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Determinants of Poverty in ASEAN Countries

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Abstract

Poverty reduction is a significant concern of all governments in the world, including in Southeast Asia. The research objective is to analyze the determinant of poverty in eight countries of ASEAN using panel data analysis, with an analysis period of 2015-2019. The results show that economic openness and inflation variables can influence the poverty level in eight ASEAN countries. In contrast, the financial sector and economic growth variables do not affect the poverty level. The implication of the results of this study is that the financial sector only facilitates the upper-middle class, and the economic growth has not been inclusive to the poor.

Keywords: *poverty, financial sector, economic growth, inflation, economic openness*

INTRODUCTION

Sustainable development is a necessity, and the poverty trap is something that must be faced (Todaro & Smith, 2020). Poverty alleviation through inclusive development where everyone has equal opportunities and access, including the poor. Economic development creates broad access and opportunities for all levels of society, which is equitable, improves welfare, and reduces disparities between groups and regions (Sakanko et al., 2020). This includes the ability of every community to have access to quality formal financial services in a timely, smooth, and secure at affordable costs. The development of an inclusive financial sector has an impact on poverty alleviation because one of the obstacles faced by the poor is limited access to finance (Park & Mercado, 2018).

Poverty, according to the United Nations Development Program (UNDP), gives the meaning of poverty as the incapability to broaden the choices of life, among others, by the valuation of "absence of participation in public decision-making" as an indicator of poverty. According to the World Bank (2000), it is defined as ''poverty is pronounced deprivation in well-being'' or has core poverty is a loss of well-being.

Poverty data in several countries in ASEAN shows that Lao People's Democratic Republic has the highest poverty rate. However, the most significant number of people in poverty status comes from Indonesia. The World Bank projects that the poverty rate in Southeast Asia will increase and could increase by 11 million people in the worst-case scenario due to the Covid-19 pandemic. The poor category is calculated if their income is less than US$5.5 or Rp146 thousand per day. The World Bank also stated that Indonesia, Malaysia, the Philippines, and Thailand would grow negatively among other regional countries. It is interesting to conduct a comparative study of the factors that influence poverty levels in Indonesia and other countries in the Southeast Asian region.

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LITERATURE REVIEW

The inability to obtain sufficient income to finance basic needs causes poverty to always exist in the development process (Todaro & Smith, 2020). One of the successes of development is marked by an active and stable financial system. Financial development will encourage access to banking services (Kaidi & Mensi, 2018). Access increasingly to financial services allows people to raise their income through bank lending (Rewilak, 2015). The financial inclusion strategy arises because of low access to finance the poor, the lack of public knowledge about finance and banking, the high administrative costs of banks, and the far reach of banks from settlements (Keho, 2017).

The nexus of financial development and poverty reduction is influenced by the instruments, services, and financial institutions available to the poor (Sarma, 2012). In the research of Andrian et al. (2021), financial inclusion through increasing access to finance for the poor can overcome poverty in Indonesia. In this perspective, the poor have no access to financial services (Holden, P. & Prokopenko, V., 2001). Furthermore, it accentuates the main problem in finance is how to serve the poor with the sustainably financial services (Robinson, 2001; Gonzalez, 2003). Several studies show that the financial sector has not reduced poverty levels (Kaidi & Mensi, 2018; Keho, 2016).

RESEARCH METHOD

This study uses a panel data analysis tool. This approach combines time-series data and cross-section data. According to Baltagi (2005), Gujarati & Porter (2009), and Gujarati (2012), the advantages of using panel data are:

1. Panel data estimates can show heterogeneity within each individual.
2. With panel data, the data is more informative, more varied, reduces collinearity between variables, increases the degree of freedom, and is more efficient.
3. Panel data studies are more satisfactory for determining dynamic changes than repeat studies cross-sectional.
4. Panel data detects and measures effects that cannot be measured by data time series or cross-section.
5. Panel data helps studies to analyze more complex behaviors.
6. Panel data can minimize the bias generated by individual aggregations because there are more data units.

The panel data research model is as follows:.

$$Pov = \alpha_0 + \alpha_1 SK_{it} + \alpha_2 PDB_{it} + \alpha_3 INF_{it} + \alpha_4 OPEN_{it} + e_{it}$$

Where Pov indicates the poverty level, SK is the ratio of money area (M2) to GDP (economic liquidity), GDP is economic growth, INF is inflation (in percent), and OPEN is the number of exports and imports (percentage of Gross Domestic Product), i is country and t is the time series of years.

This study uses secondary data in the form of panel data from eight ASEAN countries, namely: Indonesia, Philippines, Thailand, Malaysia, Vietnam, Laos, Myanmar, and Cambodia, in 2015-2019. Data obtained from World Bank publications.

FINDINGS AND DISCUSSION

The results of the hypothesis test of the effect of the independent variable on the dependent variable partially can be seen in the probability value of each independent variable. The results in table 2 show that the variables of economic openness and inflation are variables that can influence the poverty level in eight

ASEAN countries. In contrast, the variables of the financial sector and economic growth do not affect the poverty level.

Table 2. Results of Regression Panel Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
SK	0.144750	0.177284	0.816483	0.4185
OPEN	-0.439776	0.076187	-5.772332	0.0000
GDP	-0.745512	0.549308	-1.357185	0.1815
INF	1.220718	0.417335	2.925035	0.0054

Assumption tests carried out include normality, multicollinearity, and heteroscedasticity tests. The results of the classical assumption test that have been carried out show that the analytical model has escaped the deviation of the classical assumptions. The model has fulfilled the assumption that the data is normally distributed (Table 3), does not have a linear relationship between independent variables (Table 4), and there is no unequal variance deviation, or it can be said that there is homoscedasticity (table 5).

Table 3. Normality Test Results

Jarque-Bera	2.600026
Probability	0.272528

Table 4. Test Results Multicollinearity

	C	MS	BOT	G	INF
C	6.835567	-0.113792	-0.149673	-1.127683	0.206464
SK	-0.113792	0.031430	0.004492	-0.025189	-0.037193
OPEN	-0.149673	0.004492	0.005804	0.022915	-0.005188
PDB	-1.127683	-0.025189	0.022915	0.301739	-0.046618
INF	0.206464	-0.037193	-0.005188	-0.046618	0.174168

Table 5. Heteroscedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.994257	1.473820	2.031630	0.0481
SK	0.045932	0.099937	0.459609	0.6480
OPEN	-0.037890	0.042947	-0.882252	0.3823
PDB	0.079551	0.309651	0.256904	0.7984
INF	0.031258	0.235256	0.132870	0.8949

This result means that the expansion of the domestic market through an increase in exports higher than imports leads to an increase in national income. People's purchasing power increases through the multiplier effect that comes from increased exports. As a result, people's welfare increases, and the poverty level can be reduced. On the other hand, an increase in inflation can encourage an increase in the poverty rate due to a decrease in purchasing power and public welfare due to an increase in prices. The increase in the prices of goods and services consumed every day will reduce the purchasing power of some people, especially people with lower middle income. More significant impact on poverty compared to inflation that occurred in non-food commodities. Inflation places a much more significant burden on the poor in eight ASEAN countries, both urban and rural, than on the non-poor.

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The variables of the financial sector and economic growth have not been able to become factors that can affect poverty. The growth of the financial sector can only provide benefits for the upper-middle class, who have better access to finance than the poor. Many poor people are not bankable, so they cannot obtain banking credit facilities that can be used by the poor to finance productive activities. Weak access to the financial sector causes community welfare to remain low, and poverty is inevitable. Economic growth has also not been able to eradicate poverty if the benefits of economic growth can only be enjoyed by some people, especially those with significant capital. The poor are still marginalized and unable to escape the trap of poverty. This result is in line with research conducted by Zuhdiyati (2017) and Andrian et al. (2021), which also indicates that the existing economic growth is supported more by the consumption sector than the investment sector or capital formation so that the quality of economic growth is not so good and has a significant role. In terms of reducing poverty. Another thing is that improvements did not follow the economic growth that occurred in income distribution. The economic increase was only enjoyed by certain groups, while the poor had not been significantly impacted by the existing economic growth.

CONCLUSION AND FURTHER RESEARCH

The financial sector needs to be developed more inclusive of increasing access to finance for the poor. Increasing access can eliminate all obstacles that still arise, such as administrative requirements, low financial literacy, and financial infrastructure barriers. Together with the government, the central bank must be able to maintain price stability following the targets that have been set. Stable price levels can maintain people's purchasing power and maintain the competitiveness of domestic products in the international market to increase net exports. Higher foreign exchange can be used to finance development to improve people's welfare.

Economic activities must be directed at promoting inclusive economic growth to reduce poverty levels. Assistance and support for the poor must be carried out by both the government and the private sector to make efforts to empower the poor more optimal. Further research is expected to be able to conduct more micro research using primary data so that poverty problems can be analyzed more deeply and precisely according to the existing problems.

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