

ABSTRACT

The purpose of this study is to analyze the influence of crime on economic growth between provinces in Indonesia and to find the impact of spatial spillovers during 2018–2024. Three indicators used in this study are total crime, homicide, and fraud. The Rule of Law is used as a moderating variable, while education, investment, and population are used as independent variables, and COVID-19 is used as a control variable. This study uses panel data from 34 provinces in Indonesia for the period 2018–2024 using the Spatial Durbin Model with Fixed Effects to capture the direct and indirect effects between regions. The spatial weighting matrix used is the K-Nearest Neighbor with a value of $k = 5$. The results show that economic growth between provinces in Indonesia has a positive spatial dependence and has different effects on economic growth depending on the type of crime analyzed. The total crime variable has a negative effect on growth through direct, indirect, and total effects, while the rule of law variable has a positive moderating effect on the impact of crime on growth through direct, indirect, and total effects. The homicide variable has a negative effect on growth indirectly and in total effect, while the rule of law variable has a negative effect moderating the impact of homicide on growth directly, indirectly, and in total effect. The fraud variable has a negative effect on growth directly, indirectly, and in total effect, while the rule of law variable has a negative effect indirectly and in total effect. The implications of this study indicate that the role of the rule of law differs according to the type of crime. In total crime, the rule of law is able to reduce the negative impact of crime on economic growth. However, in homicide and fraud, the rule of law is not fully effective in suppressing the impact of crime on economic growth, especially because homicide is related to a sense of security and social risk, while fraud has a cross-regional character through a network of economic transactions. This indicates that the quality of law enforcement tends to be extractive.

Keywords: *Economic growth, Crime, Rule of law, spillover, Spatial Durbin Model (SDM)*

JEL Classification: C23, K42, O47, R12