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FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN ASIA: ANALYSIS FOR ADVANCED ECONOMIES, EMERGING MARKETS & DEVELOPING ECONOMIES

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Abstract

Many studies have investigated the effect of foreign direct investment (FDI) on economic growth but still leave enigmatic explanation about the different results. Does FDI affect economic growth or not and whether the effect is positive or negative are still in debate. Some researches claim that FDI leads to better economies for developed countries while underdeveloped countries do not. This study empirically examines the effect of FDI on economic growth in Asia using sample of 12 Asian countries from 1990 to 2016. Economic growth as dependent variable is likely influenced by its value in the previous period therefore we employ generalized method of moments (GMM). The result shows that FDI has a significant positive effect on economic growth in all countries in the sample. Separated estimates reveal different outcome between advanced economies and emerging markets & developing economies. For advanced economies (Japan, Hong Kong, Singapore), FDI is positively significant affecting economic growth meanwhile for emerging markets & developing economies (Bangladesh, Brunei Darussalam, Indonesia, India, Sri Lanka, Malaysia, Philippines, Thailand, Vietnam) the results is statistically insignificant. This findings confirm the previous study that FDI enhances the economy of developed countries and has not been able to improve the economy of developing countries. Control variables from economic and demographic side are included in the model to avoid omitted variable bias.

Keywords: FDI, GDP, GMM

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