

## CHAPTER I

### INTRODUCTION

#### A. Research Background

Advances in the economic sector are one way to assess a country's ability to expand its output compared to its population growth rate. Therefore, economic growth is often used as a measure of a country's performance.<sup>1</sup> Economic growth is also considered a process of increasing the production capacity of an economy, reflected in the rise of national income. This indicates growth in the production of goods and services within a region. The higher the economic growth rate, the faster the output expansion process.<sup>2</sup>

In the Asian region, particularly in ASEAN, economic growth has significantly increased since the 1990s. The Association of Southeast Asian Nations (ASEAN) is an organization comprising ten countries geographically located in Southeast Asia. Despite this progress, global economic decline in 2009, when worldwide economic growth rates dropped drastically, also affected ASEAN countries.

In practice, economic growth among ASEAN nations has not been entirely stable. This contrasts with ASEAN's founding objective of enhancing economic growth in each member state. The table below illustrates ASEAN countries' economic growth from 2018 to 2023:<sup>3</sup>

Table 1. Economic Growth of ASEAN Countries (2018–2023) (in percentages)

Country	Year					
	2018	2019	2020	2021	2022	2023
Brunei Darussalam	0,1	3,9	1,1	-1,6	-1,6	1,4
Kamboja	7,5	7,1	-3,1	3,0	4,8	5,0
Indonesia	5,2	5,0	-2,1	3,7	5,3	5,0

<sup>1</sup> Tong, Q. and Qiu, F, "Population growth and land development: Investigating the bidirectional interactions", *Ecological Economics*, Vol. 169, Issue February 2019 (2020), p. 106505.

<sup>2</sup> Wendy Liana et al., *Teori Pertumbuhan Ekonomi (Teori Komprehensif Dan Perkembangannya)* (Jambi: PT Sonpedia Publishing Indonesia, 2024), p. 1.

<sup>3</sup> Tri Anggoro Seto, *Ekonomi Negara Berkembang Anggota ASEAN Dalam Perspektif Islam* (Bengkulu: El-Markazi, 2022), p. 2.

Country	Year					
	2018	2019	2020	2021	2022	2023
Laos	6,3	5,5	3,3	3,5	4,4	3,7
Malaysia	4,8	4,4	-5,6	3,1	8,7	3,6
Myanmar	6,8	6,2	3,2	-5,9	2,8	2,5
Filipina	6,9	6,1	-9,6	5,6	7,6	5,5
Singapura	4,7	1,1	-4,1	7,6	3,6	1,1
Thailand	4,2	2,2	-6,2	1,5	2,6	1,9
Vietnam	6,8	7,0	2,9	2,6	8,0	5,0

Source: *World Bank*

Based on the above data, ASEAN countries' economic growth from 2018–2023 showed fluctuating trend due to global and regional dynamics. Factors such as the US-China trade war, the COVID-19 pandemic, and commodity price instability significantly influenced growth in this region. While some nations achieved positive growth, others experienced economic contraction during the peak of the pandemic. Following 2021, the region began to recover alongside the global economy, but challenges like inflation and geopolitical uncertainties remain.<sup>4</sup>

Economic growth in ASEAN is expected to remain robust in the coming years, driven by strong domestic consumption, infrastructure improvement plans, and investment-friendly policies.<sup>5</sup> The increasingly integrated global economy has also boosted international capital flows and cross-border trade.<sup>6</sup> This trend is evident in Southeast Asia, with two critical elements: *Foreign Direct Investment* (FDI) and *export*. Exports and investments are often referred

<sup>4</sup> Seno Aldan Yogatama and Nur Hidayah, "Determinan Pertumbuhan Ekonomi Di Kawasan ASEAN," *Jurnal Pendidikan Ekonomi: Jurnal Ilmiah Ilmu Pendidikan, Ilmu Ekonomi dan Ilmu Sosial*, Vol. 16, No. 2 (2022), p. 236–242.

<sup>5</sup> OECD, *Economic Outlook for Southeast Asia, China and India 2018: Fostering Growth Through Digitalisation*, (Paris: OECD Publishing, 2018).

<sup>6</sup> Hajar Aswad and Zulva Azijah, "Pengaruh ACFTA (ASEAN-China Free Trade Area) Terhadap ImporTelepon Asal China Di ASEAN", *Jurnal Ekonomi dan Kebijakan Pembangunan*, Vol. 10, No. 2 (2021), p. 154-175.

to as the "engine of growth." Therefore, a sustainable and high economic growth rate is generally supported by an increase in exports and investments.<sup>7</sup>

Foreign Direct Investment (FDI) refers to economic activities where investors from one country invest long-term capital—either financial or managerial—into business entities in another country. FDI serves as a means of transferring capital to acquire or expand control over productive assets. FDI funding sources offer several advantages to recipient countries compared to other external financing sources, such as portfolio flows in capital markets. FDI is crucial for ensuring sustainable development in recipient countries, as it is often accompanied by technology transfer, know-how, management skills, job creation, and a broad multiplier effect in the real sector.<sup>8</sup>



Figure 1. Inward FDI flows-ASEAN (US\$ billion)

Source: ASEAN Secretariat, ASEANstats database

From an Islamic perspective, no distinction exists between foreign direct investment (FDI) and domestic investment. Islamic principles only govern how wealth is managed and invested in accordance with *Sharia* law.

<sup>7</sup> Adrian Sutawijaya, Zulfahmi, "Pengaruh Ekspor dan Investasi terhadap Pertumbuhan Ekonomi Indonesia Tahun 1980-2006", *Jurnal Organisasi dan Manajemen*, Vol. 6 No.1, Maret 2010, p.15.

<sup>8</sup> Syamsu Rijal, *Kontribusi 20 Tahun Perdagangan Internasional Indonesia Terhadap Pertumbuhan Ekonomi* (Bandung: Widina Bhakti Persada, 2022), p. 8.

Moreover, Islam outlines what should be adhered to and avoided in investment activities carried out by Muslims.<sup>9</sup>

The research conducted by Arifina and Adinugraha shows that encouraging export activities can enhance economic growth. Additionally, the composition and diversification of exports are key factors in determining growth. Exports play a crucial role in driving economic growth, both domestically and globally by expecting payments in foreign currency, as well as making commodities using foreign languages.<sup>10</sup> Furthermore, exports create job opportunities and stimulate the development of domestic industries.<sup>11</sup>



Figure. 2 Export good and service ASEAN 2014-2023

Source: ASEAN Secretariat, ASEANstats database

Thus, exports can serve as one of the main drivers of sustainable economic growth and contribute significantly to the economic welfare of a country, not just for the benefit of individuals or companies.

<sup>9</sup> Lira Zohara, "Foreign Direct Investment Dalam Pembangunan Ekonomi Indonesia Perspektif Ekonomi Islam", *Maro: Jurnal Ekonomi Syariah dan Bisnis* 4, no. 1 (April 17 2021), p. 60–69.

<sup>10</sup> Andi Triyawan, et al, "Influence Of Export And Import Toward Economic Growth In Canada In 2010-2019", *Fokus Ekonomi: Jurnal Ilmiah Ekonomi*, Vol. 16, No. 2 (2021), p. 344.

<sup>11</sup> Rika Kurnia, et al, "Pengaruh Perdagangan Internasional Ekspor Dan Impor Terhadap Pertumbuhan Ekonomi Di Negara ASEAN (Studi Pada Negara Indonesia, Malaysia, Singapura Tahun 2013-2022)", *Jurnal Publikasi Ekonomi dan Akuntansi*, Vol. 2, No. 2 (2024), p. 280-301.

According to the *Modern Indonesian Dictionary*, perspective is defined as the depiction of objects on a flat surface.<sup>12</sup> Sharia originates from the word *syara'a*, which means to follow or to explain. In general, it refers to the way of life for Muslims, encompassing Allah's decrees and the Prophet's guidelines, including both prohibitions and commands that cover various aspects of human life.<sup>13</sup> Thus, Islamic economics can be defined as a field of study that examines human activities related to the production, distribution, and consumption of goods and services, whether on a small or large scale, in accordance with the way of life prescribed for Muslims, as well as the decrees of Allah and the guidelines of His Prophet.<sup>14</sup>

Based on the explanation presented, it is important to analyze the relationship between FDI, Exports, and economic growth in ASEAN from an Sharia economic perspective to understand the extent to which these three aspects contribute to equitable and sustainable economic development. The discovery made by Pheara Pheang *et al.*,<sup>15</sup> With the variables used being FDI, exports, and economic growth in ASEAN, it is explained that economic growth and exports have a bidirectional causal relationship. Meanwhile, FDI itself only has a one-way relationship, whether with economic growth or with exports.

While numerous studies have explored ASEAN economic growth; however, many studies do not use FDI and exports simultaneously as variables. For example, a study conducted by Nurhaliza used export and import variables, which showed a significant positive impact on ASEAN economic growth. Moreover, there is still limited research examining these relationships from an Islamic economic perspective.

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<sup>12</sup> Departemen Pendidikan Nasional, *Kamus Besar Bahasa Indonesia Edisi 4* (Jakarta: Gramedia. 2011).

<sup>13</sup> Ali, M. D., *Pengantar Ilmu Hukum dan Tata Hukum Islam di Indonesia*, (Jakarta: PT Raja Grafindo Persada, 2011).

<sup>14</sup> Kementerian Agama RI, *Modul Ekonomi Syariah*, (Badan Litbang dan Diklat Pusdiklat Tenaga Administrasi), 2021, p. 3.

<sup>15</sup> Pheara Pheang, *et al.*, "Foreign Direct Investment, Exports and Economic Growth in ASEAN Region: Empirical Analysis from Panel Data", *Robustness in Econometrics*, Vol. 692, (2017).

Most economic studies focus on conventional analyses that overlook Sharia-based values such as justice, balance, and sustainability in relation to FDI and exchange rate fluctuations. Additionally, although some studies address the impact of FDI and exchange rates on ASEAN economies separately, very few integrate these two variables into a single holistic analytical framework. This study aims to fill this gap by analyzing the impact of FDI and exchange rates on ASEAN economic growth from 2018 to 2023 through the lens of Islamic economics.

### **B. Research Problem**

Based on the background described above, the research problems are as follows:

1. How does Foreign Direct Investment (FDI) affect ASEAN economic growth from 2018–2023?
2. How does the Export affect ASEAN economic growth from 2018–2023?
3. What is the impact of FDI and exports on economic growth in ASEAN countries in accordance with the principles of Islamic economics?

### **C. Research Objectives**

The research aims to:

1. Aims to evaluate the extent to which FDI contributes to economic growth in the ASEAN region during the specified period.
2. Focuses on analyzing the relationship between export volume and economic growth in ASEAN countries over the past five years.
3. Aims to understand the contribution of FDI and exports to economic growth in ASEAN from the perspective of Islamic economics, including an evaluation of justice, balance, and sustainability.

These objectives are interconnected as they collectively provide a comprehensive understanding of how FDI and exports influence economic growth in ASEAN and their relevance to the principles of Islamic economics.

### **D. Research Benefits**

1. Academic Benefits



- a) The findings of this research can serve as an alternative reference and contribute to academic knowledge accessible to all.
- b) This research contributes to the development of Islamic economic studies by integrating Islamic economic principles into the analysis of the impact of FDI and exports on economic growth.
- c) This research provides specific insights into the economic dynamics in ASEAN, which can serve as a reference for other academic studies focusing on this region.

## 2. Practical Benefits

For readers, this research can broaden knowledge for both individuals and nations. For governments, the study offers insights to continuously enhance economic growth in the ASEAN region, ultimately improving societal welfare.