ANALYSIS OF THE IMPACT OF FOREIGN DIRECT INVESTMENT ON SOCIAL DEVELOPMENT IN INDONESIA AND OTHER ASEAN COUNTRIES

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Abstract

Sustainable Development has now become a central issue in the world, where development can no longer just focus on the economic side, but also the social and ecological environment. Foreign Direct Investment (FDI) is widely believed to contribute to sustainable development in the recipient country, mainly and significantly to the economic development, especially in developing countries. This study examine empirically if FDI is also able to make an impact on social development in Indonesia and nine other ASEAN countries. Social development, as we know, is still a big challenge for many developing countries. In this study, social development is measured by using the Human Development Index (HDI).

The data being analyzed is data of ten ASEAN countries from the after-crisis period, which is the period of 1999-2012, using panel data method. The least square panel regression analysis was done by using Eviews 7 for each of the ASEAN countries individually and jointly. The result showed that generally FDI has no significat impact on the human development in ten ASEAN countries. However, individually, out of the ten ASEAN countries, the FDI has no significant impact on the human development in seven ASEAN countries including Singapore, Malaysia, Brunei Darusalam, Thailand, Indonesia, Laos and Cambodia. Meanwhile, in Vietnam and Myanmar, the FDI shows a positive and significant impact, whereas in the Philipines FDI provide a negative impact.

The majority of the results showed no effect of FDI on human development may indicate that the allocation of FDI in ASEAN countries is still dominant allocated to areas other than social humanity, as many studies that show a significant positive impact of FDI on the economy.

Keywords:Foreign Direct Investment, Sustainable Development, Human Development Index, ASEAN

INTRODUCTION

The idea of sustainable development has received great attention from various groups of people of the world, has been a challenge for policy makers to design a development system that is not only focused on economic growth. Moreover, sustainable development should be focused on three elements known as the three pillars of sustainable development, namely economic development, social and environmental (Fortainer & Maher, 2001 and Strange & Bayley, 2008). Fundamental ideas about development that could not only limited economic growth was also expressed by Peet and Hartwick (2009): “In development, all the modern advances in science and technology, in democracy and social organization, in rationalized ethics and values, fuse into the single humanitarian project of deliberately and cooperatively producing a far better world for all”.

The role of foreign direct investment (FDI) in the process of sustainable development, especially in the economic sector of a country may be unquestioned. There are many studies or research that can provide empirical evidence of this. But what about the role of FDI in social development? The study of the impact of FDI on social development is still quite limited and the results are quite varied. Colen et al. (2008), for example, among others, find that FDI can make a significant contribution in enhancing human development (as an indicator of social development) if the appropriate conditions required are available.While Sharma and Gani (in Colen et al., 2008) found that there was no significant impact of FDI on human development. Study conducted in Latin American countries also fails to demonstrate expected results.

This study was motivated by results from previous studies are quite varied. Studies conducted in all member countries of ASEAN, which includes Indonesia and nine other countries, namely Singapore, Malaysia, Brunei, Thailand, Philipines, Vietnam, Laos, Cambodia and Myanmar. The study has been done in the ASEAN countries is still limited to certain countries only.

By using panel data from the 10 ASEAN countries, this study will analyze the impact of FDI on social development, especially human development as measured by the Human Development Index (HDI).

LITERATURE REVIEW AND HYPOTHESES

Currently, the issue of foreign investment in the form of foreign direct investment (FDI) has received great attention both at the national level, regionally, and internationally. There are many theoretical and empirical studies on issues concerning FDI. This is of course related to the role of FDI that is believed so important for a country, although there are also issues related to the negative impact of FDI.

FDI is the flow of capital across national borders, where firms in the private sector of various countries to invest in other country with the purpose of producing goods or services. The flow of FDI has increased significantly in line with the current international trade liberalization adopted in many countries in the world, including Indonesia.The United Nations (UN)defines FDI as invested capital to other countries to achieve long-term economic benefits, as in the definition of the UN World Investment Report (UNCTAD,1999) the following: “FDI is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affliate enterprise or foreign afiliate)”. The term long term here to emphasize the difference FDI with portfolio investments in stocks that tend to be short term.

Meanwhile, Baghirzade (2012) states that FDI is an engine in international trade and integration processes in the current era of globalization. FDI is believed to be a factor contributing to the progress and welfare of the recipient country.

FDI inflows in Indonesia and other ASEAN countries

Based on data from UNCTAD (2011), FDI flows to this day is still dominated by developed countries, especially European countries and the United States. However, FDI flows to developing countries from year to year also increased and plays an important role in development. In developing countries, FDI inflows driven by market liberalization, especially privatization programs that give way for transnational corporations (TNCs) to relocate the plant or the new outlets globally for their products and services (United Nations, 2004).

Indonesia itself is one of the developing countries that is very important and has a strategic position in the South East Asia region. With a high population and has the large potential of natural resources, making Indonesia as an attractive investment destination and the potential for investors, including global investors through Foreign Direct Investment (FDI).

However, although Indonesia is a region with huge potential for foreign investors or FDI, in terms of attracting FDI inflows, Indonesia's performance has generally not be said to be very satisfactory. At least until the year 2008, Indonesia is still experiencing instability problems and also less than the maximum FDI inflows compared to neighboring countries its main competitors, such as Singapore, Malaysia and Thailand. In 2002 Indonesia had even entered the classification as under-performers (low FDI performance and low FDI potential) with countries like Bangladesh, Ghana, Kenya, etc (UNCTAD, WIR 2002). Then in 2007, the UNCTAD report (WIR 2007) also stated that FDI flows into Indonesia is still lower than other Asian countries such as Malaysia or Singapore, as the nearest competitor.

FDI inflows into Indonesia began to experience a significant increase and even surpass the achievements of Malaysia's happened since 2008. Even the years 2010 - 2012 shows a large increase surpassed Malaysia, Thailand and other ASEAN countries other than Singapore. In more detail, here are the data of FDI inflows into ASEAN's ten member countries of the years 1999-2012 (http://unctadstat.unctad.org):

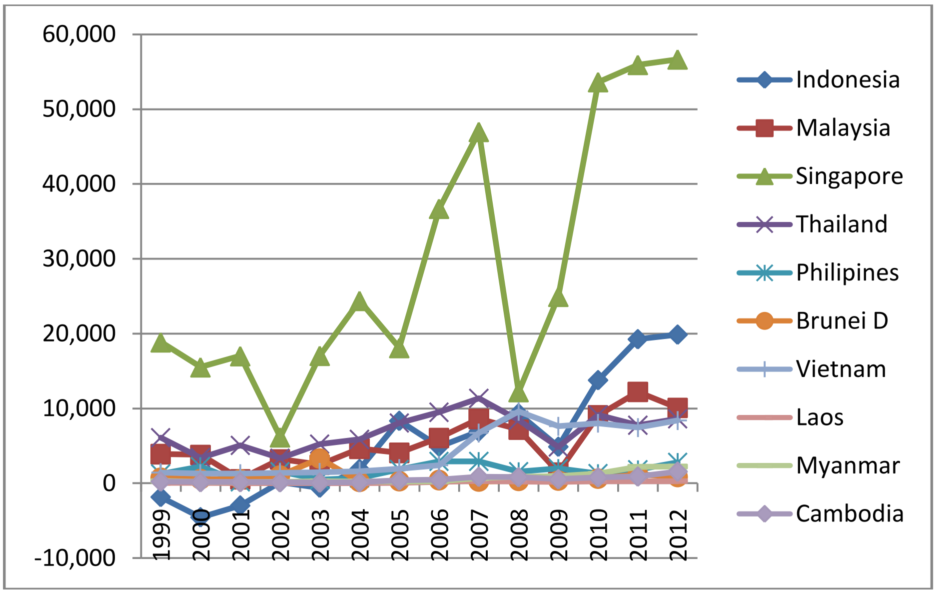
Table1
FDI inflows to ASEAN Member Countries (Million US $)
Year 1999-2012

Year	Sing.	Malay.	Brun.	Thai.	Indo.	Phil..	Viet.	Laos	Camb.	Myan.
1999	18.853	3.895	748	6.106	-1.838	1.247	1.412	52	232	304
2000	15.515	3.788	550	3.410	-4.550	2.240	1.298	34	149	208
2001	17.007	554	525	5.073	-2.977	195	1.300	24	149	192
2002	6.157	3.203	1.036	3.355	145	1.542	1.400	5	145	191
2003	17.051	2.473	3.298	5.222	-597	491	1.450	19	84	291
2004	24.390	4.624	206	5.859	1.896	688	1.610	17	131	251
2005	18.090	4.065	289	8.067	8.336	1.854	1.954	28	381	235
2006	36.700	6.060	434	9.501	4.914	2.921	2.400	187	483	276
2007	46.972	8.595	260	11.359	6.928	2.916	6.700	324	867	710
2008	12.201	7.172	330	8.455	9.318	1.544	9.579	228	815	863
2009	24.939	1.453	371	4.854	4.877	1.963	7.600	190	539	973
2010	53.623	9.060	626	9.147	13.771	1.298	8.000	279	783	1.285
2011	55.923	12.198	1.208	7.779	19.241	1.816	7.430	301	902	2.200
2012	56.651	10.074	850	8.607	19.853	2.797	8.368	294	1.557	2.243

Sources: UNCTAD

Graphically, the flow of FDI from all ASEAN countries above can be illustrated in the following graph:

Graph 1
FDI Inflows to ASEAN Member Countries (Million US $)
Year 1999-2012



The graph above shows clearly that Singapore dominate FDI inflows into ASEAN way beyond the other ASEAN countries. But when the crisis hit the world, precisely in the year 2007/2008, Singapore also experienced a very sharp decline in FDI, followed by Thailand, Malaysia and the Philippines were also decreased, although not as sharp as Singapore. On the other hand, in 2007, Indonesia and Vietnam have increased FDI and then hit by the crisis in 2008. In 2009 almost all back up and ASEAN FDI inflows also increased again, with a sharp increase occurred only in Singapore, Indonesia and Malaysia.

The graph above also shows that FDI inflows into ASEAN countries, can be classified into three categories: (1) the single highest,whis is Singapore, (2) the middle group consists of Indonesia, Malaysia, Thailand and Vietnam, and (3) the lower group consisting the Philipines, Laos, Myanmar, Brunei and Cambodia.

FDI and Social Development

There is an important statement in the Washington Consensus that "FDI is good, the more the better" (Moran, 2011). But lately the statement to get a lot of criticism. Is it true that FDI is good? There are many authors who agree that FDI is good and make a positive contribution to the host country, for example Mottaleb (2008), Fun and Dickie (2000), Burger et al (2004), Merican (2007), Kalirajan and Singh (2009). However, there are also a number of authors who say that FDI cause harm and damage, such as Gallagher and Lopez (2008) in a study they did in a number of Latin American countries.

According to the United Nations (2004), foreign investors (transnational companies/TNCs) do not just bring capital into a country, but also reduce the level of unemployment (to encourage employment growth), transfer of technology and technical skills, improving efficiency and competitiveness as well as improve managerial skills. Even FDI is also potential to introduce a technology that is more "clean" and facilitate "leapfrog " technology in the host country, which in turn will contribute to sustainable development. Nevertheless, one of the main goals of foreign investors (TNCs) of course remains associated with the effort to meet the demands and expectations of shareholders, which is return on investment. So the main goal is to maximize their competitive advantage and financial returns from their investments by minimizing costs and reduce business risk of course. This prompted some concern from many groups of people about the actual contribution of FDI to economic growth, social development and environmental conservation, especially in the long term.

In a study conducted by Moran (2011), he agreed that FDI contributes to sustainable development in the host country. However, attempts to maximize the positive contributions of FDI and efforts to minimize the negative impacts of FDI will only be optimally achieved by the intervention of the parties or communities pro-poor, such as CSR advocates, international donors, the World Bank, IMF, or NGOs.

The study of the impact of FDI on social development, especially human development, is still limited. One of the studies in this area carried out by Baghirzade (2012) which uses the Human Development Index (HDI) as a measure of human development. Baghirzade examine the impact of FDI on four indicators of the HDI ie school enrollment, health expenditures, GNI and life expectancy in 12 countries of CIS (Commonwealth of Independant States) which consists of Russia, Ukraine, Uzbekistan, Georgia, Tajikistan, Kyrgyzstan, Armenia, Kazakhstan, Belarus , Azerbaijan, Turkmenistan, and Moldova for the period 1995-2009. The results show that FDI can promote social development, especially human development in all CIS countries except Azerbaijan.

That FDI is able to drive improvements in human development, is also expressed by Makki and Somwaru (2000). In this regard, he said that FDI and trade can be an important catalyst for economic growth in developing countries. He further stated that FDI can stimulate domestic investment and facilitate the improvement of human capital and institutions in the host countries.

Furthermore, Colen et al. (2008) also conducted a study on the relationship of FDI, economic development and human development. By using indicator economic development include economic growth, poverty and income inequality, they find that FDI can make a significant contribution in enhancing human development if the appropriate conditions required are available. Different results shown by Sharma and Gani (in Colen et al., 2008). Sharma and Gani also using HDI as a parameter to the human development indicators of life expectancy, adult literacy and education enrollment, as well as per capita income and found that there was no significant impact of FDI on HDI.

Referring to the results of studies on the role or impact of FDI on social development that showed varying results, then becomes the basis for the development of hypotheses in this study:

Ha: FDI effect on social development in the member countries of ASEAN

DATA AND MODEL SPESIFICATION

The data in this study are panel data (pooled data) of all ASEAN member countries, namely Singapore, Malaysia, Brunei, Indonesia, Thailand, Philipines, Vietnam, Laos, Cambodia and Myanmar. FDI data is sourced from the United Nations Conference on Trade and Development (UNCTAD) and the data of HDI derived from United Nations Development Programme (UNDP) reports. Table 1 in the previous page shows the data of FDI ASEAN countries for the period 1999-2012.

To estimate the effect of FDI on social development as measured by the Human Development Index (HDI used the model equation as follows:

$$Ys_{it} = \gamma_0 + \gamma_1 FDI`_{it} + \mu_{it}$$

Where:

Ys = Dependent variable of Social Development, measured by the Human Development Index (HDI)

FDI = Foreign Direct Investment

By using the "Hausman test" it is known that the right approach for the estimation applied in this study is a "fixed-effect" approach.

ESTIMATION RESULTS

Table 2 and Table 3 below are the result of a statistical analysis of panel data on the effect of FDI on HDI in 10 ASEAN countries. Table 2 shows the results of fixed effects regressions of the overall ASEAN member countries:

Table 2.
Fixed Effect Regression Results for Overall ASEAN Countries

Dependent Variable: HDI

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.714314	0.006980	102.3302	0.0000
FDI?	4.12E-07	6.66E-07	0.618871	0.5383
Fixed Effects (Cross)				
_SINGAPORE--C	0.173428			
_MALAYSIA—C	-0.002730			
_BRUNEI—C	0.147156			
_THAILAND—C	-0.120236			
_INDONESIA—C	-0.031008			
_PHILIPINES--C	-0.000715			
_VIETNAM—C	-0.048497			
_LAOS—C	-0.187723			

_CAMBODIA—C	-0.150575
_MYANMAR—C	-0.197916
R-squared	0.927068
Adjusted R-squared	0.915305

Table 3 shows the results of fixed effects regressions in each of ASEAN member countries:

Table 3.
Specific Coefficient of FDI on HDI in Each ASEAN Countries

Dependent Variable: HDI

Variable	Coefficient	Prob.
C	0.675856	0.0000
_SINGAPORE--FDI_SINGAPORE	3.49E-07	0.5366
_MALAYSIA--FDI_MALAYSIA	1.15E-06	0.9202
_BRUNEI--FDI_BRUNEI	1.79E-06	0.8868
_THAILAND--FDI_THAILAND	6.79E-06	0.1014
_INDONESIA--FDI_INDONESIA	-1.51E-06	0.9368
_PHILIPINES--FDI_PHILIPINES	-0.000101	0.0000
_VIETNAM--FDI_VIETNAM	0.000315	0.0266
_LAOS--FDI_LAOS	-0.001507	0.1445
_CAMBODIA--FDI_CAMBODIA	-0.000238	0.4766
_MYANMAR--FDI_MYANMAR	0.000808	0.0291

The estimation results are shown in Table 2 indicate that the overall ASEAN members, null hypothesis is accepted and alternative hypothesis is rejected and it is concluded there is no significant effect of FDI on HDI in ASEAN. Table 2 also shows, through a fixed effect approach, the R-Squared value is 0.927068, meaning that the variation in the variable of FDI in ASEAN countries explaining the HDI variable is equal to 92.7068%, the remaining amount of 8.9082% is explained by other factors that are not in the model, ceteris paribus.

Table 3 further shows the specific coefficient effect of FDI on HDI in each of the ASEAN member countries. Seen here that of the 10 ASEAN member countries, there are only three countries where FDI has a significant influence on the HDI, namely Philipines, Vietnam, and Myanmar. It is statistically proven that indicated by the value of t statistic probability coefficients FDI respectively 0.0000, 0.0266, and 0.0291 which is smaller than α of 0.05. However, the effect of which occurred in the Philipines is negative, while in Vietnam and Myanmar are positive. For 7 other ASEAN member countries, which include Singapore, Malaysia, Brunei, Thailand, Indonesia, Laos and Cambodia, the results indicate that FDI from each of these countries has no effect on the HDI. It is statistically proven that indicated by the value of the FDI coefficient t statistic probability of each state at 0.5366, 0.9202, 0.8868, 0.1014, 0.9368, 0.1445 more than α of 0.05.

In the Philipines, the effect of FDI inflows were found turned out to be negative at 0.000101. It means that if the FDI inflows in the country rose by 1 million Philipines U.S. $, the Philipines HDI in the country has decreased by 0.000101, assuming ceteris paribus. Indeed, this is a small decline, but it may indicate that the influx of foreign investment (FDI) here has not been able to touch the social aspects, especially human development in the country, and even tended to worsen. The Philipines itself is included in the low group recipients of FDI inflows in the ASEAN (see chart 1). These results are in line with the results of research conducted by Merican (2007) which examines the impact of FDI on sustainable development in four ASEAN countries. One focus in this study is about PHH (pollution haven hypothesis) that shows the results of which PHH was supported in Malaysia, Thailand and the Philippines, but not in Indonesia. Merican also did not find any effect of FDI on economic growth in the Philipines.

In Vietnam, the resulting effect of FDI is positive at 0.0266, meaning that if FDI in country Vietnam rose by 1 million U.S. $, the HDI in the country of Vietnam will increase by 0.0266, assuming ceteris paribus. The effect of FDI in Myanmar also produced a positive, that is equal to 0.000808.It means that if FDI in country of Myanmar rose by 1 million U.S. $, the HDI in the country of Myanmar will increase by 0.000808, assuming ceteris paribus. It can be concluded here, that in both these countries FDI is able to have a positive impact on human development. It is obvious that, in accordance with the expectations set out in the statement of the Washington Consensus that "FDI is good, the more the better" (Moran, 2011).

If further attention, the estimation results in the two countries shows that the response of FDI inflows changes to the HDI is greater in Vietnam than the country of Myanmar. When referring to the statement of Colen, Maertens and Swinnen (2008) that FDI can make a significant contribution in enhancing human development if the appropriate conditions required are available, this is likely to occur also in Vietnam. Vietnam may be more capable than Myanmar and other ASEAN countries in facilitating the conditions required to take advantage of the influx of FDI which in this case is not only focused on the economic field but also in the important areas of human development such as education and health.

Results of the study appear in Table 3 also shows that for the next 7 other ASEAN member countries, which include Singapore, Malaysia, Brunei, Thailand, Indonesia, Laos and Cambodia, FDI inflows in each of these countries do not significantly affect the HDI. These results are consistent with the results of a study conducted by Sharma and Gani (in Colen, Maertens and Swinnen, 2008) and also Merican (2007). Sharma and Gani also using HDI as a parameter to the human development that has indicators of life expectancy, adult literacy and education enrollment, as well as per capita income, and found that there was no significant impact of FDI on HDI. It thus indicates that FDI contributes to many other fields besides the field of human development. If we refer to the results of many previous studies in which FDI is more influential in the economic field, maybe this is also happening on the 7 ASEAN member countries. Further studies are needed to ascertain whether it is FDI in ASEAN countries only contributed more to the economic sector. Because if this is the case, then it means that there are inaccuracies in the efforts to achieve the goals of sustainable development by foreign investors, and this should be given serious consideration of them, because sustainable development can only be achieved through contributions from anyone for survival on this earth and preservation of the earth itself.That foreign investors also carry out social activities in the form of corporate social responsibility (CSR) in the ASEAN countries, might be their CSR activities still tend to be "kiss and run".

CONCLUSION AND POLICY IMPLICATIONS

From the above discussion of the estimation results, it can be concluded that overall the region, FDI inflows are not able to provide a significant impact on social development, especially human development in the ASEAN region.

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If the analysis is done individually countries, FDI only have a positive and significant impact on human development in the two countries, Vietnam and Myanmar. Greater positive impact obtained by Vietnam, when compared with Myanmar. While in the country Philipines, the results are even worse where FDI negatively affect human development. Furthermore, the estimation results indicate that FDI does not provide a significant impact on human development in seven ASEAN member countries, which include Singapore, Malaysia, Brunei, Thailand, Indonesia, Laos and Cambodia.

The estimation results that generally showed no significant positive effect of FDI on human development in the ASEAN member countries must receive serious attention and concern. In line with the worldwide awareness of the society about the importance of sustainable development, which includes the three bottom line (economic, social and environmental), then it is time for investors around the world, that the investments they invest in any part of the world, should contribute to the three pillars of development, not just focus on economic development alone.

In terms of foreign investment recipient countries, would also have to be the focus of attention to be able to build a system and policies that facilitate the achievement of a significant contribution from the entry of foreign investors for human and social development. If at this point many developing countries lower a certain standard in the social and environmental aspects in order to attract foreign investors, perhaps now is the time to review again whether the policy is indeed the best policy. The role of pro-poor institutions also need to be improved and more institutionalized in order to achieve higher effectiveness of their programs and accountability are also maintained.

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