



## EFFECT OF FOREIGN INVESTMENT FLOW, WORLD CAPITAL MARKET, FOREIGN EXCHANGE, AND COUNTRY RISK TO THE CAPITAL MARKET RETURN IN INDONESIA

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### Abstract

This study aims to determine the effect of foreign investment flow, World capital market (MSCI-World Index), rupiah exchange rate against the US dollar and country risk (EMBI +) on the Indonesian capital market return. The test is done by using multiple linear regression models. The test also uses stationery test data using Augmented Dicky Fuller Test (ADF) method. Then the Classic Assumption Test (Normality Test, Multicollinearity Test, Heteroscedasticity Test, and Autocorrelation Test), Hypothesis Testing includes Partial Test (t-test statistic), Goodness of Fit Test, and simulation test (statistic F test). The test result of this research by using multiple linear regression shows that the variable of foreign investment flows have a positive and significant effect on the return of the Indonesian capital market, the variable risk country has no significant adverse effect on the return of the Indonesian capital market, while the world capital market variable and the rupiah exchange rate against the US dollar significantly influence the return of Indonesia capital market.

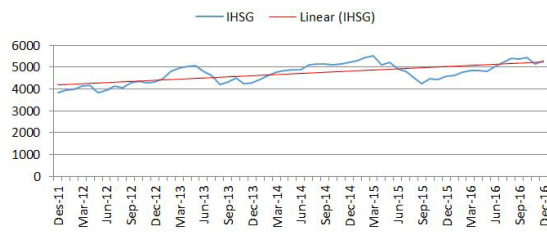
### INTRODUCTION

Stock market is a place where the stock traded between parties who need funding to parties who have excess funds to expand investment (Purwaningsih & Khoiruddin, 2016). One of the factors that are drive economic progress of a country is due to the development of capital markets in the country (Tastaftiani & Khoiruddin, 2015). Important information about the company's financial statements required by investors to determine the development of the company's stock price in the stock market (Yendrawati & Pratiwi, 2014). The information provided by the company's management is also used by investors to make investment decisions (Srianingsih & Khoiruddin, 2015). Such information can be viewed through indicators such as stock index (Listriono & Nuraina, 2015). This in-

dex is used by investors to obtain yields for using the entire stock price or companies listed on the Stock Exchange as a component of the index calculation. Yields are obtained depending on how investors assess existing information on the Stock Exchange or any elements that form the basis of research (Wijayanto, 2010).

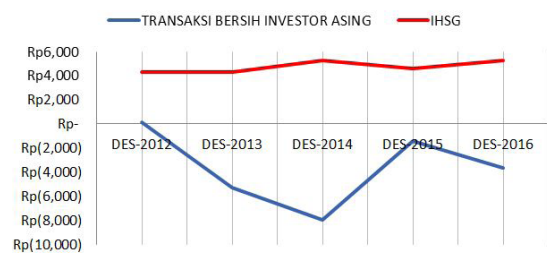
In Indonesia, after the issuing of decision of the Minister of Finance Republic of Indonesia Number 455/ KMK.01/ 1997 about the purchase of shares by investors/ foreign investors through the capital market, has lifted restrictions on the ownership of shares so as to provide a more significant opportunity for investors or foreign investors to infuse invest in companies in Indonesia (Mansur, 2005). The foreign investment includes foreign direct investment and foreign portfolio investment (Eliza, 2013). According to Yulianto et al. (2016) short-term investments and the income

used to pay the debt. After the issuing of the regulation impact on improving the JCI, it is in because of an increase in capital inflows as a result of the Indonesian capital market openness that shows the Indonesian capital market has been integrated with world capital markets.



**Figure 1.** Developments of Composite Stock Price Index (CSPI) Year 2012-2016

The influence of the world's capital markets to the Indonesian capital market has been demonstrated. According to French, (2011) on his research in South Africa exchanges using VAR 2002 to 2006, found that the actual return that the stock market can predict the flow of foreign investment which come in, but the flow of foreign investment will not have a strong enough influence to determine the market return.



**Figure 2.** JCI and Foreign Investment Flow of December Year 2012-2016

From the results of these studies and the reality of what happened in December 2013 that depicted in Figure 2 supports the concept of the positive influence of foreign investment on stock returns, the next one expanded as the market return. Especially to the capital markets of emerging market countries, including Indonesia. The impact of the inflows and outflows of foreign capital is very significant to both price and stock return. However, in the years 2014-2016, there were a few times the situation is quite different. In the period from December 2014, transaction net sell by foreign investors is Rp. 7954 billion, which is a substantial enough increase in sales compared to the previous year in December 2013 that foreign investors made net sales of 5,266 billion. However, in December 2014, the value of the stock index rose 952.

In December 2015, foreign net sales transactions only 1,415 billion. Sell is very low compared to the net sales in December 2014, i.e., 7954 billion; however, very much value stock index fell 633.94 points from December 2014 to 4593.01 figure. In December 2016 an increased in net foreign sales of 3.640 billion, but at the same time stock index rose 703.7 points at 5296.71. Some of these situations as if the flow in and out of foreign transactions, do not affect the value of JCI, or only have a small effect.

Aside from the flow of foreign investment, other variables such as the World capital markets, foreign exchange and country risk also plays a role in explaining the market return. Indonesian capital market is open, although not yet fully integrated with world capital markets. This openness means that the sensitivity of the portfolio returns the Indonesian capital market to changes in the world capital market portfolio return. Furthermore, the exit of foreign investors by releasing a portfolio large enough to make the country risk increased and the domestic exchange rate will be disrupted (Mailangka, 2013). The existence of such a relationship, allegedly above variables influence to return CSPI in BEI. These variables, namely the return of the World stock market index, the rupiah against the US Dollar and country risk.

The influence of capital markets world the Indonesian capital market has been proven by several studies conducted by Arfinto (2005), which examines the level of integration of capital markets in Asia Pacific and the United States also found that the Indonesian capital markets are integrated with capital markets in the Asia Pacific, and an increase in the degree of Indonesian capital market integration in the Asia-Pacific capital markets, especially with the capital markets that are geographically close to Indonesia, such as Singapore, the Philippines, and Thailand.

Research related to the influence of the exchange rate to return CSPI them done by Mu-harram & Nurafni (2008) found that the rupiah exchange rate negatively affects the value of JCI, where when the rupiah against the US Dollar increased (depreciate) then the stock price will go down. Conversely, if the value of the rupiah against the US dollar decreased (appreciate), the composite index also increased. According to Zaretta (2015), besides disturbing the domestic exchange rate, the exit of foreign investors by removing the portfolio is large enough, can create increased country risk.

Country risk is the potential for systemic risk that is owned by a country where invest-

ment will be made. The high of the risk index of a country can describe the country's economic weakness, which in turn could result in a decrease of investment into the country. A weakening economy and declining foreign investment would give a negative effect on the capital market conditions, so it is possible that the country risk will negatively affect the stock market return. This is consistent with research conducted by Reis et al. (2010) found that in the Brazilian capital markets are a negative influence on the change of country risk composite stock index return Brazil (Bovespa).

#### **Return Of Indonesian Capital Market (JCI)**

Return is one of the factors that motivate investors to invest and also a reward for the courage of investors bear the investment risk accomplishments (Maharani & Witiastuti, 2015), Expected return Investors that doing of investment is compensating for the opportunity cost (opportunity cost) and the risk of a decrease in purchasing power due to the influence of inflation (Tandelilin, 2010). The return may be a return realization has happened or has not happened, but the returns expected in the future. The return has a significant role in determining the value of a company's stock.

According to Yulianto (2014), the value of the company is also positively related to managerial stock ownership. With the growing size of the risk borne by the foreign investor, the higher the expected return will be smaller (Witiastuti, 2012).

#### **The Flow of Foreign Investment**

Foreign investment is a source of external funds of foreign capital that can be used by developing countries to accelerate investment and economic growth in that country (Anayochukwu, 2012). The flow of foreign investments is divided into two, namely direct investment flows (foreign direct investment) and indirect investments (portfolio/ indirect investment) (Eliza, 2013). Foreign investment is considered as a significant element of industrial development and economic growth in host countries. Aside from being a capital, foreign investment has a spillover effect in the form of transfer of foreign technology, managerial capabilities, and improved international competitiveness for domestic companies (Afin et al., 2008).

Foreign investment flows that occur as a result of capital market integration can also encourage stimulation of the development of domestic capital markets of a country. The development of domestic capital markets are going through competition among foreign investors (Kananlua,

2014). Foreign investors usually a financial institution which has significant capital and makes investments in large numbers (Kasim, 2010).

#### **World Capital Market - Morgan Stanley Capital International World Index (MSCI-World)**

In each country has an index value of the joint state stock that serves as a measure of a particular country and the capital markets as a benchmark measure of performance. However, if every country forms its index by calculating the capital market and the different methods, each index of the country will be difficult to compare (Zaretta, 2015).

For the world level, the index created by Morgan Stanley Capital International could be used as a measure of world stock market indices. The index is calculated based on the performance of stocks in 23 countries where capital markets are well developed, i.e., 15 European countries plus Australia, Hong Kong, Japan, Malaysia, New Zealand, Singapore, Canada, and the United States. The index is also made to in International indexes are comparable, and investors often use this index (Reis et. al., 2010).

#### **Exchange Rate**

The exchange rate is one indicator of macroeconomic factors that have defined as the exchange rate of the local currency against foreign currencies (Hikmah, 2016). The exchange rate is divided on the real exchange rate (real exchange rate) and the nominal exchange rate (the nominal exchange rate) (Hismendi et al., 2013).

The increase in foreign exchange value indicates that the value of foreign currencies relatively stable compared with the value of the domestic currency to the domestic currency to depreciate. Conversely, a decrease in the value of foreign currency means the value of foreign currencies relative weakening compared with the value of the domestic currency to the domestic currency to appreciate (Hikmah, 2016). The impact of exchange rate pressure in the country will increase the cost of imports, although it can increase exports. If there is a depreciation of the rupiah against the US Dollar, then companies that depend on imports will negatively affect the share price. Meanwhile, export-oriented companies will receive the positive impact of the depreciation of the rupiah against the US Dollar (Agustina & Ardiansari, 2015).

#### **Country risk**

Country risk is an essential aspect of the assessment carried out by investors who invest in

countries that belong to the emerging markets, such as Asia and Latin America. According to Kasim, (2010) explained that the country risk as to the political and financial status as a whole in a country and the extent to which these conditions can affect a country's ability to repay debt. Investment in developing countries (emerging markets), such as some countries in Latin America, Southeast Europe, and Asia, have a higher risk than investing in large and developed markets such as the US, Japan, and Western European countries.

Yield bonds issued by the government of a country becomes the most accessible measurement tool and updates to take into account country risk (Damodaran, 2003).

The purpose of this study was to determine the effect of the variable flow of foreign investment, the world's capital markets, foreign exchange, and country risk of the Indonesian capital market.

### **Hypothesis Development**

#### **Effect of Foreign Investment and JCI Return**

Capital markets are opening up to foreign investors to conduct International diversification will result in the expansion of the base in the investment destination country. Base expansion occurs due to the growing number of investor capital markets in emerging markets. The addition will increase the demand and liquidity of shares traded in the stock market (Clark & Berko, 1997). With the onset of open capital markets also resulted in the transfer of risk (risk sharing) which will result in the reduced risk premium and lower cost of capital, thereby raising the price of the stock due to lower levels of expected return (Zaretta, 2015). It shows how foreign investment flows affect the return of JCI.

#### **Effect of Capital Market to Return JCI World**

According Tandelilin (2010) in investments in the capital markets, international diversification can only be done if the investment destination country opens its capital markets to foreign investors. Capital markets are in emerging markets such as Indonesia country, has the characteristics, one of which is the capital market in emerging markets have a low correlation with developed capital markets. What this means is if there is a shock in emerging markets, had little influence on capital markets in developed countries conversely, if there is a shock in the capital markets of developed countries to give effect to the countries included in the emerging markets.

#### **Effect of Exchange Rate on JCI Return**

Appreciation of the currency exchange rate showed an improvement in the economic situation of a country. Conversely, the depreciation of the exchange rate indicates a country's economic recession. The depreciation of the domestic currency will increase the volume of exports. When the international market demand is reasonably elastic, it will increase the cash flow, which then increases the share price reflected in the JCI (Kewal, 2012).

Currency exchange rates also encourage investors not to invest in the stock market but in transactions in the foreign exchange market. This will result in financial transactions of the investors in the Stock Exchange will be reduced. It is considered more profitable to speculate on the volatility of foreign exchange rates. Which will result in JCI weakened? Fluctuations in the value of a stable currency in the country will affect the investment climate in the country's capital market (Manullang, 2008).

#### **Effect of Country Risk on Return of JCI**

Investors will invest in the capital markets, including emerging markets such as Asia and Latin America, should be concerned about country risk (Damodaran, 2003). General perception as represented by the country risk can describe how a country's ability to facilitate the implementation of the business including the ability to maintain an investment climate that is always conducive (Zarreta, 2015).

The country risk value is used as the amount of risk taken into account by investors. Country risk is one considered for investors to invest in the capital market. The high index of country risk a country will have an impact on the country's economic weakness shown by the decline in investment, which in turn will lower the market index in the country.

### **METHOD**

This study uses a quantitative approach and is explanatory. The data used in this research is time series data with secondary data that is foreign buy, foreign sell, monthly data return of the MSCI-World, the data of monthly average exchange rate of the Rupiah against the US Dollar, the monthly data EMBI + and monthly data JCI return. This study took the monthly time of year the period 2012-2016. Selection of this period is based on the consideration of the phenomenon of the gap and the research gap on the



flow of foreign investment to the return of JCI that occurred in that period and to determine the relationship between variables more comprehensively. The population is the object of the study are as follows:

Data Composite Stock Price Index (JCI) in Indonesia Stock Exchange from January 2012 to December 2016. Data foreign buy and sell of foreign IDX Indonesia Stock Exchange Statistics in the period from January 2012 to December 2016. Data Morgan Stanley Capital International World Index (MSCI World) in January 2012 until December 2016. Data middle rate of the rupiah against the US dollar from January 2012 to December 2016. The default data spread Emerging Markets Bond Index Plus (EMBI +) from January 2012 until December 2016. Samples were taken in this study using saturation sampling technique, the sampling technique in which all members of the population used as a sample (Sugiyono, 2001).

#### **Indonesian Capital Market Return (Return of JCI)**

In this study, the Indonesian capital market return value (JCI). JCI is obtained from changes in the value or the difference in the value of JCI with JCI previous value in percentage (Tandelilin, 2010). In this study, the value of foreign investment flow is obtained by using the ratio of the value of purchases by foreign investors (foreign buy) to the value of sales by foreign investors (foreign sell) the stock trading at the Indonesian Stock Exchange (BEI) during the month tot, Such as by (Égly, et. Al., 2010)

#### **The Flow of Foreign Investment**

In this study, the value of foreign investment flow is obtained by using the ratio of the value of purchases by foreign investors (foreign buy) to the value of sales by foreign investors (foreign sell) the stock trading at the Indonesian Stock Exchange (BEI) during the month tot, As according to (Égly et al, 2010).

$$FIT = \text{Foreign buyt/ Foreign Sellt}$$

#### **World Capital Market - Morgan Stanley Capital World Index (MSCIW)**

Morgan Stanley Capital World Index (MSCIW) is a world index published by Morgan Stanley which is calculated based on the performance of stocks in 23 countries where capital markets are well developed. These countries are 15 European countries, plus Australia, Hong

Kong, Japan, Malaysia, New Zealand, Singapore, Canada, and the United States of America (Reis et al., 2010). MSCIW index is used as a proxy of the World capital markets. MSCIW index calculations in this study are the closing value/closing price period t.

#### **Exchange Rate against US Dollar**

The exchange rate is the price that must be paid by the currency of a country to obtain another country's currency. In this study, the rate used is the Rupiah against the US Dollar gained from the average exchange rate of the rupiah against the US dollar averaged monthly issued by Bank Indonesia (Muharam & Nurafni 2008).

#### **Country risk/ EMBI +**

EMBI + is an index for emerging market bonds released by JP Morgia, which is used as a proxy for country risk (Reis et al., 2008). Calculation EMBI + in this study is the closing value of the index EMBI + in t period.

The technique used in this research is the Multiple Linear Regression method using a computer program Eviews. Multiple linear regression was used to test the effect of two or more independent variables (explanatory) to a variable dependent (Ghozali, 2013).

#### **Descriptive Statistics**

Descriptive analysis is intended to provide a picture or description of a data seen from the average (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis, and skewness (Ghozali, 2013).

#### **Stationarity Data Test**

This assumption says that the analysis will be valid if the used time series is stationary (Ghozali, 2013). The stationary test serves to identify a variable, whether stationary or not.

#### **Unit Root Test with Augmented Dickey-Fuller (ADF) Methods**

To identify the stationarity data visually, it would require a formal test, known as the unit root test. Test ADF test is a test of serial correlation between residual and  $\Delta Y_t$ . Statistical t values obtained were then compared with McKinnon t-Critical Value. If the t statistic  $< t$  Table, meaning that the data is not stationary (Widarjono, 2013).

#### **Differencing Process of Not Stationary Data**

Differencing is the process undertaken to obtain data from the tren of stationary data not stationary. Differencing data performed if the

data generated from the ADF test results are not stationary at the zero-degree level, namely by reducing the data with the previous period data, so that would be obtained delta or difference. The first data generated is then used as the data is tested again using the ADF test to test stationarity data.

#### **Classic Assumption Test**

Standard assumption test was used to test whether the regression model showed a significant association and representative. Classical assumption test purpose is to assure that the regression equation obtained has the certainty in my estimation, unbiased, and consistent. The regression model can be used as a tool that is not biased estimation if it meets the requirements of BLUE (Best Linear Unbiased Estimator) that there are no heteroscedasticity, multicollinearity, and autocorrelation (Ghozali, 2013).

#### **Normality Test**

Normality test aims to test whether the regression model or residual confounding variables have a normal distribution. Testing of residual normality in this study using a test Jarque-Bera (JB). JB value statistic follows the Chi-square distribution with 2DF (degree of freedom). JB value can then be calculated significance to test the hypothesis (Ghozali, 2013).

#### **Multicollinearity Test**

Multicollinearity test purpose was to test whether the regression model found a correlation between the independent variables (Ghozali, 2013). If there is or there is a correlation, then there is problem multicollinearity. One of the assumptions of the classical linear regression is no perfect multicollinearity or no linear relationship between the explanatory variables in a regression model.

#### **Heteroskedasticity Test**

The heteroskedasticity test aims to test whether the regression model occurred inequality residual variance and observation of one to another observation. Heteroskedasticity can be detected in two ways: a graphical method and the method of statistical tests (Ghozali, 2013). This study uses statistical methods to test for the presence of heteroskedasticity. The statistical methods used in the study were a White test because the test lowers White quadratic residue on the cross product is genuine and constant regressors.

#### **Autocorrelation Test**

Autocorrelation test aims to test whether the linear regression model was no correlation between bullies' error in period  $t$  with bullies error in period  $t-1$  (previous). To detect the presence of autocorrelation in a regression model can be done by through the test LaGrange multiplier (LM Test). The test will produce statistics that Brush-Godfrey LM test is also sometimes referred to as the Breusch-Godfrey test (Ghozali, 2013).

#### **Hypothesis Testing**

Test of the hypothesis in this study relates to the influence of the independent variable (flow of foreign investment, the world's capital markets, the rupiah against the dollar, and County Risk) on the dependent variable (the Indonesian capital market) either partially or simultaneously (Ghozali, 2013). In this research, hypothesis testing using test method Partial (Test Statistic  $t$ ) and Test Goodness of fit.

### **RESULT AND DISCUSSION**

This research using time series data. The data used in this research is data time series with the secondary data types CSPI index, foreign buy, sell different, closing MSCIW index, middle rate, and monthly data EMBI +. This research data sample is taken with a saturated sampling method, a namely sampling technique in which all members of the population used as a sample.

#### **Descriptive Statistics**

Based on Table 1, return of JCI during the study period from January 2012 to December 2016 have meant by a ratio of 0.00614 to 0.03711 standard deviation value. The standard deviation of 0.03711 means that the value of the variable data storage Indonesian capital market return of 0.03711 to its mean value. Variable flow of foreign investments has a mean with a ratio of 1.021 with a standard deviation value of 0.135. Standard deviation value of 0.135 means that the value of the deviation of the variable data flow of foreign investment amounted to 0.135 against its mean value. Variable Index MSCIW has meant the ratio of standard deviation 1573.3 with 177.1. Standard deviation value of 177.1 means that the value of the variable data storage MSCIW index of 177.1 against its mean value. The variable exchange rate has amounted to 11680.8 mean the ratio of the standard deviation value 1660.7. The standard deviation of 1660.7

**Table 1.** Descriptive Statistics

	RIHSG	FI	MSCIW	EXCHANGE RATE	EMBI +
Mean	.00614	1.02057	1573.3	11680.8	351083
Median	.01225	.99973	1657	11913.5	350
Maximum	.07681	1.29794	1779	14396	443
Minimum	-.09008	.75785	1177	9025	248
Std. Dev.	.03711	.13462	177056	1660.74	49.5267
Observations	60	60	60	60	60

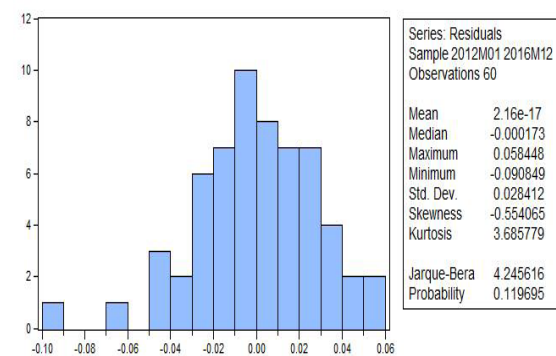
means that deviation value variable data rate of 1660.7 to its mean value. EMBI + have a mean with a ratio of 351.08 with a standard deviation value 49.52, which means that the value of the deviation of 49.52 against its mean value.

#### Stationarity Test Data

Stationary test carried out by the unit root test through Augmented Dickey-Fuller (ADF). Stationary test results as shown in Table 2 indicate that the variable return CSPI, a foreign investment flow variable, the variable stationery at level, while variable MSCIW index, exchange rate, and the EMBI + were not stationary at a level that should be done by differencing data.

Based on Table 3, the results of the first-order differencing the data, variables MSCIW index, exchange rate, and the EMBI + became stationary at first difference level.

#### Classic assumption test

**Figure 3.** Normality Test

Based on Figure 3 with the Jarque-Bera statistical test probability values obtained by

**Table 2.** Stationarity Test Data with Augmented Dickey-Fuller Test

Variables	t-Statistic				Result
	1% level	5% level	10% level	ADF Test Statistic	
Return JCI	-3.546099	-2.911730	-2.593551	-6.867122	Stationary
Flow of Foreign Investment	-3.546099	-2.911730	-2.593551	-5.348824	Stationary
MSCIW Index	-3.546099	-2.911730	-2.593551	-1.688263	Not Stationary
Exchange Rate	-3.546099	-2.911730	-2.593551	-1.158634	Not Stationary
EMBI +	-3.546099	-2.911730	-2.593551	-2.286142	Not Stationary

**Table 3.** Augmented Dickey-Fuller differencing Test First Order

Variables	t-Statistic				Result
	1% level	5% level	10% level	ADF Test Statistic	
MSCIW Index	-3.546099	-2.911730	-2.593551	-8.898318	Stationary
Exchange Rate	-3.548208	-2.912631	-2.594027	-6.073088	Stationary
EMBI +	-3.548208	-2.912631	-2.594027	-8.334149	Stationary

**Table 4.** Multicollinearity Test

	FI	MSCIW	EXCHANGE RATE	EMBI_
FI	1	-.0349	-.19763	-.37139
MSCIW	-.03488	1	.84451	.35440
EXCHANGE RATE	-.19763	.84451	1	.68428
EMBI_	-.37139	.35440	.68428	1

0.119695 > 0.05, it can be concluded that the residuals are normally distributed.

Based on Table 4, multicollinearity test, it is known that the correlation between variables no higher than 0.9. Therefore, it is evident that there is no existence of multicollinearity because the correlation between each independent variable is smaller than 0.9 (Ghozali, 2013).

**Table 5.** Heteroskedasticity Test

Heteroskedasticity Test: White			
F-statistic	2.138273	Prob. F (2,55)	.0883
Obs * R-squared	8.074912	Prob. Chi-Square (2)	.0584

From Table 5, it can be seen that the probability of Chi-Square worth 0.0584 (Greater than  $\alpha = 5\%$ ), then the data does not occur heteroscedasticity problem.

**Table 6.** Autocorrelation Test

Breusch-Godfrey Serial Correlation LM Test			
F-statistic	.625877	Prob. F (2,53)	.5387
Obs * R-squared	1.384383	Prob. Chi-Square (2)	.5005

### Hypothesis Testing

Based on Table 7, multiple linear regression equation, namely:

$$Y = -0.1060540 + 0.1646320 \text{ FI} - 0.0000692 \text{ MS-CIW} + 0.0000110 \text{ Exchange} - 0.0002140 \text{ EMBI}$$

**Table 7.** Regression Analysis

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-.1060540	.0595070	-1.7822110	.0802000
FI	.1646320	.0308580	5.3350940	.0000000
MSCIW	-.0000692	.0000494	-1.3999670	.1671000
EXCHANGE RATE	.0000110	.0000067	1.6275580	.1093000
EMBI +	-.0002140	.0001330	-1.6067220	.1138000

The regression equation shows that constant for -0.1060540 means if the variable flow of foreign investment, the world's capital markets, foreign exchange, and country risk is considered equal to zero, then the variable Indonesian capital market amounted -0.1060540 unit.

Coefficient = 0.165 pales FI variable increases one unit, while the world's capital markets, foreign exchange and country risk are considered permanent, it will affect the rise in Indonesia's capital market by 0.165.

Coefficient = -0.00006920 means that if a variable capital of the world market has increased one unit, while the flow of foreign investment, foreign exchange and country risk are considered permanent, it will affect the Indonesian capital market rise of -0.00006920.

Coefficient = 0.0000110 means that if the exchange rate variable increases one unit, while the flow of foreign investment, the world's capital markets, and country risk are considered permanent, it will affect the increase in the exchange rate of 0.0000110.

Coefficient = -0.000214 meaning that if the exchange rate variable increases one unit, while the flow of foreign investment, the world's capital markets, and the exchange rate held constant, would affect the increase in the country risk of -0.000214.

### The Goodness of Fit Test

**Table 8.** Coefficient of Determination  $R^2$ 

Coefficient of Determination ( $R^2$ )			
R-squared	.413858	Mean dependent var	.006143
Adjusted R-squared	.371230	SD dependent var	.037111



According to the Table 9 obtained Adjusted R-squared value of  $0.371230 = 37.12\%$ , indicating that the ability of the independent variable (the flow of foreign investment, the world's capital markets, foreign exchange and country risk) in explaining the variation of the dependent variable (Indonesian capital market) by  $37.12\%$  and the remaining  $63.88\%$  is explained by the regression model variables outside the research.

**Table 9.** Simultaneous Significance Test

Test Statistic F				
F-Statistic	9.708481	Prob (F-statistic)	.000005	

According to the Table 10 outputs, simultaneous significance test results obtained F count equal to 9.708481 with probability value (F-statistic) amounted to 0.000005. The probability is smaller than 0.05; it can be concluded that the regression coefficient FI, MSCIW, EXCHANGE, EMBI\_ not equal to zero or all independent variables simultaneously affect the dependent variable.

Based on Table 10, Test Statistic t with  $95\%$  or  $(\alpha) = 0.05$ , then it can be concluded as follows:

FI has  $+0.1646320$  variable coefficient and  $\text{sig} = 0.0000 > 0.05$ . This shows that the FI variable statistically significant positive effect on Indonesian capital market return.  $H_{a1}$ , which states the flow of foreign investment has a positive influence on Indonesia capital market return is received.

MSCIW have  $-0.0000692$  variable coefficient and  $\text{sig} 0.1671 > 0.05$ . This shows that the variable MSCIW statistically significant negative effect on the Indonesian capital market return.  $H_{a1}$  stating the world's capital markets has a positive influence on Indonesia capital market return is rejected.

Exchange rate has  $+0.0000110$  variable coefficient and  $\text{sig} = 0.109 > 0.05$ . This shows that the variable Exchange rate statistically not a significant positive effect on the Indonesian capital market return.  $H_{a1}$ , which states that the exchan-

ge rate negatively affects the Indonesian capital market return is rejected.

Variable EMBI + has a coefficient  $-0.0002140$  and  $\text{sig} = 0.113 > 0.05$ . This shows that the variable EMBI + statistically significant positive effect on the Indonesian capital market return.  $H_{a1}$  stating that EMBI negatively affect Indonesian capital market return is rejected.

#### Effect of foreign investment flows to the Indonesian Capital Market Return

T statistical test calculation results show that the variable FI (Foreign Investment Flow) significant positive effect on the Indonesian capital market return with a confidence level of  $95\%$  or  $(\alpha) = 0.05$ . This shows that the higher the value of the flow of foreign investment will increase the return JCI and will further raise the Indonesian capital market.  $H_{a1}$  which states that foreign investment flow positive effect on the capital market return. These results are consistent with research Clark and Berko (1997), which states that the increase in foreign investment flows affect the market return and boost the share price on the stock Mexico.

Capital markets are opening up to foreign investors; it will result in the expansion base. The expansion of the base itself occurs due to the growing number of investors in the capital markets of developing countries or emerging markets. Increasing the number of investors or increase the flow of foreign investment will increase the demand and liquidity of shares sold on the stock market which in turn will lead to increase in the stock market indices (Clark & Berko, 1997).

The influence of foreign investment and the market return in this study was also based on the study of Reis et al. (2010) in the capital markets of Brazil, whereby using the VAR model results obtained are of foreign investment is a positive relationship with the domestic stock market return. Next is based on research by Clark and Berko (1997) in the Mexican capital markets, which also found a positive effect of foreign investment flows to stock return.

**Table 10.** T Statistics Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-.1060540	.0595070	-1.7822110	0.0802000
FI	.1646320	.0308580	5.3350940	0.0000000
MSCIW	-.0000692	.0000494	-1.3999670	0.1671000
EXCHANGE RATE	.0000110	.0000067	1.6275580	0.1093000
EMBI +	-.0002140	.0001330	-1.6067220	0.1138000

### **The influence of the World Capital Markets on the Indonesian Capital Market Return**

T statistical test calculation results show that the variable MSCIW (World Capital Markets) significant adverse effect on the Indonesian stock market return with a confidence level of 95% or  $(\alpha) = 0.05$ . This shows that when the world stock market index rose the Indonesian capital market return down. Ha2 stating the global capital markets positive influence on Indonesia capital market return is rejected.

Capital markets are open to foreign investors will lead foreign investors to diversify internationally. Indonesia including in emerging markets, which in many literatures have mentioned that one of the characteristics is its capital markets have a low correlation with the stock market advanced addition, the condition of Indonesia's integration was also considered inconsistent, as the results of Susanto and Supramono (2003) which examines the effect of the monthly return of the international market indices, represented by the Dow Jones index of the monthly return 14 stock market index of Asia-Pacific region (including Indonesia) with year study period from 1999 to 2001.

This means that any market movement does not affect the world capital of the Indonesian capital market/return JCI. These results are also consistent with research Elfarij (2016) which states that the absence of a relationship between return of capital markets globally by the Indonesian capital market. Then Herwany and Hidalgo (2013) which revealed that the Indonesian capital markets tend to be more immune to the pressure arising from the capital markets of developed countries. Later research conducted by Gordon and Gupta (2003) said that the global stock market returns do not affect the Indian capital market.

### **Effect of Exchange Rates Against the Indonesian Capital Market Return**

T statistic calculation results show that the variable rate positive influence on Indonesia capital market return with a confidence level of 95% or  $(\alpha) = 0.05$ . This shows that when the rupiah depreciated (rupiah weakened) would then raise the Indonesian capital market return. HA3, which states that the exchange rate negatively affects the Indonesian capital market return is rejected. The results found in this study is different from the Hismendi et al. (2013), which states that the adverse exchange rate effect.

This is because the movement of the exchange rate is always changing, so investors

pay less attention to the movement of exchange rates caused investors to have a more important consideration in deciding the investment strategy. Also, it indicates that Bank Indonesia as the monetary authority has been able to maintain the stability of the exchange rate through a variety of intervention or sterilization efforts in order to maintain the balance of the capital market in Indonesia. The movement of the exchange rate is always quickly responded by Bank Indonesia to maintain the confidence of investors to maintain the financial assets owned (Eliza, 2013).

### **Effect of Country Risk Against the Return of the Indonesian Capital Market**

T statistic calculation results showed that the country risk variables significant adverse effect on the Indonesian stock market return with a confidence level of 95% or  $(\alpha) = 0.05$ . This shows that when country risk rises will lower the Indonesian capital market return, but the movement of the country risk cannot affect change in capital market return

Indonesia, because of the probability value of more than 0.05. Ha4 stating that the country risk negatively affects Indonesian capital market return is rejected. This means that the higher the risk of a country will lead to the market return. It is not appropriate to the research conducted by Reis et al. (2010), which states that the country risk negatively affects the Brazilian capital market return (Bovespa). However, according to research conducted by (Beaulieu et al., 2005) in Canada which found that stocks industries that operate not only in the residential area but also abroad, will not be affected by changes in the country risk of the country where the company operates. So that the country risk will not affect the market return.

## **CONCLUSION AND RECOMMENDATION**

The flow of foreign investment (FI) significant positive effect on the Indonesian capital market return. World stock markets (MSCI-World) significant adverse effect on the return of the Indonesian capital market. The exchange rate is not a significant positive effect on the return of the Indonesian capital market. Moreover, country rustle (EMBI +) significant adverse effect on the return of the Indonesian capital market.

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