

FOREIGN INVESTMENT AND THE POLITICAL ECONOMY OF INDONESIAN CAPITAL MARKET IN 2015-2016

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Abstract

Purpose of the study: This article examines the impact of foreign investment—especially through the capital market—towards the economic stability and strategic policy in Indonesia. Despite being a member of G20, a group of states with the world's highest Gross Domestic Products, Indonesia is still a developing state whose need for investment to support economic growth is high. On the other side, Indonesia has a low capital accumulation rate due to low people's savings which inhibits the development projects. Therefore, the government prioritizes the incoming flow of foreign investment.

Methodology: This study applies the international political economy approach to provide critical analysis of Indonesian contemporary foreign investment, especially in the capital market. The data used is the investment activities through the Indonesia Stock Exchange during 2015-2016.

Main Findings: It argues that Indonesia's considerable dependence on investment has enabled foreign investors to play the capital flow to influence the national economic stability for their interests. Such influence was a result of two strategies: (i) the transaction domination in the capital market through the Indonesia Stock Exchange, and (ii) the alliance with financial actors in accessing inside information—which is not commonly owned by domestic investors.

Implications/Applications: This study suggests that the politics of foreign investors has contributed towards the changes of government policies in the financial sectors to facilitate the process and to ensure the flow of foreign investment to Indonesia. Such policies include the government's control of interest rates, fiscal policy, as well as currency stability through macroprudential regulation.

Novelty/Originality: Essentially, the capital market is not politically neutral. It has been used by foreign investors to augment their interests by dominating transactions and building political alliances at the domestic level.

Keywords: *Foreign investment, Capital market, State revenues, Indonesia Stock Exchange.*

INTRODUCTION

In the last decade, Indonesia's economy has experienced a positive trend and showed an increase in growth above 5% average. Although the increase was lower than China and India which grew about 7%, Indonesia's economic performance was still better than that of most global economies which only grew around 3,1%. Many developed nations even showed stagnation in economic growth at 2% ([World Bank, 2018](#)). Benefited by its large domestic market—the largest among ASEAN member states—Indonesia's economy keeps moving and growing. The inclusion of Indonesia into G20, a group of states with the world's highest Gross Domestic Products (GDP), is an important recognition of the sign and magnitude of Indonesia's economic performance.

However, it is noteworthy that Indonesia remains an emerging market country, where its economic situation (e.g., domestic investment, trade) is low but positively grows and still depends on other states ([Litan, Pomerleano, and Sundararajan, 2003](#); [Dalla et al., 1995](#)). Therefore, as a country with a growing economy, Indonesia sets investment as one of its main stakes in supporting development projects, such as infrastructure, strategic industries, and health which are expected to contribute to the national economic growth ([Al-Fadhat, 2019](#)). But, the main problem is the low capital accumulation rate due to the low savings of the people.

Since the global economic crisis happened in 2008, the government has improved the country's investment climate to attract foreign investors to increase their investment. However, in terms of foreign investment ease, Indonesia still ranks the 73rd. This is what makes the direct investment rate is still relatively low ([World Bank, 2019](#)). Thus, the government took the decision of developing the capital market to strengthen the foreign investment flow.

The development of the capital market is a policy that accumulates public/private funds and foreign investments to add the state's income sources. The capital market also acts as the facility to shape capital and to accumulate funds to support various development projects. It is different from Foreign Direct Investment (FDI) which is commonly conducted by foreign companies to establish real assets in the host country. The purposes of this investment are to improve the infrastructure and to create products. This type of investment usually has a long-term and stipulated period of time. While Foreign Institutional Investment (FII) is an investment in the form of the portfolio in a country's secondary market or stock exchange. This type of investment is to increase the capital availability and performance of a company. This type of investment usually has a short-term and unspecified period of time ([Yang & Pangastuti, 2016](#)).

The capital market sits on a strategic position in the state's economy. Other than strengthening the FDI scheme which has always been promoted by the government, FII through the capital market can become a source of funding for companies to improve their performance. Besides, the capital market can become an indicator to measure the economic condition of the country. The more developed the capital market of a country is, the better the state's economy will be (not absolute) (Stoica, 2002; Pasha, 2019).

Accordingly, the government keeps pushing the capital market development by creating a positive investment climate and improving investment ease rank from various international institutions that have a direct influence on the foreign investors' interests for Indonesia (Rahman, 2017). The government's effort has a positive impact on the increase of foreign investors in the capital market. In 2018 the composition of foreign investors reached 52%, increased one digit compare to that in 2017 which was 51%. This number is much better compared to that in 2016 where the foreign investor composition was only 48% and the domestic investor was 52%. The number amounted to 1,717 billion rupiahs, while the domestic investors amounted to 1,849 billion rupiahs (Rahma N, 2019).

Indonesia's experience in driving the capital market development is not always positive. In 2015, especially during the uncertainty of the global economy due to the trade war between the US and China. Indonesia's investment performance, in this context, cannot be escaped from such a trade war that campaigned by the US' Trump administration by increasing its interest rate to enormous numbers of Chinese products. The move was in response to the US trade deficit to China as well as the rise of the later into a major economic power (Pangestu, 2019; Chong & Li, 2019; Yuliantoro & Dinarto, 2018). This worried foreign investors and many of them withdrew their investment from the capital market, which then negatively affected the national economy. In 2015, Indonesia's economy only grew 4,71%, the lowest percentage since 2010 (Indonesia Investments, 2015). This number decreased from the previous year which reached 5,02% in 2014 and 5,78% in 2013. The declining of Indonesia's economic growth apparently is in line with the movement of IDX Composite—an index of all shares traded on the Indonesia Stock Exchange—which was decreasing due to foreign investors.

It is important to note that the activities of foreign investors in withdrawing their capitals cannot be merely analyzed through economic and financial activity framework. These activities shall be considered as a part of a political maneuver since they influence the economic stability which aims to influence policies. This article examines the impact of foreign investment through the capital market on Indonesia's economic stability and policies, especially in 2015-2016. In this particular period, many foreign investors indicated withdrawing their capital out of Indonesia's capital market. By applying the international political economy approach, this paper argues that foreign investors were using the flow of capital strategy to influence national economic stability and policies. This is carried out in two strategies: (i) transaction domination in the capital market through Indonesia Stock Exchange, and (ii) cooperation with financial actors to access information—which is not commonly owned by domestic investors. These foreign political investors also contributed to driving changes in the government's financial policies to ease processes and to guarantee the foreign investment flow, such as policies to maintain interest rate, fiscal control, as well as Rupiah currency stability through macroprudential policy.

THEORETICAL REVIEW

The study of capital investment, specifically regarding the capital market, has very much been developed in the economic studies literature (e.g., Lerskuilawat, 2017; Qian, Kong, & Du, 2019). In the case of Indonesia, the existing studies examine the capital market with an emphasis on its efficiency, capital ownership, share price, and government policies (e.g., Ruru, 1994; Sitorus, Pardede, & Ardi, 2019; Sharma et al., 2019). Such a study with an emphasis on the economic point of view has limitations in explaining the economic implication of international and national capital investment activities. What has not been looked deeply into the existing economic literature on the capital market is how international investors have used capital inflow and outflow through the capital market in shaping policy changes to enhance their interests. In this vantage point, it is noteworthy to apply the political economy approach in examining the complex relationship between capital market and government policy. This approach views that the flow of capital is not just an economic activity. It is an inseparable part of politics, in which the interests of investors and capital owners are being exercised and achieved through government policies and depend on their political coalitions (see Jessop, 2003; Santiso, 2003; Al-Fadhat, 2019).

In this context Santiso (2003: 11) argues that the money market has its own temporality which may cause acceleration, speed, and crisis through the financial sector. When the market causes a crisis, the state must swiftly respond to the market and several states try to obtain time and to build long-term credibility. As further explained by Friedman, the money supply is the most important factor within the policy of the state. Monetary policy can determine the state income because the easier access a state has to get money, the more increased state income will become (Friedman, 1970). In line with that, Genie (1994: 63) stated that with the incoming of foreign investors into the Indonesian stock market, the money from other states will come in and add the state's foreign exchange reserve.

It is noteworthy that the capital money market and the state are two inseparable elements in the political economy. For many years the government has become an important factor behind the existence of the capital market. But as a civilization grows, the market has its own power in which it is able to cause acceleration, speed, and crisis. Even so, the state is also able to push for and achieve capital growth acceleration from the capital market. This is the key point to the political alliance between state and market actors (e.g., business elites, conglomerates, politico-business) in which the state will

create a space for the creation of economic and political powers in shaping the market's direction and policy. The purpose is to create a suitable market that is able to ease the process of capital accumulation, both at the national or international level (Jessop, 2003; Wirasenjaya, 2015; Al-Fadhat, 2019).

With this acceleration, the state may reduce its financial burden by shortening the duration of capital flow. When market causes and faces financial crisis, the economic actors within the market can directly influence the economic balance of the state, which requires the state to be quickly responsive in making policies and recovering the state's long-term economic credibility to survive from this caused-by-market problem (Santiso, 2003).

According to Santiso, the capital market basically focuses on short-term objectives while the state focuses on long-term effects. In this case, capital owners will manage their asset relocation flow in the capital market of the state based on the most strategic interest. Capital will keep being invested as long as it is profitable, and the social-political economy situation is conducive. However, these assets are to be removed anytime if the situation is considered unfavorable for investors. The capital outflow of investors in an uncertain period will cause the foreign exchange reserve of the state to decrease in an unexpected time. The declining foreign exchange will weaken the state's currency and badly impact other investment flows (Suidarma et al., 2018).

In such a situation, investors are in a position having the power to influence economic stability through market conditioning in accordance with the direction of its interests. This can be found in cases where foreign investors are able to influence the fluctuation of IDX Composite. The decline of IDX Composite of the state with its capital outflow directly and significantly affects the decline of companies' performance and state's income. Besides, foreign investors can also influence the state policies by utilizing their political coalitions with the government elites and politico-bureaucrats, making the investors were able to, directly and indirectly, influence strategic policies to attract and preserve the investors from investing their capital. Santiso called this the "confidence game", in which the state is the key device to attract and keep the investors (Santiso, 2003).

The "confidence game" is a game of trust in which the state and investors have to be open to each other (or cover the not-good) to gain trust. In this vantage point, the state has to be transparent regarding the state's principals to make the investors trust and to invest their capital in Indonesia (Santiso, 2003). Investors prefer investing their capital in the state with steady currency, a healthy economy, and little political risk as well as the country that has certain policies supporting economic development and growth (Scherer, 2014).

Therefore, to attract and keep investors remain in Indonesia; the Indonesian government has approached various strategic market-oriented policies. For example, policies on permit ease, infrastructure availability, low-risk profile, conduciveness guarantee, and many other policies that facilitate and secure investment in Indonesia. With these policies, investors will be at more ease to build companies, while the already established companies will be able to improve and diversify their performances. This will then attract other new investors to flow their capitals to the companies through the capital market, which will increase the state's income.

METHODOLOGY

The research underlying this article applies a qualitative method in which the data were collected and then categorized based on the focus of each research problem. The facts presented in this research were based on the researcher's interpretation using the international political economy approach. The international political economy approach used in this study refers to the views that economic activities are not something neutral and free value. It is essentially part of and will always shape by political interests of contested different political and economic actors. The capital market, as closely observed in this study is no exception. The maneuvers and strategies of economic actors in carrying out their investment were very much benefited not only by their capital power but also through their political alliance with numerous domestic actors (Jessop, 2003; Santiso, 2003; Al-Fadhat, 2019). The data were collected through library research from written documents such as journals, books, annual reports, the government's official records, as well as official news from online mass media. The time span of the data is between 2015-2016.

RESULTS AND DISCUSSION

The Politics of Foreign Investor in the Indonesia Stock Exchange

Foreign investors realize that they can never be free from the risk potential of the Indonesian capital market. In line with their basic orientation in pursuing the highest material profit, these investors have tried building political and economic activities that support the market conduciveness through various government policies. The followings are foreign investor's strategies in controlling the capital flow in Indonesia Stock Exchange to gain profit as big as possible:

a. Controlling Indonesia Stock Exchange through Transaction

To smoothly run the capital market, various supporting components are required. One of them is price. Price is a compulsory component to make a transaction happen and to move the market. With the price, the trading transactions between seller and buyer can happen, as well as the fluctuation of price in the stock market. In Indonesia's stock market, foreign investors always choose a different position to local investors, because in order to get the stock in Indonesia Stock

Exchange, foreign investors must get them from other shareholders, which are the local investors. Therefore, foreign investors try to make these local investors sell their stocks, so foreign investors can get those stocks ([Creative Trader Team, 2017](#)).

In 2016, within the I and III quarter, many foreign investors purchased big stocks from Indonesia Stock Exchange, such as PT. Telkom, BCA Bank, PT. Unilever, PT. United Tractor, etc. During the time when these foreign investors were coming, it could be seen that the stock rates significantly increased. With the entry of foreign investors, these stocks displayed good performances and made the IDX Composite to significantly increased and soared to 5.446.

With the increase of IDX Composite, it affected the performance of the industrial sector and raised Indonesia's national income, which was only 8.400 trillion rupiahs in 2015, 9.400 trillion rupiahs in 2016. This value is the projection of 5.02% growth in 2016 compared to Indonesia's economic growth which only grew 4.71% in 2015 ([KataData, 2018](#)).

With the incoming of foreign investors into the company, it will affect and increase the stock price of the company. The increase in stock price shows that the company's performance is positive, with the increase of the company products' export and growing profit. If a company is in a positive performance, it also shows that the industrial sector has competitive power. And if an industry or company shows positive performance, national income will also increase. With increasing stock prices, foreign investors will also get huge profits.

b. Cooperation with Financial Actors in Accessing Information

Local investors have always thought that stock price is determined by the news and analysis spread by news portals and capital market analysts from various stock securities ([Creative Trader Team, 2017](#)). This local investors' mindset is taken advantage of by foreign investors to obtain the stocks at a cheap price. In this context, foreign investors build a political coalition with the analysts and news portals to hold news which will benefit the investors and "teach" the analysts to provide analysis and news on the factors which cause capital market volatility to local investors, then transaction between local and foreign investors at a cheap price will happen.

According to [Santiso \(2003\)](#), financial analysts and security are strategic actors for foreign investors to dominate and control the stock in emerging market states, including Indonesia. They—in this case, are the foreign investors, financial analysts, and security analysts—cooperate to facilitate foreign investors to obtain information earlier than the other (local) investors, so foreign investors will be able to dominate the transaction and blow the information regarding the capital market through the financial analysts and securities to make the transactions happen.

If foreign investors received information about good news, then foreign investors circulate bad news so that local investors will believe that and sell their stocks at cheap price. The opposite, if foreign investors believe received bad news regarding the Indonesian capital market through the analysts and financial experts, then these foreign investors will circulate good news to make the local investors buy their stocks at a high price ([Creative Trader Team, 2017](#)). Therefore, foreign investors were able to obtain immense profit from their cooperation with these financial actors of a state.

For developing countries like Indonesia, which require a big amount of international capital flow to support their economic development, the inflow and outflow of foreign capital will affect its currency's stability as well as the performance of companies and strategic sectors. The weakening of Indonesian rupiah is caused by many foreign investors which re-exchange rupiah to the US dollar, reducing Indonesia's foreign exchange reserve. The weakening of rupiah affects results in poor companies' performance and might result in the decline of the national income. Therefore, Indonesia keeps trying to invite and keep these foreign investors through various approaches, especially attracting foreign investors who have not invested in Indonesia yet, and keeping them from investing in Indonesia.

Implication Towards Government's Policy

Keeping trust is the primary factor to make investors want to invest their capital in Indonesia ([Lunawat, 2013](#)). The trust between the state and foreign investors is the essential key to make them cooperate and benefit each other, as explained by [Santiso \(2003\)](#) with his term "the confident game". This term refers to the game of trust between investors and regulators to meet an agreement for mutual cooperation. Sometimes, investors use third parties, such as IMF or any international bodies by utilizing the state's needs in terms of a capital ship, to reach an agreement with the regulators or state.

Various approaches are conducted by the government to attract and to keep foreign investors, such as regulations which make foreign investors believe Indonesia is a profitable place to invest, as well as monetary policies which maintain the optimism of the state economy and banking so foreign investors remain interested in investing their capital in Indonesia. The followings are several policies made by the government:

a. Maintaining Bank Indonesia Benchmark Interest Rate and Controlling Inflation

Monetary activities and operations are carried out by Bank Indonesia to keep foreign investors in investing their money in the Indonesian capital market by maintaining the benchmark interest rate amidst global economic uncertainty. Benchmark interest rate is a certain percentage added with principal debt-burdened to the debtor in a certain period ([Fane, 2005](#)). Bank Indonesia raises and reduces the benchmark interest rate in accordance with the global and domestic economic situation. With Bank Indonesia's dynamicity in increasing and reducing the benchmark interest rate, it affects the resilience of the

state's economy and banking as well as become a guide for foreign investors that Indonesia possesses a strong economic resilience in the middle of the global economic uncertainty.

Bank Indonesia's dynamic in managing the interest rate is one of the main indicators for foreign investors. Benchmark interest rate will be raised by Bank Indonesia if it believes that Indonesia's economic growth is positive and will cause inflation. The purpose of increasing interest rates is to reduce the number of circulated money and to suppress inflation. Inflation is the continuous increase in price in a certain period (Kenward, 2013; Pontines & Siregar, 2019). Foreign investors will keep observing the interest rate in Indonesia. When the interest rate increases, foreign investors get out of the capital market and switch to the other capital ship instruments that are not risky for their capital, making the performance of the capital market and companies to decline. While the decline of interest rate by Bank Indonesia is intended to push investment growth and to suppress deflation. Deflation is the opposite of inflation in which prices continuously decrease in a deflation. When the interest rate is decreased by Bank Indonesia, foreign investors will choose to invest in the capital market which has higher ROI and the companies' performance will grow again.

Bank Indonesia's policies on interest rate may hold the interest of foreign investors from investing in Indonesia, especially when the global situation is not favorable for Indonesia, such as when the US increased its interest rate and many foreign investors withdrew their capital from the developing states, like Indonesia; but there are still foreign investors who keep investing in Indonesia for higher return reason.

b. Maintaining Rupiah Stability through Macroprudential Policy

Depreciating currency will not attract foreign investors because they will feel insecure and unprofitable to invest in the state's market of depreciating currency to the US dollar. In this case, Bank Indonesia as the frontline of the state finance is expected to maintain the stability of rupiah. Other than to keep the transaction value in the state's export and import, it is also to attract and convince investors that the investment activities within the Indonesian capital market will produce a good profit.

Rupiah depreciation is the lowest and controlled depreciation compared to the other currencies (Richter, Schularick, & Shim, 2018). The policy is taken by Bank Indonesia, other than adjusting the Benchmark Interest Rate, which is to run the macroprudential policy. Macroprudential policy is a measure taken to maintain the stability of the financial system, comprehensively oriented, and to minimize systematic risk (Bank Indonesia, 2016; Lee, Asuncion, & Kim, 2016). Systematic risk is a risk that causes the loss of public trust and the increase of uncertainty within the financial system, disrupting the progress of the financial system and economic process (Bank Indonesia, 2016: 4).

The risks minimized by the government include corporates' failure in credit payment, preventing risk contagion from one financial system and damaging the whole system, as well as preventing the propagation of risks to instruments other than financial instruments. In order to prevent this, the government as the authority creates a strategy to determine the macroprudential policy. The strategy used by Bank Indonesia includes risk source identification, macroprudential monitoring, policymaking, and crisis management.

The first step is Risk Source Identification. Identification is conducted on the event or behavior which disrupts the financial system. The risk will happen when there is an interaction between disruption and vulnerability. Analogically, interaction is like a house owner who usually locks the door at night, but the owner one day forgets to lock the door, this is what we call as vulnerability. The risk will happen when a disruption occurs like when a thief coming to steal. The interaction between vulnerability and the thief is called as a risk. Then, it is called a systematic risk if the house owner does not have a sufficient security system. If the house owner puts his valuable goods in a safe place, then the theft will become less significant and not cause huge loss. Therefore, the government conducts the identification by focusing on the disruption and vulnerability identifications.

The second step is monitoring. Monitoring is conducted through thematic examination and the result will be reported to the concerned parties, such as the market actors and so on. There are two steps of monitoring: systematic risk monitoring and risk signaling. Systematic risk monitoring comprises of three steps, which are monitoring, stress identification, and risk assessment:

- Monitoring
Monitoring the movement of financial system element indicators and macroeconomic indicators which may affect the financial system.
- Stress Identification
Measuring when the monitored indicators' performance shows harmful signals for the financial system.
- Risk Assessment
Measuring the impact potential from the identified risks towards the financial system or real sectors.

The next is risk signal notification in which the monitoring result on the previous stage will be reported to the concerned parties. The risk signals will be notified to the following parties:

- Internal Parties

Internal parties include all financial authorities which contribute to maintaining financial stability, they are the Ministry of Finance, Bank of Indonesia, Financial Services Authority, and Deposit Insurance Corporation. This monitoring result notification will accelerate the decision making of these authorities.

- Market Actor and Public (Stakeholders)

The monitoring result notification to the stakeholders aims to provide relevant information about the ongoing condition of the financial system and to build positive performance together for the financial system.

The third step is policy formulation. Policy formulation in every state differs from each other. In Indonesia, macroprudential policy has been formulated and made in variations to be used in different conditions. There are 3 macroprudential policies made by the financial authority, they are:

- Loan to Value Ratio for Property and Motor Vehicle

This policy formulation is based on the high loan growth on property and motor vehicle sectors that may potentially cause systemic risk due to a large amount of display payment that the people need to pay and slow credit channeling. The display payment may reach up to 30%, incriminating the people from affording for what they want to purchase. This policy provides better convenience in which in the regulation of the Bank of Indonesia in 2016 the credit's display payment was cut to only 10% for conventional banks and 15% for sharia banks.

- Minimum Statutory Reserves

Minimum statutory reserves are the amount of reserve in rupiah that must be reserved by the banks in the form of the gyro to the Bank of Indonesia. This policy is made to prevent systemic risk due to the high amount of money circulated and to maintain bank liquidity. The amount of the minimum statutory reserve is 5%-15% of the bank's total money ([Asih, 2017](#)).

- Countercyclical Capital Buffer (CCB)

It is a capital addition that functions as the buffer for loss in case excessive credit growth occurs or when a banking funding that may potentially disrupt Indonesia's financial system exists.

With these macroprudential policies, foreign investors will be able to know the condition of the financial system and Indonesia's economy from the transparency result given by the financial authority. The trust between the foreign investors and the state will make the foreign investors invest their money in Indonesia's capital market. Therefore, the government also takes several additional policies:

c. Implementing Fiscal Stimulus

Fiscal policy is an action taken by the government to lead the state's economy in a better direction ([Afonso & Sousa, 2012](#)). In another word, fiscal policy is the government's tool for economic stabilization. One of the policies concerning foreign investor is related to the funding for infrastructure development through the financial instrument, that is the capital market ([Badan Kebijakan Fiskal, 2016](#)). For the development's funding, the government is in predicament due to limited funds. Therefore, the government's policy is to invite foreign investors to assist the government in terms of funding through the capital market.

The government is committed to allocating the funds for the productive sectors, such as infrastructure, notwithstanding the government's fund is limited. The government's efforts to focus on the productive sector intrigue foreign investors, considering the long-term profit potential. With better infrastructure, the issuers will have better competitive power and it will grow the companies' revenue and benefit the investors. Hence, foreign investors are willing to help the government in funding by investing in companies in the infrastructure sector and other sectors that are greatly affected by the infrastructure ([Nirmala, 2016](#)).

d. The Improvement of Indonesia's Credit Rating

The last is a strong economic foundation. The implementation of the aforementioned policies, such as the dynamicity of interest rate and inflation control, macroprudential policy which affects Rupiah's stability, and fiscal stimulus by allocating the national funds into productive sectors, contributes to the output of Indonesia's credit rating issued by independent international credit institutions.

Credit rating is the reflection of credit's feasibility within a state. The ability of the state in paying its loans will suppress the risk of default and prevent the state from the crisis ([Brezigar-Masten, Masten, & Volk, 2015](#); [Paudyn, 2013](#)). With the

credit rating, investors will measure how good a state is in managing the economy, how healthy the companies are in paying off debts to the creditors, and how good the competitive power of the company within the sector or industry is.

On the international stage, there are more than 70 international rating institutions, but the most recognized are Standard & Poor's (S&P), Moody's Rating, Fitch Rating's, and Rating and Investments. These international financial institutions are independent as they do not invest in any instruments, both in stocks or bonds. For investors, this rating is useful to measure their portfolio risk. While for the state and companies, this rating acts as the recognition that their economic and financial management is correct (Martin, 2013).

In rating, each institution has different assessment standards. Standard & Poor's rates are based on political risk, economic structure and income, the prospect of economic growth, fiscal flexibility, state's debt, liabilities, monetary policies, and external liquidity. Fitch ratings assess based on the macro stability and policy framework, economic feature, political risk, banking sector, fiscal policy and debt management, inflation and monetary policy, and currency exchange stability (Prasetyo, 2015). Other than the macros, companies or issuers within the industry are also included in this rating. The grounds that these rating institutions use in determining the rate are by assessing the leverage, liability, and profitability of the company (Matthies, 2013).

Leverage is the company's step in utilizing loans as the funding for the operation. From this, it can be observed whether the company uses the loan as the tool to gain a bigger profit by expansion or the company uses it to pay off another debt instead. If the company uses the loan for expansion, it will be good for the investor's portfolio and the company's development (Matthies, 2013). Thus, the rating institution will give a good score. On the contrary, if the company "robs Peter to pay Paul", it shows that the company does not have consistent profit and it will not intrigue the investors. The rating institution will also give a poor score.

Liquidity is the ability of the company is paying off short-term debts (Rokhim & Min, 2018; Batten & Vo, 2014). The company's ability in paying off short-term debts becomes a parameter for rating institutions. The better the ability is, the better the rate will become. By contrast, if the company struggles to pay off the short-term debts, the rating will be lower.

Profitability is the net profit gained by the company from all of its operational activities. The higher the profitability is, the better the company is and it will become a positive indicator in the eyes of the rating institution and the investors. Otherwise, if the profitability is low, it will become a negative indicator for the rating institution and the investors.

Positive improvement from credit rating institution has become a strategy for the state to attract foreign investors to increase their funding amount in Indonesia, considering that foreign investors use the credit rating as one of their important indicators in their decision to invest in a state. That explains the reason why Indonesia keeps pushing policies that are favorable for foreign investors to help the funding of national development through various schemes, especially the capital market.

CONCLUSION

This study has explained the roles of foreign investors, especially through the capital market, in influencing Indonesia's national economic stability and strategic policies. In international relations study, the discourses on foreign investment mostly refer to foreign direct investment (FDI). The study on foreign institutional investment (FII) through the capital market (stock exchange) has not gained much attention, while investment through the capital market is also essential for measuring the economic growth of a state and the funding of a state's strategic project.

Furthermore, this article has examined the implication of the capital flow incoming from the capital market towards the economic stability and policy of a state. Rather than solely using economic and financial approaches alone, this paper used the international political economy approach to explain the relations of economy and politics that affect the activities of foreign investors and the Indonesian government's policies. This paper concludes that foreign investors—to maximize their capital accumulation—do maneuvers to influence economic stability, aiming to open an even bigger opportunity for its capital flow in various strategic sectors. The influences that they do are by dominating the transactions in the capital market through the Indonesian Stock Exchange and by cooperating with financial actors to access information. These are what drive the government to perform policy adjustment in the financial sector, whether through interest rate, fiscal control, or Rupiah's currency stability per macroprudential policy. These are conducted in order to make foreign investors keep investing their funds in Indonesia.

In addition, whereas this study has significantly shown the political economy aspect of Indonesia's capital market, it has limitations in understanding the whole investment activities and their impact on Indonesia's policies. Such limitation lies in its focus on the Foreign Institutional Investment (FII)—and investment in the form of the portfolio in the stock exchange—and did not discuss Foreign Direct Investment (FDI). Therefore, further research on FDI and the strategies carry out by international investors could provide more dimensions to the economic and political relationship between international capital flow and government policy direction.

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