue the implementation, and we have to discuss in conference about the challenge, actually. Because our world today, according to some analysts, is called global economy as a vuca – volatility, uncertainty, complexity and ambiguity. From this vuca we experience really a down turn in our global economy since the commodity price serious declined since 2014 causing the economies in this region not performing very well.

The Indonesian economy last year in 2015 experienced only 4.8% growth but if you pay attention very carefully our regions/our provinces that depends on resource based such Borneo, Sumatra were so were really facing a serious decline. Two provinces were even negative in their economy growth which is very serious. This year Indonesia could probably achieved 5.1% growth.

From this down turn I think we should discuss together about a at least the 4 pillars as I concerned earlier

1. Single market and production based
2. Competitive economy region
3. Equitable economic development
4. Integration with the global economy

We are going to discuss tomorrow about the important pillars.

Ladies and gentlemen

Really when we discussed about this topic or this theme, Prof Lincolinn Arsyad, Prof Edy Suandi Hamid, Dr. Muliaman Hadad sit down together and thought about what to discuss. Then we are came up some important, at least 8 or 9 sub themes which are about economy cooperation, finance and banking, industry and policy, tourism, business and small medium enterprise, creative economy, and food energy and water security of this region. I think we have tomorrow; we have two important plenary sessions. Tomorrow morning, we have prominent speakers, Dr Siswo Pramono from Minister of Foreigner Affair, Dr Ahmad Safa-

rullah from ASEAN Secretariat, Dr Editon Ginting. We also share plenary session in the afternoon. We have very important plenary sessions inviting Dr. Hans Anand Beck of World Bank, Dr. Imam Pambagyo, Directorate General of Multilateral Trade of Ministry of Trade. These gentlemen's will discuss about the implementations and the challenges of four pillars above.

We expect hopefully meet our Minister of Finance Dr Sri Mulyani Indrawati who will be speaking tomorrow in dinner speech. I think you understand that she was the former Managing Director and Chief Operating Officer of World Bank, Washington DC. She would speech about the regional performance. Of course don't forget we have 24 important contributed papers dividing into six parallel sessions. All paper will be interesting.

Ladies ant gentlemen

Enjoy the conference, please spent your money outside for the local economy. This is one way to commit of pillars of AEC.

Thanks you much

*Wassalamu'alaikum wr.wb.*



## WELCOMING REMARKS<sup>1</sup>

**Hamengkubowo X**  
Governor of Jogjakarta

Ladies and gentlemen,

According our local regulation, the governor speech is held in Indonesian language. So I apologize especially for the delegates.

Bapak Ibu yang terhormat, khususnya Prof Sri Adiningsih dan Dr. Mulaiaman D. Hadad.

Malam hari ini bapak Gubernur tidak dapat hadir di tengah kita karena beliau saat ini baru melakukan perjalanan dinas ke luar negeri sehingga kami akan membacakan amanat beliau secara penuh. Sekali lagi memang regulasi kami mensyaratkan beliau sebagai Gubernur tidak menyampaikan dalam bahasa inggris. Mohon ijin.

*Assalamu'alaikum wrwb*

Salam sejahtera bagi kita semua,

Yang terhormat Bapak Ibu hadirin sekalian,

Para Pengurus ISEI juga para delegasi dari negara-negara ASEAN, tamu undangan yang berbahagia.

Adalah suatu kehormatan yang teramat besar dengan diselenggarakannya Konferensi ke 41 FAEA di Jogjakarta dengan PP ISEI sebagai tuan rumahnya. Untuk itu saya menyambut baik disertai apresiasi seraya teriring ucapan selamat datang, baik kepada para tamu undangan yang dari luar Jogjakarta maupun yang dari Jogjakarta.

Bapak Ibu hadirin yang kami hormati,

Sejak diberlakukannya MEA tahun 2016 ini secara metamorfosis ASEAN telah membangun sebuah singgasana bagi 10 negara tergabung untuk menunjukkan kekuatan ekonominya kepada dunia. Agar singgasana itu kuat kita memerlukan fondasi yang kokoh untuk mendirikan 4 pilar sebagai kaki penyangga utamanya. Pilar pertama bertujuan menjadikan ASEAN satu entitas pasar didukung basis produksi yang kuat, sehingga persoalan bea cukai, standar-disasi industri dan tenaga kerja serta investasi antar negara akan menjadi lebih mudah. Pilar kedua meningkatkan daya saing produk yang dijual di dalam pasar tersebut di pasar global. Karena bisnis sarat kompetisi, pilar ketiga ditujukan akan mampu menghapus gap ekonomi yang berlebihan antar negara ASEAN sehingga mendapatkan tingkat kesejahteraan yang sepadan. Dengan pasar tunggal bukan berarti ASEAN melepaskan diri dari perekonomian global. Karena itu pilar ke 4 justru dimaksudkan untuk meyatukan diri dalam pasar global dengan harapan agar siap bersaing dan go internasional. Skenarionya ke 4 pilar saling berkaitan erat dan memperukat satu sama lain.

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<sup>1</sup> Delivered by Rani Syamsinansi (Acting Secretary of Provincial Government of Jogjakarta) on behalf of Governor of Jogjakarta Province

Bertolak dari kesepakatan tersebut, konsekuensinya konferensi ini diharapkan mampu mengkaitkan dan menjawab persoalan pernyataan, kenyataan dan pertanyaan yang muncul kemudian dengan solusi yang realistic. Kesepakatan yang diharapkan menjadi solusi bersama dengan basis 4 pilar tersebut dalam pernyataan memang berbeda dengan kenyataan di setiap negara. Dan ini menghadirkan pertanyaan dimana forum ini akan menjadi tumpuan harapan guna memberikan jawaban yang tepat, rasional dan proporsional.

Bapak ibu hadirin yang saya hormati,

Meski di masing-masing negara anggota negara ASEAN menghadapi kendala internal, menyongsong tahun 2017 yang kurang dua bulan lagi, marilah kita memohon ridho-Nya agar tahun itu benar-benar menjadi tahun penuh keberkahan dimana kemitraan antara negara ASEAN akan menjadi pembuka pintu keberuntungan dan kesejahteraan bersama. Kemitraan sinergis yang melibatkan para pihak yang komplementer selain dalam sektor ekonomi akan menghasilkan win win profit dalam hubungan antar negara juga akan mendatangkan mutual benefits. Jika kita memforkas outlook ekonomi ASEAN hendaknya dengan perspektif optimistik. Bagi Indonesia harus lebih optimis bahwa pembangunan infrasktruktur yang dipercepat akan menjadi spending, penghela pertumbuhan ekonomi dan penciptaan lapangan kerja baru. Bangsa Indonesia harus percaya dengan pemberantasan korupsi maka akan ada saving untuk pembangunan menuju kesejahteraan yang lebih baik. Membangun optimisme harus disertai dengan membangun sumber daya insani pelakunya dalam dua aspek, kerja keras dan mendayagunakan otak kanan untuk kreatif dan inovatif. Serta mampu menemukan lompatan produktifitas. Lonjakan nilai tambah hanya bisa terjadi jika didukung oleh karakter kejujuran, kekuatan, inovasi, imajinasi dan keterkaitan erat dengan jaringan kerjasama yang kokoh.

Karena strategi efektif tidak dihasilkan dari analisis yang spesifik tapi dari wawasan dan dorongan yang acap kali memberi bahan bakar pada proses berfikir yang pada dasarnya kreatif dan intuitif ketimbang rasional. Meski para ahli strategi tidak menolak analisis tetapi mereka menggunakannya hanya untuk merangsang proses kreatif, menguji gagasan menyusun implikasi strategis dan menjamin pelaksanaan yang sukses. Ternyata strategi besar yang menghasilkan masterpiece seni, invensi ilmiah yang brilian atau inovasi industri yang unggul. Kerjasama regional yang sulit memang memerlukan penguasaan teknis dan administrasi dalam menyusunnya. Tetapi karya besar selalu bermula dari wawasan, emosi dan imajinasi yang berada di luar jangkauan analisis yang dirancang sebelumnya. Terkait itu sebuah masterpiece abad ini, namanya MEA. Untuk membangun keunggulan ASEAN di tengah pasar global yang sangat kompetitif sekaligus menciptakan kesetaraan bagi rakyatnya sebagai implementasi empat pilarnya. Saya yakin tidak mungkin tercapai jika hanya dilakukan dari aspek ekonomi semata. Pendekatan komprehensif holistik dan total terpadu harus dilakukan jika kita tidak ingin di ninabobokan oleh mimpi. Saya berharap dengan sungguh semoga harapan ini bisa menjadi rintisan substansi prinsipil bagi delegasi negara pada konferensi ini dalam pemecahan masalah ASEAN baik di tingkat negara, bangsa dan untuk rakyatnya.

Bapak, Ibu hadirin yang saya hormati,

Dengan visi dan harapan seperti ini saya menyambut baik dan apresiasi digelarnya konferensi FAEA ke 41 di Jogjakarta yang akan dibuka malam hari ini. Akhir kata semoga Tuhan



YME berkenan memberikan berkah serta rahmatnya sehingga momentum ini menyadarkan kita untuk kerja, kerja dan terus bekerja dalam kemitraan sebagai partner in progress di antara sesama negara-negara ASEAN dalam kesetaraan.

Sekian, terima kasih selamat berkoferensi

*Wassalamu'alaikum wrwb*



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# Impact Of Foreign Direct Investment, Net Exports, And Budget Deficit On Economic Growth: Case 10 ASEAN Countries Period 2000-2015

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## Abstract

This study aims to identify and analyze the influence of foreign direct investment, net exports, and the policy of budget deficit to economic growth in the 10 ASEAN countries. The observation period 2000 - 2015. The data used in this study comes from the International Financial Statistics (IMF), World Bank, and the Agency / Institute of Statistics 10 ASEAN countries. Econometric models with panel data model. Processing data using software Eviews 8. Conclusions from this research is foreign direct investment and net exports are positive and significant impact on economic growth, while the budget deficit a significant negative effect on economic growth in the 10 ASEAN countries.

**Keywords:** economic growth, ASEAN, foreign direct investment, net exports, budget deficit.

## 1. Introduction

The problem of economic growth is still a topic that is often discussed. Various policies have been made to continue to promote economic growth, but not entirely successful. The period between 2008-2010 was a period of low economic growth. This is due to the global crisis in 2008. In the period after the year 2010 the economic situation began to improve. ASEAN's economic growth stood at 7.32 percent in 2010. The growth was observed to decline in the next year that is equal to 5.2 percent. Further growth is stable again. At the end of 2014 economic growth could reach 5.78 percent. In 2014 the country managed to surpass the ASEAN include Cambodia, Laos, Malaysia, Myanmar and the Philippines. Some countries that have not been able to go beyond ASEAN are Brunei, Indonesia and Thailand. In 2013 even Brunei experiencing negative economic growth.

Some studies show that investment and exports and a significant positive effect on economic growth in the 1990s. A number of previous studies conducted over many different results. Based on the study region also give different indications. Research conducted in developing countries is dominated with the result that exports negatively, whereas in developed countries exports were affected positively. Country that has long embraced open economy has a tendency to be able to rely on exports to grow the economy.

This study was conducted to answer whether foreign direct investment and net exports is essential to increase the economic growth of the ASEAN region. Related to the

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policy of AFTA and APEC, researchers feel the need to find out whether net exports and foreign investment can influence economic growth. The government side represented by the budget deficit in fiscal policy also examined the effects on economic growth in the ASEAN region. This study of data menggunakan time span between the years 2000-2015.

## **II. Related Studies**

### **2.1 Foreign Direct Investment**

Abbas, Akbar, Nasir Ullah, and Naseem, (2011) supports the effect of FDI to GDP, such as the results of research conducted by Agrawal and Khan (2011). Abbas et al., (2011) examined the effect of the menggunakan multiple regression model. The data used in the period 2001-2010, covering countries including SAARC. The conclusion of this research there are significant positive and significant FDI FDI to GDP. Some other findings are consistent findings is research Mencinger (2003), Desnim and Aimon (2012), Borensztein, Gregorio and Lee (1998) and the results of research and Mahutga Curwin (2014).

Other studies are not consistent with the above example thesis research conducted by Ziliboti (2009). The study was conducted in China with a long period 1979-2009. An important issue raised is the author of many empirical evidence of the positive effect of FDI on economic growth. In the early days of the openness of the economy, FDI will only play a negative role because of unpreparedness of the country. This research menggunakan panel data regression model and cross section. Observation data covering all provinces in China. Research shows that FDI is not a positive effect, but impact negatively on economic growth. There is a profound difference between the period of 1979-1995 with 1996-2005. In the early era of openness FDI did not affect the GDP, while in the later period were negatively affected GDP.

### **2.2 Net Exports**

The research results Shamsad and Shamsudin (1998) analyzed the effect of exports to economic growth. Positive and significant influence of exports to economic growth. The contribution of exports to economic growth increased after the government imposed a trade policy 1982-1990 era. Furthermore, Dao (2014) examined the effect of exports to GDP by the method of simultaneous equations. Their results showed that exports seignifikan role and positive impact on GDP.

Diaw and Lessoua results of the study (2013) provides the results of different studies. Research conducted in 27 low-income countries show that exports can not be relied on to grow the economy. Collombatto (1990) also found the same thing with Diaw and Lessoua (2013). Taylor and Nie (2013) investigated the influence of US exports to economic growth in the United States alone and to economic growth in several importing countries. The results showed that with exports, America can boost economic growth. Positive relationships also exist between the United States exports to the economic growth of importing countries.

Many studies yielded significant results in the period of observation era in 2000. While various studies conducted previously more perverse outcomes. Based on the study region also give different indications. Research conducted in developing countries is dominated by the results that will affect exports negatively, while in countries that have developed positively affect exports. Country that has long embraced open economy has a tendency to be able to rely on exports to grow the economy.

### 2.3 Budget Deficit

Research conducted by Goher, Mehboob and Rehman (2012) found that only gross investment were affected positively in Pakistan. Other variables that negatively affect economic growth. Variable budget deficit rose 1 percent would result in a decrease in GDP of 0.1 percent, *ceteris paribus*. In this research revealed that the budget deficit adversely affect the economic growth of Pakistan.

Other studies showed different results. One of them is the thesis conducted by Pamuji (2008). The research design is by specifying a simultaneous macro-economic model, which consists of 12 behavioral equations and identities equation 5 with 3 blocks. Behavioral equations in the model are estimated using TSLS (two stage least square). The data used is secondary data Indonesian economy between the years 1993-2007.

Results Pamudi research (2008) shows that the budget deficit is not always a bad influence on economic growth. First, if the deficit is financed by foreign debt will increase economic growth with inflationary nature. This can occur due to debts, the money supply will increase. In line with this the price will increase. In the end, people's purchasing power will adapt and improve economic growth. The deficit will increase national income on the demand side.

## III. Research Methods

### 3.1. Data types, Source Data, and Data Analysis Methods

The data used in this research is secondary data. Secondary data were obtained from the International Finance Statistics, and the World Bank. This research uses panel data regression analysis (Gujarati and Porter, 2009; Baltagi, 2005). Chow test and Hausman test results conducted on panel data regression models. The estimated regression equation is as follows:

$$\text{GDPit FDIit} = \beta_0 + \beta_1 + \beta_2 + \beta_3 \text{NXit DEFit} + e_{it} \quad (1)$$

Where:

GDP = Gross Domestic Product (percent)

FDI = Foreign Direct Investment (Billion US \$)

NX = Net Export (Billion US \$)

DEF = Government Budget Deficit (percent)

$\beta_0$  = Constant

$\beta_1, \beta_2, \beta_3, \beta_4$  = regression coefficient / estimator

$e_{it}$  = error terms

$i$  = Country

$t$  = time (years)

### 3.2. Operational definition

The operational definition in this study are as follows:

- 1) Foreign direct investment is an international capital flows where a company from one country to expand or establish a company in the country.
- 2) The definition of the budget deficit which is used in this research is government revenue minus government spending.
- 3) Export the net is the value of goods and services exported to other countries minus the value of goods and services imported from other countries.

- 4) Economic growth is defined as an increase in the ability of an economy to produce goods and services.

#### IV. Results and Discussion

Based on estimates, testing, and significance, the model selected in this study is a model common effect. Summary of regression results are presented in Table 1.

**Table 1 Summary of Results of Regression**

Independent Variable	Parameter	t-statistic Probability	Probability F-statistic	R <sup>2</sup>
Konstanta (C)	3,42	0,0000*		
FDI?	0,012	0,0003*	0,0000*	0,3139
NX?	0,032	0,0000*		
DEF?	-0,034	0,0442*		

Source: The results of the estimate (not attached)

Note: \* = significant at alpha 1 percent

The t-test is done to see if the individual independent variables affect the dependent variable. In this study, t-test conducted by using approach one-sided test (one tail test). Tests showed that all independent variables individually significant effect on the dependent variable with a significance level of 1 percent. F test conducted showed that jointly independent variables affect the dependent variable is significant at alpha 1 percent. The coefficient of determination (R<sup>2</sup>) showed that the independent variables can explain the dependent variable of 31.39 percent.

Constant coefficient value of 3.42, which means that when FDI, NX, DEF constant the GDP growth rate will be at 3.42 percent. Variable FDI (foreign direct investment), NX (net exports) and DEF (budget deficit) have a significant effect on the alpha 1 percent. If FDI rose by US \$ 1,000,000,000, it will cause economic growth increased by 0.012% with other variables held constant (*ceteris paribus*). The coefficient of net exports (NX) of 0.032 indicates that the variable has a positive and significant impact on economic growth. If the variable in net exports increased US \$ 1,000,000,000, it will cause economic growth rose by 0.032% and other variables held constant.

Furthermore, the coefficient of the budget deficit (DEF) by -0.034 gives the sense that the variable has a budget deficit and a significant negative impact on economic growth. Necessary prudence in explaining the interpretation of this variable. An eye on the deficit amount that is negative gives the following explanation: when the budget deficit increased 1% of total GDP (in absolute terms) it will lead to increased economic growth of 0,034%, assuming other variables held constant. Influence parameter budget deficit is negative, so the increase in the deficit in absolute terms it will lead to increased economic growth.

#### V. Conclusion

The conclusion of this research is as follows:

- 1) Foreign direct investment has a positive and significant impact on economic growth in the ASEAN countries.
- 2) Net exports had a positive and significant impact on economic growth in the ASEAN countries.



- 3) The budget deficit has a negative and significant impact on economic growth in the ASEAN countries.

Further advice can be given on the results of this study are:

- 1) Governments in ASEAN should continue to increase foreign direct investment in the State. The higher foreign direct investment, the higher its economic growth. It must be accompanied by policies to protect workers in the country.
- 2) Governments should provide support to the private exporters in the country to cooperate with foreign direct investment. It allows the transfer of technology. Hopes for a certain period of time are increased production. Increased production will have an impact on rising exports. If the increase in exports was higher than the increase in imports, the net exports will rise more sharply. This increase would have an impact on economic growth increased.
- 3) Deficit funded from debt should be used optimally for the purpose of economic development is a multiplier effect. The state budget deficit should be at posts related to the development of the real sector. The development will be responded positively by various economic actors (producers, consumers, investors) which in turn will boost economic growth.

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