PROCEEDINGS

ICCE

2012

INTERNATIONAL CONFERENCE

COMPETITIVENESS OF ECONOMY IN THE GLOBAL MARKET

Reaching Sustainable Economic Competitiveness:
Opportunity and Challenge at National, City, Industry,
Company, and Individual Level

Padang, February 10-11, 2012

ISBN 978-602-8977-62-6

BUNG HATTA UNIVERSITY PRESS

INTRODUCTORY

This international conference, with the main theme **"Competitiveness of Economy in the Global Market"**, is held on cooperation between Economy Faculty of Universitas Bung Hatta and Universiti Kebangsaan Malaysia. This event runs for two days from February 10th until 11th, 2012 at Pangeran Beach Hotel Padang, West Sumatera.

This main theme arises from a concern of academicians from the two universities towards various economy phenomenons, particularly competitiveness of the economy in the global market. Recently, the rapid development of economic globalization whichin line with the decrease of foreign imports tariffs has given disadvantageous influence on national enterprises, especially small and mediumenterprises. Meanwhile, Indonesian productsget harder to penetrate overseas market because of higher competition in the global market.This is definitely disadvantageous for Indonesia and will impact towards the employment, the efforts to decrease poverty rate, the creation of Gross Domestic Product (GDP), and the provision of local people's needs.

These various problems that arise at the economy sector in the context of globalization are surely cannot be separated from a poor economic competitiveness, i.e. the ability in creating quality products suited with the market's needs. This phenomenon happens surely because of the various things related each other such as the corporate management, financing, marketing strategies, production techniques, labors, available technologies, government policies, political wills, law enforcement, security, and so forth. Therefore this seminar is held involvingvarious disciplines such as economy science, management, accounting, and others science.

Presenters are divided into three discussion groups: keynote speech, main paper, and call paper from various Indonesian Universities and presenters from Universiti Kebangsaan Malaysia. There are a total of fifty papers presented with the participants from universities, enterprises, academicians, and postgraduate master students.

This book contains abstracts from all papers have been presented by the participants, while the full papers would be distributed in soft copy (CD) for all participants and those who need. We hope that the main ideas contained in this book can be useful for those who need, as the form of concern and responsibility from the academicians towards economic phenomenon in global market.

Padang, 10 February2012
Chairman of the Committee

Dr.Syafrizal Chan, SE, M.Si

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ABSTRACT

The purpose of this study is to test the validity of Keynesian and Ricardian view regarding the impact of budget deficit to the current account deficit in Asean countries including Indonesia, Thailand and Philippines and the implication of these deficits to the countries' economic growth. The empirical analysis using the ARDL (*Autoregressive Distributed Lag*) model and the *Bounds Test* for cointegration support the Keynesian view that there is a long run relationship between budget deficit and current account deficit in Philippines and Indonesia, while there is inconclusive result for Thailand. The result also shows that there is no long run relationship between the two deficits in Malaysia. The empirical result shows that there is a unidirectional causal relation running from current account deficit to budget deficit in Thailand and unidirectional causal relation running from budget deficit to current account deficit in Philippines and Indonesia.. A long run relationship between budget deficit, current account deficit and Gross Domestic Products (GDP) exist in all countries except Philippines. Budget deficit and current account deficit are seemed to have positive relationship with three countries. The diagnostic test result is suitable with the time series data used while CUSUM test shows that all models are stable.

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[1] Presented on International Conference 10-11 February 2012 in Faculty Economic, Universitas Bung Hatta Padang

Introduction

Budget deficit and the current account deficit which rise suddenly make the question both of them have the relationship. Research results showed there were a few loose relationship between both the intentions of this deficit. Several studies using the concept of Mundell-Fleming get the twin deficits relate cause and effect between the fiscal deficit with the current account deficit transaction.The other way, there are studies that have found no relationship between both the deficit. This decision is consistent with Ricardo. Two-way causal relationship is also often concluded in a study off. The invention differs from these studies is what drives the research off the twin deficits phenomenon is carried out by various countries.

Issues relating to the financing deficit and trade deficit have important implications for economic development in the many country's long-term period. For

example, the trade deficit problem continuation wil invited to the state for state wealth transfer to foreign countries and give weight to the generations to come. The primary reason is the increasing trade deficit increased deficit financing of the royal alliance, the current account can not be recovered but there is discretion to reduce this deficit financing (Antoni et al, 2007). Anyway, if it views the role of causality related financing deficit is not correct, then the reduction in the deficit financing of the fellowship can not resolve the problem of the trade deficit, instead of economic resources that should be used for terhad more policy relevant. So, getting to know certainly a causal relationship between both these deficits is very important.

Economic growth in countries that require deficit financing continues and the current account deficit usually be in the Guard. Traditional macroeconomic twin deficit estimate that continues can lead to impairment or degrading country's currency is beyond and sudden. Followed excessive deficit financing the current account deficit give effect to the sudden reduction in foreign exchange deposits and foreign exchange cause serious problems to the state. Precisely, using the data three countries Indonesia, Thailand and Philippina began from 1974 to 2010, the study sought to discover empirically twin deficit hypothesis and its implications to the country's economic growth. By using the ARDL method of cointegration and methods of bounds test, this study tries to examine the relationship between deficit financing deficit and the relationship between an account during both the deficit with the country's GDP. Onwards, the elasticity of the short-term and long-term period are estimated to see how changing one variable to another variable.

LITERATURE REVIEW

The results of the study concluded that out of a different relationship between the deficit financing of the trade deficit. Most of the research a causal relationship between both the deficit is the deficit financing of the trade deficit. This is evidenced by Aldostanci and Tunc (2003) in his research into the economic state of Turkey between the years 1987 to 2001. By using error correction model and cointegration methodology, the relationship between deficits with deficits deepening economic outcomes of the Turkish state in the short term and long-term future has been is identified. In the short-term expansion was found to worsen the fiscal deficit will again trade deficit. This research backing up any deficit financing subtracting the base can help improve the balance of trade in this country.

This discovery supported by Saleh et al. (2005) in his research into the state of Sri Lanka for all the data tempoh 1970 so 2003. Model Autoregressive Distributed Lag (ARDL) bounds test for cointegration and (Pesaran et al., 2001) is used to test the long-term relationship between berkombar deficit in the country. Empirical analysis supports the Keynesian view that where there are long-term relationship between an account imbalances during and deficit financing. Empirical decision also indicates the direction of causality is the deficit financing of the deficit during an account. Thus, any basis are being made to reduce the deficit financing in Sri Lanka can help reduce imbalances during an account.

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Anoruo and Ramchander (1998) also uses the analysis of multi-variate siri to examine the phenomenon of twin deficit in five developing countries in Asia namely in India, Indonesia, Korea, Malaysia and the Philippines. Period of the study is different between countries depending on existing data namely Malaysia: 1960 to 1993, India and the Philippines: 1957 to 1993; Korea: 1967 and 1993 and Indonesia: 1970 to 1993. Granger causality test based on the VAR model has been used to confirm the causal relationship between the two deficits. Kes increased shopping back to the kingdom as an act of domestic difficulties caused by penambahburukan trade balance has been tested. This study to get a whole, causing the trade deficit and fiscal deficit rather than vice versa. However, the empirical evidence indicates the country of Malaysia has a two-way causal relationship.

Mirgkathdeh & Saleh (2006) also examined the relationship between deficit financing beginning with the trade deficit in Lebanon for the period from 1970 to 2004 by using the ARDL method. The decision showed the trade deficit in Lebanon have long-term effects to the deficit financing. This discovery supported by Piersanti (2000) who employed Granger-Sims causality to examine the relationship between an account deficits by deficit financing during the 17 OECD countries in the year 1970 so the year 1997. He uses an account balance during the financing and gratuities to the GDP, compared to the absolute value. Research shows the deficit relates to an account during a large deficit financing. Aliswani (2000) that examines the dynamic between deficit berkembar using error correction model and the Johansen cointegration method to the country of Saudi Arabia started from 1970 to 1999 to get there is long-term relationship between these deficits and the direction of causality is from trade deficit to deficit financing.

Nonetheless, Islam (1998) which examines a causal relationship between deficit financing by the country's trade deficit for Brazil in the period from 1973 to 1991, using the Granger causality test to get there is a two-way causal relationship between both of these two deficits . This discovery supported by Biswas et al. (1992) which examines the empirical relationship between an account deficits during the deficit financing by using annual data Syarikat American countries. For the period between 1950 to 1988, studies have found a two-way causal relationship between the true deficit financing with net exports.

In contrast to the findings of another study, Araujo et al. (2007) in his research have found no causal relationship between the public deficit to the deficit outcome. This conclusion is proved empirically by budgeting model panel data for 35 pieces of state in the long period 1991 to 2000. The study by Evans (1989) using data from countries Canada, France, West Germany, Italy, Japan as, United Kingdom and the United Syarikat also prove empirically that support Ricardo equivalence where there is no clear relationship between both the deficit.

RESEARCH METHODOLOGY

Data

Variable model consisting of annual data Deficit Financing (BD) During Account Deficit (CAD) and the State Gross Output (GDP). All data taken from Financial Statistics data base Antarabangsa IMF (IFS). This provides a measure of CAD data in U.S. dollars and GDP Syarikat while BD are given in rupiah sizes . To ensure equivalence, the rate of the rupiah per U.S. dollar Syarikat has been used to exchange CAD to the size of rupiah. Period of the study from 1974 until 2010.

Unit Root Test

All the variables that were examined are time sequence data, the variables were tested prior unit root stage. Time series data something is said stationary if the min and its variants are constant with time and conversely, is not stationary if the min and its variants have time to follow the trend. In this study, the method of Augmented Dickey Fuller (ADF) which was introduced by Said and Dickey (1984) and Phillips Perron test (PP) is used. ADF equation is as follows:

$$\Delta Y_t = \delta_0 + \delta_1 Y_{t-1} + \delta_i \sum \delta Y_{t-i} + v_t \qquad [1]$$

where ΔYt is the first to siri diffrent the Yt (Yt - Yt-1). βD is a shortcut, vt is the error and m is the length of lat. To get a white noise error term is the optimum lat determined using the Akaike Information Criteria (AIC) which is reserved by the Akaike (1977). PP test also takes about the problems that might intentions in the disturbance factor, especially if the variance of the disturbance factors are not evergreen. Pp test involves the following equation:

$$\Delta Y_t = \mu_1 + \alpha_1 Y_{t-1} + \varepsilon_t \qquad [2]$$

$$\Delta Y_t = \mu_1 + \alpha_1 Y_{t-1} + \alpha_2 t + \varepsilon_t \qquad [3]$$

Where in the first times series ΔYt is Y and t is time trend. For Y to be stationary, the t-statistic $\hat{\alpha}$ ($\alpha=\mu$) must keep close track of negative and significantly different from sifar. PP critical values for this test is obtained from Mackinnon (1991).

Granger Causality Testing

Granger causality test is used to identified the direction of a causal link between deficit financing, during an account deficits and GDP. Causality involves budgeting model Vector Autoregressive (VAR). For KES relationship between deficit financing with an account deficits during, if an account deficits during (CAD) Granger cause financial deficit (BD), BD → CAD namely, the VAR model is:

$$CAD_t = \sum_{i=1}^{p} \alpha_i CAD_{t-i} + \sum_{j=1}^{q} \delta_j BD_{t-j} + \mu_t \qquad [4]$$

Sebaliknya, jika BD → CAD, maka model VAR adalah:

$$BD_t = \sum_{i=1}^{p} \delta_i BD_{t-i} + \sum_{j=1}^{q} \xi_j CAD_{t-j} + v_t \qquad [5]$$

If the direction of causality can be is identified using the Granger causality test, the relationship between the twin deficits Vector Autoregressive model is characterized by the composition of a [VAR(p)]:

$$z_t = \mu + \delta_t + \sum_{j=1}^{p-1} \Theta_j z_{t-j} + \varepsilon_t, \; t = 1, 2 \ldots \quad (6)$$

where zt = [yt, xt] ', μ is the vector of constant terms μ = [μy, μ x]', t is a linear trend, δ = [δy, δx] and Oi is a VAR parameter matrix for lag j. In the context of this problem, if BD → CAD, then yt = [CADt] and xt = [BDT]. Conversely, if BD → CAD, then yt = [BDT] and xt = [CADt]. VAR model is also used to identified the direction of a causal relationship between deficits and deficit financing during an account with the country's GDP.

Autoregressive Distributed Lag (ARDL) and bounds test

By using the ARDL framework, bounds cointegration test methods used to assess an account deficits during siamada, deficit financing and GDP move together in the long term. ARDL framework has several important good versus traditional cointegration techniques are reserved by Engle and Granger (1987), Johansen (1988) and Johansen and Juselius (1990). First, the budget of UECM formulation is consistent and normally distributed without reference to related variables are I (0) or I (1) (Pesaran and Pesaran and Shin 1999, 1997). Second, budgeting and bounds UECM trustworthy test for small samples (Pesaran and Shin 1999). In addition, endogeneity is less problematic if the misprint in the ARDL bersifat not correlated.

Xt and yt and there I found the same (0) or I (1). xt also be on the integration of different degree like existence of I (0) or I (1). Error terms et be distributed consistently as et = [εy, t, εx, t] ': ¥ (0, Ω) where Ω is positive when:

$$\Omega = \begin{pmatrix} \omega_{yy} & \omega_{yx} \\ \omega_{yx} & \omega_{xx} \end{pmatrix} \quad (7)$$

The long run multiplier matrix given by λ, and can be characterized by:

$$\lambda = \begin{pmatrix} \lambda_{yy} & \lambda_{yx} \\ \lambda_{xy} & \lambda_{xx} \end{pmatrix} = - \left(1 - \sum_{j=1}^{p} \theta_j \right)^{p} \quad (8)$$

where I is the matrix identiti. Element λ is not curbed, then series have confirmed the possibility of integration of different degree, as I (0) or I (1). If λyy = 0, then y is I (1). In case λyy <0, y is I (0). Specifications ARDL model [p, q] can be written as follows:

$$\Delta y_t = \alpha_0 + \alpha_1 t + \beta y_{t-1} + \phi w_{t-1} + \sum_{j=1}^{p-1} \gamma_j \Delta y_{t-j} + \sum_{j=0}^{q-1} \delta_j \Delta x_{t-j} + \mu_t, \; t = 1, 2 \ldots \quad (9)$$

where ∅ and ψ is a long-term multiplier, βx, and βx i, j is the short-term multiplier. βy using the specification (3.4.3), we can test as does as y moving along with the xt. This test called the bounds test is reserved by Pesaran et al. (2001). Two test methods are as follows: First, we estimate model in (3.4.3), using the power of the two smallest (OLS). Second, we examine the long-term relationship between existence with xt yt yt with curb-1 and the coefficient of xt-1 together with sifar. Bounds test is the same as the Wald-type test (F statistic) where the zero and alternative hypotheses are as follows:

$$Ho : \emptyset = 0 \text{ dan } \psi = 0$$
$$Ha : \emptyset \neq 0 \text{ dan } \psi \neq 0$$

However, the distributed of asymptotic bounds test statistic under the zero hypothesis of no cointegration relationship between yt with xt is not an expert. F statistic is thought under the zero hypothesis than the critical value given in Narayan (2005). F statistic is mistaken (F-Bounds) compared with Critical Lower Bound (LCB) and Critical Upper Bound (UCB).

If $F_{Bounds} >$ UCB → y_t cointegration with x_t

Ha $F_{Bounds} <$ LCB → y_t no coitegration with x_t

If LCB ≤ F_{Bounds} ≤ UCB → not exactly.

Degree of integration described the variable to be determined before definitive results regarding long-term relationship between yt with xt can be achieved. Rejection of no cointegration relationship suggests a long-term intentions are stable relationship between yt with xt. . We can also estimate coefficient (elasticity) long-term and short term for the model that has been established. For selecting the corresponding model in (3.4.3), ARDL (p, q) are budgeted using a different lag length of p and q, namely p = (1 to 3) and q = (1 to 3). p, q does not exceed 3 to circumvent the loss of degree freedom.

Several different specifications of the lag has been tested to ensure that decisions are obtained statistically significant and selari cointegration methods. AIC criteria used to select the lag length which corresponds to the ARDL model. To examine the relationship between deficit financing with an account deficits during, the specification used is unrestricted intercept with trend (KES V in Narayan et al., 2005) while for examining the relationship between deficits and deficit financing during the GDP is also an account, the specification used is unrestricted intercept without trend (KES III in Narayan et al., 2005). ARDL model is given in (10) can be written as:

$$\Delta BD_t = \alpha_0 + \alpha_1 t + \emptyset BD_{t-1} + \psi CAD_{t-1} + \sum_{j=1}^{p-1} \delta_{y,j} \Delta BD_{t-j} + \sum_{j=0}^{q-1} \delta_{x,j} \Delta CAD_{t-j} + \rho_t \quad (10)$$

EMPIRICAL ANALYSIS RESULTS

Table 1 summarizes the decisions of two types namely the unit root test ADF test and PP test with trend and without trend. Panel A shows the test decision stationary level on stage while panel B shows the test decision different stationery the first stage. The results of the analysis to get all of the variables as does as with no trend or no trend stationary level phase. Stationary variables that do not mean the

zero hypothesis is rejected and failed to show the data did not reach the stage stationary level. Onwards, continued to test stationery from first different level stage. At this stage, the null hypothesis is rejected, saying all these stationary variables in the first stage diffent at 1 percent level of confidence but without a trend stationary variable GDP at 10 percent confidence level. This means that intentions are shared stochastic trends among the variables.

Table 1
Satationery Test With ADF Test and PP Test

	ADF		PP	
	τ_μ	τ_τ	τ_μ	τ_τ
A. Degree I(0)				
Indonesia				
• CAD	-1.1275	-2.6143	-1.5380	-2.1927
• BD	-1.1202	-2.1995	-2.1390	-2.1385
• GDP	0.0984	-3.0892	0.0904	-0.9606
Thailand				
• CAD	-4.0089**	-3.9940**	-1.7789	-1.6757
• BD	-2.3945	-3.1155	-2.3945	-3.0773
• GDP	-1.9557	-2.2665	-1.8971	-2.3270
Filiphina				
• CAD	-2.9939***	-2.9997	-2.8721***	-2.9404
• BD	-1.2718	-1.7771	-1.4715	-1.8787
• GDP	0.1832	-2.1297	0.1732	-2.0964
B. First Different I(1)				
Indonesia				
• CAD	-3.9824*	-3.8428*	-3.9473*	-3.8329**
• BD	-4.5827*	-4.6410*	-4.6438*	-4.5430*
• GDP	-4.1338*	-4.3619**	-4.0752*	-4.2230**
Thailand				
• CAD	-4.5561*	-4.4911*	-3.1443**	-3.0735*
• BD	-7.7614*	-7.7153*	-9.0443*	-10.6762*
• GDP	-5.5821*	-5.5415*	-5.6035*	-5.6216*
Filiphina				
• CAD	-7.1667*	-7.2382*	-8.1342*	-10.5976*
• BD	-4.6837*	-4.5848*	-4.6749*	-4.6928*
• GDP	-5.6643*	-5.7331*	-5.8563*	-5.7553*

Note: ADF and PP test: τ_μ with iron; τ_τ with iron, Sign (*), (**)-dan (***) each root test with significant 1%, 5% and 10%

Table 2 formulates decisions Granger causality test. There is a two-way causal relationship between the weak an account deficits during the deficit financing. Decisions during the test demonstrated an account deficits over deficit financing

affects 1 percent confidence level. One-way causal relationship from financial deficit to GDP and of GDP the current account deficit is also known.

Table 2.
The Result Test Granger causality

Hipotesis Nol	Statistic F	p
Indonesia:		
CAD is not Granger cause BD	0.9287	0.4521
BD is not Granger cause CAD	4.3839	0.0362**
Filipina:		
CAD is not Granger cause BD	2.0053	0.1584
BD is not Granger cause CAD	4.8293	0.0334**
Thailand:		
CAD is not Granger cause BD	8.0004	0.0029*
BD is not Granger cause CAD	0.3489	0.9962

Note: Note: The sign (*), (**) and (***) respectively indicate significant at 1% confidence level, 5% and 10%.

Autoregressive Distributed Lag (ARDL) and bounds test

Long-term relationship

Long-term relationship between the deficit financing of the deficit and deficit financing during an account and an account deficits to GDP during the examined using the bounds test. Based on Table 3, the F statistic is 9.9647 and bound critical value of 1 percent 5 percent and 10 percent, respectively [8.977, 10.413], [5.550, 6.747] and [4.577, 5.600]. F statistic values are higher than the upper bound critical value at 1 percent confidence level indicate there is a long-term relationship between the deficit financing of the deficit during an account. From Table 4 Similarly, there was found a long-term relationship between GDP deficit financing by the state in which the F statistic (9.1755) is higher than the upper bound critical value at 5 percent level of confidence. Statistical value of F (68.6569) is higher than the upper bound critical value at 1 percent confidence level in Table 5 also shows there is a long-term relationship between an account deficits during the country's GDP.

Table 3
The relationship with financed deficit cointegration with current account deficit

Country	Statistic F	Bounds Critical 1%		5%		10%	
		Lower	Upper	Lower	Upper	Lower	Upper
Indonesia	9.9647*	8.977	10.413	5.550	6.747	4.577	5.600
Thailand	4.1265	6.183	8.873	4.267	5.473	3.497	4.470
Filipina	8.1761**	6.183	8.873	4.267	5.473	3.497	4.470

Note: The sign (*), (**) and (***) respectively indicate significant at 1% confidence level, 5% and 10%.

Table 4
The relationship with financed deficit cointegration with current account deficit with GDP

Country	Statistic F	Bounds Critical 1%		5%		10%	
		Lower	Upper	Lower	Upper	Lower	Upper
Indonesia	9.1755*	6.183	7.873	4.267	5.473	3.437	4.470
Thailand	68.6569*	6.183	7.873	4.267	5.473	3.437	4.470
Filiphina	3.6667	6.183	7.873	4.267	5.473	3.437	4.470

Not: The sign [*], [**] and [***] respectively indicate significant at 1% confidence level, 5% and 10%.

The Relationship of Long Run Elasticity

Coefficient (elasticity) of long-term estiamte the ARDL model are shown in Table 5 and 6. Obtained in long-term cuurent account deficit in during the period having a significant effect (at 1 percent confidence level) to the deficit financing. Table 5 show that Deficit financing in Filiphina and Indonesia have negative influence to transaction current account deficit. Improvement 1 % in deficit financing in Filiphina push deficit current account to decrease equal to 0.88% whereas in Indonesia, if deficit financing mount 1%, current account deficit to decrease equal to 1.42%. Table 6 in Thailand and Indonesia state show elasticity current account deficit have influence positive and significant with GDP. 1 unit improvement in the deficit financing push the country's GDP increased by 52.2233 units. Etc

Table 5
The Long run elasticity with finance deficit and current account deficit

Country	Dependent variable: CAD Variabel	Coefficient	p-value
Filiphina	BD	-0.8827	0.0243**
Indonesia	BD	-1.4160	0.0037*

Not: The sign [*], [**] and [***] respectively indicate significant at 1% confidence level, 5% and 10%.

Table 6
The Long run elasticity with finance deficit and current account deficit and GDP

Country	Dependent Variable: GDP Variabel	Coeficient	p-Value
Thailand	BD	52.2233	0.5590
	CAD	74.9320	0.0936***
Indonesia	BD	80.0746	0.0033*
	CAD	74.2937	0.0006*

Not: The sign [*], [**] and [***] respectively indicate significant at 1% confidence level, 5% and 10%.

The Relationship of Short Run Elasticity

Table 7 shows the relationship between short-term elasticity deficit financing, current account deficits. Obtained, Filipines and Indonesia state in the short-term period of 1 unit increase in variable deficit financing increased current account deficit as much as 0.8952 and 0.3882 units. both the state have relationship of signifikan except state of Thailand.

Table 7

The short run elasticity with finance deficit and current account deficit

	Dependet Variable: CAD	
Country	**Coefficient**	**p-Value**
Thailand	-0.0205	0.4242
Filiphina	0.8952	0.0561***
Indonesia	0.3882	0.0178**

Not: The sign (*), (**) and (***) respectively indicate significant at 1% confidence level, 5% and 10%.

Table 8 shows elasticity short-term deficit financing and the relationship between an account deficits during the country's GDP. Obtained, in the short-term deficit financing has a positive and significant influence over the GDP for all countries.. An account deficits during the state of Indonesia is also negatively related to the country's GDP while the intention is a positive relationship between GDP deficit with Thailand and the Philippines.

Table 8

The Short run elasticity with finance deficit and current account deficit and GDP

		Dependent Variabel : GDP	
Country	**Variabel**	**Coefficient**	**p-Va**
Thailand	BD	51.3826	0.0010*
	CAD	15.5307	0.0013*
Filiphina	BD	4.4579	0.0511***
	CAD	0.0301	0.0389**
Indonesia	BD	20.1830	0.0004**
	CAD	-23.3437	0.0280**

Not: The sign (*), (**) and (***) respectively indicate significant at 1% confidence level, 5% and 10%.

Table 9 as show some diagnostic tests done to determine the pertinence as a test model using the Breusch-Godfrey Autoregressive Serial Correlaton LM Test, test to test volatiliti residual Arch, test normaliti pursuant to skewness, kurtosis and the Jarque Bera test for residual and Cusum for testing the stability equation. Based on tests using the Breusch-Godfrey Autoregressive Serial Correlaton LM Test, was found to fail hippotesis zero is rejected for all of cases. Failure to reject the null hypothesis means that the residual is white noise with constant variance and min null. ARCH test using F statistics also show no intention ARCH effect for all of the null hypothesis namely KIS because no intention to fail ARCH effect is rejected. Onwards, a normality test data Cusum test is normal and get the equation is stable.

Table 9
The Diagnostic test on the residual model

	Uji AR *odfrey Serial Correlation LM Test)*	Uji ARCH *(ARCH test)*	Uji Kenormalan *(Jarque Bera Test)*
Hipotesis:	**Ho**: Residual with 'white noise'	**Ho**: no influent with ARCH	**Ho**: Normal
A. The relationship Deficit Finance with Current Account Deficit			
Thailand	Statistic F=0.8994	Statistic F= 1.6385	Statistic F=3.4384
	p-value=0.4934	p-value=0.2458	p-value=0.1812
Filiphina	Statistic F=0.1947	Statistic F= 0.0312	Statistic F=22.4475*
	p-value=0.8346	p-value=0.8673	p-value=0.0000
Indonesia	Statistick F=0.7360	Statistic F= 0.9697	Statistic F=0.6685
	p-value=0.5287	p-value=0.4041	p-value=0.7183
B. The relationship Deficit Finance with Current Account Deficit with GDP			
Thailand	Statistic F=0.4943	Statistic F= 1.7124	Statistic F=2.4171
	p-value=0.6226	p-value=0.2057	p-value=0.2995
Filiphina	Statistic F=0.1117	Statistic F= 0.2933	Statistic F=7.3256**
	p-value=0.8968	p-value=0.5943	p-value=0.0256
Indonesia	Statistic F=9.5084***	Statistic F= 1.2081	Statistic F=0.5121
	p-value=0.011	p-value=0.2556	p-value=0.7711

Not: The sign (*), (**) and (***) respectively indicate significant at 2% confidence level, 5% and 10%.

CONCLUSIONS AND POLICY IMPLICATIONS

Research into the all state data originated from in 1974 to the year 2010 shows the relationship between current account deficit, deficit financing and the country's GDP is as follows: an account deficits during the affect deficit financing, deficit financing also affect GDP and GDP affect deficit so traksaksi running. All these relationships were positive in the long term but in the short term affect the country's GDP during an account deficits in the negative. The relationship between an account deficits during the deficit financing and the financing deficit to GDP was again positive in the short term.

The findings from studies undertaken publishing some basic implications. Which, although rising deficits and deficit financing is seen as an account during a

sweat problem, but the empirical evidence that a positive deficit financing in connection with the country's GDP showed the country to make the investment in and development of the country trying to promote and enhance the country's economic growth in the long term. Fiscal deficits and imbalances transaction run that gave the problem to the state requires work which contains both the fiscal and financial base. Provide basic support to progress produktivity, content exchange and stabilization of Finance will complement the shortage of basic finance.

Many previous studies of ways to reduce the deficit back up an account during a critical state is to increase savings by subtracting the deficit and increase the levels of savings financing individualness (Antoni, 2009). However, the two-way causal relationship between an account deficits by deficit financing during the show we can not just rely on deficit reduction partnership to reduce deficit financing during an account. We can not assume the financing community as the basic variables are fully escorted. Although the fiscal base has important macroeconomic implications, we can not ignore the financial implications due to changes in the exogenous variables trade between countris.

The decision showed the financing deficit reduction can be achieved if the police are aggressively promoting trade strategy to promote exports. Economy as a whole was seen to benefit from the positive spillover effects from the export sector growth. The country of the police should carry out an import replacement promote expenditure and terms of trade improve. In instructing domestic savings rate is also higher, it should run a business empire continues of individualness promoting and strengthening of the fiscal savings to increase public savings. Administration affairs and methods of more efficient tax collection also needs to be emphasized.

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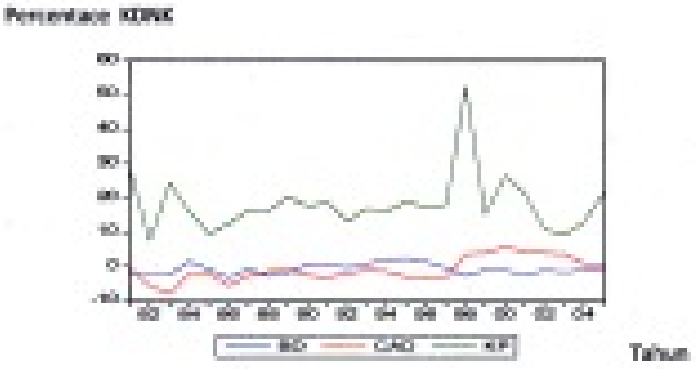
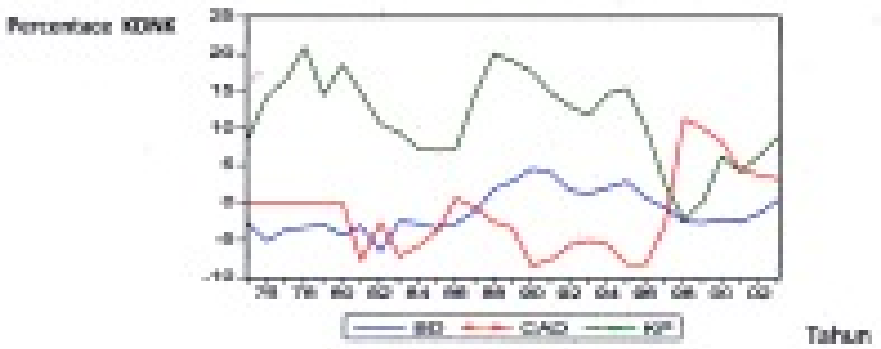
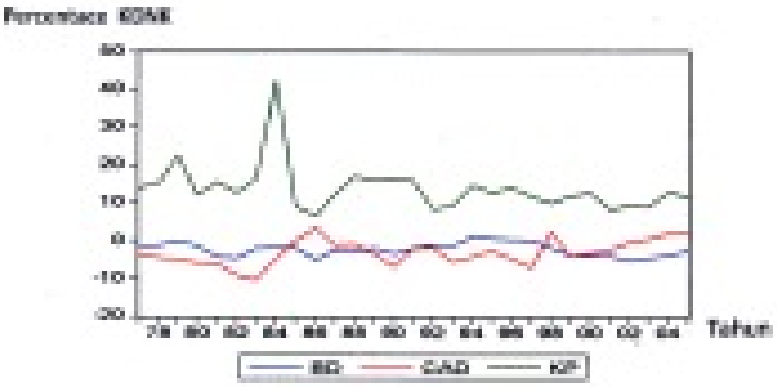


Gambar 1 Finance deficit, current account deficit and economic growth in Indonesia , 1974-2010, International Financial Statistics, IMF (IFS)



Gambar 2 Finance deficit, current account deficit and economic growth in Thailand, 1974-2010, International Financial Statistics, IMF (IFS)



Gambar 2 Finance deficit, current account deficit and economic growth in Filipina, 1971-2010, International Financial Statistics, IMF (IFS)