

COMPARISON OF THE EFFECT OF FOREIGN DEBT ON ECONOMIC GROWTH OF INDONESIA IN THREE PERIODS OF GOVERNMENT

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Abstract

This purpose of this article is to determine the ratio of the effect of foreign debt on economic growth. Since the reign of the Old Order up to the reign of the Reform Order to date, the Indonesian government has always done debt (overseas loans). So as if the growth that accomplished by the Indonesian economy each year can not be separated from foreign debt. The data used are secondary data obtained from the Central Bureau of Statistics and Bank Indonesia. The analysis technique to be used is Quantitative Descriptive Method. The results of hypothesis test show that the effect of foreign debt on economic growth only during the Reform Order.

Keywords: *Foreign Debt, Economic Growth*

I. INTRODUCTION

1.1. Backgrounds

Economic growth is a process of increasing the production capacity of an economy that can be measured through an increase in national income. With the growth of the economy can be indicated success in economic development. To achieve high economic development requires a large amount of capital, so many countries in the world finance economic development by overseas loans (debt), especially developing countries such as Indonesia. In the early stage of development (early stage of development), a country's foreign debt has increased because the country has no capital development. However, during the stage of development, the foreign debt of a country will decrease. In other

words, there is a negative correlation between economic growth and external debt

During the Old Order (1945-1966), a newly independent Indonesia needed substantial funds to undertake development in order to improve the living standards of the people who were hurt by the Dutch colonialism. So Indonesia began to borrow (debt) from abroad. Indonesia's foreign debt amounted to USD 2.1 billion or 29% of total GDP. The debt was inherited to the new order government. In this old order period, economic growth has not shown a significant increase. During the New Order (1967-1998), foreign debts grew larger as the re-entry of Indonesia became a member of the IMF and World Bank. In addition, countries, coordinated by the Dutch government

incorporated in IGGI, further increase Indonesia's foreign debt. However, it can not be denied that during the New Order, Indonesia achieved relatively high economic growth. In 1998, the new order had foreign debt of USD 171 billion to the next government.

The reign of the Reform Order (1998-2014), consisted of several periods of leadership, namely:

1. The transition period of BJ Habibie, accumulated additional foreign debt of Indonesia up to USD 20 billion, the total foreign debt of Habibie period inherited to the next government was USD 178 billion
2. The period of Abdulrahman Wahid, had reduced Indonesia's foreign debt amounted USD 21.1 become USD 157 billion, But at the end of leadership, Gus Dur had foreign debt become 1,273.18 trillion Rupiahs to the next government.
3. The period of Megawati, the amount of debt Indonesia has decreased to Rp. 1,225.15 trillion by way of the sale of state assets. And at the end of the term of office, Megawati foreign debt of 1,299.5 trillion Rupiahs
4. The tenure of SBY, Indonesia's foreign debt from the IMF has been settled. However, at the end of the reign, SBY foreign the debt of 2.023 triliion Rupiahs to the next government

The increase in foreign debt during this reformation period has not been accompanied by an increase in the continuous growth of economists, The purpose of this research to determine "The Effect of Foreign Debt on

Indonesian Economic Growth in Three Periods of Government

Hypothesis in this research are 1) Suspected there was an influence of foreign debt on economic growth during the Old Order. 2) Suspected there was an influence of foreign debt on economic growth during the New Order period. 3). Suspected there was an influence of foreign debt on economic growth during the Reform Order

2. LITERATURE REVIEW

2.1. Foreign Debt

2.1.1. Definition and Causes

According to Bank Indonesia, the position of Indonesia's Foreign Debt (ULN) is based the actual obligations of the Indonesian population to non-residents at a time, excluding contingent, requiring interest and / or principal repayment in the future

Broadly speaking, foreign debt is grouped into 2, that is

1. Government Overseas Debt
That is debt held by the central government, consisting of bilateral / multilateral debts, export credit facilities, commercial debt, and leasing, as well as State Securities (issued outside and inside the country) owned by non- population.
2. Private Overseas Debt
The foreign debt of the population (other than the government and central bank) was non-residents in foreign currency and rupiah based on the loan agreements or other agreements, deposits and other obligations. Included in the component of private foreign debt is the obligation in form of debt securities issued in the country and owned by non-residents. The private sector includes banks and non-banks.

Private non-bank consists of Non-Bank Financial Institutions and non-financial companies, as well as individuals.

2.1.2. Causes of Foreign Debt

The foreign debt crisis began in the 1980s, and the experienced not only by developed countries but also by developing countries. The causes of the foreign debt crisis are: (Tambunan, 2012)

1. The current account deficit exceeds the current account surplus, resulting in reduced foreign exchange reserves . The state will make loans or foreign debt . to cover the cost of importing capital goods and the needs of domestic production activities.
2. The funds needed for investment exceeds the funds available in the country or in other words the amount of investment is greater

than the savings of the community (investment-saving gap)

3. High inflation rate
4. Structural inefficient in the economy

2.2. Economic Growth

Economic growth is defined as a long-term increase in each capita output. There are three aspects that need to be considered in the definition, namely: (1) process, (2) output per capita, and (3) long term. Economic growth is a process, not an economic picture at a time.

Simon Kuznet (in SadonoSukirno 2012) defines the economic growth of a country as "the country's ability to provide an ever-increasing economic goods for its inhabitants, the growth of this capability based on technological and institutional advancement and the ideological adjustment it needs."

2.3. Conceptual Framwork

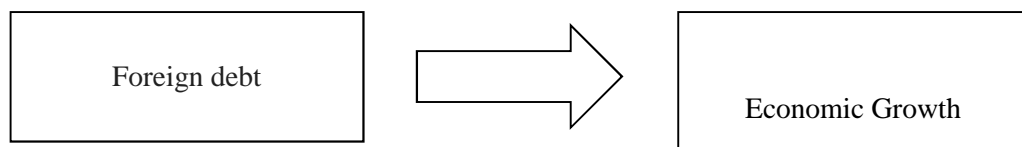


Figure 1 explains the relationship between Foreign Debt on Economic Growth

Source : Processed (2016)

3. Research Method

3.1 Research Site

The research location is where researchers collect data. Therefore, this research is conducted at the Central Bureau of Statistics and Bank Indonesia,

where both places provide data that researchers needed.

3.2 Method Used and Data Analysis Technique

The method used in this study is a quantitative method by using data in the form of numbers to analyze how big the influence of foreign debt on economic growth

There are several steps used in this method:

1. Perform normality test data .The data is normally distributed or not
The statistical test used for the normality test in this study is the normality test of the kolmogorov-smirnov method. If the table kolmogorofsmirnov (KS)> 0.05 then the residual is normally distributed.
2. Perform F Test where:
 - a. If F arithmetic (F on output)> F table, H0 is rejected.
 - b. If F arithmetic (number F at

output) <F table, H0 is accepted

3. Determining a mathematical method to reflects a causal relationship between variables depends on independent variables
4. Simple regression
In this research, a simple linear regression model is formulated as follows
$$Y = a + b X + e$$

Where :

Y = Economic Growth

X = Foreign Debt

e = error

a = Constanta

b = Regression Coefficient

4. RESULTS AND DISCUSSION

4.1. The Effect of Foreign Debt on Economic Growth in Old Order Period

1. Normality Test

Table 1
Normality Test

One-Sample Kolmogorov-Smirnov Test			Unstand ardized Residual
N			16
Normal Parameters ^{a,b}	Mean		,000000
	Std. Deviation		151257, 41594193
Most Differences	Extreme	Absolute	,276
		Positive	,276
		Negative	-,201
		Kolmogorov-Smirnov Z	1,105
		Asymp. Sig. (2-tailed)	,174

From Table 1, it is known that the value of Kolmogorov-Smirnov is 1.105. Asymp value. Sig. (2-tailed) on the Kolmogorov-Smirnov One-Sample Test table is greater than 0.05 (0.174 > 0.05). It can be deduced that

the residuals are normally distributed.

2. Descriptive statistics

Descriptive statistics is an analysis that is used to provide an explanation or description of an observed data

Table 2
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FD(miliar US\$)	16	218,10	103067,00	39904,8188	45048,92840
PDB (miliarRp)	16	100000,00	685375,02	319696,0881	217014,55192
Valid N (listwise)	16				

Considering the table 4.1.2. , it is known that the average for Foreign Debt (ULN) (billion US \$) for 16 years from

1951 to 1966 amounted to 39904,819. While the GDP (billion Rp) has an average of 319696,088.

3. Correlation Test

Table 3
Correlations

		FD (miliar US\$)	PDB (miliarRp)
FD (miliar US\$)	Pearson Correlation	1	,717**
	Sig. (2-tailed)		,002
	N	16	16
PDB (miliarRp)	Pearson Correlation	,717**	1
	Sig. (2-tailed)	,002	
	N	16	16

** . Correlation is significant at the 0.01 level (2-tailed).

According to the above table, it is known that the probability value (Sig.) Is 0.002 which is smaller than 0.05 then it can be drawn a conclusion that there is

a relationship between the variable of foreign debt with the gross domestic product .

4. Regression Test

Table 4

ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3,632E11	1	3,632E11	14,819	,002^a
	Residual	3,432E11	14	2,451E10		
	Total	7,064E11	15			

a. Predictors: (Constant), FD (miliar US\$)

b. Dependent Variable: GDP (miliarRp)

The result of Regression test is show that F arithmetic is $14.819 > 4.600$ (F table). It means can that there is **significant influence of Foreign Debt**

on Gross Domestic Product. The result of this research is consistent with the result of research conducted by Rahman (2017).

5. Summary Model

Table.4.1.5.

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,717^a	,514	,480	156566,30000

a. Predictors: (Constant), FD (miliar US\$)

b. Dependent Variable: GDP (miliarRp)

Correlation

Based on the summary model table 4.1.5. in column R it is known that the value of R is 0.717 or has a **strong level of closeness** (Sugiyono, 2010).

Based on the summary model table in the R Square column it is known that the

R Square value is 0.514 or 51.4% the ability of Foreign Debt to explain or affect the Gross Domestic Product in Indonesia. And the rest of 48.6% is explained or influenced by other variables is not observed in this observation.

6. Mathematical Model

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
<i>Table 6</i> (Constant)	181849,299	53050,498		3,428	,004
FD (miliar US\$)	3,454	,897	,717	3,849	,002

a. Dependent Variable: GDP (miliarRp)

Based on the above table, it can be seen that the mathematical model is formed is as follows:

$$Y = a + bX$$

$$Y = 181.849,299 + 3,454 X$$

4.2. The Effect of Foreign Debt on Indonesia's Economic Growth in the New Order Period

1. Normality Test

Table 7

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		32
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1275374,97002 230
Most Extreme Differences	Absolute	,247
	Positive	,247
	Negative	-,167
Kolmogorov-Smirnov Z		1,397
Asymp. Sig. (2-tailed)		,040

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		32
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1275374,97002 230
Most Extreme Differences	Absolute	,247
	Positive	,247
	Negative	-,167
Kolmogorov-Smirnov Z		1,397
Asymp. Sig. (2-tailed)		,040

a. Test distribution is Normal.

b. Calculated from data.

Based on the normality test, it is known that the value of Kolmogorov-Smirnov is 1.397. Asymp value. Sig. (2-tailed) on the One-Sample Kolmogorov-Smirnov

Test table is smaller than 0.05 (0.04 > 0.05). It can be deduced that **the residuals are not normally distributed.**

2. Descriptive Statistics

Table 8

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FD (miliar US\$)	32	2076,00	30609,00	7361,5938	6115,36824
PDB (miliarRp)	32	685375,02	5356003,34	1756391,4297	1335887,70317
Valid N (listwise)	32				

According to the above table, it is known that the average for ED (billions of US \$) for 32 years from

1967 to 1998 is amounted to 7361,594. While GDP (billion Rp) has an average of 1756391,430.

3. Correlation Test

Table 9
Correlations

		FD (miliar US\$)	PDB (miliarRp)
FD (miliar US\$)	Pearson Correlation	1	,298
	Sig. (2-tailed)		,098
	N	32	32
PDB (miliarRp)	Pearson Correlation	,298	1
	Sig. (2-tailed)	,098	
	N	32	32

According to the above table, it is known that the probability value (Sig.) Is 0.098 which is larger than 0.05 it can be drawn a conclusion

that **there is no relationship between the variable of foreign debt with gross domestic product** .

4. Regression Test

Table 10
ANOVA^b

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	4,898E12	1	4,898E12	2,914	,098^a
	Residual	5,042E13	30	1,681E12		
	Total	5,532E13	31			

a. Predictors: (Constant), ULN (miliar US\$)

b. Dependent Variable: PDB (miliarRp)

The result of Regression test is show that F arithmetic is is 2,914 <4.171 (F table) It means can that there is **no significant influence of Foreign Debt on Gross Domestic**

Product. The result of this research is not consistent with the result of research conducted by Malik (2017).

5. Summary Models

Table 11

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.298 ^a	.089	.058	1296456.97626

a. Predictors: (Constant), ULN (miliar US\$)

b. Dependent Variable: PDB (miliar Rp)

Correlation

Based on the summary model table in column R it is known that the value of R is 0.298 or has a **low level of closeness**.

R Square value is 0.089 or 8.9% the ability of Foreign Debt to explain or affect the Gross Domestic Product in Indonesia. And the rest of 91.1% is explained or influenced by other variables is not observed in this observation

Regression

Based on the summary model table in the R Square column it is known that the

6. Mathematical Model

Table 12
 Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	1277873,849	362069,525		3,529	,001
PDB (miliar US\$)	65,002	38,076	,298	1,707	,098

a. Dependent Variable: PDB (miliarRp)

Based on the above table, it can be seen that the mathematical model is formed as follows:

$$Y = a + bX$$

$$Y = 1.277.873,849 + 65,002 X$$

4.3. The Effect of Foreign Debt on Indonesia's Economic Growth in the Reform Order Period

1. Normality Test

Table 13
 One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		16
Normal Parameters ^{a,b}	Mean	,0000000
	Std. Deviation	1475682,55105655
Most Extreme Differences	Absolute	,217
	Positive	,217
	Negative	-,155
Kolmogorov-Smirnov Z		,868
Asymp. Sig. (2-tailed)		,438

a. Test distribution is Normal.

b. Calculated from data.

Based on the normality test, it is known that the value of Kolmogorov-Smirnov is 0.955. Asymp value. Sig. (2-tailed) on the Kolmogorov-Smirnov

One-Sample Test table is greater than 0.05 ($0.438 > 0.05$). Thus it can be deduced that **the residuals are normally distributed**

2. Descriptive Statistics

Table 14
 Descriptive Statistics

	Mean	Std. Deviation	N
Y	4514918,4556	2966647,99082	16
X	161779,0675	55251,52184	16

According to the above table, it is known that the average for Indonesia's economic growth for 16 years from

1999 to 2014 amounted to 4514918,455. While foreign debt has an average of 161779.067.

3. Correlation Test

Table.15
Correlations

		X	Y
X	Pearson Correlation	1	,868**
	Sig. (2-tailed)		,000
	N	16	16
Y	Pearson Correlation	,868**	1
	Sig. (2-tailed)	,000	
	N	16	16

** . Correlation is significant at the 0.01 level (2-tailed).

With regard to the above table, it is known that the probability value (Sig.) Is 0.000 which is smaller than 0.05 it

can be drawn a conclusion that **there is a relationship between the variable of external debt with economic growth .**

4. Regression Test

Table 16
ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9,935E13	1	9,935E13	42,581	,000^a
	Residual	3,266E13	14	2,333E12		
	Total	1,320E14	15			

a. Predictors: (Constant), X

b. Dependent Variable: Y

The result of Regression test is show that F arithmetic is is $42,581 > 4,600$ (F table). It means can that there is **no significant influence of Foreign Debt on**

Gross Domestic Product. The result of this research is not consistent with the result of research conducted by Mariska (2016).

5. Summary Model

Table 17
Model Summary^b

Model	R	R Square	Adjusted Square	R	Std. Error of the Estimate	Durbin-Watson
1	,868^a	,753	,735		1527476,55751	,567

a. Predictors: (Constant), X

b. Dependent Variable: Y

Correlation

Based on the summary model table in column R it is known that the value of R is 0.868 which has a **very strong level of closeness**

Regression

Based on the summary model table in the R Square column it

is known that the R Square value is 0.753 or 75.3% the ability of Foreign Debt to explain or influence the Economic Growth in Indonesia. And the rest of 24.7% is explained or influenced by other variables which is not observed in this observation

6. Mathematical Model

Table 18
Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	- 3020672,333	1216301,157		-2,483	,026
	X	46,580	7,138	,868	6,525	,000

a. Dependent Variable: Y

According to the above table, it can be seen that the mathematical model that is formed is as follows:

$$Y = a + bX$$

$$Y = -3.020.672,33 + 46,580$$

5. CONCLUSION

Based on the above statistical calculations, it can be drawn a conclusion that is: During the reign

of the old Order and Reform Order of Foreign Debt has an influence on Indonesia's Economic Growth. Only in the reign of the New Order of

Foreign Debt has no effect on

Indonesia's Economic Growth

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