

CHAPTER V

CONCLUSION AND RECOMMENDATION

5.1 Conclusion

This study investigates the relationship between sovereign debt and economic growth in ASEAN countries from the years 1992 to 2022. This study investigates the impact of sovereign debt on the long-run and short-run economic growth of 7 ASEAN countries are Cambodia, Indonesia, Lao PDR, Myanmar, Philippines, Thailand and Vietnam utilize ARDL models. The results provide extensive empirical evidence on the effects of various government debt components on economic growth over time. According to the theory of Reinhart Kenneth S Rogoff Miguel A Savastano et al. (2003), many emerging economies have debt intolerance, and this finding is consistent with that theory. As per the observations, debt sustainability of these economies is inadequate and they become vulnerable to debt weakness, little fiscal credibility and exposure to foreign-currency liabilities.

The long-term effects of a shock to external debt, which has a statistically significant negative impact on economic growth, showed that GDP performance is limited by excessive external borrowing. Findings suggest that the primary principle of debt intolerance theory that a low quantity of external debt has growth-reducing effects in emerging countries mainly due to their weak institutions, currency risk, and lack of fiscal credibility. Government debt, on the other hand, has a positive long-run relationship with growth. That is, borrowing managed locally for profitable public investment can enhance growth. The findings indicated that it was not only the number of loans but debt type that could be an important driver of economic results in economies that are intolerance to debt.

The debt service payments and total reserve have a long-term growth promoting effect, external buffer and fiscal constraint are important in the regards. Countries that can regularly satisfy their debt obligations usually inspired investor confidence and gain easier access. More importantly, high reserve balances limit exposure to external shocks and lessen the risk of debt accumulation turning

growth-constraining. On the other hand, a surge in interest rates would harm long-term growth. This shows how vulnerable ASEAN economies are to higher borrowing costs and globalization of monetary tightening. The need to invest in increasing productivity capacity is highlighted by gross fixed capital formation as it aids economic growth. The long-term effect of FDI is not positive, indicating that structural constraints such as crowding-out, profit repatriation, and inadequate absorptive capacity prevent FDI inflows from automatically converting into sustainable growth. They support all of the conclusion in the short run. According to error correction mechanism, variables adjust at a moderate speed towards long-run equilibrium. Also, it confirms that effect of debt accumulation is gradual and not quick. The short-term insignificant debt variables support the debt intolerance theory which argues that negative effects of debt are structural and cumulative. On the other hand, foreign direct investment (FDI) and total reserve have a positive short-term correlation due to the provision of instant liquidity, confidence, and demand-side stimulus.

The empirical results show that sovereign debt significantly affects economic growth in the seven ASEAN nations that are the subject of the study; however, the impact's direction and strength differ depending on the kind of debt. Long-term economic growth is found to be negatively and statistically significantly impacted by external debt, suggesting that an over-reliance on foreign borrowing limits growth in emerging economies. On the other hand, when government (domestic) debt is wisely managed and directed toward profitable and productive use of debt to projects like infrastructure, healthcare, and education, it positively affects long-term growth and can enhance the economic performance. These findings suggest that the growth consequences of sovereign debt are dependent on the type of debt, the quality of fiscal management, and macroeconomic capacity rather than being intrinsically detrimental. The short-run and long-run analyses also show an imbalances link between debt increase. Sovereign debt variables are short-run insignificant which means any change in sovereign debt does not affect economic growth in the short-run analysis. From then on, an increasingly important and statistically significant negative impact of external debt on growth emerges

whereas government debt, debt service capacity, foreign exchange reserve and gross fixed capital formation have a positive impact on growth. This shows that the linkage debt growth in ASEAN countries is basically a long-run phenomenon.

The results reject the null hypothesis (Ha1) sovereign debt has significant impact on economic growth in ASEAN countries and reject the null hypothesis (H01) that state there is no significant impact on economic growth. in a similar vein, the alternative hypothesis (Ha2) is accepted with a qualification that the significant relationship is present primarily in the long run the short-term impact is limited to reserve and FDI. Reject the null hypothesis (H02) there is no short-run and long-rung relationship between sovereign debt and economic growth. The framework fits to the theory of debt intolerance which states that delays in growth constraining debt absorption happen in economic growth.

Countries in the ASEAN must ensure a careful balance of borrowing from domestic and foreign sources as well as strengthen fiscal constraints. Additionally, reserve building and foreign direct investment should be used as temporary stabilizer. Future research my enhance this strategy by forecasting critical debt thresholds explicitly or using country- specific nonlinear models that seek to shed more light on the debt-growth dynamics in developing and emerging countries.

5.2 Suggestions

Researchers and policymakers may consider the following suggestions based on the research findings:

Recommendation for Policymakers:

1. Strategic Use of Government Debt

A positive association between GDP and government debt means that if managed well, government debt could be an effective instrument for financing productive projects like infrastructure, healthcare and education. Policy makers should aim at using government debt for productive and not consumption purposes for long run economic growth.

2. Manage External Debt

External debt negatively affects economic growth in the country if it rises

beyond a limit. Policy makers should on controlling external debt to GDP ratios and manage the sustainable debt holding so that the budgetary enforcement do not hinder growth. This means creating rules that negotiates careful consumption and low-cost measures.

3. Focus on Managing Interest Rate

According to the study, economic growth is negatively affected by interest rates. Policymakers need to frequently monitor and regulate interest rates especially in countries with high levels of sovereign debt, so as not to hamper investment and consumption.

4. Encourage Foreign Direct Investment

Foreign direct investment is an essential source of finance and technology for developing countries, although according to the study, it has little long-term impact on GDP. Policymakers should keep continuing the environment through infrastructure development, incentive and business reforms which attracts foreign direct investment.

Recommendation for Research:

1. Expand the Scope of Study

In futures studies, additional countries and regions will be examined to see if the link between sovereign debt and economic growth remains consistent in other economic conditions. By examining at developed nations and developing nation to compared on with the other facilitates to understand how sovereign debt affects growth. We can establish further studies to investigate longer-term effects of sovereign debt on economic growth under different conditions. We would have greater insight into long-term impact of debt on growth and development dynamics.

2. Examine Other Types of Debt

Future research should consider investigating a different type of debt's impact on economic growth through comparison with the economic growth of sovereign debt. Assessing the role of short-term and long-term debt facilities helps to achieve a better understanding of when the debt affects economic growth.

Moreover, it is essential for research to investigate selective sectors where sovereign debt exerts a growth impact. Policymakers can use this information to determine where their money will be allocated, and which sector will benefit from the sovereign debt or the other type. Alternatives to debt-to-GDP ratio, new indicators and methods for assessing debt sustainability may be helpful.

