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ELECTRICITY CONSUMPTION AND FOREIGN DIRECT INVESTMENT: EMPIRICAL EVIDENCE FROM INDONESIA

By

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Abstract

Over the last three decades, most of developing countries pay more attention to foreign direct investments (FDI) activities, at both national and international level. Economists believe that FDI is one of the most important sources of globalization and an important catalyst for economic growth, especially for the developing countries. FDI can be one of the sources of capital to stimulate the economy of the country, as well as a contributor to the national development through the transfer of an asset, generators of employment, high productivity, competitiveness, management, and technology spillovers. However, deficiency in quality and a limited quantity of electricity is one of the issues that remains a perpetual bugbear that hampering Indonesia’s economic and social development. The objective of this study is to investigate whether electricity consumption affects the inflow of FDI in Indonesia. The analysis is based on Autoregressive Distributed Lag (ARDL) model using time series annual data from 1980-2016 of FDI, electricity consumption, and other macroeconomic variables such as GDP, exchange rate, openness, labor force, and education expenditure as control variables. Using various econometric techniques like Unit Root Test, Bounds Test, Cointegrating and long-run test and Granger causality test, it was found that there are a long-run relationship and positive correlation between electricity consumption and FDI in Indonesia. However, Granger causality result shows that there is no causality running from FDI to electricity consumption and vice versa.

Keywords: electricity consumption, foreign direct investment, Indonesia
Abstrak


Kata kunci: penggunaan elektrik, pelaburan langsung asing, Indonesia.
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<tr>
<td>ADF</td>
<td>Augmented Dickey-Fuller</td>
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<td>ARDL</td>
<td>Autoregressive Distributed lag</td>
</tr>
<tr>
<td>CUSUM</td>
<td>Cumulative Sum of Recursive Residuals</td>
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<td>ECM</td>
<td>Error Correction Model</td>
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<td>ECT</td>
<td>Error Correction Term</td>
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<td>EDU</td>
<td>Education Expenditure</td>
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<td>ELC</td>
<td>Electric Power Consumption</td>
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<td>EXC</td>
<td>Exchange Rate</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GMM</td>
<td>Generalized Method of Moment</td>
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<tr>
<td>LFP</td>
<td>Labor Force Participation</td>
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<td>MNEs</td>
<td>Multinational Enterprises</td>
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<td>OLS</td>
<td>Ordinary Least Squares</td>
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<tr>
<td>OPN</td>
<td>Openness</td>
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<tr>
<td>TNCs</td>
<td>Transnational Corporations</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>VEC</td>
<td>Vector Error Correction</td>
</tr>
<tr>
<td>VECM</td>
<td>Vector Error Correction Model</td>
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<tr>
<td>WEF</td>
<td>World Economic Forum</td>
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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Amid the 60s, Foreign Direct Investment (FDI) was essentially not an extremely alluring but rather respected with incredible doubt by most developing nations including Indonesia. FDI was viewed as a risk to national sovereignty and was associated with decreasing social welfare by manipulating transfer costs and the formation of enclaves. The coming to the energy of President Soeharto in 1965 saw a sharp change in monetary strategy settings, with the presentation of multi-year financial plans to manage improvement.

On March 11, 1966, Soeharto's New Order government profoundly changed the FDI atmosphere while reestablishing Indonesia's association with the industrialist world economy. In response to the pressure of the early 1980s, Indonesia is compelled to change their monetary arrangement to wind up noticeably more market-situated, and FDI had all the earmarks of being one of the most straightforward approaches to get an external source of financing without expanding the outside obligation of the nation.

The roles and benefits of FDI in developing economies have been long debated. FDI is no longer considered only as an augmenting the capital inflows, however as a noteworthy channel for innovation and administration practice transfer, and aptitudes improvement and advancement, and additionally to access global promoting systems (Hymer, 1976; Rugman, 1980; Dunning, 1980; Mallampally & Sauvant, 1999; Nunnenkamp, 2002). In this manner, the worldwide economy has been totally changed
The contents of the thesis is for internal user only
References


