

## **CHAPTER IV**

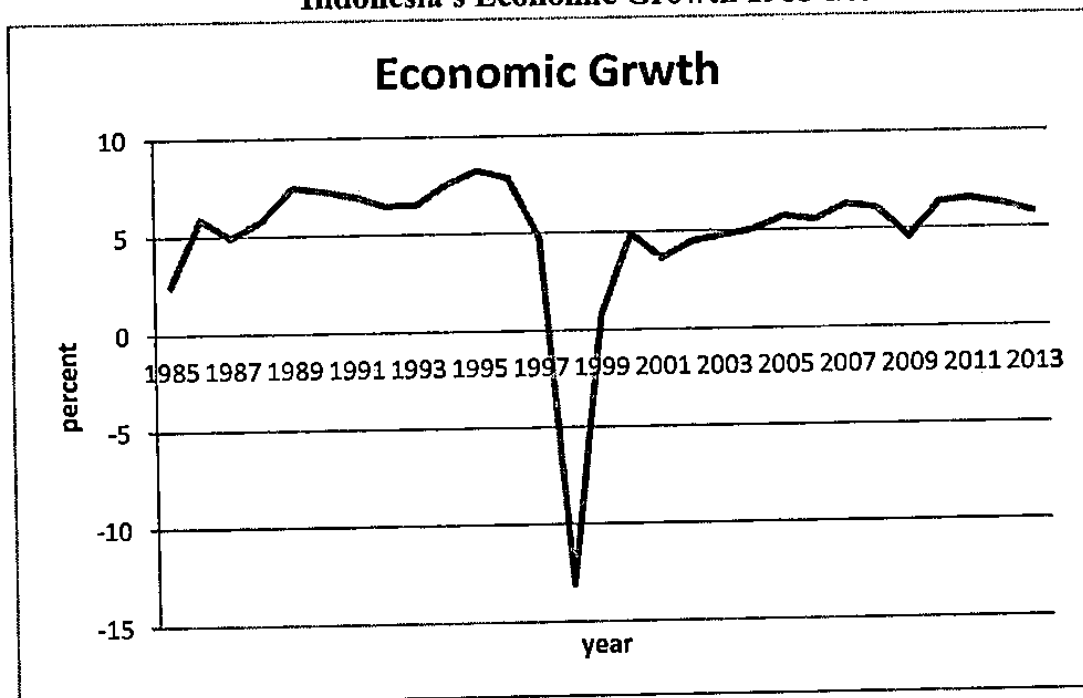
### **OVERVIEW**

#### **A. An Overview of Indonesian Economic Growth**

Economic growth is one measure of the results of the construction carried out, especially in economics. The growth is a picture of the level of economic developmen. Economic growth in detail from year to year is presented by the gross domestic product (GDP). If there is positive growth, is indicates an increase in the economy compared with last year. Conversely, when the economy showed a decline compared to last year.

During the study period of 1985-2013 Indonesia's GDP has increased an average of 5.10 percent annually. The highest increase in GDP occurred in 1995 which reached 8.22 percent, and the lowest was in 1998 which decreased 13.13

**Figure 4.1**  
**Indonesia's Economic Growth 1985-2013**



**Source: BPS (data processing)**

From Figure 4.1 it can be seen that the Indonesian economic growth from year to year continues to increase, only once has decreased quite dramatically by 13.13 per cent ie in 1998 due to the crisis experienced by Indonesia. The crisis caused by the drop in the exchange rate and the political conditions deteriorate, causing the slowing down of the business and the difficulty of the economy to grow. Almost all sectors of the economy experienced negative growth, which experienced positive growth during 1998 with only 1.31 per cent of the

But after a loss in 1998, the Indonesian economy began to rise a year later, although only less than 1 percent which is equal to 0.79 percent. The next following years the Indonesian economy continues to develop positively, supported by improved macroeconomic stability and sustained political condition, but it is also caused by the increased exports, especially non-oil exports.

Last in 2013 the Indonesia's Gross Domestic Product (GDP) grew by 5.78 percent compared to 2012. Growth occurred in all sectors of the economy, with the highest growth in the Transport and Communication Sector by 10.19 percent and the lowest is in the Mining and Quarrying Sector for 1.34 percent. While Without Oil GDP grew 6.25 percent in 2013.

But basically the Indonesian economy experienced a slowdown in 2013, although it tends to be stable. At quarter 2013, the Indonesian economy grew by 5.81 percent or slowing the economy in the same quarter in 2012 which grew by 6.3 percent. This growth rate was the lowest since 2010.

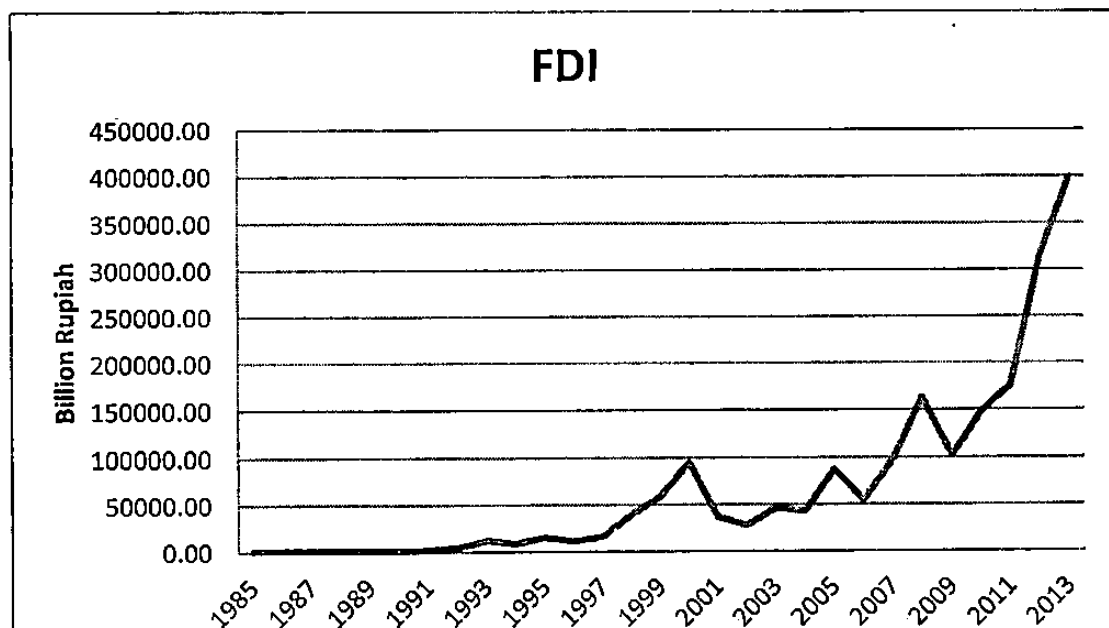
The global economic crisis which continues today has resulted in a slowdown in exports and is one of the factors that encourage Indonesian economic slowdown in 2013. Global economic crisis also affects the economy of almost all countries in the world. They are experiencing economic slowdown. The slow economic growth in Indonesia is used as a whip for Indonesia to improve

## B. An Overview of Foreign Direct Investment (FDI) in Indonesia

The important role of FDI as a driving source of rapid economic development before the crisis in 1998 is undeniable. During this period, the growth of FDI inflows into Indonesia is very fast, especially in the period of the 80s. Also, it is undeniable that the growth of investment and FDI in particular in Indonesia during the era driven by social and political stability, rule of law, and economic policies is conducive for business activities in the country. All of this since the economic crisis of 1997 until now is difficult to be fully achieved due to the fact that the development of FDI after the crisis is very volatile.

Figure 4.2

The development of FDI in Indonesia in 1985-2013



One of the very real positive impacts of FDI presence in Indonesia before the crisis is rapid GDP growth, at an average between 7% to 8% per year which makes Indonesia, including ASEAN countries with high growth. With such a high growth rate, the average national income per capita in Indonesia is rising rapidly each year, which in 1993 the U.S. dollar has passed the number 800. In 1968 Indonesia's national income per capita is still very low, still slightly below 60 dollars U.S. This level is much lower than revenue in other developing countries at the time, such as India, Sri Lanka and Pakistan. However, due to the crisis, Indonesia's per capita national income dropped dramatically to 640 dollars in 1998 and 580 in 1999 U.S. dollars (Tambunan, 2007).

The rapid inflow of FDI into Indonesia during the pre-1997 crisis cannot be separated from strategy or development policies implemented by the government of that time focused on industrialization as well as the development of the agricultural sector. For the construction industry, the New Order government implemented a policy of import substitution with great protection to the domestic industry. With an area of very large domestic market for Indonesian very much population, the protection policy is to stimulate the presence of FDI. And indeed FDI into Indonesia is concentrated in the manufacturing sector. Only in 1991, 1992, 1993, 1994, 1995, 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, 2022, 2023, 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2031, 2032, 2033, 2034, 2035, 2036, 2037, 2038, 2039, 2040, 2041, 2042, 2043, 2044, 2045, 2046, 2047, 2048, 2049, 2050, 2051, 2052, 2053, 2054, 2055, 2056, 2057, 2058, 2059, 2060, 2061, 2062, 2063, 2064, 2065, 2066, 2067, 2068, 2069, 2070, 2071, 2072, 2073, 2074, 2075, 2076, 2077, 2078, 2079, 2080, 2081, 2082, 2083, 2084, 2085, 2086, 2087, 2088, 2089, 2090, 2091, 2092, 2093, 2094, 2095, 2096, 2097, 2098, 2099, 2100, 2101, 2102, 2103, 2104, 2105, 2106, 2107, 2108, 2109, 2110, 2111, 2112, 2113, 2114, 2115, 2116, 2117, 2118, 2119, 2120, 2121, 2122, 2123, 2124, 2125, 2126, 2127, 2128, 2129, 2130, 2131, 2132, 2133, 2134, 2135, 2136, 2137, 2138, 2139, 2140, 2141, 2142, 2143, 2144, 2145, 2146, 2147, 2148, 2149, 2150, 2151, 2152, 2153, 2154, 2155, 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After the crisis of 1998, Indonesia is slowly but surely undergoing a revival amount of FDI. Nonetheless, other Asian countries such as Thailand, the Philippines and Malaysia are also affected by the crisis in 1998. They also experienced the same thing. Even at this point it can be said that these three countries are more 'ogled' by foreign investors rather than Indonesian. In fact, in terms of the wealth of natural and human resources, Indonesia is supposed to be excellent. From here we will see that the wealth of natural and human resources that Indonesia has not necessarily been a magnet for foreign investors. Indonesia is still struggling in the face of a variety of internal and external challenges in multidimensional.

In terms of internal, so many things that need to be addressed even overhauled re-start the issue of ineffectiveness of the bureaucracy, rampant corruption, low quality of human resources, legal uncertainty, lack of infrastructure and public services supporting investment activity, the low performance of the Indonesian economy to the socio-political conditions are not too stable. While external challenges that must be faced by Indonesia in attracting foreign investment are also very large, especially in the aftermath of the subprime crisis in the U.S., followed by the threat of a global recession. The slowdown in the U.S. economy is resulted from successive impacts (multiplier effects) in other sectors and in other countries. The world economy experienced a slowdown that

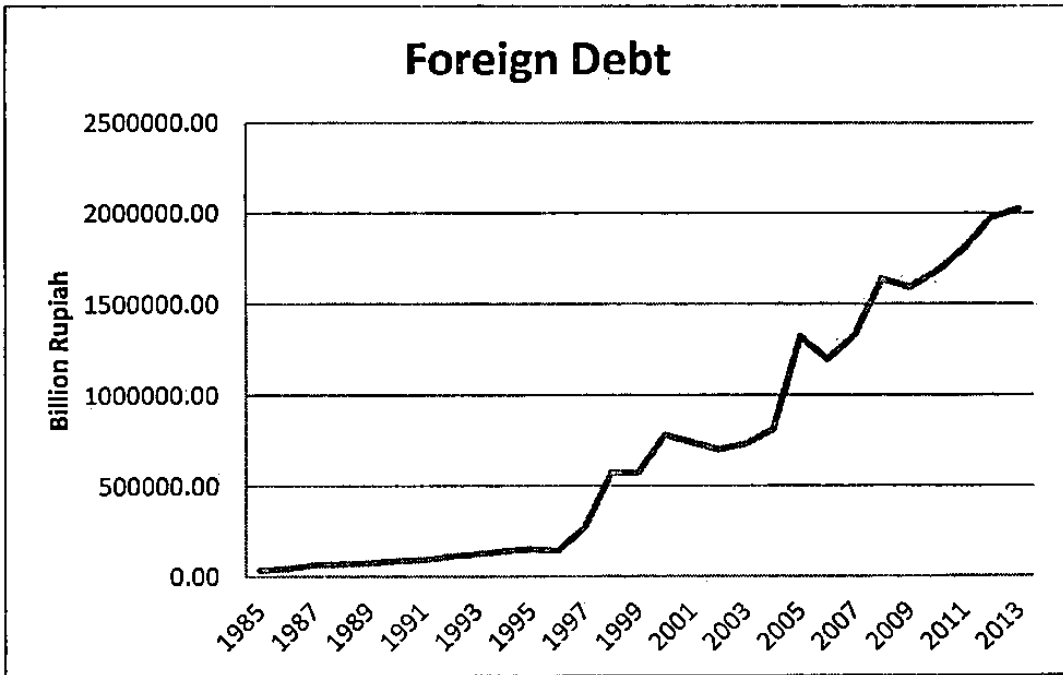
investment opportunities and reduce less profitable investments. Other external challenge is the investment competition from China, Singapore, Vietnam, Thailand, and Malaysia. Backman even say that the attractiveness of investment in Indonesia has been lost.

### **C. An Overview of Foreign Debt in Indonesia**

Basically, in the implementation process of economic development in developing countries such as Indonesia, the accumulation of foreign debt is a common symptom that is reasonable. This is due to the low domestic savings so that the investments may not be sufficient, consequently alternative way is to withdraw funds or borrowing from abroad (Syaharani, 2011).

Indonesia's foreign debt began to grow since the Indonesian government embraced free foreign exchange system in 1971, which no longer limits the government capital, and would be brought in or out of the country. Foreign debts basically have a positive impact on economic growth in Indonesia, but also one of the main causes of the downturn of Indonesian economy. This is because the size of Indonesia's foreign debt burdened to government and private parties to are borned by foreigners. Without debt relief, particularly in the form of the elimination of most of the foreign debt burden, Indonesia is forecasted to fall into even greater crisis (Syaharani, 2011).

**Figure 4.3**



**Sources: Bank Indonesia (processed data)**

From Figure 4.3 it can be seen that the development of the 1985-2013 Indonesian Foreign Debt has increased continuously. When observed from above graphic increase in Foreign Debt before the crisis would not be too significant, but after the crisis it became very sharply increasing in Foreign Debt to Rp. 573 trillion in 1998 that in the previous year only Rp. 269 trillion. This surge is influenced because the unstable exchange rate of the rupiah is against the dollar after the crisis.

In 1999 to 2003 Foreign Debt Indonesia continues to increase, but fairly



because in the middle 2004 there was an increase in the world oil prices that are draining foreign exchange to cover the state fuel subsidy, so that the government takes steps to make foreign loans. Then in 2008 the global financial crisis began with the collapse of the giant American company which impact on all countries in the world including Indonesia. Although it is not very significant, the crisis is draining foreign exchange to stabilize the rupiah to remain stable. But the crisis experienced by Indonesia in 2008 was not as severe as the crisis experienced in 1998. This is because the foundation of Indonesia's economy is more solid than it was in 1998. After the 2008 Foreign Debt continues to increase an average of 6-9 percent annually up to the peak in Indonesia's foreign debt in 2013 that reached Rp. 2.023 trillion.

#### **D. An Overview of Bank Credit in Indonesia**

Bank credit has an important role in financing the national economy and is a driving force of economic growth. Availability of credit allows households to make better consumption and enables the company to make an investment that cannot be done with his own funds. Banks play an important role in allocating capital and monitoring to ensure that public funds are channeled to activities that provide optimal benefits. Regardless of the recent rise in the role of financing through capital markets, financing through financial companies include banks and

Bank credit is still dominating the total credit to the private

## The development the Indonesian Banking Credit Year 1985-2013



Based on figure 4.4 credit growth in Indonesia is continues to increase year after year. It only to experience a decline in 1999 due to the domino effect of the crisis in 1998. Then a subsequent post-crisis bank credit continued to grow

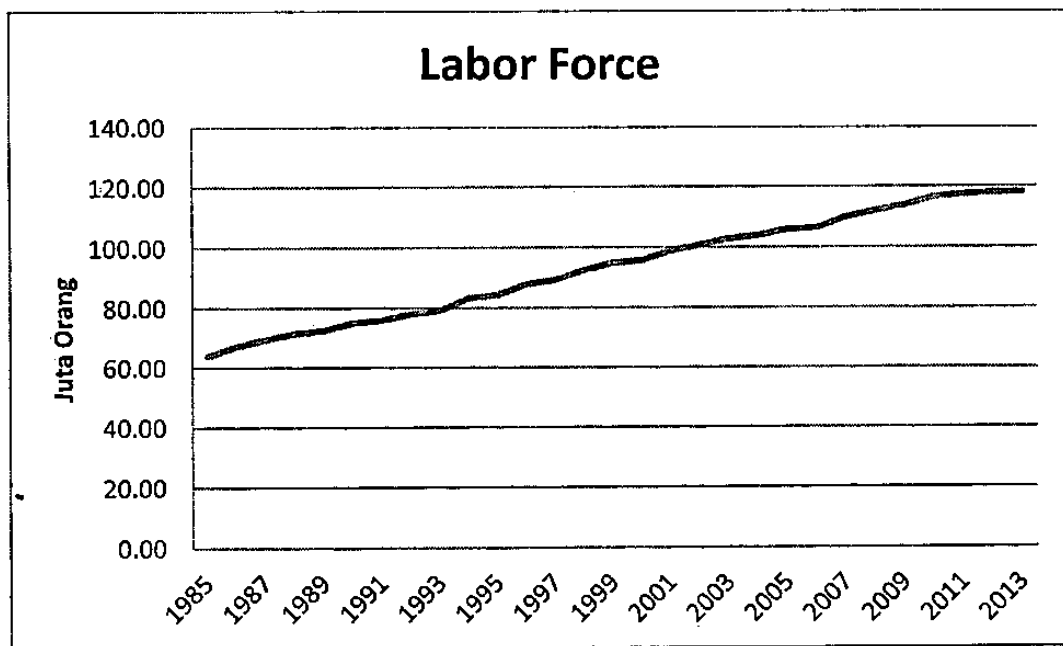
Although the amount of bank credit continues to increase from year to year the growth is quite volatile. The slowdown in credit growth is usually by rising interest rates with direct hoist bank lending rates.

#### E. An Overview of Labor Force in Indonesia

Labor force is the productive population aged 15-64 years who had a job, but temporarily not working, or who are actively seeking employment.

**Figure 4.5**

**The development Indonesian Labor Force 1985-2013**



**Source: BPS (data processing)**

From Figure 4.5 it can be seen that the labor force in Indonesia continues to grow from year to year. Labor conditions in Indonesia in recent years continue

to grow from year to year. Labor conditions in Indonesia in recent years continue

number of the working population and a decrease in the unemployment rate. The average annual labor force increased by 1.0 million people.