Received: 19 July 2017; Revised: 12 April 2018; Accepted: 15 May 2018

EXAMINING THE EXTERNAL DEBT CRISIS IN INDONESIA FROM ISLAMIC PERSPECTIVE

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ABSTRACT - One of major economic problems particularly in developing countries is external debt crisis. Several developing countries including Indonesia have paid their external debt more than total fund they have received from developed countries. Moreover, the indebted country has to pay the interest every year which the amount keeps accruing. Debt is the main causes of poverty since most of them are "unjust" debt. Islam discourages Muslims to depend their livfes on borrowing money, including at the state level. This research attempts to scrutinize the issue of external debt crisis and try to come out with solution on the problem of external debt crisis in Indonesia from Islamic perspective. This paper is using a qualitative analysis approach, and collecting external debt data from Central Bank of Indonesia and World Bank. Findings indicate that the current system on managing external debt crisis in Indonesia has not been successful and need to be examined from different frameworks. Overall, this paper contributes to literatures on debt crisis and provides some alternative solutions to government to manage the external debt crisis.
Keywords: External debt crisis, Indonesia, Islamic perspective.

ABSTRAK – Pengkajian Krisis Utang Luar Negeri Di Indonesia Dari Perspektif Islam - *Salah satu persoalan ekonomi utama khususnya di negara berkembang adalah krisis utang luar negeri. Negara-negara berkembang termasuk Indonesia membayar utang luar negeri mereka kepada negara-negara maju melebihi total dana yang diterima. Selain itu, negara-negara tersebut juga harus membayar bunga setiap tahun yang jumlahnya terus meningkat. Utang merupakan penyebab utama kemiskinan disebakan sebagian besar dari utang bersifat "tidak adil". Islam melarang umat Islam untuk menggantungkan hidupnya pada pinjaman uang, termasuk pada level negara. Penelitian ini bertujuan untuk mengkaji masalah krisis utang luar negeri Indonesia dan mencoba menawarkan solusi dari perspektif Islam dalam mengatasi masalah tersebut. Artikel ini menggunakan pendekatan analisis kualitatif, dan mengumpulkan data utang luar negeri dari Bank Indonesia dan Bank Dunia. Hasil kajian menunjukkan bahwa sistem pengelolaan krisis utang luar negeri di Indonesia belum berjalan dengan dengan baik sehingga perlu dilakukan dengan kerangka kerja yang berbeda. Secara keseluruhan, artikel ini berkontribusi dalam memperkaya literatur tentang krisis utang dan juga menyediakan beberapa solusi alternatif kepada pemerintah untuk mengelola krisis utang luar negeri.*
Kata Kunci: *Utang Luar Negeri, Indonesia, Economic Problem, Perspektif Islam*

INTRODUCTION

Debt is the principal causes of poverty since most of them are "unjust" debt. It has offended the indebted country to maximize their economic development and has affected the vital public services such as education and healthcare. Indonesia is one of developing countries which suffers the external debt crisis. Debt crisis occurs when a country lacks sufficient foreign exchange to make the interest and/or principal payments on its debt obligations. If the debt problem is temporary, the country has a liquidity problem. Meanwhile, if the debt problem is unsustainable, the country has a solvency problem. This crisis may create a high level of poverty, unemployment, and inequity in the country. Once Indonesia is put into "debt trap", the government startsed to execute neoliberalism policy, such as: subsidies elimination, deregulations, changing state-owned enterprises into private-owned, etc. It will harm the sovereignty of the country because the indebted country is treated as a "slave" in its own country. The public policy for the sake of citizen and public interest is no longer independent. The parliament and government, which holds the authority to the public policy, have to deliberate with the interest of creditors/institution. This situation is usually called as "semi-coup d'etat parliament".

Literally, debt crisis indicates a situation explained by inability or unwillingness of major debtors to service their debts. Solving the external debt crisis in Indonesia is not an easy work to do, but this should be a first priority because external debt crisis is ongoing problem with clear consequences for the economy of the country (Benazir & Ibrahim, 2017). Excessive external debt can harm the country by making the systemic danger in nature and the social-economic situation. So, in the present day external debt situation is considered to be one of great concerns particularly for the emerging countries that are already integrated in the global market including Indonesia.

Indeed, there are some ideas proposed by previous study to overcome the burdensome of external debt crisis in various countries such as: improving its debt management capacity, rescheduling plan for short-term era gaining from the natural resources, and planning a high export orientation. Unfortunately, these proposed ideas could not solve the external debt crisis yet. One main factor why Indonesia is trapped by external debt crisis is because it applies interest-based system. Basically, it happens because economic system in

Indonesia is still following Western world, i.e. not Islamic economic system. Islamic teachings have provided the regulations in term of analyzing the debt crisis. Islam already has guidance, with references from the Qur'an and Sunnah, to explain this debt situation. Logically speaking, this debt term in Islamic perspective is strongly related to social justice, wealth and risk sharing, and interest (usury/riba) prohibition (Ibrahim & Kamri, 2013).

Overall, this research paper is conducted to combine the issue of external debt crisis in Indonesia from Islamic perspective. Currently, Islamic literature on external debt is very little. Therefore, this research paper will contribute to the Islamic macroeconomics research in Indonesia. Furthermore, it is very important to excavate the issue of debt, particularly external debt, from Islamic view.

This research paper is divided into six sections. Section 1 explores the background of the research. Section 2 delineates literatures review while section 3 describes the methodology. Section 4 explains about general condition of external debt in Indonesia. Section 5 analyses the findings regarding to the external debt crisis in Indonesia from siyasah shar'iyah perspective. And the last section mainly discusses about the conclusion.

METHODOLOGY

Qualitative methods such as library research and comparative analysis are applied in this research. This research is conducted by using a qualitative approach and policy study analyses. Furthermore, the data is gathered from secondary sources, such as Central Bank of Indonesia, World Bank, Ministry of Economics of Indonesia, and Ministry of Finance of Indonesia.

LITERATURE REVIEW

The Islamic Perspectives of Debt

According to the Qur'an and hadith, there are two main forms of right for human being: huququllah which means the rights of Allah and huququl-ibad which means the right for people. Huququllah consists of salah, zakat, fasting, hajj/pilgrimage, and so on. These rights of Allah have to be fulfilled unconditionally. Meanwhile, huququl-ibad is the rights which connected between one personople to another. Both of these rights must be followed. Related to huququl-ibad, one of these rights is the issue of debt. In Islam, debt is not an evil act to do, but to take the debt and not paying debt is prohibited and considered as major sin.

Islam views debt as the last option of the mankind in order to fulfill their primary needs. However, if a Muslim is burden by the debt problem, another Muslim has responsibility to help his brother. A huge reward will be given to Muslim who helps his brother overcomes the debt burden, as narrated in hadith: "Whoever removes one difficulty of a Muslim from amongst the difficulties of this world, Allah will remove his difficulties on the day of judgment (Qiyamah). Whoever grants respite to a destitute person, Allah will grant him ease in this world and the hereafter."

Another case is when the indebted person has difficulties to pay his debt because of the situation (not because of his intention not to pay the debt), the lender should respite him (Kamri, Ramlan, & Ibrahim, 2014). It is mentioned in hadith: "Whoever granted respite to a pauper, or forgave him, Allah will save him from the fire of hell (jahannam)." The hadith is reaffirmed in Qur'anic injunction, where the believers are instructed: "And if the debtor is in a hard time (has no money), then grant him time until it is easy for him to repay, but if you remit it by way of charity, that is better for you if you did but know." So, it is clearly stated that, in Islam, every Muslim must help another Muslim who has debt problem for the sake of Muslim brotherhood and will be given high rewards from Allah.

Interest Rate

The practice of external debt becomes common in recent world system. The external debt is defined as liabilities owed to non-resident by residents of an economy. Basically, the emergence of debt is followed by the interest or usury. The concept of usury (riba) might not be separated from the Islamic point of view. There are pros and cons about riba. The pro-riba group argues that eliminating interest rate from the economics and financial sector is somehow impossible (Elkamiliati & Ibrahim, 2014). Moreover, they believe that interest rate is essential towards global economic system since it is used to be the cost of borrowing money and recompensinges one's today spending to make some profit ion the future. For instance, the pro-riba agrees that interest has to be existed in the economy and for those who against this statement will be assumed as an illogical people. On the other hand, the antiriba group (conducted from many researches) proves that the emergence of interest rate has triggered the global economics crisis today.

Generally, the state level form of debt has been legally “internationalized” after the establishment of International Monetary Fund (IMF). Since globalization era started and grew over, international organization urgently need the security and the new regulation in order to get a significant place for their institution in the existing new world system. The IMF was established to preclude the crisis of economy and potential wars in order to maintain peacefulness in the global economy.

Unfortunately, the establishment of IMF and the practice of external debt in many countries have increased the debt in state level which used the interest-based system. As stated in the Qur’an, interest-based system which contains the practice of riba is firmly prohibited. The Qur’anic authority of prohibition of riba can be found in a number of its injunctions. Allah SWT has only permitted trading and strictly forbidden riba. Moreover, He will destroy riba and will give increase for sadaqah (deeds for charity, alms). Another statement in the Qur’an, Allah SWT stated that people must deal justly by asking more than the capital sums and shall not be dealt with unjustly by receiving less than the capital sums.

Siyasah Shar‘iyah

Literally, siyasah shar‘iyah means a Shari‘ah-oriented policy, or government in accordance with the Shari‘ah. Siyasah shar‘iyah applies to all spheres of government such as the domestic or external relations, constitutional, fiscal, monetary, judicial, and administrative affairs which must not contravene the Shari‘ah itself.

On the other literature, the siyasah shar’iyah means to rule intelligently with concrete evidences and signs in order to achieve justice and maslahah without violating the principles of shari’ah, by which the society’s affairs are handled. Therefore, Ibn Al-Qayyim defined siyasah as the justice of Allah SWT and His Prophet SAW which is confirmed by evidences and signs .

The purpose of siyasah syar’iyyah is to implement Islamic maqasid that contained in the matter related to 'jalb al-masalih' (get benefit to humans) and 'dar al-mafasid' (remove the harm from them). Related to this topic, the solutions regarding external debt crisis must follow the Islamic maqasid.

Basically, Islamic maqasid is the purpose that Allah revealed shari'ah to mankind that includes lawful general purposes and specific objectives of an Islamic system and the purpose of every command, prohibition and act of Allah SWT . Therefore, siyasah syar'iyyah concept can be executed as an approach to specifically examine the external debt crisis from Islamic perspective.

External Debt in Indonesia

The Historical Link

In the early 1960s, Indonesia had only limited domestic fund source available with undeveloped domestic capital market, while the government neededs fund to finance country's development and to accelerate urgently needed economic growth. Later on, the external debt would turn into government's spending that expected to generate investment and to accelerate the growth. As economy developed, it was predicted that the government could earn sufficient foreign exchange to service foreign obligations, to accelerate the development process, and gradually to lessen the country's dependence on foreign resources.

In the 1980s, a serious problem began to emerge in the Indonesian economy as oil prices decrease dramatically in the international market. This hads seriously created difficulty in Indonesia's resource position. The availability of resources in the economy hads also been adversely affected by the external debt service payments as some of the external debt fell.

In the 1990s, fund from external debt was not only solely aimed to fill the financing gap of the government but also to bridge budget deficit to increase the economic growth. The great number of external debt used, unfortunately, had not significantly contributed to the expected economic growth. Even though the economic growth used to reach the level of 7% in the middle of 1990s, the debt service ratio (DSR) also raised up significantly. One of the reasons wais that the government was ineffectively used the foreign funds. For instance, the corporate sectors had been permitted to borrow from foreign sources excessively, but the financed industries were not found to become export oriented particularly. The corporate sectors were borrowing foreign funds and selling their products domestically because of the Indonesian currency (Rupiah) depreciation at that time. Somewhat, lack of liquidity of the economy due to tight money policy implemented by monetary authority triggered corporate entities to search for alternative funding from abroad.

Under Soeharto's government (1966 – 1998), the deficits in government budgets hadve been partly financed by foreign loans. With the help of foreign capital, the Indonesian government managed to maintain a positive position in its overall finance. Unfortunately, this foreign capital largely financed items in the public sector with very high import content rather than used to fill the savings gap. It means that Indonesia laid the major dependence to foreign capital and continually borrowed the capital since then. Therefore, Indonesia inherited the external debt of US$ 2 billion. It marks serious problems for the successor government in order to repay the debt and its interest.

In 1997-1998, the Asian financial crisis hit Indonesia. This was in part caused by the inappropriate policy measures which the IMF imposed on Indonesia after Indonesia had turned to the IMF for financial assistance. These included the requirement that the government had to pursue both tight fiscal and monetary policies, even though the Indonesian government had a fiscal surplus. However, the Asian financial crisis exploded in 1997 which was triggered by, among other factors, high and imprudent management of external debt. Indonesia was hit very hard, in fact the worst of the region. For instance, its GDP growth rate dropped by 13.2% in 1998 and over a short period, Rupiah lost 84% of its value. The crisis resulted in a significant increase in debt service obligation and debt level, whereby Ddebt Sservice Rratio (DSR) rose from 45% in 1996 to 58% in 1998 while debt to GDP ratio jumped from 49% to 146%, which was very high, during the same period.

Meanwhile, in 2003, the government of Indonesia hads decided to discontinue IMF program as its loan source, and had been successfully repaid the debt to IMF in October 2006. This remarkable action was taken by the government of Indonesia because of three reasons. First, the interest rate of IMF has increased from 4.30% to 4.58%. Second, the Central Bank of Indonesia was capable to pay all the debt issued, and third, Indonesia had sufficient foreign exchange to maintain its economic stability.

External Debt Crisis

Indonesia needed foreign resources to fund their development. External debt has been intended to fill saving-investment gap in the domestic economy and to help the budget deficit. In the beginning, however, Indonesia had not explored and optimized the potential of their natural resources yet, since that particular action needed high capital and it was a long-term project. Therefore, in order to get the fast financing source, the government of Indonesia chose to make external debt from developed countries and the international financial institutions. Unfortunately, with unpredictable political, domestic, and international economy conditions, the real situation twisted from the original assumption and thus, the result has become unexpected. Indonesia could not manage the debt well and got a problem of debt burden. This debt burden was becoming worse because of the corrupted government. Moreover, this external debt accumulated rapidly because the government needed foreign exchange to pay for the imports while the earnings from goods and services exports continuously lagged behind. In the end, Indonesia felt into the debt trap with the charge of interest as the cost of borrowing fund, and forced to pay the high-debt.

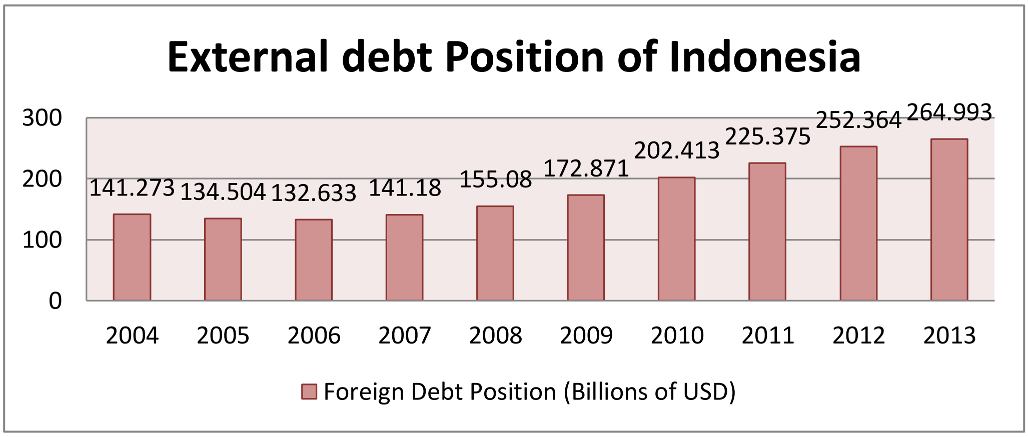
Generally, there are many options for an indebted country such as Indonesia to overcome its debt. First, is to default or declare bankruptcy, but the consequences of this option might be serious as its country would be isolated from global community. Second, is to appreciate the economy, i.e. to print money, but it could be dangerous for a country which has massive external debt as it would lead to hyperinflation and dramatic currency depreciation. Third, is to make privatization and to sale assets, but somehow it would not solve the debt burden in the long run if the debt is massive. Hence, the best option to get out from the debt trap is to maximize private investments and increase the capital inflows with the support of stable macroeconomic situation, respectively.

External Debt Position

Total external debt of Indonesia increases almost every year. The trend is always increasing except during 2004 to 2006 while it slightly decreased. As shown in Figure 1, the total external debt increased from US$ 141.273 billion in 2004 to US$ 264.993 billion in 2011, while Figure 2 shows that the debt service ratio (DSR) and debt to GDP during 2004 to 2013 werare relatively stable. From 2004 until 2012, Indonesia’s external debt position has increased by US$ 123.720 billion (87.57%). This increase occurred in both government and central bank debt and also private sector debt. In general, some external debt burden indicators show a significant improvement.

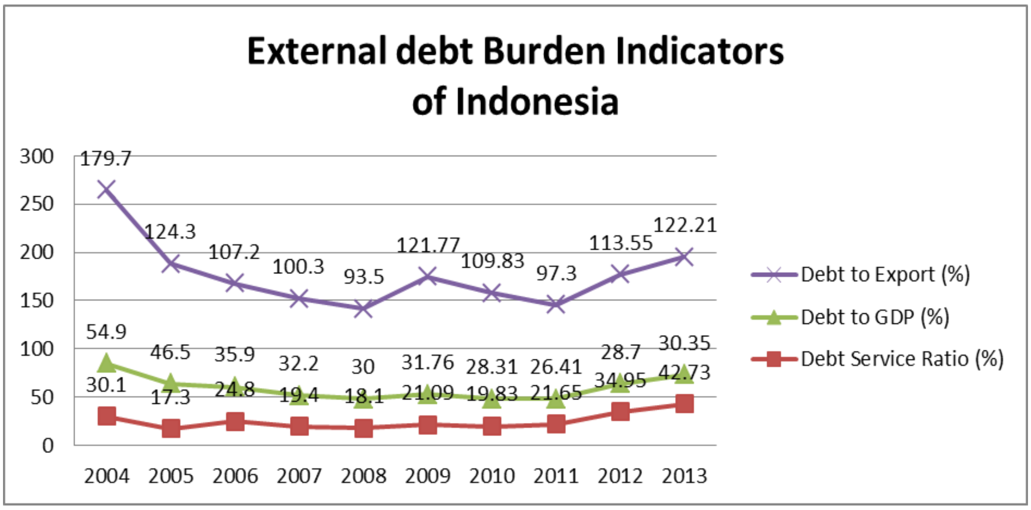
As shown in Figure 2, Indonesia's external debt as a share of GDP declined steadily from 54.90% of GDP in 2004, to 30.35% in 2013, while the DSR slightly increased from 30.10% in 2004 to 42.73% in 2013. On the other hand, as can be seen in Figure 3, the creditor of Indonesia's external debt wais dominated by Singapore (19.1%), USA (14.3%), and Japan (12.9%), while the Islamic Development Bank (IDB) as a representative of OIC countries only holds 0.2% of Indonesia's external debt.

Figure 1. External debt Position in Indonesia



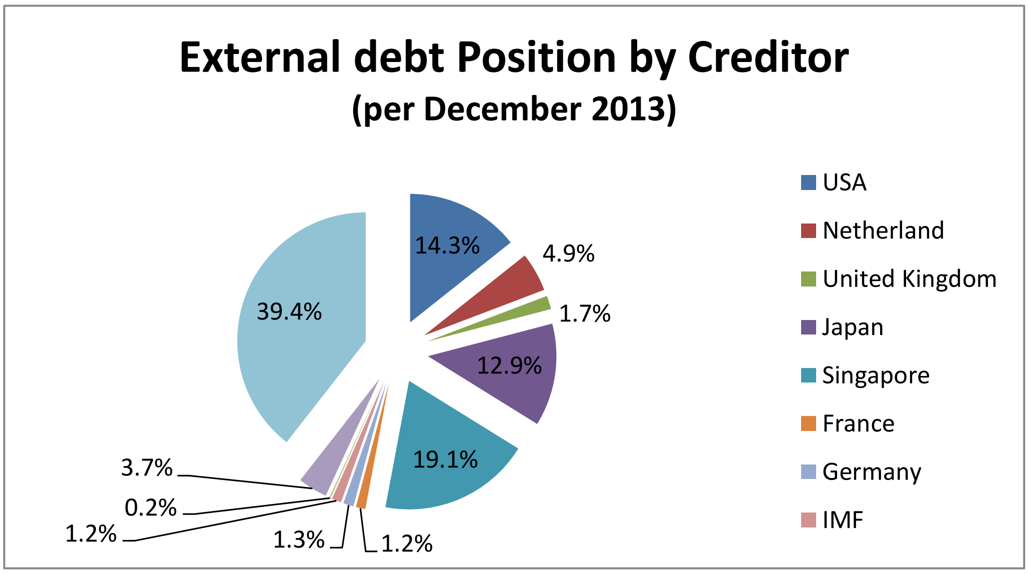
Source: Central Bank of Indonesia (2014)

Figure 2. External debt Burden Indicators of Indonesia



Source: Central Bank of Indonesia (2014)

Figure 3. External debt Position by Creditor (per December 2013)



Source: Central Bank of Indonesia (2014)

The Role of the Government

Indonesia's heavy debt burdens contribute to the macroeconomic susceptibility. Meanwhile, the scale of Indonesia's debt crisis is not only resulting in social and political tensions, but also is reducing the budgetary and fiscal stability. So far, the role of debt management has been jointly coordinated by ministry of finance, central bank, the national development planning agency, coordinating ministry, and other ministries related. At this time, the government of Indonesia has been applying several actions to solve this external debt burdens. First, the government was relying on the debt rescheduling agreement between the related creditors. Conversely, the policy taken over rescheduling itself has a problem. A rescheduling relieved a country debt burden only for few years by shifting its current obligation to the future period of time. In this sense, the rescheduling will hard to solve Indonesia's debt burden. As the result, the new debt terms are even higher than the original debt terms. For instance, Indonesia has been applying on the rescheduling basis particularly under the Paris Club framework and London Club agreement.

Second, the government has set up the Indonesian Debt Restructuring Agency (INDRA) to resolve the corporate debt extension. Third, the government has set the Central Bank of Indonesia up as initiative to monitor private external debts. It is conducted by a sophisticate reporting system using web based reporting system that shows the debt burden projections. This projection will be used as an early warning system and deliberation for policy direction.

Fourth, the government has exercised the debt swap through bilateral agreement. In 2003, the government has made the agreement with Germany by securing a DM50 million debt-for-nature swap. According to FAO, "debt-for-nature swap involves purchasing external debt, converting that debt into local currency and using the proceeds to fund conservation activities. The key to the transaction lies in the willingness of commercial banks (or governments) to sell debt at less than the full value of the original loan. Why would any lending institution holding a promissory note for US$ 1 million, for instance, be willing to part with it for just half that amount? The answer lies in the hard economic fact that many developing countries have not been able to repay their debts in full, and may never be able to do so. As a result, commercial banks may prefer to sell debts at a discount rather than wait for an uncertain repayment in the future."

External Debt Crisis in Conventional Perspective

In this current situation, the conventional perspective dominates most of international rules including external debt. All debt has to be paid, followed by paying the interest as the cost of borrowing. From time to time, if one issues the debt, the amount of the debt is getting higher and higher. This condition actually leads the great gap between developed and developing countries. As Ahmad stated that "the present position is that the 22 developed countries of the world have 87% of world GDP while the remaining 160 countries have to live on only 13% of world GDP. Inequalities between the developed and developing countries as well as within these countries are increasing, making the rich richer and the poor poorer."

According to Ahmad, he explaineds that the third world countries (most Muslim countries are considered as third world countries) have not always been poor. He points out that "their current crisis has been caused as a result of foreign rule and the strategy of European imperialism as follows: 1) to transfer resources from the colonies to the empire, 2) to make colonies dependent on center, 3) to destroy their socio-economic and ideological infrastructure, 4) to promote among them a culture of imitation 5) to transplant, impose and manipulate economic and political systems, institutions and policies 6) collusion between global powers, international financial institutions and indigenous rulers/players."

The developed countries used the capitalist economic system which has two key elements regarding the external debt; first, it uses interest as a major instrument of financial intermediation and second, it relies on the power of banks to create credit. This implies that the developed countries or the creditors which are very "generous" to give the debt continually to developing countries have no other motives than to make their own benefit and to control the indebted country. This is discerniably rational. First, they want to abuse the natural resources of Indonesia for their own profit and wealth. Indonesia is a well-known market for resource mining and is a home to a biodiversity that is only second to Brazil.

Besides, Indonesia has become a commodities powerhouse in a number of resources such as natural gas, coal (the second largest exporter in the world), geothermal (the largest in the world, reserve 40% of resources), palm oil, tin (the second largest producer in the world), cocoa, and other mining products. Second, Indonesia provides a "big market" to most of the developed countries' products since it has a wide population. In short, these conditions explained why developed countries will never let Indonesia free of external debt crisis. It is because this "debt trap" is operated as the tool to control Indonesia in many aspects. However, in this conventional perspective, the external debt from developed countries is not really helping Indonesia and other developing countries to escape from the crisis.

ANALYSIS FROM SIYASAH SHAR'IYAH PERSPECTIVE

The Effects of External Debt Crisis on Maqasid Al-Shariah

The main concern of Islamic teachings is to protect the rights and responsibility of Muslim society both materially and morally. The concept of Islamic safeguarding is known as maqasid al-shari'ah or the very objective of Islam reflecting the comprehensive view of Islam. Maqasid al-shariah is the basis of all human actions and activities. It relies on the Qur'an and Sunnah. Thus, maqashid al-shari'ah has to be understood as a whole picture of Islam. Maqasid al-shariah establishes all the elements related to human nature. It also concerns on the five main daruriyyat of human (Al-Daruriyyat al-Khams) namely as protection of life (Al-Hayah), protection of religion (Al-Diin), protection of mind/intellect (Al-'Aql), protection of wealth (Al-Mal), and protection of dignity (Al-Muru'ah). It also emphasises on the enlightenment of Maslahah and Mafsadah. Although, there are many literatures concern on maqasid al-shari'ah, the most remarkable concept was brought by Imam Al-Ghazali (d.1111). Al-Ghazali stateds that the maqasid al-shari'ah is proposed to promote the welfare of Muslim society covering five safeguarding of life (sovereignty), faith, intellect, posterity, and wealth. The significance of maqasid al-shari'ah does not merely affect the Muslim life; it also influences the development of knowledge and sciences.

In this case, the effect of external debt crisis is most likely to harm the wealth and dignity of the country in which considered as violated the maqasid al-shari'ah. International financial institution usually offers loan along with interest and others requisites. Therefore, it is not surprising, in the level of state, debt for developing countries will transform them to the poor countries.

Indonesia has rich natural resources in many sectors. It has fertile land that can produce various agricultural productions. It also has the great potential of petroleum, crude palm oil, the mining products, the various types of fish and other sea products in a huge amount, and many other natural resources. Logically speaking, one way to pay debts is by taking from those natural resources. However, in many researches, this action will exploit the natural resources and harm the wealth of the country. As the consequences, a poor country then will be buried as "a slave in their home". The wealth as one of the maqasid al-shari'ah elements will never be able to be protected since a country is charged by the debt along with the interest portion.

Moreover, it also harms the dignity of the country, since it had a tendency to satisfy all the wills from the creditors. In a nutshell, Indonesia has less power in terms of agreement related to its natural resources management or other policiesy, though, the legal ownership of natural resources belongs to Indonesia. As the result, it is left with no power to protect its resources from the exploitation.

As mentioned before, this external debt problem will put Indonesia into hard situation to maintain its bargaining power in most of international agreements and policies, since it tends to satisfy the wants from those creditors. Thus, the creditors have more power to control the policy and political condition in the indebted country. Therefore, Islam had mentioned from the beginning that Islam discourages Muslims to do debt, especially the heavy debt and strictly prohibited Muslims to do riba. Islam mentions that debt and riba can create a chaotic situation and problems if the indebted party has the difficulties on paying the debt.

External Debt Crisis through Siyasah Shar‘iyah Perspective

The conventional perspective which used interest as the key element of external debt is proven not to be effective to help Indonesia out from external debt crisis. Although there is some progress such as a number of debt scheduling cases increased in recent years, they remained mostly ineffective. “They were not only applied in an ad hoc manner, but also on a case-by-case basis, and they were mostly just to relieve the debt burden into a longer period. There is little guarantee that the debt problem would be solved in the long-run.” We need more fundamental actions to turn the tension of the debt crisis and bring it to an eternal and long-lasting solution. In this case, Islam comes as a remedy that provides the best solution to solve the external debt crisis through Islamic law or Islamic governance or siyasah shar‘iyah. In siyasah shar‘iyah perspective, the legitimate rule is very clear, i.e. prohibition of interest. Although Islam allows people to do the debt (in certain condition), Islam has clearly stated in the Qur’an that any kinds of interest is prohibited. The external debt crisis that occurred becomes a proof that interest rate executed on debt is the true causes of poverty in Indonesia. It distresses not only the economic sector, but also significantly influences the whole life of people. Therefore, it is believed that we need different perspective than the conventional one to solve this problem. Some proposed solutions regarding external debt crisis through siyasah shar‘iyah are mentioned as follows:

1. Fix the debt mismanagement

The external debt crisis in Indonesia is considered burdensome because the debt has threatened many aspects in the country. Many researchers believe that one of major problems is the poor debt management. Fixing the debt mismanagement seems to be an effective way to get out from debt burdens, to develop economic growth and sustainable development without making another payment problem. For human resources, debt management needs staff with broad range of financial and analytical skills as well as a competency of macroeconomic understanding. As it is stated in the Qur’an, the strength in every division is to be required in the best of its relevant qualities. In this sense, the strength refers to the complete knowledge and understanding related to the certain field.

2. Optimize the cooperative system in Indonesia

According to International Cooperative Alliance (ICA), “a cooperative is an ‘association of persons’ carrying out certain types of activities through enterprise”. In a cooperative, the members develop their activities through an enterprise that is jointly owned and democratically controlled. Unlike globalized economy, the cooperative definition clearly affirms that cooperatives are characterized by a conjunction of ownership and control by the persons involved in ‘association of persons’, leaving no room for external control. This is a very strong statement. If this cooperative system is fully applied in a macro level, it will affect the economy condition of the country. First, the share capital of cooperatives is made up of members’ shares, and cooperatives as such have no access to ordinary financial markets. Second, the cooperatives aim to have a long-term economic life by protecting themselves from market volatility and other threats. In short, this cooperative system provides values such as self-help, self-responsibility, democracy, equality, equity and solidarity, as well as honesty, openness, social responsibility, and caring for others. Those values are indeed similar with Islamic teachings and values.

In Indonesia, the cooperative had ever been implemented in the era of Mohammad Hatta when he was assigned as the first vice president of Indonesia. He is also known as the founding father of Republic of Indonesia. In his perspective, the strong fundamental economy can be built by cooperating amongst individual in society. The work of cooperative system is in the level of society. Broadly speaking, the individual members will collect money in the form of “dues base”. This collected money will be utilized to improve the economic activities in their area by distributing loan for those who has potential business. It also may be empowered as the starting point for the cooperative itself to establish business. Originally, the cooperative system works by risk-profit sharing. Again, if this cooperative system is applied in the state level, Indonesia will have less dependence to the external resources. Additionally, it can help its own country to develop economic growth and to fulfill the basic needs of the citizen as well.

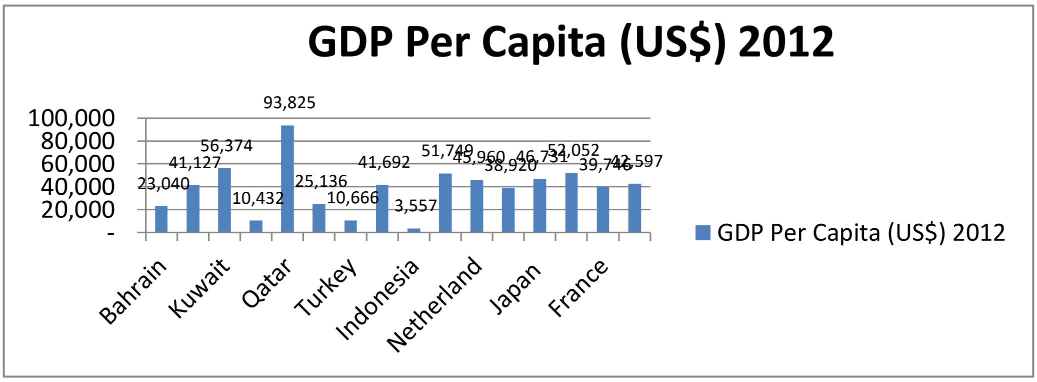
3. Shari’ah foreign investment

According to Kusumaningtuti, "foreign investment was preferred over external debt, as the latter will need to be serviced regardless of the country's export performance, whereas foreign investments in export-oriented activities will have to generate sufficient foreign exchange earnings before profits can be repatriated. It was recognized that external debt is a burden, while foreign investment is not." In Islamic perspective, external debt is discouraged. Yet, one country can still develop its economic growth and fulfill its compulsory needs without taking external debt by applying partnership contracts with investor countries. In this case, it will be applied risk-profit sharing which is permissible in Islam. Later on, the financial instrument that can be implemented is sukuk musyarakah (partnership). This investment scheme which based on free-debt contract is permissible in Islam and can be a great way to attain the economic sovereignty.

4. Shift the debt to the developed Islamic countries

This proposed solution is coming from the reality that Islamic countries are actually not all poor. One simple way to measure the prosperity of the country is from GDP per capita of each country. GDP per capita is a measurement of country's production divided by the country's total population. Hence, it is the output of a country's economy per person. Previously, in Figure 3, it can be seen that all creditors to Indonesia are not coming from Islamic countries.

Figure 4. GDP Per Capita



Source: World Bank (2014)

However, based on GDP per capita 2012 (Figure 4), there are several Islamic countries that actually have potential to become a creditor country since their GDP per capita are relatively high. Some of those Islamic countries are Qatar, Kuwait, United Arab Emirates, Brunei Darussalam, Saudi Arabia, Bahrain, Turkey, and Malaysia. The process of external debt shifting of Indonesia to the developed Islamic countries is explained as follows. First, Indonesia should make agreement and contract with the developed Islamic country which has surplus funds and then, in order to pay all (or partly) of the debts of Indonesia to the current creditors. Second, the external debt position will change drastically, from the developed countries in which Indonesia has burden of paying the interest, to the developed Islamic countries which provides free-interest debt system, respectively. In this case, we assumed that all Islamic countries are following the Islamic law and avoid the riba. Last step, Indonesia must pay the debt to the developed Islamic countries with the specific terms and conditions that includes in the previous agreement.

5. Increase the role of the OIC to help the members that suffer the debt crisis

The Organization of Islamic Cooperation (OIC) (formerly Organization of the Islamic Conference) is the second largest inter-governmental organization after the United Nations which has membership of 57 states spread over four continents. The Organization is the collective voice of the Muslim world and ensuring to safeguard and protect the interests of the Muslim world in the spirit of promoting international peace and harmony among various people of the world. The organization was established upon a decision of the historical summit which took place in Rabat, Kingdom of Morocco on 25 September 1969 as a result of criminal incineration of Al-Aqsa Mosque in occupied Jerusalem. Its General Secretariat is situated in Jeddah, Kingdom of Saudi Arabia.

"The OIC countries should promote interregional co-operation and economic integration amongst themselves and readjust or co-ordinate development strategies accordingly, while they make every effort to provide sufficiently effective incentives or interregional flows or capital, including private direct investment." Another way to help the external debt crisis is by optimizing the role of Islamic Development Bank (IDB). The IDB was built in 1975. It is sub-structure of the OIC in which focused in finances trade among OIC member countries and development projects in the Muslim society. IDB commences technical assistance and co-operation activities in support of particularly the less developed among its membership. To conclude, if the role of OIC and IDB is fully utilized, Islamic countries which trapped at debt crisis and other economic problems will attain a better situation in the country.

CONCLUSION

One of big concerns particularly in developing countries is external debt. Several developing countries including Indonesia have paid their external debt more than any fund they have received from developed countries. Once Indonesia put into "debt trap", the government started to execute neo-liberalism policy, such as: subsidies elimination, deregulations, changing state-owned enterprises into private-owned, etc. It will harm the wealth and dignity of the country because the indebted country is treated as a "slave" in its own country. The public policy for the sake of citizen and public interest is no longer independent. The government of Indonesia has been put this debt crisis as a priority to be solved, but unfortunately, the crisis is still happening though there is some progress that have been achieved by the government.

At the end of this paper, the problem of this external debt crisis in Indonesia might be solved through siyasah shari'ah perspective by realizing five proposed solutions; 1) fix the debt mismanagement, 2) optimize the cooperative system in Indonesia, 3) shari'ah foreign investment, 4) shift the debt to the developed Islamic countries, and 5) increase the role of the OIC to help the members that suffer the debt crisis.

We need to establish the Islamic state. In Islamic government or siyasah shar'iyah perspective, the debt crisis is less likely to happen because Islam discourages the heavy debt and strictly prohibited the practice of interest. It leads to the justice of people and protects the maqasid al-shariah.

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