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THE EFFECT OF FOREIGN DEBT, FOREIGN DIRECT INVESTMENT, AND INFLATION ON ECONOMIC GROWTH IN 7 ASEAN COUNTRIES FOR THE PERIOD 2012-2020

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Abstract: This study intends to conduct empirical testing related to the effect of foreign debt, foreign direct investment, and inflation on economic growth in 7 ASEAN Countries during the period 2012-2020. The research method uses a quantitative approach with populations using Indonesia, Thailand, the Philippines, Myanmar, Vietnam, Laos, and Cambodia. The data analysis technique uses panel data regression with skunder research data type. The results showed that partially foreign debt had a negative and significant effect on economic growth. Meanwhile, foreign direct investment has a positive and significant effect on economic growth. Meanwhile, inflation also has a positive and significant effect on economic growth. However, simultaneously, foreign debt, foreign direct investment, and inflation affected economic growth in 7 ASEAN countries during the 2012-2020 period.

Keywords: Economic growth, foreign debt, foreign direct investment, inflation

INTRODUCTION

Economic growth is one of the most important measurements to measure the success of a country's economic development.[1] An economy can be said to grow if the quantity of goods and services increases. This can be seen from the value of gross domestic product (GDP). The value of GDP is used to measure the percentage of economic growth of a country.[2] In theory, GDP should be high and sustainable because these conditions are important in the sustainability of economic development and improving people's welfare. High welfare provides opportunities for people to consume more so that it has a positive impact on increasing a country's economic growth.[3]

The ASEAN Economic Community (AEC) is one of the various forms of economic integration in Asia that aims to form a single market and production base in ASEAN. The AEC goals are outlined in the blueprint as the roadmap needed to implement the AEC by 2015. The AEC Blueprint contains action plans, objectives and timelines for the realization of various AEC economic policies, one of which is the elimination of trade barriers for all sectors by 2015. Where this will have an impact on increasing trade between ASEAN countries.[4] As a result, ASEAN is known to have a large enough gross domestic product (GDP) capacity and is ranked sixth largest in the world reaching USD2.43 trillion in 2015. ASEAN is also a region that has a considerable trade contribution to total world trade, which is 7.6 percent. The capacity of goods trade in ASEAN is the fourth highest in the world.[5] This is supported by data on GDP per Capita of the 7 highest ASEAN member countries in 2020, namely Indonesia, Thailand, the

[1] Ganar, Y. B., Zulfitra, Z., & Sampurnaningsih, S. R. (2021). Pengaruh Nilai Investasi, Tenaga Kerja dan Pengeluaran Pemerintah terhadap Pertumbuhan Ekonomi Indonesia Periode 1999-2019. Jurnal Disrupsi Bisnis, 4(1), 44. https://doi.org/10.32493/drb.v4i1.9120

[2] Didu, S. (2017). Pengaruh Utang Luar Negeri Dan Penanaman Modal asing (PMA) Terhadap Pertumbuhan Ekonomi Di Indonesia. Jurnal Ekonomi-Qu, 7(2). https://doi.org/10.37476/jbk.v8i4.713

[3] Machmud, A. (2016). Perekonomian Indonesia. Erlangga.

[4] Reniza, P. H. (2022). Pengaruh Kebijakan Subsidi, Foreign Direct Investment (FDI) Dan Tata Kelola Pemerintahan Terhadap Pertumbuhan Ekonomi (Studi Kasus Negara – Negara Di ASEAN). Jurnal Manajemen Bisnis Islam, 3(1), 129–144.

[5] Economy.okezone.com.(n.d.).https://economy.okezone.com/read/2017/05/15/320/1691191/peran-asean-pada-ekonomi-dunia, diakses tanggal 14 Juni 2022.

Philippines, Myanmar, Vietnam, Laos, and Cambodia.[6] However, when viewed from 2012 - 2020, the *economic growth trend* of each country Indonesia, Thailand, the Philippines, Myanmar, Vietnam, Laos, and Cambodia fluctuates. This indicates a misalignment between the objectives of the AEC and the results of its implementation. Therefore, this study will look at the effect of foreign debt, foreign direct investment, and inflation on economic growth in the 7 ASEAN Countries.

Normatively, any foreign debt is used for development spending. The hope is that foreign debt can help finance various development projects and create economic growth. It turns out that in practice, foreign debt is not all spent on development spending. Some of the debt is actually used to cover the principal and interest debt installments.[7] Basten et al. (2021) reported that foreign debt has a significant negative effect on economic growth. In his explanation, this is because foreign debt in the long run hinders the acceleration of development and results in economic contraction. However, in 2019 foreign debt still affects Indonesia's economic growth but is not as significant as the results of Sari's research (2020). Meanwhile, foreign direct investment has a significant positive effect on Indonesia's economic growth.[8] Foreign direct investment has a significant impact on economic growth in the United States.[9] FDI variables were found to have a significant positive effect on Caribbean economic growth.[10] Based on 108 samples of developed and developing countries during the period 1970-2007, it was revealed that FDI affects economic growth.[11] While several other studies found that during the observation period 1984–2010, FDI had no impact on Spain's economic growth.[12] And

[6]databoks.katadata.co.id.(n.d.).https://databoks.katadata.co.id/datapublish/2021/12/13/pdb-per-kapita-indonesia-urutan-ke-5-di-asean

[7] Junaedi, D. (2018). Hubungan Antara Utang Luar Negeri Dengan Perekonomian Dan Kemiskinan: Komparasi Antarezim Pemerintahan. Simposium Nasional Keuangan Negara, 1(1), 563–587. https://jurnal.bppk.kemenkeu.go.id/snkn/article/view/154

[8] Kambono, H., & Marpaung, E. I. (2020). Pengaruh Investasi Asing dan Investasi Dalam Negeri terhadap Pertumbuhan Ekonomi Indonesia. Jurnal Akuntansi, 12(1), 137–145.

[9] Susilo, D. (2018). The Impact of Foreign Direct Investment on Economic Growth (a Causal Study in the United States). Jurnal Pendidikan Bisnis Dan Ekonomi, 4(1), 50–63.

[10] Onafowora, O., & Owoye, O. (2019). Public debt, foreign direct investment and economic growth dynamics Empirical evidence from the Caribbean. International Journal of Emerging Markets. https://doi.org/10.1108/IJOEM-01-2018-0050

[11] Makiela, K., & Ouattara, B. (2018). Foreign direct investment and economic growth : Exploring the transmission channels. Economic Modelling, February, 1–10. https://doi.org/10.1016/j.econmod.2018.02.007

[12] Carbonell, J. B., & Werner, R. A. (2018). Economic Growth ? A New Empirical Approach

foreign direct investment (FDI) has nothing to do with Australia's economic growth.[13]

On the other hand, Simanungkalit found the positive influence of inflation on economic growth in Indonesia from 1983-2014.[14] This is because inflation is able to encourage entrepreneurs, to further increase their production. Businessmen are eager to expand their production, because with the price increase that occurs entrepreneurs get more profit. In addition, increasing production has another positive impact, namely the availability of new jobs. However, inflation has no effect on economic growth in Indonesia for 2014-2019.[15]

LITERATURE REVIEW

Hypothesis Development

According to neoclassical growth theory, the increase in output is always driven by one of three factors: an increase in the quantity and quality of labor (due to population growth and educational development), an increase in capital (due to increased savings and investment) and technological progress.[16] Capital growth can be obtained from debt or in the form of investment. However, debt that is too high is also not good for a country, so foreign investment is an option to finance government programs that are expected to increase economic growth from government activities. On the other hand, inflation factors are also taken into consideration by most countries in the world. This is done to achieve sustainable economic growth. Therefore, the hypothesis developed is as follows:

H_1: Foreign debt has a negative and significant influence on economic growth in the 7 ASEAN countries.

H_2: Foreign direct investment has a positive and significant influence on economic growth in the 7 ASEAN countries.

Applied to Spain. Economic Geography, 94(4). https://doi.org/10.1080/00130095.2017.1393312

[13] Pandya, V., & Sisombat, S. (2017). Impacts of Foreign Direct Investment on Economic Growth : Empirical Evidence from Australian Economy. International Journal of Economics and Finance, 9(5), 121–131.

[14] Simanungkalit, E. F. B. (2020). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Di Indonesia. JOURNAL OF MANAGEMENT (SME's), 13(3), 327–340.

[15] Sari, S., & Ratno, F. A. (2019). Analisis utang luar negeri, sukuk, inflasi dan tingkat suku bunga terhadap pertumbuhan ekonomi indonesia Tahun 2014-2019. Jurnal Riset Pendidikan Ekonomi (JRPE), 5(2), 92–100.

[16] Nizar, C., Hamzah, A., & Syahnur, S. (2013). Pengaruh Investasi Dan Tenaga Kerja Terhadap Pertumbuhan Ekonomi Serta Hubungannya Terhadap Tingkat Kemiskinan Di Indonesia. Jurnal Ilmu Ekonomi, 1(2), 2–3.

H_3: Inflation has a positive and significant influence on economic growth in the 7 ASEAN countries.

H_4: Foreign debt, foreign direct investment, and inflation together have a significant influence on economic growth in the 7 ASEAN countries.

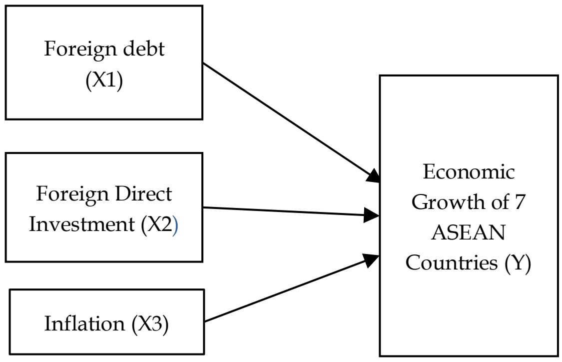

Figure 1. Research Model

RESEARCH METHODS

This research is quantitative research to test theories and empirically through statistical measurement of variables to analyze the influence of independent variables on dependent variables.[17] This study used secondary data from the official websites of the World Bank.[18] and the International Monetary Fund.[19] Times series data used from 2012 - 2020. The study populations were Indonesia, Thailand, the Philippines, Myanmar, Vietnam, Laos, and Cambodia. The data analysis technique uses the panel data regression method through eViews software version 10:

Table 1. Variable Operational Definition

Variable	Information	Unit
And	Economic Growth	%
X1	Foreign debt	%
X2	Foreign Direct	%

[17] Munyta, M., Ilman, A. H., & Suwardi, D. (2016). Pengaruh Foreign Direct Investment (FDI) terhadap Pertumbuhan Ekonomi di Nusa Tenggara Barat 2010-2014. Jurnal Ekonomi Dan Bisnis Indonesia, 02(02), 69–77.

[18] www.worldbank.org.(n.d.).https://databank.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/1ff4a498/Popular-Indicators

[19] www.imf.org.(n.d.).https://www.imf.org/external/datamapper/CG_DEBT_GDP@GDD/CHN/FRA/DEU/ITA/JPN/GBR/USA

	Investment	
X3	Inflation	%

RESEARCH RESULT

Here are the results of descriptive statistical analysis with the help of the eViews program:

Table 2 Descriptive Statistics

	And	X1	X2	X3
Mean	5.243468	39.81435	4.826731	70.43549
Median	6.348310	34.45763	3.722173	68.25000
Maximum	10.50778	91.83119	14.14573	82.98900
Minimum	-9.518295	15.88445	-0.969689	54.75000
Std. Dev.	3.366311	20.48072	3.824632	7.578041
Skewness	-2.370777	1.116673	1.176888	-0.104121
Kurtosis	9.532296	3.345746	3.398401	1.780843
Jarque-Bera	171.0272	13.40685	14.95983	4.015482
Probability	0.000000	0.001227	0.000564	0.134292
Sum	330.3385	2508.304	304.0841	4437.436
Sum Sq. Dev.	702.5870	26006.52	906.9244	3560.456
Observations	63	63	63	63

ased on the table above, in the period 2012-2020 from 7 ASEAN countries observed, an average economic growth of 5.24% was obtained, indicating that the seven ASEAN countries during 2012-2020 still experienced positive economic growth. The average foreign debt for the 7 ASEAN countries is 39.81%, indicating that almost half of the government's activity programs are funded from foreign debt. Meanwhile, foreign direct investment is only 4.83% for 7 ASEAN countries. For inflation from 7 ASEAN countries, it has an average value of 70.43% which is still within fair value.

Table 3. Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-42.73855	4.422689	-9.663477	0.0000
X1	-0.285780	0.023730	-12.04277	0.0000
X2	0.142484	0.060678	2.348198	0.0226

X3	0.142484	0.063335	13.15214	0.0000
R-squared	0.916031	Mean dependent var		1.103776
Adjusted R-squared	0.901772	S.D. dependent var		3.247029
S.E. of regression	1.058921	Sum squared resid		59.42966
F-statistic	64.24285	Durbin-Watson stat		1.999565
Prob(F-statistic)	0.000000			

Based on the results of regression panel data with model selection, namely the fixed effect model (FEM) shows that the results of estimating the relationship of the variables discussed in this study make the equation as follows:

PEit = -42.73855 – 0.285780ULNit + 0.142484IALit + 0.142484Iit

In terms of probability value, foreign debt has a value of 0.0000 less than α 5% (0.05), but the coefficient is negative, meaning that the hypothesis H_1 is accepted. This result is in line with Richardian Theory that foreign debt policies that finance government budget deficits have no effect on economic growth. Because, in the future, the government will have to pay increased taxes due to increased government spending financed by state debt. As a result, people reduce current consumption to increase savings, which will be used to pay for future tax increases.[20]

According to Laffer Theory, Curve Theory explains the effect of debt accumulation on economic growth. According to this theory, debt is basically used at a reasonable rate. An increase in debt will have a positive impact on economic growth to some extent. In this case, foreign debt is a normal need of every country. However, when the debt stock exceeds this limit, the increase in foreign debt begins to negatively impact economic growth.[21] Inthe nature of Tamimi & Jaradat's research related to accumulated foreign debt, it should create constraints and burdens on the country's economy, especially for developing countries. Foreign debt

[20] Hakim, M. (2019). Hubungan Utang Luar Negeri dan Pertumbuhan Ekonomi di Indonesia. Researchgate.net, December, 0–10. https://openknowledgemaps.org/map/ca5eb8a9f2e6e027d1cf2acc54b9de60

[21] Malik, A., & Kurnia, D. (2017). Pengaruh Utang Luar Negeri Dan Penanaman Modal Asing Terhadap Pertumbuhan Ekonomi. Jurnal Akuntansi, 3(2), 27–42.

should be between 35-40% as a percentage of GDP.[22] However, in fact in this research the average foreign debt is 39.81% which is already at the maximum limit.

Meanwhile, the variable probability value of foreign direct investment is obtained at 0.0226 which is smaller than α 5% (0.05), meaning that the H2 hypothesis is accepted. In other words, foreign direct investment has a positive and significant effect on the economic growth of 7 ASEAN countries. These findings are in line with previous research by Kambono & Marpaung[23], Susilo [24], Onafowora & Owoye,[25] and Makiela & Ouattara[26] that foreign direct investment contributes significantly to economic growth. In line with classical and neoclassical theory that foreign direct investment secures state capital or existing domestic capital so that it can be used for development needs and people's needs.[27]

The probability value of inflation of 0.0000 has a value smaller than α 5% (0.05) and the coefficient points positive, meaning that the H3 hypothesis is accepted. In theory, inflation could encourage entrepreneurs to further increase production. Entrepreneurs are eager to expand production because when prices rise, entrepreneurs reap more profits. In addition, increasing production has another positive impact, namely the provision of new jobs.[28]

Based on the probability value (F-Statistic) shows the figure 0.0000 is much smaller than α 5% (0.05), meaning that the hypothesis H_4 is

[22] Tamimi, K. A. M. AL, & Jaradat, M. S. (2019). Impact of Foreign debt on Economic Growth in Jordan for the Period (2010 -2017). International Journal of Economics and Finance, 11(4), 114–118. https://doi.org/10.5539/ijef.v11n4p114

[23] Kambono, H., & Marpaung, E. I. (2020). Pengaruh Investasi Asing dan Investasi Dalam Negeri terhadap Pertumbuhan Ekonomi Indonesia. Jurnal Akuntansi, 12(1), 137–145.

[24] Susilo, D. (2018). The Impact of Foreign Direct Investment on Economic Growth (a Causal Study in the United States). Jurnal Pendidikan Bisnis Dan Ekonomi, 4(1), 50–63.

[25] Onafowora, O., & Owoye, O. (2019). Public debt, foreign direct investment and economic growth dynamics Empirical evidence from the Caribbean. International Journal of Emerging Markets. https://doi.org/10.1108/IJOEM-01-2018-0050

[26] Makiela, K., & Ouattara, B. (2018). Foreign direct investment and economic growth : Exploring the transmission channels. Economic Modelling, February, 1–10. https://doi.org/10.1016/j.econmod.2018.02.007

[27] Gandhi, E. A., Pasaribu, E., Ekaputri, R. A., & Febriani, R. E. (2022). Investasi Asing Langsung dan Pertumbuhan Ekonomi : Perbandingan Empiris Indonesia dan Singapura. Ekonomi Pembangunan Universitas Bengkulu, 5(2), 159–170.

[28] Simanungkalit, E. F. B. (2020). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Di Indonesia. JOURNAL OF MANAGEMENT (SME's), 13(3), 327–340.

accepted. This means that foreign debt, foreign direct investment, and inflation together have a significant influence on economic growth in 7 ASEAN countries with an influence of 90.18%.

CONCLUSION

The results of the study show that partially foreign debt has a negative and significant effect on economic growth. Governments in ASEAN countries can improve by allocating funds to more productive businesses by emphasizing the effectiveness and efficiency of these funds. Meanwhile, foreign direct investment has a positive and significant impact on economic growth. Regarding foreign direct investment, the governments of ASEAN countries can adopt an uncomplicated bureaucratic system and tax rates that can convince investors to provide convenience for foreign investors, so that many investors want to invest in ASEAN countries. While inflation has a positive and significant impact on economic growth. The governments of ASEAN countries can stabilize by increasing tax rates. Higher tax rates for businesses and households will reduce and limit consumption levels. Reducing the level of consumption has an impact on decreasing the price of goods.

FURTHER RESEARCH

Recommendations that can be made for further research is the selection of other data proxies that represent the variables to be analyzed. Because economic growth has a broad scope and can be represented by other data proxies. So as to produce data results that are more varied.

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