DETERMINING THE EFFECT OF FOREIGN DIRECT INVESTMENT (FDI), EXPORT, AND EXTERNAL DEBT ON GROSS DOMESTIC PRODUCT IN SELECTED ASEAN COUNTRY PERIODIC 2000 - 2014

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DETERMINING THE EFFECT OF FOREIGN DIRECT INVESTMENT (FDI), EXPORT, AND EXTERNAL DEBT ON GROSS DOMESTIC PRODUCT IN SELECTED ASEAN COUNTRY PERIODIC 2000 - 2014

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ABSTRACT

The international trade through Foreign Direct Investment (FDI), export, and external debt around the world had been increased significantly since the 1980s. However, the distribution of FDI and external debt has been uneven, and there is a big gap between developed and developing countries. Many developing countries in the different region including those who joined in the ASEAN have made some effort to attract FDI, and external debt inflows by introducing policies in fiscal and financial incentives, new strategy, and so forth to enhance the economic performances and exports. Even though such policies can be effective, the benefit at the host countries may be limited in effecting their economies.

Analysis was processed through data panel regression. This method is used to know the relation and affect the independent variable to dependent variables. The result of this study shows the FDI, Export, and External debt significantly affect the economic growth which shown by Adjusted-Gross Domestic Product (AdjGDP) whether simultaneously and partially.

Keywords : Economic growth performance, FDI, exports, external debt.

A. INTRODUCTION

The economic development and growth are the step processes that are absolutely necessary for a nation to improve the living conditions and welfare for its people. The economic development of a country cannot be done only by steely determination of a people, but more than that, it should be supported by the availability of economic resources, both natural resources; human resources; and capital resources (Atmadja, 2000). In other words, without strong enough to carry the capacity of productive economic resources, it’s impossible to implement the economic development properly and satisfactorily.

Figure A.1 shows the development of economic growth in some regions consist of several developing countries which are represented by the GDP growth (annual %) over 1990 until 2014 period. These regions cover all developed regions such as South Asia, East Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, Middle East and North America, and Sub-Saharan Africa. In that graphic we can see that the development of GDP growth in some regions (developing country only) experience strong fluctuated. This can be seen in South Asia region which experienced a sharp depreciation around the period of 1995, followed by a declining in some regions namely East Asia and Pacific, Latin America, and Europe and Central Asia in the middle of 2008. On the other hand, Sub-Saharan Africa had a
stagnant economic growth during this period. Even so, some developing countries are represented by some of the regions which have increased quite good at the end of 2014. In the end of 2014, the South Asian region and East Asia and Pacific got the highest GDP growth than the other developing country regions, reaching 6.9% for South Asia and 6.7% for East Asia and Pacific region. Meanwhile, the Middle East and North America were the lowest GDO growth (annual %) at this year, reaching 1.8%, but experienced an increase from the previous year of 0.08%.

**Figure A.1 GDP Growth in annual % on Selected Region (Developing only) in the World over period 1990-2014**

Source: World Bank

The Association of South East Asian Nation or ASEAN is an organization consisting of several countries that are in South East Asia region with a common goal of achieving prosperity in the economy and politics. Implementation of development will reach well if it is supported by the availability of development capital. In addition to rely on the sources of funding that comes from within the country, ASEAN countries also rely on development financing which came from abroad. This happens due to the inability of the source of financing for development of the country, i.e. savings in financing for the construction (Hartati, 2008). Historically, a country which joined in ASEAN had been a nightmare that held on middle of 1997 and financial crisis on 2009 created high depreciation in some ASEAN’s countries. The economic crisis in 1997 was originated from the declining value of Thai currency which then spread to the neighboring countries in the ASEAN region and South Korea. The most severely affected countries were Indonesia, South Korea, and Thailand. The economy situation in Hong Kong, Malaysia, and Philippines were also affected by this crisis, although not too severe as those three countries. As a result, Asian countries experienced the economic downturn started from rising unemployment, decreasing in the level of GDP, weakening the banking system, until the closing of most of the private banks, which then contributes to increasing poverty. Further the economic growth was decrease.

In effort to stabilize the nation economic perform, some ASEAN countries doing various international policies for inviting capital resources which imported from abroad, mostly from the
advance industrial countries. A form of these sources could be direct investment, portfolio investment, and external debt. Since the Asian economic crisis of 1997 the relationship of foreign direct investment, export, and external debt has become an important concern for policy makers and researchers because all those three variables are as the engine of national development, especially economic development that can be seen from the achievement of economic growth.

According to Susan George (1992), in a pragmatic, foreign debt became boomerang for the recipient (the debtor). The economy in recipient countries is not getting better, but can be worse. In her research, she discovered a phenomenon that foreign capital flows from developed countries to the third world countries (developing countries) that never increase, and repayment problem is the increasing burdensome foreign debt, therefore, the import surplus which supported by foreign capital is decaying and transferring external source of import based on export becoming relatively unimportant to most of third world countries. During this obstacle, exchange can’t be overcome, less developed countries can’t meet the import requirements for development programs.

The different results emerging from Chowdhury (1994) who did a research about the effect of direct and indirect foreign debt (external debt) on the economic growth in seven Asia’s countries such as; Indonesia, Malaysia, Philippines, South Korea, Sri Langka, and Thailand. This study showed that the foreign debt of developing countries is not the main cause of slowing economic growth. Research conducted by Suna Korkmaz (2015) in Turkey in 2013-2014 by using VAR and causality test, he found that the external debt and economic growth have positive relation or direction. Instead, Mauren Were (2001) analyzed a large and external debt financial structure in Kenya and examined the impact on economic growth and private investment. The empirical results indicated that the accumulation of foreign debt or external debt have a negative impact on economic growth in Kenya.

Based on those issues, foreign investment especially; FDI, export, and external debt have an effect on economic growth which shown by GDP. However, there are still many contradiction related to the theory among those variables. Therefore, in this study the researcher will use the title: “Determining the effect of Foreign Direct Investment (FDI), Export, and External debt on Gross Domestic Product in Selected ASEAN Country Periodic 2000-2014.”

B. REVIEW OF RELATED LITERATURE

B.1 Theory of Economic Growth

Basically, the economic growth is the changing process of a country’s economy sustainability towards a better state for a certain period. Economic growth can also be defined as the increase in production capacity of an economy that is realized in the form of increasing national income. According to Murni (2006), economic growth is the condition of Gross National Product increase which represents the outcome growth per capita and increases the standard of living. Nordhaus (2004) said that the economic growth is the description of Gross Domestic Product potential or national outcome. Putong (2013) added that the economy growth is a significant increase of national income in the particular calculation period. The output increase or economic growth is caused by increasing population and savings or investments rate.
Thus, it can be concluded that the economic growth is a process of increasing national income of a country in a certain period.

According to Adam Smith (classical economic theory), the process long-term economic growth was systematics. There are two important aspects in economic growth, which are population growth and total output growth such as natural resources, human resources, and capital stock. While, on Solow-Swan model in Neo Classical Theory, they argued that the savings, population growth, and technology affect the output level of the economy and its growth over time. This model is designed to show how the capital stock growth, labor force, and advances in technology interact in the economy, which in turn affects the output of a country (Mankiw N., 2006). Neoclassic economic growth model shows that the saving rate is a determinant key of the capital stock establish. If saving rate is high, economy sector will have a large stock of capital and high output levels, and vice versa. In the Solow model, higher saving leads to faster growth, but only temporarily. An increase in the saving rate of growth until the economy reaches new steady state. An economy that has a high saving rate with high capital supply and output levels do not always maintain a high economic growth rate as well.

According to traditional neoclassic growth theory, economic growth and development is coming from increasing quality and quantity of labor, adding new capital through savings and investment, and increasing the quality of technology (Todaro, 2004).

Walt Whitman Rostow on his theory argued that economic development is a multidimensional process, because economic development does not only change the economic structure of a country which is indicated by declining agricultural sector and growing industrial sector. But more than that, economic development can also be interpreted as a process, one of which led to changes in community investment activities, from doing unproductive investments into productive investments. According to Rostow, economic development can be divided into five stages, they are:

1. Traditional Society.
2. Precondition for take-off.
3. Take-off.
4. Drive to Maturity.
5. Age of High Mass Consumption.

The last but not least, Harrod-Domar theorem argued that there is significant role of external debt to enhance growth in a country. Whereas, every economy can set aside a certain proportion of national income if only to replace damaged capital goods. However, in order to grow the economy, it needs new investments as the additional capital stock. Harrod-Domar claimed that the accumulation of capital has a double role which are growing revenues and increasing the production capacity by increasing the capital stock.

**B.2 Theory of Foreign Direct Investment (FDI)**

According to economics theory, investment is the cost incurred for the purchase of capital goods and the production equipment with increasing or changing that capital goods purpose where in the economy, it will be used to produce goods and services. Tandelilin (2001) argued that investment is the commitment of a number of funds or other resources done at this time, with the goal of obtaining any advantages in the future.
Investment activities play a role in increasing the economic activity and employment, and also increasing the national income and improving the prosperity of society. Besides, investment also has an important role in the economy. This is described by Todaro (2004) and Sukirno (2004). Todaro (2004) said that investment plays an important role in moving the economic life of the nation because capital formation expands the production capacity, increases national income and creates new jobs. Furthermore, it will expand employment opportunities. Sukirno (2004) adds that the investment made by the community will continuously open new employment opportunities, increase national income through international trade, and improve the welfare of society due to the creation of new employment opportunities.

The flow of foreign investment, according Jhingan (2002) can be divided into two types, namely portfolio investment and foreign direct investment. Portfolio investment is a form of indirect foreign investment largely composed of financial assets only, such as bonds and stocks. The shareholders only have the right to dividends. While foreign direct investment, the company’s investor has de facto and de jure rights, it means that they can invest and do monitoring their assets which have invested in importing country. Direct investments may include the formation of a subsidiary company or put assets in another country by the national company of state investors. Specifically, foreign direct investment is the amount of investment in long-term investment, obtained at least 10 percent of the amount of pure capital ownership to a company in another country. Foreign direct investment has more advantages rather than portfolio investment because the nature of long-term count as capital flow is relatively stable and has a small risk, while portfolio investment is susceptible to volatility fluctuate in exchange rates.

B.3 Theory of Export

Classical theory of Adam Smith and David Ricardo argued that international trade plays an important role in economic growth and there are economic benefits and specialties. With the export activities, the producers will tend to increase the production to meet the domestic and overseas demand. This is happened because the export activity is one of the components of aggregate expenditure thus can affect national income directly (Deliarnov, 1995). Thus, a country will get benefits directly when higher output levels can be broken by the vicious circle of poverty and economic development can be enhanced further (Jhingan, 2002). However, Gregory Mankiw (2006) in his book, he claimed that situation is not necessarily because in certain cases, higher national income does not guarantee the export will get higher as well.

Export also generates foreign exchange needed to import that can’t be produced domestically. Therefore, the relationship between exports and the economic growth theoretically is rooted in the hypothesis of export-led-growth. According to Elbeydi (2001), this hypothesis involved government restrictions on imports and boost trade strategies that support manufacture sector with purpose to promote a potential comparative advantage. It is based on the idea that international trade can produce specialization in the production of export products and relocation of resources into the export sector more productively so that the economic growth increases.

B.4 Theory of External Debt

In addition to foreign exchange earnings from exports and foreign investment whether direct or indirect, the next major source of foreign exchange for the third world countries is official
development assistance both bilateral and multilateral as well as unofficial aid from NGO’s. This concept is more known as external debt. Tribroto (2001) claimed that external debt can be explored from any different angle. From the point of lender or creditor, the review will be more emphasis on the various factors that allow the loan back on time with the acquisition of certain benefits. While on the borrower or debtor side, it will be more emphasis on the study of a variety of factors in order to get maximum utilization of the added value in promoting economic growth.

External debt can be defined based on various aspects. In the aspect of material, defines the external debt as capital inflows from abroad into the country which can be used for adding capital in the country. Furthermore, based on the formal aspects, the foreign debt is the acceptance or giving that can be used to increase investment in order to support the economic growth. While based on the aspect function, the foreign debt is one of the alternative sources of financing needed in the economic development and growth.

Judging from its benefits, external debt has two primary role which are to overcome the gap problem between domestic savings and investment funds (saving investment gap) and to overcome the gap problem between the needs of foreign currency that have been targeted and foreign exchange that has been obtained from the cultivation of export activity (foreign exchange gap). So that, the external debt can complete the luck of domestic resources in order to accelerate the growth of foreign exchange and savings, these problems are referred as ‘the two gaps problems’ (Sukirno, 2004).

B.5 Correlation of Foreign Direct Investment with GDP

There are three possible relationships affecting between FDI and GDP, namely (1) a high level of GDP would be able to influence FDI to invest in domestic. (2) The level of FDI in domestic revenues can encourage progress of productivity, so that GDP will rise. (3) The relationship between those two variables (GDP and FDI) influences each other, meaning that between GDP and FDI have causal interplay.

The development of the entry of Foreign Direct Investment into developing countries raises the pros and cons prolonged. On one hand, FDI can support the economic development, for example the inflow of investments through the introduction of new technologies, transfer of knowledge, the influx of fresh money are able to build the domestic companies to flourish and grow so it is able to compete in the wider world, etc. On the other hand, FDI is affected due to the economic growth rates of high Gross Domestic Product to attract investors coming in and investing. Increasingly higher income levels, more and more FDI will be coming in.

B.6 Correlation of Export with GDP

The components of GDP (Y) in open economy are: \( Y = C + I + G + NX \) (Mankiw N., 2006), where C as consumption, I as investment, G as all purchases of goods and services by local, state, and federal government, and NX as net export, this amount represents the money value of domestically produce goods that are sold minus the purchase of goods and services produced in other countries (i.e., imports). It means, the increasing one of those variables will increasing GDP (Y), but if import increases, all other parts of the GDP remain the same, the GDP will not change, because imports are first included in the calculation of \( C + I + G \), and then they are subtracted out.
The size of a country’s economy can be seen from the potential ability of those countries to realize the international trade, the ability of two countries to sell or buy product from each other. The larger size of the economy and the greater ability of the country are to undertake the production of goods. Production of large items can increase trade flows by way of exporting domestic product. From that relation, GDP is estimated to have a positive relationship with total export. High level of export, it can increase the national income revenue or increasing GDP.

According to Buffie (1992), there are three possible relationships between exports and GDP. These are export-led growth, growth-driven exports, and the feedback of two-way causal relationship. The exporting countries with a large share of their output grow faster than others. The growth of exports has a stimulating influence across the economy as a whole in the form of technological spillovers and other externalities consider on how export shocks can produce export-led growth.

**B.7 Correlation of External Debt or Foreign Debt with GDP**

In many cases, the external debts are used to control the government budget and stabilize their exchange rate. It is happened because sometimes the revenue of some country is less than the expenditure so there is a shortage of cash in the term of financial state, it is called budget deficit. When the budget deficit occurs, government cannot fulfill the community needs such as opening new job, controlling inflation, rebuilding the infrastructure, etc. For the poor countries (less productivity country) or developing country, external debt is one of source of funds to help accelerate the process of development and economic growth. This happens because there are insufficient funds derived from the domestic savings, so that the source of financing in the form of debt is particularly foreign debt or external debt.

External debt is also considered to simplify and speed up the development and growth process because with the help this foreign aid can instantly increases the supply of domestic savings as a result from increases of development and growth rates which is to be achieved. Further, the expected demand for this assistance (external debt) will decreases by itself after domestic resources are sufficient to support the process of sustainable development and growth.

**B.8 Conceptual Framework**
B.9 Hypothesis

Hypothesis is temporary allegation of research problems that continue to be tested. The usefulness of hypothesis itself is as a temporary guide while solving the problems listed in the formulation of the problem. Based on the previous study, the hypothesis for this research can be written as follows;

H1: Assumed that, there is positive and significant correlation between Foreign Direct Investment (FDI) on the Gross Domestic Product in ASEAN countries.

H2: Assumed that, there is positive and significant correlation between exports on the Gross Domestic Product in ASEAN countries.

H3: Assumed that, there is positive and significant correlation between external debts on the Gross Domestic Product in ASEAN countries.

H4: Assumed that, the independent variables which are FDI, export, and external debt simultaneously affect the selected ASEAN countries Gross Domestic Product

C. RESEARCH METHODOLOGY

C.1 Research Scope and Type

The scope of this study about the effect of Foreign Direct Investment (FDI), export, and external debt on Gross Domestic Product is at selected ASEAN country over period 2000-2014. The selected sample of ASEAN countries in this research are; Malaysia, Indonesia, Thailand, Philippines, Cambodia, Vietnam, and Laos. Some countries are not included as sample in this study due to the unavailability of required data.

To achieve the objectives of this study which is determining related variables to the economic growth, the author used the descriptive quantitative research type.

C.2 Data Types and Sources

Data used in this study is a combination of time series and cross section (panel data) with a period of years 2000 to 2014 that covers selected ASEAN countries consist of Malaysia, Indonesia, Thailand, Philippines, Cambodia, Vietnam, Myanmar, and Laos. The data used in this study includes data gross domestic product (GDP) on the basis of constant prices of 2005, foreign direct investment (FDI), total exports and total external debt. Source of data is obtained from the official website of the World Bank and related literature to this research.

C.3 Operational Definition and Variable Measurement

In this panel data research, there is one dependent variable and three independent variables. The dependent variable (Y) is a variable that affected by independent variable. In this study, the dependent variable is the economic growth which is showed by Gross Domestic Product (GDP) measuring the aggregate output produced in the economy. GDP used is on the basis of constant prices of 2005 which expressed in USD billion units of selected ASEAN countries. Given that exports are a component of GDP, this study used the so-called Adjusted GDP (AdjGDP), where exports have subtracted from GDP (Kiiza & Pederson, 2013).
Independent variable is a variable effecting dependent variable. Whatsoever, in this research there are three (3) independent variables to be analyzed, which are Foreign Direct Investment \((X_1)\), Export \((X_2)\), and External Debt \((X_3)\). In this research the variable FDI used is net FDI inflow. FDI net inflow is the incoming flow of the net investment to acquire advantages in the operations management of an enterprise in the economy by investors consisting the amount of reinvested equity capital profits, long-term capital and short-term capital which shown in the balance of payments (World Bank). The variable of Export that will be used in this research is total net export from selected ASEAN country expressed in units of billion USD. While, the last independent variable which is External Debt is used in this research will be total external debt.

C.4 Research Method

This study uses panel data as an instrument to process the data by using *Eviews7.0* software to analyze the influence of FDI, export, and external debt on the Gross Domestic Product in selected ASEAN country. Panel data is the combination between cross section and time series (Kuncoro, 2011). Panel data model that will be used in this research consist of seven selected ASEAN countries which are Malaysia, Indonesia, Thailand, Philippines, Cambodia, Vietnam, and Laos. Data for each country is 15 years, periodic 2000-2014. There are 7 (seven) cross section units and 15 time periods, so that this total study observation is 105.

The research model equation:

\[
\text{GDP} = \beta_0 + \beta_1 \text{FDI} + \beta_2 \text{Export} + \beta_3 \text{External Debt} + \varepsilon_t
\]

D. FINDING AND DISCUSSION

The results of this panel data analysis is already passed two kinds of test, there are Chow test and Hausman test. Chow test is test to determine between common effect model and fixed effect model, while Hausman test determine between fixed effect model and random effect model. The results of both test is more efficient using Fixed Effect Model (FEM).

<table>
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<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>T – Statistics</th>
<th>Probability</th>
<th>Conclusive</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-1.16E+10</td>
<td>-0.931601</td>
<td>0.0039</td>
<td>Significant</td>
</tr>
<tr>
<td>FDI</td>
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<td>Significant</td>
</tr>
<tr>
<td>EKS</td>
<td>0.782503</td>
<td>3.979011</td>
<td>0.0001</td>
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</tr>
<tr>
<td>EXD</td>
<td>0.796129</td>
<td>3.000627</td>
<td>0.0034</td>
<td>Significant</td>
</tr>
<tr>
<td>R²</td>
<td>0.942850</td>
<td></td>
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<tr>
<td>Prob (F - Statistics)</td>
<td>0.000000</td>
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<td></td>
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</tr>
</tbody>
</table>

(Significance level /\(\alpha = 0.05\))

Source : Secondary Data, Processed
The equation of this panel data can be written as follow:

\[
\text{Adjusted Gross Domestic Product (Y)} = -1.16E+10 + 14.01431 \times \text{Foreign Direct Investment (X1)} + 0.782503 \times \text{Export (X2)} + 0.796129 \times \text{External Debt (X3)} + \epsilon_{it}
\]

According the results and equation above, with the significance level \(\alpha = 0.05\), we can conclude that the increasing US$ 1 of Foreign Direct Investment (FDI) will affect total output of selected ASEAN countries (gross domestic product) increases as US$ 14.01431 while others independent variable remains catteries paribus. When there are increasing US$ 1 of export it will affect to increases the gross domestic product on selected ASEAN countries also as US$ 0.782503 while others independent variable remains catteries paribus. And if there are increasing US$ 1 of external debt in selected ASEAN countries, the gross domestic product will increase as US$ 0.796129. Where the writer assumes the other variables are constant or ceteris paribus.

**Discussion**

**D.1 The Effect of Foreign Direct Investment (FDI) on GDP in Selected ASEAN countries.**

FDI is a potent instrument of the economic growth and development, especially for the less developed countries. Foreign direct investment influences the host country economic growth through the transfer of new technologies and know-how, formation of human resources, integration in global markets, increase of competition, and firm development and reorganization. For less-developing countries, FDI is also able to build up physical capital, to create employment opportunities, to develop technology enhancing the productivity, to enhance the skills of local labor, and many more which can help integrating the domestic economy with the global economy. Integrating the local economy with the global economy affects the Balance of Payment (BoP).

The positive relationship between FDI to the economic growth is similar with previous study by Auiral Kumar Tiwari and Mihai Mutascu (2011), Qisthi Rabbani (2013), and Mohammed Abaid (2013). The increasing of FDI will be influencing the human capital, infrastructure level, wage level, and technology that makes the production process is more effective and efficient (Hong, 2014). Therefore, it is able to enhance the export and the output of that country.

**Figure D.1:** The intersection between total FDI and GDP (%) in selected ASEAN countries at the years of 2000 – 2014.

Source: World Bank, Processed
The good allocation of FDI to the production activity, such as transfer technology, can decrease the unemployment and increase the human capital with the result of increasing productivity performance. With the increasing productivity performance, it is able to increase the export and the national output as well. So, the positive relationship between them is happened. Based on an article posted by Ministry of Finance Indonesia, if the allocation of foreign investment is not good enough for the production activity (tend to use for consumption), the relationship between FDI and economic growth can be negative ways.

D.2 The Effect of Export on GDP in Selected ASEAN countries.

The export policy is very influential in economic growth for several counties, therefore the countries that have abundant natural resources or good technology often to boost their export policy. The result found that there is a positive relationship between exports with the economic growth which is appropriate with the previous study by Aural Kumar Tiwari and Mihai Mutascu (2011), Barnabas Kiiza and Glenn Paderson (2013), and Muhammed Abaid (2013). The higher of total export represents the high productivity condition in both goods and services sectors from that country and good an asset allocation. Besides, the increasing export growth is able to enhance economic growth in term of the output, it is able to make a good currency of the selected ASEAN countries. Furthermore, it also can stimulate the foreign investment to invest in that country. But sometimes the countries tend to import goods and services because the cost of import is lower than if they produce it by themselves. This import is used to be consumption or produces some new goods and sells it again with a higher price.

In the case of export to the economic growth in selected ASEAN, the export policy or the country that more focuses on export activity will enhance a great economic growth (GDP), which means it accepts the hypothesis of export-led growth. While total the export is increasing, it can cause enlarging and expanding their market to respond the demand of foreign market, in the result that the economic growth increases.

**Figure D.2:** The intersection between total Export and GDP (%) in selected ASEAN countries at the years of 2000 – 2014.
D.3 The Effect of External Debt on GDP in Selected ASEAN countries.

The result that external debt has positive relationship to the economic growth is in line with previous study by Qisthi Rabbani (2013) and Suna Korkmaz (2015), and contrary from the study by Jacob Kelly Onyango (2014) which found that there is negative effect from external debt to the economic growth in Kenya. Nowadays, external debt has become one foreign capital needed in some developing country. External debt can be used to stabilize the government budget and increase the production activity such as buying new technology, increasing human capital through education program, etc. Through external borrowing; raw materials, semi-finished product and spare part demands of the industry are met, deficiencies in production are eliminated and economic growth is maintained. If external borrowing income is not invested in productive factors, the country real production decreases, the income ends up and decreasing the output (Korkmaz, 2015).

In the case of selected ASEAN countries over period 2000 – 2014, the external debt tends to increase each year with the positive relations to the economic growth. At the post-crisis, the funds that came from foreign debt are used to implement the important structural reforms such as financial institution, subsidies, and any government programs in the result for enhancing the economic growth (IMF, 2000). The increasing of external debts in selected ASEAN countries are also used to support government construction on infrastructure so that the production activity increases. The economic growth rate increases accordingly. It can be concluded that the external debt in selected ASEAN countries is able to support the productivity and stabilize the economic performance.

**Figure D.3:** The intersection between total external debt and GDP (%) in selected ASEAN countries at the years of 2000 – 2014.

Source: World Bank, Processed
E. CONCLUSION AND RECOMMENDATION

E.1 Conclusion

This study is aimed to review the influence of FDI, export, and external debt toward the Gross Domestic Product in selected ASEAN countries which are Cambodia, Indonesia, Malaysia, Thailand, Vietnam, Philippines, and Laos in 2000 – 2014. The statistical result of the independent variables (FDI, Export, and External Debt) significantly influences the economic growth which is indicated by Adjusted GDP both in simultaneously and partially.

The good allocation on FDI is able to build up physical capital, creating employment opportunities, develop technology to enhance the productivity, enhance the skills of local labor, and many more which can help integrate the domestic economy with the global economy. Further, the national output will be increases. However, the allocation of external debt in selected ASEAN countries doesn’t good enough to enhance economic performance.

E.2 Recommendation

Rebuild the allocation of external debt systems to be more productive activities. The external debt in ASEAN countries give positive impact to the economic growth during this period, but the contribution is not too strong, bear in mind, the external debt always increases sharply every year. The requires is not only create the market that efficiently capable of creating pricing and allocation of appropriate resources, but also government officials must be smart, clean, responsive and sensitive, in order to handle a variety of fields and problems that would be solved by market mechanisms, particularly social issues and economy arising as a result of the operation of imperfect market forces.

The limitation of variables, information, and methods cause many shortcomings and hopefully there are further developments in this research.

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