

## ABSTRACT

### **The Impact of Government Foreign Debt on Public Expenditure and Trade Structure and the Welfare of Indonesian People**

The objective of this study is to analyze the impact of government foreign debt on government expenditure, trade structure, and the welfare of Indonesian people. The study is conducted as a time series study for the period of 1969 – 2008. The model for data analysis which is used in this study is Partial Least Square (PLS) analysis with the help of SmartPLS computer program.

The result of this study are as follows: First, government foreign debt have significant impact on government expenditure, the bigger government foreign debt can reduce government expenditure. Second, government foreign debt have nonsignificant impact on trade structure, the development of trade structure do not influenced by the development of government foreign debt. Third, government foreign debt have nonsignifikan impact on the welfare of Indonesian people, the increase in government foreign debt can reduce the welfare of Indonesian people. Fourth, government expenditure have nonsignificant impact on trade stucture, the increase in government expenditure can support the increase of trade structure. Fifth, government expenditure have nonsignificant impact on the welfare of Indonesian people, the increase in government expenditure do not improve the welfare of Indonesian people. Sixth, trade structure have significant impact on the welfare of Indonesian people, the increase in trade structure can improve the welfare of Indonesian people.

Overall, the conclusion of this study is that the welfare of Indonesian people do not depend on the existence of government foreign debt, but on the transformation of Indonesian economy from colonial economy to national economy, especially by accellerating national industrialisation.

**Keywords: government foreign debt, public expenditure, trade structure, and the welfare of Indonesian people**