THE IMPACT OF FOREIGN DIRECT INVESTMENT (FDI) ON DOMESTIC SAVINGS AND ECONOMIC GROWTH IN SELECTED ASEAN COUNTRIES

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ABSTRACT

The effects of foreign direct investment (FDI) inflows on economic development have been the focus of attention of many researchers and policymakers. The recent external debt servicing difficulties during the Asian financial crisis in some developing countries have intensified the need for reconsidering this issue. This study attempts to examine the impact of foreign direct investment on growth and savings rates of each of the 5 selected ASEAN countries (namely Indonesia, Malaysia, the Philippines, Singapore and Thailand) over a period 1970-2000.

This study is two fold: first, a descriptive study using graphs is carried out on the relationship between FDI, growth and savings rates by analyzing the effect of change in FDI on growth rate and savings rate of each selected ASEAN country over the period 1970-2000. Subsequently, an econometric test using Ordinary Least Squares (OLS) method is done to enhance the graphical analysis. The regression analysis is to determine the size, sign and statistical significance of the explanatory variable FDI in the growth and savings single equation.

In the graphical analysis and from the empirical study, the impact of FDI was found to be significantly positive on the economic growth of Indonesia, Malaysia and Singapore. The impact of FDI into the Philippines was found to be positive but statistically insignificant. On the other hand, FDI inflows into Thailand had a significantly negative impact on its growth for the period 1970-

2000. The findings from the regression analysis do support the descriptive study using graphs. The regression analysis also indicates that FDI inflows augmented domestic savings and growth rate of labor force to accelerate growth.

The graphical analysis and the regression analysis also showed that FDI inflows into Malaysia and Singapore had significant negative influence on their savings rate. For Indonesia and the Philippines, FDI inflows shows a negative influence on their savings rate but statistically the FDI coefficient is not significant. On the other hand, FDI inflows into Thailand showed a significantly positive influence on its savings rate.

The findings from the regression analysis also suggest that domestically raised funds, through savings are much better than external funding as shown from the empirical study on Philippines and Singapore. The regression analysis on Indonesia's and Malaysia's growth showed that FDI inflows into these countries contributed more to growth than domestic savings. The study also indicates that if foreign capital is required, more foreign direct investment should be encouraged instead of other foreign capitals.

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GLOSSARY

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
FDI	Foreign Direct Investment
GDCF	Gross Domestic Capital Formation
GDP	Gross Domestic Product
GRL	Growth Rate of Labor
IMF	International Monetary Fund
M&A	Mergers & Acquisitions
MNC	Multinational Corporation
MNE	Multinational Enterprise
OFC	Other foreign capitals
OLS	Ordinary least squares
SY	Gross domestic savings rate in proportion to GDP
TNC	Transnational Corporations
UN	United Nations
X	Exports in proportion to GDP

Notations Used

1. A small triangle on the left of a variable indicates a first differentiation operation. For example, Δ GDP = GDP - $GDP_{(t-1)}$

2. (t-1) attached to a variable indicates a lagged value (by one period)

3. When reporting regression results, the t statistic (s) is always given in brackets, underneath the relevant explanatory variable (s).

4. The notation $\delta Y/\delta X$, where Y is any dependent variable and X is any independent variable indicates a partial derivative. It shows the effect of a change in Y brought about by a change in X with other explanatory variables remaining unchanged