

Threshold Analysis of Governmental Developmental Expenditures and Relevant Impacts on the Association of Southeast Asian Nations (ASEAN)

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<https://doi.org/10.58458/ipnj.v15.01.06.0115>

Received: 28 October 2024

Reviewed: 7 March 2025

Accepted: 17 April 2025

Published: 26 June 2025

Abstract

Purpose: Sustainable economic growth serves as the top priority for global governments, especially in rapidly developing regions. The allocation of governmental developmental expenditures plays an essential role in economic strategies by directing financial resources towards infrastructure, education, health, and technology initiatives, which potentially leads to productivity improvements and private sector investments despite the actual impact yet to be determined.

Objective: The current study seeks to analyse how governmental developmental expenditures contribute to economic growth through non-linear associations among the Association of Southeast Asian Nations (ASEAN) countries.

Methodology: Panel threshold regression was conducted to appraise the study hypothesis, which could flexibly measure how governmental developmental expenditures influenced economic growth through observations from 10 ASEAN nations between 2000 and 2022.

Variables: The independent variable was governmental developmental expenditures while Gross Domestic Product (GDP) per capita was the dependent variable, with inflation, foreign direct investments, and gross national expenditures serving as control variables.

This article is part of a research on Unravelling Growth Patterns: Government Development Expenditure, ASEAN Economic Performance, and Policy Implications for Malaysia supported by the Accountant General's Department of Malaysia through *Geran Penyelidikan Perakaunan dan Kewangan Sektor Awam Tahun 2024* (JANM.100-12/2/1 (13)).

Results: The critical threshold value was identified as 1.2696, which suggested slower economic growth when governmental spending remained below the threshold while surpassing the threshold would lead to limited additional benefits. Hence, a balanced approach to public spending is essential, wherein governmental spending effectiveness relies on the allocated budget, economic structure, governance framework, and institutional capacity.

Policy Recommendations: The ASEAN governments should develop and implement a targeted developmental budget strategy to exceed the stipulated threshold in preventing risks from underspending. While expanding governmental budgets is critical, the priority is also enhancing efficiency within essential sectors, including infrastructure, education, and technology.

Conclusion: The present study analysed the most optimal method to allocate governmental budgets for development. The findings demonstrated that spending above the stipulated threshold did not significantly contribute to economic growth among ASEAN nations. Simultaneously, underspending would constrain the economy, which posited that sufficient budgets and effective leadership were pivotal factors.

Originality/ Value: The current study demonstrated to the policymakers that sufficient governmental budgets are imperative for national development and economic growth among ASEAN countries.

Keywords: Governmental developmental expenditures, economic growth, ASEAN nations, panel threshold regression