
THE EFFECT OF INFLATION, HDI, FDI ON ECONOMIC GROWTH IN 10 ASEAN COUNTRIES IN THE PERSPECTIVE OF ISLAMIC ECONOMICS

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ABSTRACTS

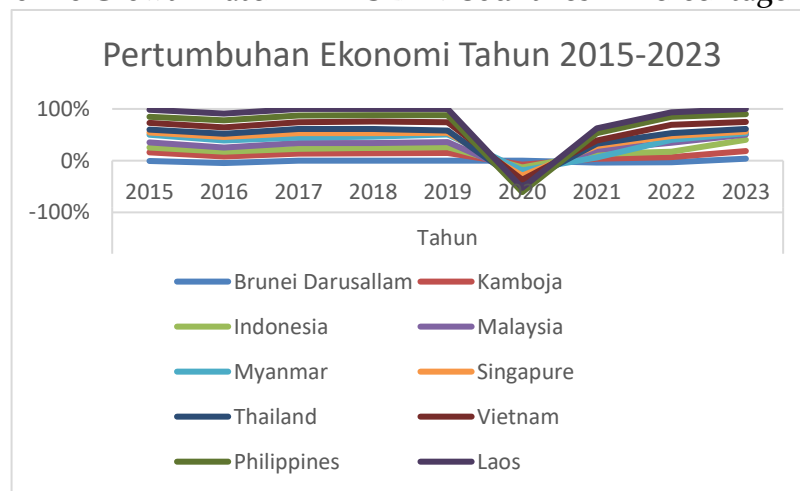
The economy is also used as evidence of a country's success in assessing achievements and progress towards the level of economic growth, through the system used by the government to regulate and distribute profits from power, services, and goods through economic growth, which results in sustainable economic growth over time. This study aims to determine the effect of inflation variables, human development index and foreign direct investment on economic growth in 10 ASEAN countries in 2015-2023. The method used in this study is a quantitative method. The data used are secondary data obtained from the World Bank. The results of the study using panel data regression with the Random Effect Model test which states the results of the partial test (t) that the inflation variable (X_1) has a negative but insignificant effect on economic growth (Y). While the HDI (X_2) and FDI (X_3) variables have a positive and significant effect on economic growth (Y). From an Islamic economic perspective, Islam sees economic development as a road to human maturity, where material progress must support spiritual maturity. The dream of Islamic economics is to carry out a mission as caliph on earth with the task of making it prosperous.

A. INTRODUCTION

The process of increasing the production of goods and services used in society's economic activities is also linked to economic growth. There is the possibility that growth will be driven by increasing production and income and is related to development that has a single objective dimension. Gross Regional Domestic Product Value (GRDP), one of the indicators that can be used to determine regional economic growth, is the value of GDP, which shows the increase in national income, together with the rate of income. The Classic Neo growth theory developed by Robert Solow, the Classic Neo theory will focus its theory on three factors that have an influence on economic development, namely capital, labor power and also technological development. This theory confirms that increasing the number of workers can increase capita income. However, without the development of modern modern technology, increasing revenue will not be able to provide positive results for national economic growth.(Regina, 2022)

The long-term success and economic targets of a country can be described as an economic growth path. Countries that are able to maximize the encouraging factors will more easily achieve economic growth, but countries that are unable to minimize the inhibiting factors will find it more difficult to achieve this. ASEAN countries experienced fluctuating times between 20015-2023. Data related to e-economic operations from 2015 to 2023 are shown as follows

Figure 1.1
Economic Growth Rate in 10 ASEAN Countries in Percentage (%) 2015-2023



Source: World Bank

Based on the data above, it shows that the economic growth conditions of 10 ASEAN countries in 2015-2023 continue to experience fluctuations. Vietnam is the highest and most stable country among the 10 other ASEAN countries with an average of 5.97%. Brunei Darussalam is included in relatively low economic growth compared to other countries with an average of 0.19%. While in 2020, many ASEAN countries were in the negative figures for economic growth data. It's just that Brunei experienced economic growth that tended to be low compared to other ASEAN countries.

The economy has very important inflation, and to avoid macroeconomic diseases that can cause economic instability, the rate of growth must only remain low and stable. Economics can be affected both positively and negatively by inflation.(Puspita 2025) Economics can be affected both positively and negatively by inflation. Bank Indonesia

can implement expansive monetary policies by reducing interest rates if a country's economy experiences a downturn. High and unstable inflation is a picture of economic instability that causes the price of goods and services to continue to rise, which in turn causes the poverty rate in Indonesia to increase. The inflation rate in Indonesia continues to fluctuate from year to year, causing poverty, because people who were initially able to meet their daily needs with high prices of goods and services are unable to meet them because inflation is rising. (Salim, 2021)

In principle, not all inflation has a negative impact on an economy, especially if the inflation that occurs is mild inflation, namely in the range of ten percent and below. Mild inflation can actually increase economic growth. This is because inflation can provide enthusiasm for entrepreneurs to increase their production. Entrepreneurs are enthusiastic about increasing their production, because of the increase in prices, so that when they produce more, entrepreneurs will get more profit. With *ceteris paribus* notes. In addition, increased production also has a positive impact, namely creating new jobs. Inflation only has a negative impact if its value is more than ten percent (Agus & Herawati, 2023).

Additionally, economic development is influenced by the life expectancy rate, which is used to determine the level of government effort to increase the level of welfare, especially increasing the level of health. Life expectancy indicates the average lifespan of a person in the context of general population mortality (Sianturi, 2024). In this case, AHH is an indicator that shows the average life expectancy that can be achieved by a person in a population if health and mortality conditions remain the same throughout life. This figure reflects the quality of life and health level of the community, and there are usually several influencing factors, such as access to health services, nutrition, education, and socio-economic conditions. In general, a high AHH indicates that the community has easier access to health services, a healthier environment, and supportive social and economic conditions. Conversely, low life expectancy often reflects challenges in the health system, inequalities in access to services, and the presence of infectious or non-infectious diseases that can affect the health of the population (Talakua et al., 2017).

In economics, it is not far from the word investment, foreign direct investment or Foreign Direct Investment (FDI) is a long-term investment for developing countries. Judging from the national FDI demand which is increasing every year, the flow of foreign investment is directly in demand by ASEAN countries and other countries as well. Foreign direct investment (FDI) is expected to encourage sustainable investment development in a country (Handoko, 2024).

FDI has positive and negative impacts on a country's economic growth. The positive impacts of FDI on economic growth include as a source of long-term financing and capital formation as well as a means of transferring technology and knowledge in the fields of management and marketing (Anggraini et al., 2020). The negative effects of FDI on economic growth include encouraging the emergence of industrial dominance, increasing technological dependence, influencing cultural change. FDI dominance can cause disruption to economic planning due to intervention by the home government of the investing country. Sectorally, this international capital flow may be opposed by certain groups of owners of production factors because of the redistribution of income from owners of other production factors (labor, land/buildings) to capital owners (Yuniasih & Aisyah Fitri, 2014).

Islamic economics basically views that economic development is part of economic development. Economic development in Islamic economic terms is the correct management of production factors that are capable of contributing to human well-being. Meanwhile, the term economic development that is meant in Islam is a process that helps reduce poverty while creating peace, comfort and morals in human life. The aim is not only to ensure material prosperity in the world, but also prosperity in the afterlife.(Anisa Dwi Safitri, 2024) Islamic economics is not merely oriented towards the physical and material development of the individual, society and countries, but also pays attention to the development of other aspects which also constitute elements important for a prosperous and happy human life. The development of Islamic economics is clearly stated in the Al Qur'an QS. Al-Mulk verse15.

B. METHOD

Population

The research method used in this research is quantitative. The population in this research is all of the data on inflation, economic development that has been published by the world bank in 2015-2023 in as many as 10 countries.\

Sample

Sample is part of the number and characteristics of the population. Researchers can draw a conclusion that is applied to the population so as to obtain the required sample. The sampling technique in this study was carried out using the purposive sampling technique, which is a sample determination technique with certain considerations. The sample in this study was 9 years, namely taken from inflation data, human development index, foreign direct investment and economic growth in 10 ASEAN countries from 2015-2023 which are available at the world bank. And directly processed using the Eviews 10 application.

Data Analysis Techniques and Selection of Panel Data Regression Estimation Models

Descriptive statistical data analysis techniques are statistics used to analyze data by describing data or describing data that is generally applicable or generalized. Descriptive statistics include presenting data through tables, graphs, pie charts, pictograms, calculating mode, mean, median (measurement of central tendency), calculating deciles, percentiles, calculating data distribution through calculating averages and standard deviations or calculating percentages.

Panel data estimation is known as aggregated data, which is a collection of variables observed in various categories and collected over a certain period of time. A combination of time series data and cross-section data. In this study, panel data is used because it integrates time series data from 2015-2023 for 9 years with cross-section data from 10 ASEAN countries. In general, there are 3 panel data models that are often used, namely the Common Effect Model, Fixed Effect Model, Random Effect Model. To determine the most appropriate model to use in managing panel data, there are several tests that can be carried out to determine the panel data regression model that will be used in this study, including. (Sugiono, 2014)

C. RESULT

Table 3.1
Descriptive Statistical Analysis Results

	X ₁	X ₂	X ₃	Y
Mean	3.638889	73.06889	69.83179	3.830000
Median	2.500000	72.85000	10.73700	4.450000
Maximum	31.20000	84.00000	967.7000	9.000000
Minimum	-1.200000	65.60000	-284.4000	-9.500000
Std. Dev.	5.515936	5.110259	187.9544	3.627747
Observations	90	90	90	90

Source: Eviews 10

The results of the descriptive statistical analysis show that the Y variable (Economic Growth) has a sample size of 90 with a median value of 4.450000 and a mean value of 3.830000. While from the 90 data, the highest data value is the maximum value, which is 9.000000 and the lowest data value is the minimum value, which is -9.500000 with a standard deviation of 3.627747.

In Variable X₁ (Inflation) has a sample size of 90 with a median value of 2,500,000 and a mean value of 3.638,889. While from the 90 data, the highest data value is the maximum value of 31,200,000 and the lowest data value is the minimum value of -1,200,000 with a standard deviation of 5.515,936.

In Variable X₂ (AHH) has a sample size of 90 with a median value of 72,850,000 and a mean value of 73,06,889. While from the 90 data, the highest data value is the maximum value of 84,00000 and the lowest data value is the minimum value of 65,60000 with a standard deviation of 5.110,259.

In variable X₃(FDI) has a sample size of 90 with a median value of 10.73700 and a mean value of 69.83179. While from the 90 data, the highest data value is the maximum value of 967.7000 and the lowest data value is the minimum value of -284.4000 with a standard deviation of 187.9544.

Panel Data Estimation

Test Chow

The chow test was conducted to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM). The following are the results of the chow test:

Table 3.2
Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.814828	(9,77)	0.0789
Cross-section Chi-square	17.313581	9	0.0440

Source: Eviews 10

Based on the Chow test, the Chi-square cross-section was obtained with a probability value of 0.0440 < 0.05. So it can be concluded that the best model selected is the Fixed Effect Model (FEM).

Hausman Test

The Hausman test is conducted to select the best model between the Random Effect Model (REM) and the Fixed Effect Model (FEM). The following are the results of the Hausman test:

Table 3.3
Hausman Test Results

Correlated Random Effects - Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	1.054355	3	0.7881

Source : *EvIEWS 10*

Based on the results of the regression equation above, between the chow test, the hausman test, the best model in this study is the Random Effect Model (REM). To analyze the influence of Inflation, Human Development Index and Foreign Direct Investment on Economic Growth in 10 ASEAN countries. Based on the results of the Random Effect Model (REM) estimation, the following equation is obtained:

$$Y = 19.21181 - 0.113682 X_1 + 0.211302 X_2 + 9.324506 X_3$$

The constant value of 19.21181 means that without the inflation, HDI and FDI variables, the economic growth variable will increase by 19.21181.

The beta coefficient value of the inflation value variable is -0.113682 if the value of other variables is constant and the inflation value variable (X_1) increases by 1 unit, then the economic growth variable (Y) will decrease by -0.113682 and vice versa if the value of other variables is constant and the inflation variable (X_1) decreases by 1 unit, then the economic growth participation variable (Y) will increase by -0.113682.

The beta coefficient value of the Human Development Index (HDI) variable is 0.211302, if the value of other variables is constant and the human development index variable (X_2) increases by 1 unit, then the economic growth participation variable increases by 0.211302, and vice versa if the constant value and the human development index variable decrease by 1 unit, then the economic growth participation variable (Y) will decrease by 0.211302.

The beta coefficient value of the Foreign Direct Investment (FDI) variable is 9.324506, if the value of other variables is constant and the foreign direct investment variable (X_3) increases by 1 unit, then the economic growth participation variable increases by 9.324506, and vice versa if the constant value and the foreign direct investment variable decrease by 1 unit, then the economic growth participation variable (Y) will decrease by 9.324506.

Hypothesis Testing

Partial Test (T-Test)

The t-statistic test is conducted to determine whether or not there is an influence between each independent variable on the dependent variable partially. The results of the t-test can be seen in the table below:

Table 3.4
Partial Test with Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	19.21181	8.845630	2.171899	0.0326
X1	-0.113682	0.075164	0.182029	0.8560
X2	0.211302	0.121200	1.743409	0.0048
X3	9.324506	2.201505	0.423149	0.0332

Source : *Eviews 10*

The results of the t-test on the inflation variable (X₁) obtained a coefficient of -0.113682 with a probability value of 0.8560 > 0.05 so that it can be concluded that the inflation variable does not have a significant effect on economic growth (Y) in 10 ASEAN countries.

The results of the t-test on the human development index variable (X₂) obtained a coefficient of 0.211302 with a probability value of 0.0048 < 0.05 so that it can be concluded that the human development index variable has a significant effect on economic growth (Y) in 10 ASEAN countries.

The results of the t-test on the foreign direct investment variable (X₃) obtained a coefficient of 9.324506 with a probability value of 0.0332 < 0.05 so that it can be concluded that the foreign direct investment variable has a significant effect on economic growth (Y) in 10 ASEAN countries.

F Test

The F test aims to see how the independent variables influence the dependent variable together, in this study the F test can be divided into indicator equations if the probability value < 0.05 then the independent variables influence the dependent variable together, conversely if the probability value > 0.05 then the independent variables do not influence the dependent variable together. The results of the f test can be seen in the table below:

Table 3.5
F Test with Random Effect Model

F-statistic	2.063723
Prob(F-statistic)	0.003857

Source : *Eviews 10*

The results of the f-test in the f-statistic probability column obtained from the tested data are the calculated F value of 0.00387 so that it can be concluded that inflation, human development, and foreign direct investment simultaneously have a significant effect on economic growth in 10 ASEAN countries.

Determination Coefficient Test (R₂)

The determinant coefficient test is used to determine how big the relationship is between several dependent variables in a clearer sense of changes in independent variables. The following are the results of the determinant coefficient:

Table 3.6
Determination Test with Random Effect Model

R-squared	0.875779
Adjusted R-squared	0.872143

Source: *Eviews 10*

The results of the R Squared determination coefficient test were 0.872143 or 87.21%. This shows that inflation, human development index and foreign direct investment influence economic growth in 10 ASEAN countries, while the remaining 12.79% is influenced by other variables that are not included in this research model.

D. DISCUSSION

The Impact of Inflation on Economic Growth in 10 ASEAN Countries

Based on the results of this study, it is partially shown that the inflation variable has a negative and insignificant effect on economic growth in 10 ASEAN countries. By obtaining a coefficient value of -0.113682 and a probability value of 0.8560 > 0.05, which means that H₁ is rejected, it can be concluded that inflation has a negative effect and does not have a significant effect on economic growth in 10 ASEAN countries. This is because the higher it is, the lower the level of people's purchasing power and will have an impact on the economy and this is in accordance with the. Thus, research conducted by (Wiriani & Mukarramah, 2020) states that inflation has a negative correlation with economic growth. However, this is in contrast to research conducted by Shella Yuliana et al., her research shows that inflation has a positive and significant effect (Yuliana, 2023).

The Influence of the Human Development Index (HDI) on Economic Growth in 10 ASEAN Countries

Based on the results of this study, it is partially shown that the human development index variable has a positive and significant effect on economic growth in 10 ASEAN countries. By obtaining a coefficient value of 0.211302 and a probability of 0.0048 < 0.05, which means that H₂ is accepted and H₀ is rejected, it can be concluded that the human development index has a positive and significant effect on economic growth in 10 ASEAN countries. The results of this study are in line with the research of Siti Rohima et al., the results of her research show that the human development index has a positive and significant effect on economic growth in 10 ASEAN countries (Rohima, 2023).

The Influence of Foreign Direct Investment (FDI) on Economic Growth in 10 ASEAN Countries

Based on the results of this study, it is partially shown that the foreign direct investment variable has a positive and significant effect on economic growth in 10 ASEAN countries. By obtaining a coefficient value of 9.324506 and a probability of 0.0332 < 0.05, which means that H₃ is accepted and H₀ is rejected, it can be concluded that foreign direct investment has a positive and significant effect on economic growth in 10 ASEAN countries. The results of this study are in line with the research of Ajeng Lestari et al., the results of their research show that foreign direct investment has a positive and significant effect on economic growth in 10 ASEAN countries (Zuhroh & Putri, 2021).

The Influence of Inflation, Human Development Index and Foreign Direct Investment on Economic Growth

Based on the results of research that has been conducted related to inflation, human development index and foreign direct investment on economic growth in 10 ASEAN countries, the F-statistic probability value is $0.003857 < 0.05$. This means that inflation, human development index and foreign direct investment simultaneously affect economic growth in 10 ASEAN countries.

Islamic Economic Perspective on Inflation, Human Development Index (HDI) and Foreign Direct Investment (FDI) on Economic Growth

The *falah* parameter used by Islamic economics in GDP is one thing that distinguishes Islamic economics from others. The spiritual component is included in the understanding of *falah*, which is the true welfare. In the Islamic sense, "*al-falah*" is a term that refers to the Islamic understanding of humans. Spirituality is the essence of humans according to Islam. Consequently, all economic activities are aimed at meeting spiritual needs, where the spirit is the essence of humans. The distribution of income per household must be measurable by national income (Rahman, 2024).

In the Islamic economic system, inflation is not a major economic problem in aggregate, because the currency is stable with the use of *dinar* and *dirham* currencies. According to Islamic economists, inflation has a very bad effect on the economy because it disrupts the function of money, especially the function of savings, the function of advance payments, and the function of the calculation unit. (Kurniawati & Sy, n.d.) Each region has a goal to improve the welfare of its population. According to Al-Ghazali, human welfare lies in the protection of faith (*din*), soul (*nafs*), reason (*aqal*), descendants (*nasb*) and wealth (*māl*). Islam teaches not to leave descendants in a weak state either economically, religiously, scientifically or defensively, as contained in Qs. an-Nisā (4): 9 (Ratih & Tamimah, 2011).

Investment according to Islamic economics is an activity in placing funds based on sharia principles. Investment according to Islamic sharia is an investment that is *halal* and does not contain elements of usury, *maysir* and *gharar*. Muslim investors can choose between three alternatives to utilize their funds, namely, holding their funds in cash, holding their funds in the form of assets that do not generate income (bank deposits, loans, property, jewelry) or investing their funds (Pardiansyah, 2017).

E. CONCLUSION

This study uses panel data regression analysis and the best model selected is REM with data sources from the World Bank. The conclusion of this study is that simultaneously the variables inflation, human development index and foreign direct investment have a significant effect on economic growth in 10 ASEAN countries. Inflation has a negative and insignificant effect on economic growth in 10 ASEAN countries with a probability value of $0.8560 > 0.05$. Inflation is always attempted to remain small and stable to avoid the occurrence of macroeconomic problems that have a negative impact, namely the instability of the country's economy. The results of the *human development index* research have a positive and significant effect on economic growth in 10 ASEAN countries with a probability value of $0.0048 < 0.05$. Life Expectancy Rate (AHH) is the main indicator in the success of health development, therefore, management has to implement various ways to carry out optimal health development

and health sectors. The results of the study of *foreign direct investment* have a positive and significant effect on economic growth in 10 ASEAN countries with a probability value of $0.0332 < 0.05$. This positive relationship is in accordance with the theory that has been explained that investment can encourage government development plans, so that it can increase the availability of capital, technology, and employment opportunities that can achieve the country's economic growth.

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