

**INTERNATIONAL TRADE AND HUMAN CAPITAL ON
ECONOMIC GROWTH IN ASEAN-7 COUNTRIES:
ASEAN ECONOMIC COMMUNITY (AEC) PERSPECTIVE**



THESIS

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ISLAMIC UNIVERSITY YOGYAKARTA
AS ONE OF THE REQUIREMENTS FOR OBTAINING A
BACHELOR'S DEGREE IN ISLAMIC ECONOMICS**

BY :

ELMI MUFIDAH WAHYUNINGRUM
NIM. 21108010093

SUPERVISOR :

DR. MIFTAKHUL CHOIRI, S.SOS.I., M.S.I.
NIP. 198210092015031003

**ISLAMIC ECONOMICS STUDY PROGRAM
FACULTY OF ISLAMIC ECONOMICS AND BUSINESS
SUNAN KALIJAGA STATE ISLAMIC UNIVERSITY
YOGYAKARTA
2025**

RATIFICATION SHEET



KEMENTERIAN AGAMA
UNIVERSITAS ISLAM NEGERI SUNAN KALIJAGA
FAKULTAS EKONOMI DAN BISNIS ISLAM

Jl. Marsda Adisucipto Telp. (0274) 550821, 512474 Fax. (0274) 586117 Yogyakarta 55281

PENGESAHAN TUGAS AKHIR

Nomor : B-902/Un.02/DEB/PP.00.9/06/2025

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yang dipersiapkan dan disusun oleh:

Nama : ELMI MUFIDAH WAHYUNINGRUM
Nomor Induk Mahasiswa : 21108010093
Telah diujikan pada : Kamis, 05 Juni 2025
Nilai ujian Tugas Akhir : A

dinyatakan telah diterima oleh Fakultas Ekonomi dan Bisnis Islam UIN Sunan Kalijaga Yogyakarta

TIM UJIAN TUGAS AKHIR



Ketua Sidang

Dr. Miftakhul Choiri, S.Sos.I., M.S.I.
SIGNED

Valid ID: 684f8e1957242



Penguji I

Muh. Rudi Nugroho, S.E., M.Sc.
SIGNED

Valid ID: 684e68b56253



Penguji II

Dhiyaul Aulia Zulni, M.E.
SIGNED

Valid ID: 684bda4873917



Yogyakarta, 05 Juni 2025

UIN Sunan Kalijaga
Dekan Fakultas Ekonomi dan Bisnis Islam

Prof. Dr. Misnen Ardiansyah, S.E., M.St., Ak., CA., ACPA.
SIGNED

Valid ID: 684f9f64b2807

THESIS APPROVAL PAGE

Subject: Thesis of Elmi Mufidah Wahyuningrum

To

Dear Dean of the Faculty of Islamic Economics and Business

UIN Sunan Kalijaga Yogyakarta

In-Yogyakarta

Assalamualaikum wr.wb.

After reading, examining, giving instructions and correcting and making necessary improvements, we as supervisors are of the opinion that your thesis:

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NIM : 21108010093

Thesis : International Trade And Human Capital On Economic Growth
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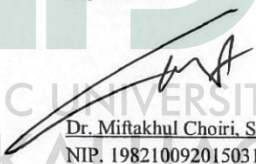
It can be submitted to the Faculty of Economics and Islamic Business, Program of Sharia Economics, UIN Sunan Kalijaga Yogyakarta as one of the requirements to obtain a Bachelor's Degree in Sharia Economics.

With this, we hope that your thesis can be immediately Submitted. We thank you for your attention

Wassalamualaikum Wr. Wb.

Yogyakarta, May 27th, 2025

Supervisor


Dr. Miftakhul Choiri, S.Sos.I., M.S.I

NIP. 198210092015031003

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YOGYAKARTA

STATEMENT OF AUTHENTICITY

I am the undersigned below:

Nama : Elmi Mufidah Wahyuningrum
NIM : 21108010093
Study Program : Sharia Economics
Faculty : Economics and Islamic Business

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Writer,



Elmi Mufidah Wahyuningrum
NIM. 21108010093

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As the academia community of UIN Sunan Kalijaga Yogyakarta, I'm the undersigned:

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Faculty : Economics and Islamic Business

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MOTTO PAGE

*“the moments i dreamed of, so i walked strongly, with faith
without reason”*

*“i’m closing my eyes and shouting in my heart, I pray for my
dream”*

(Dream ost the best hit)



DEDICATION PAGE

For father and mother who have tried to make the author the first scholar in the family. Providing abundant prayers and support to the author. May Allah SWT give them a long life, and ease in all affairs. In addition, for friends and lecturers who help smooth and pray for the author in preparing this thesis. May Allah SWT make all their affairs easier.



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TRANSLITERATION GUIDELINES

In this study, the Arabic-Latin transliteration is based on the Joint Decree of the Minister of Religion and the Minister of Education and Culture of the Republic of Indonesia Number: 158/1987 and 0543b/U/1987.

A. Single Consonants

Arabic Letters	Name	Latin Letters	Description
ا	Alif	not denoted	not denoted
ب	Ba	B	Be
ت	Ta	T	T
ث	sa	š	es dot above
ج	Jim	J	Je
ح	ha	h	ha dot below
خ	Kha	Kh	ka and ha
د	Dal	D	De
ذ	Zal	Ž	zet dot above
ر	Ra	R	Er
ز	Zai	Z	Zet

س	Sin	S	Es
ش	Syin	Sy	es and ye
ص	ṣad	ṣ	es dot below
ض	ḍad	ḍ	de dot below
ط	ṭa	ṭ	te dot below
ظ	ẓa	ẓ	zet dot below
ع	Ain	... ‘ ...	inverted commas above
غ	Gain	G	Ge
ف	Fa	F	Ef
ق	Qaf	Q	Qi
ك	Kaf	K	Ka
ل	Lam	L	El
م	Mim	M	Em
ن	Nun	N	N
و	Wawu	W	We
ه	Ha	H	Ha
ء	Hamzah	...?...	Apostrof
ي	Ya	Y	Ye

B. Double consonants because Syaddah is written in duplicate

مُعْظَيْن	Written	<i>Muta`aqqidīn</i>
عِدَّة	Written	<i>`iddah</i>

C. Ta Marbutah at the End of a Word

1. When turned off h

هبة	Written	<i>Hibbah</i>
جزية	Written	<i>Jizyah</i>

2. When ta marbutah is alive or with a harakat, fathah, kasrah and dammah are written t

زكاة الفطر	Written	<i>zakātul fīṭri</i>
------------	---------	----------------------

D. Short Vowels

َ	Fathah	Written	A
ِ	Kasrah	Written	I
ُ	Dammah	Written	U

E. Long Vowels

fathah + alif جاهلية	Written	<i>A Jāhiliyyah</i>
----------------------	---------	---------------------

fathah + ya mati يَسْعَى	Written	<i>A yas'ā</i>
kasrah + ya mati كَرِيم	Written	<i>I Karīm</i>
dammah + wawu mati فَرُوض	Written	<i>U furūd</i>

F. Double Vowels

fathah + ya' mati بَيْنَكُمْ	Written	<i>Ai Bainakum</i>
fathah + wawu mati قَوْل	Written	<i>Au Qaul</i>

G. Consecutive Short Vowels in One Word Separated by an Apostrophe

أَنْتُمْ	Written	<i>a'antum</i>
أَعِدَّتْ	Written	<i>u'iddat</i>
لَنْ تُكْرِمَ	Written	<i>la'in syakartum</i>

H. Preposition Alif + Lam

1. When followed by a Qamariyah letter

الْقُرْآن	Written	<i>al-Qur'ān</i>
-----------	---------	------------------

القياس	Written	<i>al-Qiyās</i>
--------	---------	-----------------

2. When followed by a Shamsiyah letter, it is written by doubling the Shamsiyah letter that follows it, and omitting the letter (el).

القرآن	Written	<i>al-Qur'ān</i>
القياس	Written	<i>al-Qiyās</i>

I. Writing Words in a Sentence

ذوي الفروض	Written	<i>ẓawī al-furūd</i>
أهل السنة	Written	<i>ahl as-sunnah</i>

FOREWORD

By mentioning the name of Allah, the Most Gracious, the Most Merciful, the author expresses deep gratitude to the presence of Allah SWT for all His grace and guidance, so that the writing completes the thesis entitled **“International Trade And Human Capital On Economic Growth In ASEAN-7 Countries: Asean Economic Community (AEC) Perspective”**. Sholawat and salam may remain abundant to our junjungan the great Prophet Muhammad SAW, his family and friends. It is impossible to separate the involvement of numerous people who have offered heartfelt prayers, support, and help from the success of this thesis' preparation. Thus, the author wishes to convey his sincere gratitude and admiration to:

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Yogyakarta, May 27th, 2025



Elmi Mufidah Wahyuningrum

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ABSTRACT

Economic growth is a critical indicator to evaluate a nation's performance. Net exports, investment and labor are some of the factors that affect economic growth. This study aims to analyze the impact of the ASEAN Economic Community policy and the influence of related variables (net exports, investment and labor) on the economic growth of ASEAN-7 countries. The research data used is secondary data with a period of 2010-2019, sourced from the World Bank, UNDP and ASEANstats. The data analysis technique uses panel data regression with the selected model, namely the Fixed Effect Model. The results of this study indicate that the AEC has no effect on the economic growth of ASEAN-7 countries. Net exports, Gross Capital Formation, and labor force have a positive effect on ASEAN-7 economic growth. While Foreign Direct Investment and Mean of years of schooling have no effect on the economic growth of ASEAN-7 countries. This can be seen from the results of the determination test where all independent variables have an influence of 99.93% on ASEAN-7 economic growth.

Keywords: AEC, Net Exports, FDI, GCF, Labor Force, Mean of Years Schooling, Economic Growth, ASEAN-7

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CHAPTER I

INTRODUCTION

A. Background

Economic growth is a critical indicator in evaluating a nation's performance. A rise in per capita income provides a overview of the population's level of welfare. Economic growth can also reflect other macroeconomic indicators, such as inflation, poverty rate, unemployment rate, and others, particularly after indicating the achievement of a nation's economic progress (Hodijah et al., 2021). According to Sukirno (2010), economic growth is the increase in economic activity that contributes to higher levels of services and goods in a certain period. Drawing from the above explanations, it can be inferred that economic growth refers to a continuous process of expanding production capacity within an economy, which ultimately contributes to the increase in national income.

According to David Ricardo (1817), economic growth is driven by the optimization of resources, particularly labor and capital, serving as the foundation for development and the enhancement of national production. Economic growth is assessed through Gross Domestic Product (GDP). Total GDP can be achieved if a country benefits from international trade that encourages both exports and imports. In the calculation of GDP, the gap between export and import values is known as

net exports or the trade balance. If the value of exports exceeds imports, net exports will be positive, reflecting a trade surplus that contributes to the increase in GDP. On the other hand, when the export value is less than that of imports, net exports will be negative, indicating a trade deficit that has the potential to reduce GDP (Asrinda and Setiawati, 2022).

The theory of comparative advantage introduced by David Ricardo is an extension of Adam Smith's concept of absolute advantage. All the core concepts forming the basis of the theory of absolute advantage also exist within Ricardo's concept of comparative benefit in trade (Budiarto and Tjiptono, 2007). According to Ricardo (1817), theory of comparative advantage posits international trade yields benefits by enabling every nation to focus on producing of services and goods at the lowest cost. Through this mechanism, international trade promotes efficiency that benefits all parties, increases overall production, and ultimately improves economic welfare (Andreoni et al., 2017). This has a direct contribution to economic growth, as rising exports can enhance GDP and foster a country's economic stability.

According to P. M. Romer (1990) endogenous growth theory, trade liberalization facilitates the inflow of capital into a country, which accelerates capital accumulation and technology transfer over an extended period. This contributes

toward the expansion of the economy both through its role in the production function and through the positive externalities arising from international trade activities. Technological progress results from investments made by economic agents in the knowledge sector, which subsequently improves quality to human capital (Mankiw et al., 1992). Investment also plays a role in increasing the stock of capital goods that support higher production output (Nicholson, 1965).

In Romer (1990) growth theory, capital accumulation and technological advancement are central to the process of growth. Foreign Direct Investment (FDI) can contribute to the economy's growth by facilitating technology transfer, capital formation, and the improvement of human capital quality. The Gross Domestic Product (GDP) achievement was supported through foreign investment, mainly through technological transformation, managerial development, and strengthening of organizational structure (Liu, 2008). Investments allocated to the industrial sector, both in physical forms such as machinery and equipment and in nonphysical forms such as training and skills development, have the potential to enhance labor productivity, as reflected in higher income levels.

Furthermore, Gross Capital Formation (GCF), as an indicator of domestic investment, reflects the total fixed investment made by both private and public sector within a country, including infrastructure development and the

acquisition of fixed assets (Jermisittiparsert et al., 2019). A high level of Gross Capital Formation indicates efforts toward economic development through sustained capital accumulation, which contributes to long-term national growth. Such investments also generate employment, improve efficiency and output, and promote innovation through the adoption of more advanced technologies.

Human capital is also essential for accelerating economic growth. It functions not only as a driver of output growth but also as a productive input alongside physical capital and labor. Romer (1990) stated that improvements in education contribute to enhancing technological knowledge across countries, with human capital playing a central role in research, development, and the creation of new technologies that benefit the economy. The quality within the labor force is essential in determining a nation's human resource capacity. Countries that successfully harness their labor potential into a productive workforce tend to experience faster economic growth (Wulandari et al., 2024).

These factors driving the economy's growth have been adopted by ASEAN member nations through the establishment of the ASEAN Economic Community (AEC). Over the past decade, ASEAN has entered a new phase of regional economic integration and liberalization, officially initiated with the implementation of the AEC in 2015, involving ten

member from Thailand Vietnam, Indonesia, Philippines, Singapore, Malaysia, Brunei Darussalam, Laos, Myanmar and Cambodia. According to the Indonesian Ministry of Trade (2008), one of the pillars of the AEC is to transform ASEAN into a single markets and manufacturing base integrating the free movement of services and goods, skilled labor, investment, and capital flows. Primary policies under this initiative encompass ASEAN Trade in Goods Agreement (ATIGA), ASEAN Free Trade Area (AFTA), Mutual Recognition Arrangement (MRA), and ASEAN Comprehensive Investment Agreement (ACIA).

Seven ASEAN member countries were selected as the subjects of this study, namely Indonesia, Singapore, Malaysia, Thailand, the Philippines, Vietnam, and Cambodia. These countries were chosen based on their significant contributions to the AEC. According to data reported by the World Bank, these seven countries recorded the highest Gross Domestic Product (GDP) figures over the past ten years compared to other ASEAN nations. This condition is relevant for examining economic growth in the area, especially regarding

the rollout of the ASEAN Economic Community (AEC) toward the close of 2015.

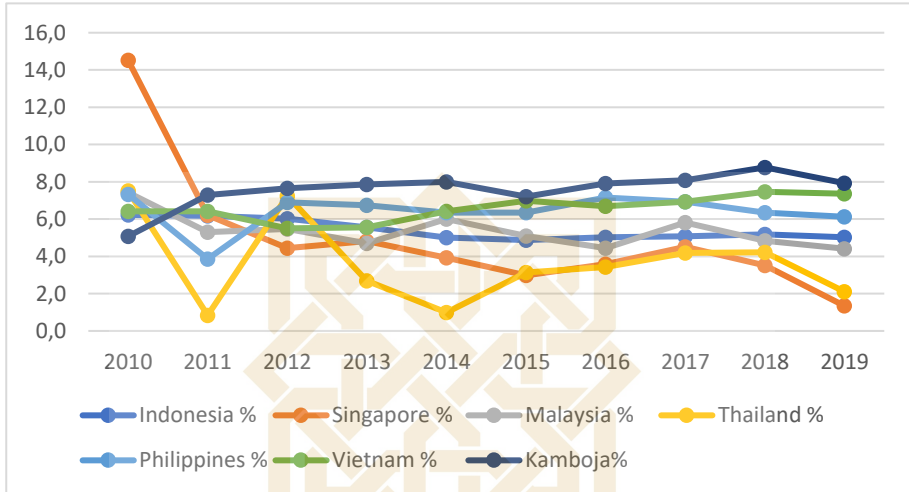


Figure 1.1 ASEAN-7 Economic Growth in Percentage (%) 2010-2019

Source: World Bank, (processed, 2025)

Figure 1.1, illustrates the GDP growth trends among ASEAN-7 nations throughout a ten-year span from 2010-2019, measured in percentage terms. Cambodia recorded the highest mean GDP rate throughout observation period, at 7,58%. followed by Vietnam having a mean GDP growth rate of 6,58%. The Philippines having a mean GDP growth rate of 6,41%. Indonesia and Malaysia both recorded an identical mean GDP rate of 5,40% over that timeframe. Singapore followed with an mean GDP rate of 4,99%. while Thailand ranked lowest among the ASEAN-7 having a mean GDP rate of 3,64%. These figures suggest that the implementation of

AEC policies may have varying impacts positive or otherwise, on the economic growth of ASEAN member states.

Several earlier investigations have analyzed the influence of ASEAN Economic Community (AEC) policies and related variables. One such study by Soebyakto and Bashir (2017), analyzed Indonesia's economic readiness prior to the implementation of the AEC in 2015. The research employed simultaneous testing using the Two-Stage Least Squares (TSLS) estimation method, along with a bidirectional analysis approach through the Vector Error Correction Model (VECM). The data covered the period 2000-2013, and the findings revealed that the implementation of AEC policies had a significant short-term impact. Aggregate demand which includes household consumption, investment, government spending, exports, and imports exhibited mutually positive effects on Indonesia's national income. These findings reflect both the readiness and the initial impact of regional integration on Indonesia's economy, particularly in terms of short-term aggregate demand.

Another study conducted by Yuliadi and Yudhi (2021), employed two panel data model selection tests, namely the Chow test and the Hausman test, to determine the appropriate model fixed effect, common effect, or random effect. Using panel data regression from 2010 to 2019 and applying the Feasible Generalized Least Squares (FGLS) approach, the

results indicated that population, Foreign Direct Investment (FDI), and the Human Development Index (HDI) have a significant and positively impact the economic growth of ASEAN-5 countries. (Philippines, Thailand, Singapore, Malaysia, and Indonesia). In contrast, variables such as the Corruption Perception Index, money supply, Financial Literacy Index, exports, interest rates, energy consumption, external debt, and the AEC dummy showed no significant impact on the economic growth of ASEAN-5 nations.

In addition, a study by Ansofino and Zusmelia (2017) utilized data from 2000 to 2015 and applied the cointegrated regression method. The findings indicated a significant increase in trade volume and market integration between West Sumatra and ASEAN countries following the implementation of the AEC, suggesting that the AEC contributed positively to the regional economy of West Sumatra. However, contrasting results were found in a study by Ambarita and Sirait (2020) which revealed that the implementation AEC had a negative effect to the economy through the variable representing Indonesia's imports originating from ASEAN member nation. This indicates that Indonesia's dependency on imports from ASEAN nations has declined, yet the negative impact emerged when Indonesia shifted its imports to non-ASEAN countries, such as China.

Drawing from the above discussion, research on the impact to ASEAN Economic Community (AEC) policies on economic growth remains limited and tends to focus primarily on trade. As is well known, the ASEAN Economic Community (AEC) encompasses various policies with the capacity to influence a country's economy. With the advancement in globalization, studies on the AEC can be expanded beyond the trade sector to include other aspects, such as analyses of human capital, investment, energy consumption, economic openness, and other factors that gradually support economic growth. Therefore, this research seeks to examine the impact of the ASEAN Economic Community (AEC) through international trade and human capital to economic growth in the ASEAN-7 member states, namely Indonesia, Singapore, Malaysia, Thailand, Philippines, Vietnam, and Cambodia

B. Problem Formulation

Based on the above explanation, the main research problems addressed in this study can be formulated as follows:

1. Does net export influence economic growth in ASEAN-7?
2. Does Foreign Direct Investment influence economic growth in ASEAN-7?
3. Does Gross Capital Formation influence economic growth in ASEAN-7?

4. Does Total Labor Force influence economic growth in ASEAN-7?
5. Does Mean Years of Schooling influence economic growth in ASEAN-7?
6. Does the implementation in ASEAN Economy Community (AEC) policy influence the economic growth of ASEAN-7?

C. **Research Objectives**

Based the above research problem, the purpose of the research is as follows:

1. To determine the effect of net exports on the economic growth rate of ASEAN-7.
2. To determine the effect of Foreign Direct Investment on the economic growth rate of ASEAN-7.
3. To determine the effect of Gross Capital Formation on the growth rate of ASEAN-7 economies.
4. To determine the effect of Total Labor Force on the growth rate of ASEAN-7 economies?
5. To determine the effect of Mean Years of Schooling on the growth rate of ASEAN-7 economies?
6. To determine the effect of ASEAN Economy Community (AEC) policy implementation on ASEAN-7 economic growth rate?

D. Research Benefits

Based on the formulation of problems and research objectives, the research results is expected to benefit in form of:

1. For the government, the study serves as a recommendation for formulating policies related to international trade, investment, and labor in order to enhance integration with the ASEAN economy within the global market.
2. For academics and researchers, this can be a point of reference to further scientific studies in related fields. The findings are anticipated to enhance insights into the effects that international trade with human resources has upon economic growth in ASEAN-7 nation's through the implementation to the ASEAN Economic Community (AEC). Moreover, this study also aimed to train scientific thinking skills by applying the knowledge gained during the lecture period into relevant practical research.

E. Research Systematics

This research is organized into five chapters, with the following description:

1. **Chapter I introduction**, As an overview of exposure to the problem background in this study, followed by the

identification of problems, research objectives, research benefits, and writing systematics.

2. **Chapter II theoretical framework and literature review**, in the form of exposure to the theoretical approach, the framework that underlies this research, the results of previous research and review of each literature used, and hypothesis development as an answer to the problem formulation for a while.
3. **Chapter III research methodology**, namely the selection of the type of study and method of research used, describing the operational definitions per variable, and explaining the equation of this research model.
4. **Chapter IV results and discussion**, describes the data description various results of hypotheses test and the answer of the research questions.
5. **Chapter V closing**, as conclusions drawn from the discussions of the research data analysis and recommendations. The conclusion section will convey the objectives of this study and how the empirical findings are able to achieve these research objectives. Furthermore, in the suggestions section, researchers will provide related suggestions for future research.

CHAPTER V

CLOSING

A. Conclusion

Based on the results of data analysis and discussion of the research that has been done, the conclusions that can be drawn are as follows:

1. Net exports have a positive effect on the economic growth of ASEAN-7 countries. This means that the more net exports of ASEAN-7 countries increase, the economic growth of ASEAN-7 countries also increases.
2. Foreign Direct Investment (FDI) has no effect on the economic growth of ASEAN-7 countries. This means that changes in FDI in ASEAN-7 countries have no effect on changes in economic growth in ASEAN-7 countries.
3. Gross Capital Formation (GCF) have a positive effect on the economic growth of ASEAN-7 countries. This means that as the GCF of ASEAN-7 countries increases, the economic growth of ASEAN-7 countries also increases.
4. Total Labor Force has a positive effect on the economic growth of ASEAN-7 countries. This means that the more the Total Labor Force of ASEAN-7 countries increases, the economic growth of ASEAN-7 countries also increases.

5. Mean Years of Schooling (MYS) has no effect on the economic growth of ASEAN-7 countries. This means that the total per-year MYS of ASEAN-7 countries has no influence on the economic growth of ASEAN-7 countries.
6. ASEAN Economy Community (AEC) has no effect on the economic growth of ASEAN-7 countries. This indicates that the AEC policy of ASEAN-7 countries has no influence on the economic growth of ASEAN-7 countries.

The results of this study show that two hypotheses are accepted and four others are rejected. The empirical results found in this study are the negative but insignificant impact of the implementation of the ASEAN Economic Community (AEC) on ASEAN-7 economic growth.

B. Limitations and Suggestions

This study has a number of limitations, so suggestions can be made for the development of further research, as follows:

1. Research using the ASEAN Economy Community (AEC) is still very limited. In addition, more research uses direct policies to make comparisons such as AFTA, MRA, ATIGA, and ACIA. So it is hoped that future researchers can add to the literature on the

implementation of the ASEAN Economy Community (AEC).

2. Human capital proxies, namely, Total Labor Force and Mean Years of Schooling in this study have not been able to comprehensively describe human capital that influences the rate of economic growth. Therefore, it is recommended for future research to consider adding or replacing other variable indicators to obtain strong results.

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