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. 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. 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.

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. 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. This is supported by data on GDP per Capita of the 7 highest ASEAN member countries in 2020, namely Indonesia, Thailand, the

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Philippines, Myanmar, Vietnam, Laos, and Cambodia. 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. 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. Foreign direct investment has a significant impact on economic growth in the United States. FDI variables were found to have a significant positive effect on Caribbean economic growth. Based on 108 samples of developed and developing countries during the period 1970-2007, it was revealed that FDI affects economic growth. While several other studies found that during the observation period 1984–2010, FDI had no impact on Spain's economic growth. And

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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

On the other hand, Simanungkalit found the positive influence of inflation on economic growth in Indonesia from 1983-2014.\footnote{Simanungkalit, E. F. B. (2020). Pengaruh Inflasi Terhadap Pertumbuhan Ekonomi Di Indonesia. JOURNAL OF MANAGEMENT (SME’s), 13(3), 327–340.} 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.\footnote{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.}

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.\footnote{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.} 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:

\begin{itemize}
  \item H1: Foreign debt has a negative and significant influence on economic growth in the 7 ASEAN countries.
  \item H2: Foreign direct investment has a positive and significant influence on economic growth in the 7 ASEAN countries.
\end{itemize}
H₃: Inflation has a positive and significant influence on economic growth in the 7 ASEAN countries.
H₄: 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>
<thead>
<tr>
<th>Variable</th>
<th>Information</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>And</td>
<td>Economic Growth</td>
<td>%</td>
</tr>
<tr>
<td>X₁</td>
<td>Foreign debt</td>
<td>%</td>
</tr>
<tr>
<td>X₂</td>
<td>Foreign Direct</td>
<td>%</td>
</tr>
</tbody>
</table>


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**RESEARCH RESULT**

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

**Table 2 Descriptive Statistics**

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

Based 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**

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-42.73855</td>
<td>4.422689</td>
<td>-9.663477</td>
<td>0.0000</td>
</tr>
<tr>
<td>X1</td>
<td>-0.285780</td>
<td>0.023730</td>
<td>-12.04277</td>
<td>0.0000</td>
</tr>
<tr>
<td>X2</td>
<td>0.142484</td>
<td>0.060678</td>
<td>2.348198</td>
<td>0.0226</td>
</tr>
</tbody>
</table>

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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:

$$PE_{it} = -42.73855 - 0.285780UL_{Nit} + 0.142484IAL_{it} + 0.142484I_{it}$$

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.

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. In the 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

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should be between 35-40% as a percentage of GDP. 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 $\alpha$ 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, Susilo, Onafowora & Owoye, and Makiela & Ouattara 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.

The probability value of inflation of 0.0000 has a value smaller than $\alpha$ 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.

Based on the probability value (F-Statistic) shows the figure 0.0000 is much smaller than $\alpha$ 5% (0.05), meaning that the hypothesis H4 is

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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.

THANK-YOU NOTE
We would like to express our deepest gratitude to all those who have supported this research, especially the lecturers, colleagues and students and especially the publishers of the International Jurnal Islamic Education, Research and Multiculturalism (IJIERM). Hopefully this research is useful for the development of economics and science

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