

# CHAPTER I

## INTRODUCTION

### 1.1 Problem Identification

In today's world, technological advances are growing rapidly and have an impact on all areas of the economy, including the payment system. The characteristics of advances in terms of technology are that they can bring about changes in people's needs for payment tools that can fulfill speed, accuracy, and protection in every electronic transaction. (Pramono, 2006). This technological advance system began as a barter economy and has gone through various stages of development in response to the inherent limitations of an evolving financial system. Changes will inevitably continue to occur in the financial system in response to social and technological advances. This situation has led to the shift from the old money management system to the cashless society that is used by people all over the world. To this end, the world has witnessed an increase in electronic payments using cashless banking instruments aimed at facilitating the exchange of payment systems. Technological advances in payment systems also change from time to time. For example, now we can make transactions in the form of digital payments. (J. Ugwu Okereke 2016)

The competitive conditions of the information technology industry affect the level of competition in the region, such as ASEAN with its 10 member countries, such as Indonesia, Malaysia, Thailand, Singapore, Brunei Darussalam, Vietnam, the Philippines, Laos, Myanmar and Cambodia. This area is the largest area that has experienced growth in Internet Users (Internet Users) so far. The digital transformation trend in this region has managed to bring the world 125,000 new users who connect to the internet every day (World Economic Forum, 2018). According to (Tamasek, 2018), in Southeast Asia, regions such as Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam already had 350 million Internet users in the region in 2018.

The strong growth in internet users numbers in ASEAN also evidence of the digital transformation trend in the region as a new for the development of regional digitalization. ASEAN with its potential has also succeeded in initiating the use of social networks and the internet in numbers that can encourage economic growth (Kwakwa, 2018). The development in digital transformation of the ASEAN region can encourages appreance of online retail (e-commerce), online transportation (private travel), and electronic payment applications that help people in economic activities, health, education, travel and entertainment. Individually, countries can also benefit from this digital economy (Temasek, 2018).

Because of the strong growth of the internet user in ASEAN, the financial technology was developed too. The example developing of financial technology in ASEAN countries is cashless payment that consist of card based payment, electronic money ad cheque. Cashless payments give direct credit to consumers, and it can facilitate the purchased of a services, and also goods. For example, cashless payments reduce the costs associated with cash payment and it can decrease operating costs and scale of ecomimies in the businessman. In addition, it will lead to expansion of a business with higher degree investments economically, so it can increase the growth of the economy. Cashless payments also ease the tax collection by government, this is why cashless payments increase the government budget balance and more revenue can be used for growth enhancing policies, boosting the economy growing up. (Teck Lee Wong, Wee Yeap Lau, Tien Ming Yip, 2020). Electronic payment also have many advantages. Like using electronic payments, it can make the payment system easier, because it can make transactions faster and safe for access. Using electronic payments can also avoid robbery and other cash related crimes. Another form of advantage is that it can make no much time with the payment, because the payment system is use technological advances. (Oginni, Mohammed, El maude & Arikpo, 2013)

The ASEAN Economic Community (AEC) was formed in 2020 with the purpose of transforming ASEAN and make ASEAN become stable, prosperous and be the competitive area with economic development, and can reduce of poverty and inequality in socio

economic. Financial and economic integration has become a serious concern since the establishment of the MEA.

An integrated payment system is required more by ASEAN member countries when AEC is implemented. With this system, all people in ASEAN can take advantage of financial innovation and make a payments via ATM, credit card, debit card, check or electronic money without spending more time or money to do the transaction. This will also need a developing of seamless payment system in the region, but the most challenging tasks is how to promote the use of more cashless payment methods that are easy and not wasting the time. Non cash is a payment transaction made by check, direct credit transfers, direct debits, payments with debit cards and credit cards, as well as payments with electronic money and prepaid cards. Electronic money growth in ASEAN was increasing very rapid and and significant. The growth if use the electronic money facilities has effect to increase in the demand for money. (Venna Tri Kartika and Anggoro Budi Nugroho, 2015)

The electronic payment system consists of debit card, credit card, check and e-money. The development of electronic payments systems in Malaysia, Vietnam, and Indonesia tends to increase from year to year. For example debit cards, in 2018-2021 the number of debit card transactions in Malaysia reached 736 million transactions, Indonesia 767 million transactions and Vietnam 677 million transactions. Meanwhile, credit cards also experienced an increase in all four countries except Indonesia, the number of credit card transactions in Indonesia according to 2018-2021 is decreased from 314 million transactions to 244 million transactions. And also check transactions increase every year in each country. The biggest increase in the electronic payment system in these four countries is in electronic money, where in each country the increase in the amount of electronic money increased very rapidly from 2018-2021, in Malaysia there was an increase of 2107 million transactions until 2021, while in Vietnam 704 million transactions and in Indonesia 305 million transactions. (Central Bank Malaysia, Indonesia, Vietnam, Malaysia)

Electronic payments using card-based payments and e-money as transaction tools used by the public for economic activities can directly affect the transaction volume and the circulation of money in economy. The push for this payment system will cause a multiplier effect on economic activities that are directly related to the velocity of money (Perlambang, 2012). This phenomenon also describe the relationship between the amount of money demand and the number of transaction levels that show the velocity of money. Therefore, electronic payment transactions can be linked to the amount of money in circulation (Igamo & Falianty, 2018)

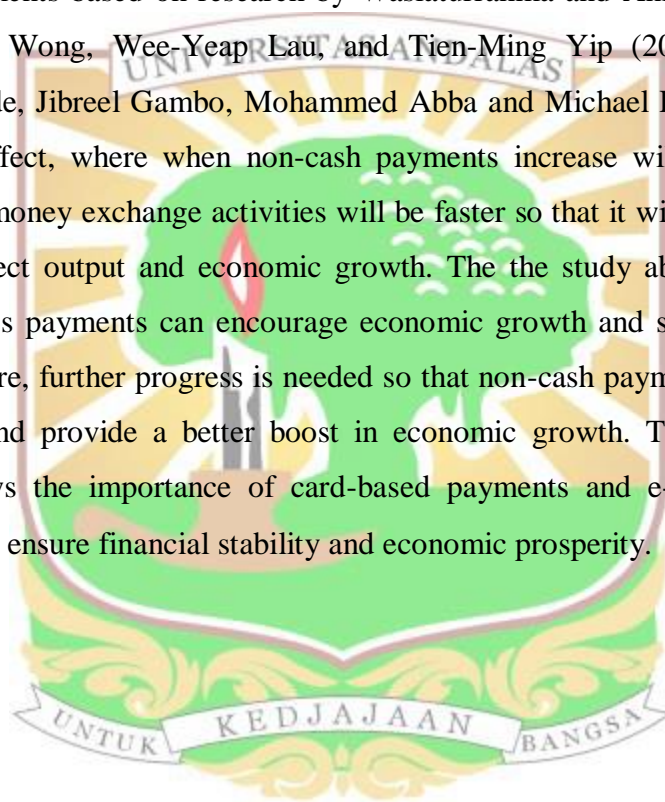
Non-cash payments will lead to efficiency in terms of transaction costs. so that it will reduce inflation and other thsn thst it can encourage an increase in GDP (which is generally accompanied by an increase in prices). An increase in non-cash payments will reduce transaction costs so that the economy will be more efficient. The effect of efficiency will certainly have an impact on the decline in the price level. (Ferry Syarifuddin, Ahmad Hidayat & Tarsidine, 2009)

Pramono (2006) explains that this efficiency can result in the increasing number of non-cash payments that occur which can encourage so many business activities to develop. The conomic actors will also encouraged to conduct transactions in line with reduced transaction barrier because this can trigger the increases in economic activity and GDP. The size of contribution in this things will depend on its share of the total cost, effort, and time of a activity of a business. If there is a reduction in costs, energy and time from cashless payment transaction is significant, of course this can encourage the business activities. However, if the redution relatively small, of course, the effect impact on increasing economic activity and GDP is also not large. An increase in non-cash payments will reduce transaction costs so that the economy becomes more efficient.

The phenomenon of cashless transaction above can increase money velocity and provide solutions for the real sector in financial inclusion in controlling and regulating the money supply. When the velocity of money increases through economic activity, the demand for

money supply decreases. Non-cash transactions are expected to be used indefinitely to influence consumers' economic decisions to continue transacting, and producers can reduce production and distribution costs to encourage economic growth (Arner, Buckley, & Barberis, 2016). This is in line with the statement from Untoro et al (2014) which states that the volume or number of electronic payments can be used as an indicator to see economic growth and development.

Non-cash payments based on research by Wasiaturrahma and Anita Lucky Kurniasari (2021), Teck-Lee Wong, Wee-Yeap Lau, and Tien-Ming Yip (2020), Oginni Simon Oyewole, El-Maude, Jibreel Gambo, Mohammed Abba and Michael Ezekiel Onuh (2013) have a positive effect, where when non-cash payments increase will be able to reduce transaction costs, money exchange activities will be faster so that it will affect productivity and ultimately affect output and economic growth. The the study above explain that an increase in cashless payments can encourage economic growth and shift the role of cash payments. Therefore, further progress is needed so that non-cash payments can continue to increase output, and provide a better boost in economic growth. The evolution of this phenomenon shows the importance of card-based payments and e-money as non-cash transaction tools to ensure financial stability and economic prosperity.



## 1.2 Problem Statement

Electronic payment is a payment mechanism or method for transactions that no longer require physical money. Examples of electronic payments are credit cards and electronic money. The findings of the recent studies show how importance of card based payments and electronic money as non-cash transaction tools to ensure financial stability and economic prosperity. Several previous studies found that the number of transactions using non-cash had an impact on economic growth. Especially, in ASEAN country the electronic money was growing rapidly year by year. Therefore, it is interesting to analyze the causal relationship between non-cash payments and output in terms of the total Gross Domestic Product (GDP per capita) in 3 selected ASEAN countries and also to explain quantitatively and qualitatively the relationship between non-cash transactions and output based on Gross Domestic Product (GDP per capita). And it can be useful for policy maker to make a new policy regarding the use of card-based payments and electronic money to increase economic growth in this 3 developing ASEAN countries.

## 1.3 General Research Objective

Based on the problems that occur according to the background, this research has a purpose to analyze the effect of credit card on economic growth in 3 developing ASEAN countries. Analyzing the influence of electronic money on economic growth in 3 developing ASEAN countries.

