

CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Economic Growth

Economic growth can be defined as the development of activities in the economy that leads to the increasing goods and services produced within the community is increasing (Sukirno, 2008). According to Prathama Rahardja (2004), an economy is said to have economic growth if the total production of goods and services increase.

Todaro (2000) defines economic growth as a rise in long-term capacity of the country concerned to provide a variety of economic goods to its population. The increase in capacity itself is determined or made possible by advances in technology or adjustments, institutional and ideological demands of the various circumstances that exist.

Boediono (1998) states, economic growth is a process of increasing output per capita in the long term can be seen from the dynamic aspects of an economy, which is seen through how the economy of a developing country changes from time to time. Economic growth is one of the objectives of macroeconomic policy. Growing economy will be able to trigger better economic welfare of the population of a country. The

in terms of economic development by increasing the production of goods and services. While economic development involves not only growth in the physical production of goods and services, the quality of goods and services as well as quality of production factors are also involved in the production process.

The indicators used to calculate the rate of economic growth is the growth rate of national income figures, such as Gross Domestic Product (GDP) or Gross National Product (GNP). In practice, the GDP figure is more commonly used than the GNP considering the boundaries of the GDP calculation which is limited to the country (domestic), because then the economic policies are implemented by the government to encourage domestic economic activity that can be judged by its effectiveness (Syaharani, 2012).

There are two reasons why the national income figures are used in calculating basic data rate of economic growth. First, because the statistics are obtained by adding the gross value generated by production activities in the economy. This means an increase in the numbers reflect an increase in remuneration. Second, national income figures are calculated on the basis of a flow concept. That is, national income figures only include the value of the products produced in a given period, and does not include the

With the use of the

concept of flow in the calculation of national income figures, the number of output produced in each period can be compared (Susanti, 2000).

Some of the theories explain economic growth factors and determine how the relationship between these factors becomes a process of growth, they are:

a. Classical Theory of Economic Growth

The first thought in classical theory is by Adam Smith, He believed that by using the liberal economic system (free), economic growth can be achieved to the maximum. Economic growth can be achieved by involving two elements, they are:

- 1) The growth of the population.
- 2) The growth in total output.

Furthermore, the growth of output in the form of goods and services are influenced by three components, natural resources, labor, and goods inventory number. To ensure an output growth, natural resources must be managed by someone using capital goods. Natural resources are critical to determine economic growth, because the natural resources is are at the maximum limit of the output if they are utilized to the maximum. Natural resources have reached the limit if it used by a reliable workforce using sufficient capital goods.

David Ricardo and TR Malthus had different opinion from

that population growth could increase economic growth. Then David Ricardo argued that too large population growth (up to 2-fold) could lead to an abundance of labor. Abundant labor causes low wages that can only be paid at the minimum living standard (subsistence level). At this stage, the economy is stagnates or called at Stationary State.

TR Malthus and David Ricardo agreed to propose that the groceries are increasing arithmetically (1, 2, 3, 4, 5, and so on), while population grows geometrically (1, 2, 4, 8, 16 and so on). As a result, the food stock is not enough to feed the population, so that the people's life become at subsistence level and the economy will stagnate.

b. Neo Classical Theory of Economic Growth

Some thoughts in neoclassical theory are proposed by Robert Solow. He argued that economic growth would be achieved if there is growth in output. Output growth occurs if the two input factors, namely capital and labor are combined, while technological factors are held constantly (unchanged). The capital is classified as raw materials, machinery, equipment, computers, buildings and money. In producing output, capital and labor factors can be combined in various

... of models. So, it can be written in the following

$$Y = F(K, L)$$

Description:

Y = total output produced

F = Function

K = Capital (capital as an input)

L = Labor (labor, as inputs)

The formula above states that the output (Y) is a function of capital (K) and labor (L). This means that the level of output depends on by combining capital and labor.

Many production function has constant returns to scale (CRS). CRS is sometimes applied, sometimes not. CRS means that increasing all factors will double production. While this may or may not be the case in reality, it makes the math much easier. And it might pay off to see whether we can sustain long-run growth if returns to scale are constant (as opposed to, say, increasing returns to scale). Mathematically, we can formulate that a production function has the proportional properties if x is positive.

$$xY = F(xK, xL)$$

To determine Output-per-worker and capital-per-worker, CRS implies that if we divide the right-hand side by a number, "L", the left-

From now if $\frac{Y}{L} = Y$ and $\frac{K}{L} = K$

$$Y = F(K, 1) = F(K)$$

Another thought by Harrod and Domar, they suggest the need for capital formation as a requirement to achieve steady economic growth. According to them, when the capital formation has been carried out at a time, then the next time the economy will be able to produce goods in larger numbers. Public interest in capital formation (investment) is determined by aggregate demand (total) of the community and by MEC (Marginal Efficiency of Capital), i.e. the ratio between the increase of capital to increase output.

Another thought from Joseph Schumpeter, according to Joseph Schumpeter's economic growth occurs when there is an innovation of the entrepreneurs (self-employed). In this case, innovation is the application of new knowledge and technologies in the corporate world. Innovation has the following effect:

1. Introduction of new technologies.
2. Creates a higher profit.
3. Elicit imitation of innovation that is imitation of new technologies

c. Economic growth in Islamic perspective

Looking at the economic theories above, it clear that there is "something wrong" in the concepts applied in various countries, which are far from expectation. This concept does not have little significant contribution.. It is proved from inability in realization of the main goals such as meeting basic needs, full employment and equitable distribution of income and wealth.

These concepts are also considered to have failed, because the culture fosters the human exploitation, environmental damage, and neglecting objectives of human moral and ethical values. In short, the concepts offered by the West are not a right choice is that can be used as a prototype for developing countries. Nevertheless we cannot deny that the experience of economic development has grown it many beneficial and important to us to build the country, although its relevance is still very limited.

Awareness about the importance of moral values in economic development has been widely voiced by economic scientists. Fritjop Capra in his book, "The Turningt Point, Science, Society, and the Rising Culture," says that economics is a science that is most dependent on the normative values as compared with other sciences. Models and theories will always be based on a certain value and on a

Schummacher called "meta-economics" because it is almost never explicitly included in the contemporary economy (Capra, 1999). Similarly Ervin Laszlo in his 3rd Millennium, The Challenge and the Vision reveals a number premise fallacy of economics, especially economic rationalities have completely ignored the values and morality (Laszlo, 1999). According to their weaknesses and mistakes that are, among others, led to the science of economics does not work to create economic justice and prosperity for mankind. The opposite is true, namely that the sharp inequality between developing countries (poor) countries and the rich. Furthermore, they assert that in order to improve the situation there is no other way but with changed the paradigm and vision, which is put through the turning point of civilization.

The need for a new concept of development of the world economy today feels more urgent, especially in the era of globalization. Mark Skousen in his book Economic on Trial: Lies, Myths and Reality many criticize mainstream economics which has been adopted by the countries of the world. He also went on to give some recipes how should we begin this new century by applying the seven (7) economic principles that should be a reference in the move. Those principles are (Skousen, 1991):

2. The high amount of Deficit spending and the national debt is dangerous for society.
3. Policies that stimulate consumption rather savings and promote the debt could damage economic growth and standard of living
4. Central planning and totalitarianism proved unworkable
5. Needed a new financial system to create a financial framework that responsibility in minimizing inflation and uncertainty
6. There should be a long-term policies related to welfare by providing the freedom of capital movement of money and people from one place to another.
7. In an effort to improve productivity and living standards, the state also must consider the environment as much as possible by reducing pollution and other negative externalities that may occur.

Islamic Economics is essentially considered that economic growth is a part of economic development. Economic growth is defined by a sustained growth of a right kind of output which can contribute to human welfare. Based on this understanding, the economic growth in Islam is value-laden. Increasing in a factor of

... is considered as economic growth if for example the

production of goods that incorporate proven bad effects and dangerous to humans live.

Achieving of full employment, stability, and equity in distribution were though formally recognized as goals of economic development, growth in GDP invariably occupied center stage. It was believed that growth would take care of employment and promote stability at the same time. The conflict between growth and distribution was alone considered substantive. The issue was vital for the developing countries where distributive inequalities were indeed acute. However, without growth nothing but poverty alone could be distributed more evenly. The hope was that the distribution process would make growth in income eventually trickle down to the lower rungs of society, and the upcoming industrial centers would spill growing prosperity far and wide with the passage of time (Hasan, 2006).

2. Foreign Direct Investment (FDI)

According to Act no. 25/2007 on investment, foreign capital is capital that is owned by a foreign state, a foreign individual citizen, a foreign business entity, foreign legal entities, and / or Indonesian legal entity partially or wholly owned by foreign parties. The foreign investor is an individual foreign nationals, foreign entities, and / or foreign

Indonesia. Foreign investment is an investment activity to do business in the territory of the Republic of Indonesia by foreign investors, whether using foreign capital or as contributing to domestic investors.

Foreign investment in Indonesia can be done in two forms, namely direct investment and indirect investment. Indirect investments are made through the capital market instrument securities such as stocks and bonds. While known for its direct investment Foreign Direct Investment (FDI), a form of investment is done by building, buying a company or acquiring a company.

Direct investment means that firms from investors' countries are de facto or de jure control of any assets invested in capital importing country by way of the investment. Direct investment can take several forms, namely the establishment of a branch of the company in the capital importing country, the establishment of an enterprise in which the investor companies of the state has a majority share, the formation of a company in the importing country that is solely financed by companies located in the investor country, setting up a corporation in the state capital planting specifically to operate in other countries, or putting assets (assets) remained in other countries by the national company of the state capital planting.

Indirect investment, better known as portfolio investment or rentier

guaranteed by the government of the importing country capital), for shares or debt securities by nationals of some other countries. Mastery of these shares is not the same as the right to control the company. The shareholders just have the right to dividends only (Jhingan, 1999).

According to Act no. 25/2007 on capital investment, article 3, paragraph 2, objectives of the investment are among other things:

- a. Improving national economic growth;
- b. Creating jobs;
- c. Promoting sustainable economic development;
- d. Improving the competitiveness of national businesses;
- e. Increasing national capacity and technological advances;
- f. Encouraging the development of people's economy;
- g. Cultivating potential economic into real economic strength by using funds from both domestic and from abroad;
- h. Improving the welfare of society.

The influence of foreign direct investment on economic growth has important meaning for developing countries, including Indonesia. Until now, the concept of development by using foreign capital still often leads to a variety of opinions. Foreign Direct Investment (FDI) is seen as a more effective way to encourage growth in the economy of a country.

process. Therefore, some of the developing countries in East Asia, including Indonesia, try to give incentives to the entry of foreign capital in the form of FDI. On the other hand, capital exporting countries also provide incentives to the private sector in the form of tax incentives, guarantees and insurance on investment to encourage FDI for developing countries (Anwar, 2011).

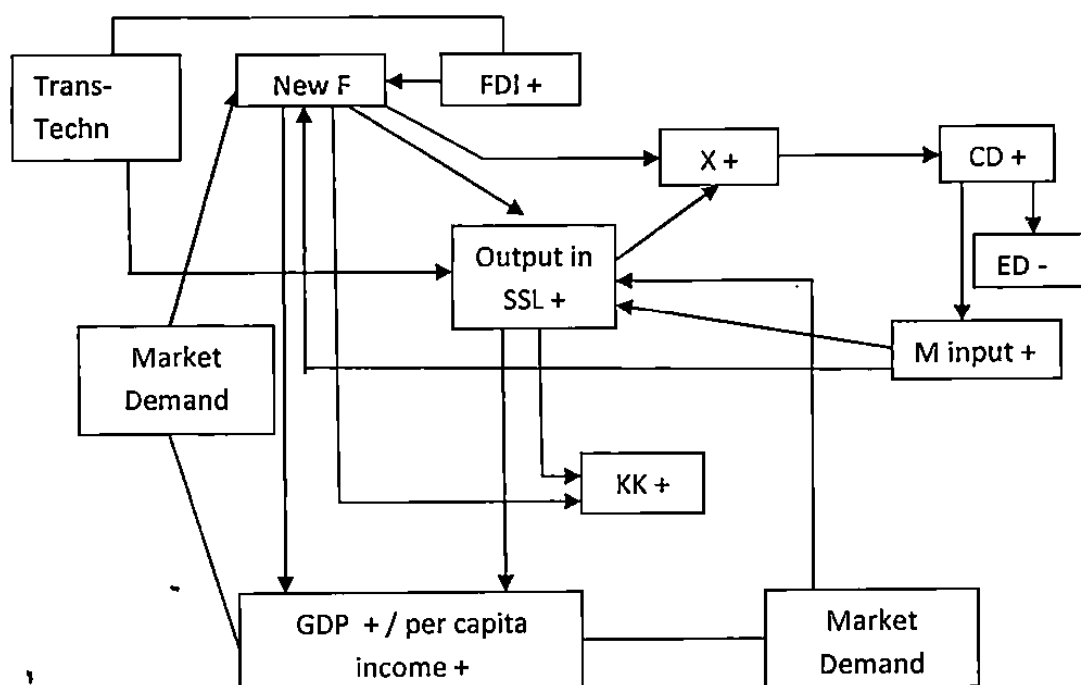
Investment activity enables a society constantly improving economic activity and employment, increase national income and improve the welfare of society. The effect of this role comes from three important functions of investment activity in the economy. First, investment is one component of aggregate expenditure. Thus the increase in investment will increase aggregate demand and national income. Such improvements will always be followed by the increase in employment opportunities. Second, the increase of capital goods as a result of the investment will promote certainty to produce in the future and these developments will stimulate the increase of national production and employment. Third, investment is always followed by the development of technology. The development will provide a significant contribution to the increase of productivity and income per capita (Sukirno, 2008). So it can be concluded that foreign investment has a very important role in driving the economy towards a

The relationship between foreign investment and economic growth is the presence of an investment in the form of purchases of capital goods and the completion of production to increase the ability to produce the goods and services demanded in the economy so that it can improve Indonesia's real GDP and thus a positive effect on economic growth (Handayani in Aulia, 2013). The improvement in investment will increase production capacity, which in turn leads to the opening of new jobs, which will drive the next stage of economic growth (Sutawijaya in Aulia 2013).

Theoretically, FDI has a positive effect on economic development or economic growth particularly in the host country through multiple pathways (Figure 2.1). First, through the construction of new factories (F), this means also the addition of output or gross domestic product (GDP), the total exports (X) and employment (KK). It is a direct impact. X means the addition of growth of foreign exchange reserves (CD) which further increased ability of recipient countries to pay the foreign debt and imports (M). Second, still on the supply side, however, is indirect, are as follows: the existence of a new PP means there is no additional demand on the domestic capital goods, intermediate goods, raw materials and other inputs. If the demand is fully met by other sectors (SSL) in the country (none of which are imported), it is in itself a positive effect of the presence

domestic sectors; so output growth in the SSL. This means that there has been a double presence of FDI effect on aggregate output in the recipient country. In other words, the larger components of M in a project of FDI, or the greater "leakage" of production linkages between FDI in the domestic economy, the smaller the multiplier effect is (Tambunan, 2007).

Figure 2.1. Positive Effect of FDI on Economic Growth Through Multiple Paths



Source: Tambunan, 2007

Third, the increase in employment opportunities as a result of new factories have a positive impact on the domestic economy from the

ability of public spending and further increase demand in the domestic market. Just like the previous case, if the addition of the consumption demand does not necessarily add to imports, the positive effect on output growth in the domestic sector is fully absorbed. Conversely, if the extra demand for consumption is in the form of the increase in imports, then the effect is nil. Even if the rapid growth in imports than exports growth is caused by the presence of FDI, the trade balance is deficit. This means that the presence of FDI gives more negative impacts than positive impacts for the host country.

Fourth, the role of FDI is as an important source of intermediate technology and other knowledge. This role can be through two main pathways. First, through the local workers who work in the FDI companies. When the workers move to domestic companies, they bring new knowledge or skills from FDI companies to domestic companies. Secondly, through production or subcontracting linkages between FDI and local firms, including small and medium enterprises, such as the case of PT Astra International with many small and medium sized subcontractors (Tambunan, 2007).

3. Foreign debt

Debt is essentially an alternative that is done for a variety of

and there is also a charge of expansion. The urgency of the charge means is selected as a possible source of debt financing for the degree of urgency of the needs that require immediate settlement. While the expansion means the debt load is considered to provide benefits (Syaharani, 2011).

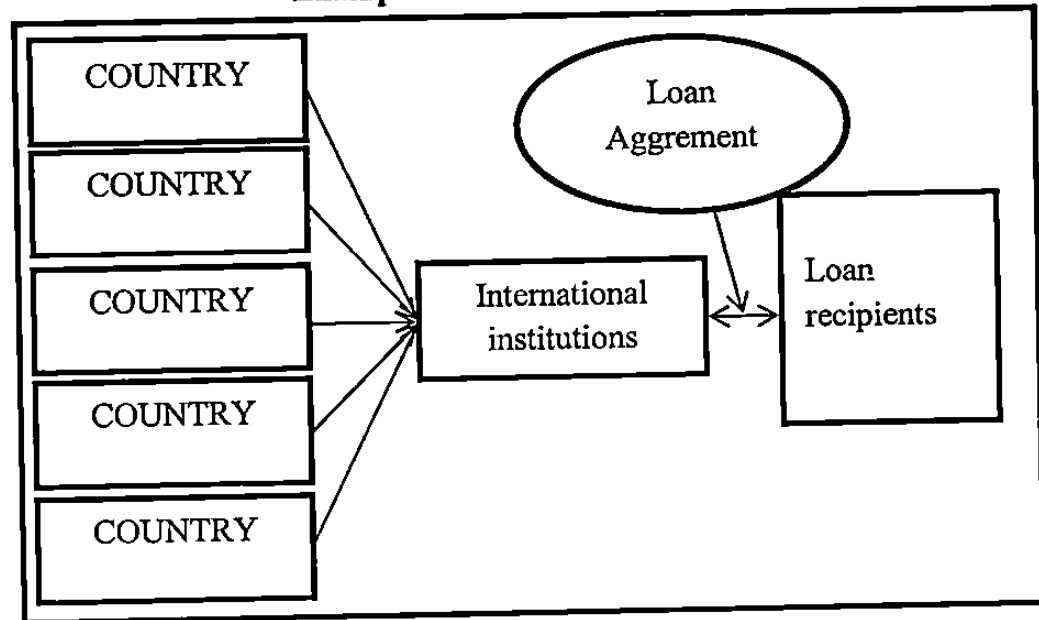
Foreign debt is foreign aid (loan) provided by the governments of developing countries or international bodies specifically established to provide such a loan with an obligation to repay the loan and pay interest (Zulkarnain, 1996).

According to the Joint Decree (SKB) between minister of finance and the chairman BAPENNAS No. 185/KMK. 03/1995 and No. KEP. 031/KET/1995 dated May 5, 1995 as amended by decree No.. 495/KMK. 03/1999 and No. KEP.264/KET/09/1999 September 29, 1999 regarding Planning, Implementation / Administration and Monitoring Loan / Foreign Grants in the State Budget, the sense of the foreign debt is any state income, either in the form of foreign exchange or foreign exchange converted to rupiah or in the form of goods and services obtained from foreign lenders to be paid back with specific requirements. Indonesian foreign debt is divided into several major groups, namely (Syaharani, 2011):

Foreign debt can be distinguished:

- 1) Multilateral loans, ie loans from international agencies, such as the World Bank, the Asian Development Bank (ADB), Islamic Development Bank (IDB).

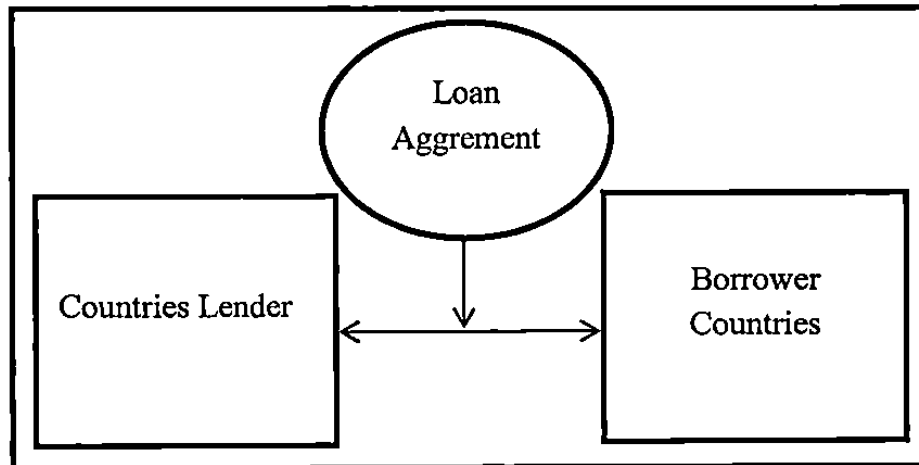
Figure 2.2
Example of Multilateral Loans



Source: Directorate of Foreign Bank Indonesia

- 2) Bilateral loans, ie loans from both countries who are members of

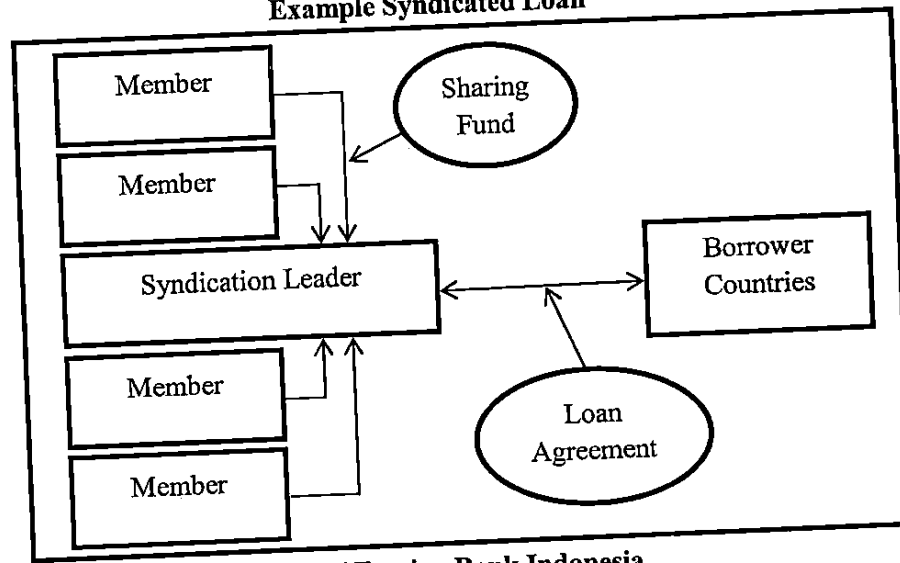
Figure 2.3
Example of Bilateral Loans



Source: Directorate of Foreign Bank Indonesia

- 3) Loan Syndication, is a loan obtained from banks and non-bank financial institutions (NBFI) internationally. The grant of the loan arranged by a bank / NBFI syndicator acting as a leader. These loans are usually in large quantities and commercial nature (commercial loan), for example, with the interest rate (floating rate). The terms of the loan are set forth in the loan agreement, ~~and agreement among the lenders~~

Figure 2.4.
Example Syndicated Loan



Source: Directorate of Foreign Bank Indonesia

- b. Viewed in terms of requirements, foreign debt can be divided into:
- 1) Soft loans (concessional loans), i.e. foreign loans in order to finance development projects. Soft loans are usually obtained from countries that are members of CGI and non-CGI framework. Definition of concessional loans is usually defined as a loan that is obtained from Official Development Assistance (ODA) both bilateral and multilateral nature bilateral. Based on Instruction No. 8, 1984 soft loans must meet the following elements:
 - a) The period of repayment of the loan for 25 years or more
 - b) The grace period for principal repayment from 7 to 10 years
 - c) Interest rate ranges from 2% to 3%

- d) The loans are elements of a grant of 25% or more.
- 2) Semi-soft loan (semi-concessional loans), which is a loan whose use is similar to the use of soft loans, but the requirements are more severe than soft loans but lighter than commercial loans. Semi-soft loans consist of:
- a) Facility Creditors Export (FKE) a foreign loan provided by an agency outside the country of export development on the Indonesian government to finance the purchase of certain capital projects. The loans are secured by the concerned state government or agency designated. FKE is generally given only by 65% to 90% of the total value of projects financed with own funds or funding assistance by the government of Indonesia. FKE can be in the form of Suppliers Credit or Buyers Credit. Buyers' credit is FKE loan received from a commercial bank or non-bank financial institutions abroad, where the purpose of the loan is for the purchase of goods from state lenders. While supplier credit is FKE received by government directly from overseas supplier of goods to the government of Indonesia that will be provided in the form of goods for use within the project. It can be interpreted that in this

... .. the supplier of the

- b) Purchase Installment Sale Agreement (PISA), which is a loan provided by the leasing company to finance specific development projects as outlined in the form of sale and purchase agreements with payment installments. The PISA loan amount is 100% of the value of the project
- c) Commercial loans, i.e. loans received by the conditions stipulated by the condition of the financial markets and international capital markets. These loans are also commonly referred to as cash loan received in cash and the use of more flexible or non-binding. The loan amount in the form of syndicate whose members consist of banks and international financial institutions. Some considerations for the government to receive a commercial loan is to support diversification (diversification) loans or extend loan source of obtaining loans from banks and non-bank financial institutions. The loan amount is relatively larger and has easier procedures for withdrawal, and use of funds is not tied to a single specific project but more flexible, better for reinvesting to finance the project or to strengthen the foreign reserves.

According to Sukirno (2008), the flow of funds from overseas is

not driven by the aim to make a profit, and provided with a milder condition than those prevailing in the international market.

The role of foreign capital in development has long been discussed by development economists. Broadly, their thoughts are as follows. First, external funding sources that is foreign capital can be utilized by developing countries as a basis for investment and accelerate economic growth. Second, the increase of economic growth needs to be followed by changes in the structure of production and trade. Third, foreign capital can play an important role in the mobilization of funds and structural transformation. Fourth, the need for foreign capital can be decreased immediately after the structural changes actually occur (although foreign capital is more productive in the next period).

The thought that supports that foreign capital has a positive effect on domestic savings, financing imports, and economic growth is also being challenged by the camp of other development economists. They concluded that only a small proportion of foreign capital has a positive effect on domestic savings and economic growth, (Kuncoro, 2009).

Classical Economists / Neo Classical indicate that the increase in foreign debt to finance government expenditures only increase economic

... but in the long run will not have a significant

impact due to the crowding-out, ie where an overheated state of the economy that led to the investment reduced private sector which in turn will lower the gross domestic product. Neo Classical groups argue that each individual has enough information so that they can plan his level of consumption over time. The government budget which is deficit is financed by foreign debt so it will increase individual consumption. Mean while the principal debt and mortgage payments in the long term would impose tax increases for the next generation. Assuming that all resources can be fully used, the increase in consumption will lower savings rates and interest rates will rise. Increasing interest rates will encourage private demand decrease, so the Neo Classical concludes that under conditions of full employment, permanent government budget is deficit and the foreign debt settlement will cause the displacement of private investment (Rachmadi, 2013).

Mean while the familiar Keynesian is reviewed by Eisner (1989) and Bernheim (1989). Understanding Keynesian policy in increasing spending financed by foreign debt will have a significant impact on economic growth as a result of rising aggregate demand and further effect of the accumulation of capital. Keynesians view that government budget deficits that are closed by foreign debt will increase income and well-

... will increase consumption. This

resulted in the presence of tax burden becomes relatively lighter, then it will lead to the increase in disposable income. The increase in national income will stimulate the economy. In conclusion, policies to close the budget deficit with foreign debt in the short term will benefit the economy with economic growth (Barsky, 2013).

Other opinions are initiated by the Ricardian. Ricardian's understanding according to Barro (1974, 1989), Evans (1988) explains that the policy of foreign debt to finance the government budget deficit will not affect economic growth. This occurs because the effect of the growth in government spending financed by public debt to be paid by the government in the future with a tax increase. Therefore, people will reduce their consumption at the present time to further increase the savings are used to pay the tax increase in the future (Rachmadi, 2013).

With the foreign debt as an alternative to financing the construction, it is expected to increase the number of domestic savings and ability to spur investment, which in turn can increase economic growth. However, the empirical studies also show the relationship between foreign debt and economic growth negatively correlated, although there are a number of studies that reject it. However, it is because of foreign debt is still part of the investment that is also a positive impact on economic growth. Meanwhile, the basic purpose of the foreign debt is more than on

substance, but on the issue of the allocation and utilization is proportional or not (Anwar, 2011).

4. Bank Credit

Banking as one of the intermediary functions, plays a role in stimulating the economic growth and expanding employment opportunities through the provision of a number of funds and business development. Especially for businesses, a fund provided by banks is in the form of credit. Total demand for loans in a bank is affected by various factors, both in terms of the debtor and the creditor (bank) itself. Credit demand from the debtor (business) is influenced by the presence of an effort to increase business activity, either in the form of investment and working capital. In terms of banking, credit demand is influenced by factors such as interest rate of loan, maximum credit limit, SBI, government policies and the service to the customers of the bank itself (Yunan, 2009).

In a broad sense credit is defined as the confidence. Similarly, in Latin, credit means "*credere*" which means to believe. The purpose of the trust for the lender is that he believes the loan recipient that the distributed credit will definitely be returned according to the agreement. As for the

... of the lender is that he believes the loan recipient that the distributed credit will definitely be returned according to the agreement. As for the

If related to business activities, credit means an activity giving economic value to a person or entity based on the current belief, that the same economic value will be returned to the debtor after a certain period of time in accordance with the agreements that have been agreed between the creditor and the debtor (Tjoekam, 1999). The definition of credit according to the Banking Act No. 10 Year 1998 concerning Amendment to Act no. 7 of 1992 is the provision of money or equivalent claims based on a borrowing agreement or contract between the bank and other parties that requires the borrower to pay off the debt after a certain period of time with interest (Grace, 2011).

There are some elements in the provision of a credit facility they are:

a. Confidence

Trust is a creditor confidence to give credit (in the form of money, goods or services) would really welcome that particular future. This belief is given by the bank, with earlier investigations on customer research both internally and externally. The past and present condition of the credit applicant is investigated first.

b. Deal

In addition to the element of trust the credit also contains

This agreement contains an agreement whereby each party sign the rights and obligations of each.

c. Period

Each credit is given for a certain period, and this period includes the period of loan repayment that has been agreed. Such period may take the form of short-term, medium-term or long-term.

d. Risk

The existence of a period of time will lead to a return of the risk of uncollectible loans or bad credit. The longer the credit, the greater the risk is, and vice versa. This risk is borne by the bank, either deliberate risk by customer negligence, or accident risks.

e. Fringe benefits

It is an advantage over the granting of a loan or the services that we are familiar with the name of interest. Remuneration which is in the form of interest and administrative costs of this credit is called bank profits.

Giving credit facility has a specific purpose. The purpose of this credit will not be separated from the value of profits. The purpose of the

- a. Finding profit. This aims to gain from such loans. These results are mainly in the form of interest earned by the bank as remuneration and administrative costs that are charged to the customer credit.
- b. Assist the customer's business, both investment funds and funds for working capital.
- c. Assist the government, a growing number of loans extended by the banks, better consideration on the growing number of credit means an increase in development of various sectors. The advantage for the government to spread credit is:
 - 1) Reception Tax
 - 2) Opening of employment opportunities. In this regard, the development of new business loans or business expansion will require new workers so as to absorb the unemployed labor force.
 - 3) Increase the number of goods and services. The greater the loans, the higher the number of goods and services circulating in the community.
 - 4) It saves foreign exchange, especially for products that were previously imported and when it can be produced domestically

There are several credit function in conjunction with the economic cycle and monetary trade traffic. According to Muchadasyah Sinungan (1993), the functions are as follows:

- a. Credit can increase the power (utility) money.
- b. Credit may increase (utility) goods.
- c. Credit improves traffic circulation and money.
- d. Credit is one of the tools of economic stability.
- e. Credit cause excitement seeks public
- f. Credit is the bridge to increase the national income
- g. Credit is a tool of international economic relations.
- h. Credit increases the circulation of goods.

In practice loans provide extensive benefits for the debtor, creditors, government and the wider community, and the benefits are:

- a. The benefit to the debtor
 - 1) Relatively easy to obtain
 - 2) There has been a strong institution in the banking community which offers its services in the field of provision of funds (credit).
 - 3) The cost to obtain credit (interest expenses of administration) can

... .. With such entrepreneurship in the

b. The benefit to creditors

- 1) Getting a mortgage interest credit is the difference between the interest charged to borrowers by reducing the cost of funds paid to depositors and reduced again by the overhead costs in processing the loan.
- 2) In order to maintain the solvency and profitability of their business.
- 3) Means to market products and services of other banks.
- 4) To maintain and expand its business. To seize the market (market share) in the banking industry.

c. The benefit to creditors

- 1) As a means to spur economic growth
- 2) As a tool of monetary control
- 3) As a means of creating jobs
- 4) As a means of increasing and equal distribution of income communities
- 5) As a source of state revenue
- 6) As a means to create a market

d. Benefits to government

- 1) As a means to spur economic growth
- 2) As a tool of monetary control

4) As a means of increasing and equal distribution of income
communities As a source of state revenue

5) As a means to create a market

e. Benefits for the community

1) With the smooth process of obtaining the loan it is expected that economy will go rapidly and new job opportunities are widely available, giving rise to the increase in income levels and income distribution in the community.

2) Helpful for people who work as public accountants, notaries, and others.

3) The owner of the funds deposited in the bank in order to fund the deposit and is expected to remain safe because the bank is able to manage it well.

4) For people who work as a supplier of raw materials or finished goods, their business partners will feel more assured they pay the debt.

5) With bank lending helped establish other efforts to support the newly established enterprises funded by the bank.

This study also includes credit financing in Islamic banks, which actually ordinances conventional bank financing with Islamic banks for

different perspective in principle, although

mathematically, there may be similarities between the two. In conventional banks, credit used is based on the loan agreement, which the customer will have the obligation to return the loan with interest in the future. In Sharia, the excess of the loans fall into the category of *riba*, which Allah has explicitly forbidden it (note QS 2: 275-281) (republika.co.id).

In the practice of Islamic banking in the country, usually *murabaha* contract (sale) is used, *ijara wa iqtina* (lease terminated by the change of ownership from the owner of the goods to the lessee) or in some banks there are patterns called *musharaka mutanaqishah*. In *murabaha*, the bank acts as a seller of goods, while the customer is the purchaser. Well, the bank and the customer then agree to determine how much profit margin can be enjoyed by the bank as a seller. Say, "x percent". So is the client's obligation to pay to the bank, the cost of purchase plus the profit margin. Suppose the price is Rp 1 billion, and the profit margin is 10 percent. Then the client's obligation is USD 1.1 billion. Mathematically it is similar to bank interest, but the contract differs significantly.

While *Ijarah* is a contract lease, where customers are required to pay rental fees periodically to Islamic banks within a certain time as a reward for using a particular item (e.g. house or car). Furthermore, the

customer after the lease period ends. While the scheme of *musharaka mutanaqishah*, banks and customers alike contribute capital in the purchase of goods (eg home). Say, the proportion of the bank's capital is 80 percent and 20 percent of customers. With this pattern, then the house belong together. Then the customer is given the right to buy a proportion of bank ownership gradually within a certain time, so that the percentage of home ownership to the customer is 100 percent.

Although there are differences in terms of the system, but in essence, both bank credit and financing in Islamic banks have the same benefits in promoting economic growth, bank loans can be used as a tool to promote economic growth in general and for specific sectors. Bank credit can be used as a tool / device monetary control. when big money is considered too much so that the inflationary impact (where the price of goods and services generally increases), then the bank credit must be reduced, among others, through higher interest rates or limiting the amount of credit limit, so that the community is reluctant (discourage) to rent or borrow a chance to be reduced. Vice versa in a way such that the flow of exchange of goods and services to be smooth (Herlina, 2011).

Bank credit can create and improve business and employment field. Bank credit to creates and improves the distribution of income

from corporate taxes that grow and develop their business volume (Herlina, 2011).

5. Labor Force

The labor force is the total population who are considered to have the potential to work productively (Adioetomo: 2010). This means that residents are able to produce goods and services referred to labor. There are three approaches that are based on the measurement of empowerment, economic activities are used as a benchmark for the analysis of Gainful employment is Worker Approach, Labor Force Approach and Labor Utilization Approach. Each of these concepts or theories is explained as follows.

a. Worker Gainful Approach

This concept describes the economic activity of people who had worked or used to do one (usual activity). The usual word in this case can be concluded that the business doesn't have important assumption about other activities that are not common. For example, people who are usually on the condition of the school but are now looking for work then they are classified as students. This theory cannot describe statistically the condition of those working and looking for work so that the unemployment rate is relatively small.

b. Labor Force Approach

This approach provides a clear limit on the activities carried out in this week, so that it can be seen clearly what activities actually performed as a main activity. This approach is known as the activity present approach to a specific period (Mantra, 1999). According to Adioetomo, 2010, there are two improvements proposed in the draft they are:

- 1) Activity Concept, that are included in the labor force (labor force) should be someone who is actively working or actively looking for work.
- 2) The activities carried out within a certain time limit before the interview. In other words, the concept of the labor force is generally accompanied by a reference time. Based on this concept, the labor force is divided into two, namely:
 - a. Working
 - b. Finding a job (unemployed), which can be distinguished between: Looking for a job, but had never worked before, and finding a job for the first time (have never worked before)

Labor force can be considered as part of the workforce involved actual or attempted to engage in productive activities, which produce goods and services within a certain time. Therefore, the

c. Labor Utilization Approach

This approach was originally developed by Philip M Hauser who revised the concept of Labor Force. Labor Utilization approach is intended to further refine the concept of the labor force, especially in order to better suit the circumstances of developing countries. The approach in this concept is intended to look at the potential workforce, whether it has been fully utilized. With this concept, the labor force are classified as follows:

- 1) Fully utilized
- 2) Under-utilized
- 3) Open Unemployment

The labor force is the populations who are economically able to work and are productive to generate an added value of various goods and services it produces. Thus, understanding the labor force is understanding of the workforce. Labor is an input of the production process which will contribute positively to the aggregate output of a region both from the standpoint of spending and production. So there is a positive relationship between the amount of labor force on economic growth. Where an increase in the labor force will increase production inputs so that aggregate productivity increases will come

... .. growth of a region

Adam Smith, believes that in the liberal economic system (free), economic growth can be achieved to the maximum. Economic growth can be achieved by involving two elements, namely:

- a) The growth of the population.
- b) Growth in total output.

Furthermore, the growth of output in the form of goods and services are influenced by three components, namely natural resources, labor, inventory number. To ensure an output growth, natural resources must be managed by someone with no use of capital goods.

Solow argued that economic growth would be achieved if there is growth in output. Output growth occurs if the two input factors, namely capital and labor combined, while technological factors are held constantly (unchanged). The capital is classified as raw materials, machinery, equipment, computers, buildings and money. In producing output, capital and labor factors can be combined in various combinations of models (perpustakaancyber.blogspot.com).

B. Previous Research

The research conducted by Audrey Liwan and Evan Lau (2007) entitled "Managing Growth: The Role of Export, Inflation and Investment in ASEAN-5 Economies" indicates that exports, investment and inflation

have an influence on economic growth in Indonesia, Malaysia and Thailand, the only difference is positive or negative influence. Export has positive effect on economic growth in Indonesia, Malaysia and Thailand. Inflation negatively affects the economic growth of Thailand and Malaysia, but it has a positive effect on economic growth in Indonesia. The inflation rate in Indonesia is quite stable for several years, which carries a positive relationship between inflation and economic growth. The investment has a positive effect on economic growth in Indonesia, Malaysia and Thailand.

Research conducted by Ervin Mardalena (2009), entitled “Pengaruh Investasi Swasta dan Perdagangan Internasional terhadap Pertumbuhan Ekonomi” proves that the estimation is based on the results of the regression model, the variable of international trade (which includes exports and imports and net exports) has a positive and significant impact on the growth of economy while the variable investment (domestic and foreign) is positive but doesn't have significant effect on the level of significance of 5% of the economy growth.

Research conducted by Desmawati Sihombing (2010), entitled “Analalisis Pengaruh Utang Luar Negeri Terhadap Pertumbuhan Ekonomi Indonesia” indicates that the estimation of economic growth before and after the crisis is influenced by foreign debt with the R-squared of 0.79485 or 0.79,

... .. (Foreign debt) 70% can explain

the dependent variable (economic growth), while the other 21% is explained by other variables that are not present in the model.

Research conducted by Arwiny Fajriah Anwar (2011), entitled “Analisis Pengaruh Utang Luar Negeri dan Penanaman Modal Asing Terhadap Produk Domestik Bruto di Indonesia Periode 2000-2009” reveals that the negative effect of foreign debt to gross domestic product, i.e. if there is an increase foreign debt by 1% it would result in a decline in GDP of 0.005%, assuming *ceteris paribus*. Foreign investment has a positive effect on GDP, ie if there is an increase in foreign investment by 1%, it will result in an increase in GDP of 0.059%, assuming *ceteris paribus*.

Research conducted by Eko Prasetyo (2011) with the title “Analisis Pengaruh Penanaman Modal Dalam Negeri (PMDN), Penanaman Modal Asing (PMA), tenaga kerja dan ekspor terhadap pertumbuhan ekonomi di Jawa Tengah Periode Tahun 1985-2009” shows that domestic investment, labor, and export have positive and significant impact on economic growth in Central Java. Mean while FDI doesn't have significant negative effect on economic growth in Central Java. Based on the results of the F test at the 95% confidence level ($\alpha = 5\%$) obtained F value calculated at 173.7557 with a probability value of 0.000 which means that the variable domestic investment,

and labor have a significant influence on economic growth in

Research conducted by Rosnawintang 2009 with the title “Analisis Dampak Utang Luar Negeri Pemerintah Terhadap Pertumbuhan Ekonomi Indonesia Periode 1980-2006” with the independent variable Foreign government debt and the dependent variable Indonesia's economic growth. The type of data used is secondary data analysis methods linear regression. Hypothesis testing is performed by using a statistical test that simultaneously tests (Test-F) and partial (t-test) of data, analyzing the data using statistical data processing software namely SPSS version 12. The results of the test showed that the variables of foreign debt and foreign debt repayments have negative relationship and exhibited significantly to the growth of Indonesian economy either partially or simultaneously.

Research conducted by Y. Thunder Riyanto and Sri Susilo entitled “Pengaruh investasi asing, utang luar negeri, dan ekspor terhadap pertumbuhan ekonomi Indonesia periode 2000–2008”. The results showed there is no effect of foreign direct investment on economic growth in the short term, but these positive and significant effects in the long term. Variable foreign debt and a significant positive effect on economic growth, both in the short term and in the long term. Then export variable have positive and significant impact, both in the short and long term.

Research conducted by Oki Mardiana Aji (2005), with the title

Indonesia Periode Tahun 1984-2003". Regression results show that the value of $R^2 = 0.9904$. This suggests that the economic growth variables completely explained by investment, exports, employment and foreign debt amounted to 99.04%. The rest is explained by other variables outside of this study. F-calculated value (388.730) is greater than the F-table (3.01), which shows that the total exports, investment, labor, and foreign debt jointly affect the economic growth. While the partial test of the independent variables showed that the results of the variable investment, exports, and labor, respectively have positive effect on economic growth, while the independent variable of foreign debt have negative effect and doesn't significant to economic growth.

C. Hypotheses

Based on the theory and previous research, this temporary hypothesis should be tested to find the truths, which are:

- 1) Foreign Direct Investment (FDI) has a positive effect on economic growth in Indonesia in the short term and long term.
- 2) Foreign debt has a positive effect on economic growth in Indonesia in the short term and long term.
- 3) Bank lending has a positive effect on economic growth in Indonesia in the short term and long term

... .. economic growth in Indonesia in the

D. Research Framework

Figure 2.5.

Model Research

