

**Foreign Direct Investment, Official Development Assistance and Economic Growth effect
on Human Development in Selected Asian countries**

Wasif Anis

Lecturer, Department of Management Sciences, Women University Swabi

Wasifanis098@gmail.com

Humaira Ali

Lecturer, Department of Psychology, Women University Swabi

Dr. Muhammad Aurangzeb Khan

Assistant Professor/HOD, Department of Social Work, Women University Swabi

Raheela Begum

Lecturer/HOD, Department of Psychology, Women University Swabi

Khalida

Visiting Lecturer, Department of Psychology, University of Haripur

Abdul Jabbar

Lecturer, Department of Pakistan Studies, Women University Swabi

Corresponding email: Wasifanis098@gmail.com

Abstract:

Human development implies expanding people's choices, improving their abilities, and improving their opportunities. Asian countries are concentrating their efforts on raising living standards and promoting human development. This study is an effort to highlight the factors affecting or improving human development in selected Asian countries. The findings of this research demonstrate that foreign direct investment, urban population, trade openness, and economic growth are the key factors that enhance human development in these selected Asian countries. It is suggested that strategy formulation in Asian economies should implement and endorse more human development in these countries which will help in achieving high economic growth. There should be a useful and transparent utilization of foreign aid for human development. Moreover, there must be stability in the economy to attract more foreign direct investment in these countries.

Keywords: FDI, ODA, GDP, HDI

Introduction:

The United Nations Development Programme was the organisation that, in the 1990s, first brought the idea of human development to the world's attention. It is a process of enhancing human talents that transforms people into a comfortable zone of good fortune. Going beyond what is measured by gross domestic product (GDP) and revealing a broader meaning of people's skills is at the heart of the human development release. It is an indicator that measures three different aspects of human growth, the components of which include a long and healthy life span (measured by life expectancy). Two important indicators are educational success (as measured by adult literacy and gross enrolment) and a decent standard of living (as measured by gross national income purchasing power parity) (UNDP, 2014). The Human Development Index (HDI) is a measurement that is frequently used for the purpose of determining a nation's standard of living. It is released in hard copy once a year and analyses several factors using statistics provided by the United Nations. Some of the factors it examines include income, health, and education. The growth of the economy and improvements in people's standards of living are both important means that can be used to improve and promote human progress, but they are not ends in and of themselves. This is especially true due to the fact that the wealth that people value most is not the wealth that is stored in economies but rather the wealth that is held by other individuals (Human Development Report, 2016).

The development of human beings is essentially a social, economic, and political activity, with human beings serving as both the object and tools of the process as well as the process's ultimate aim. This development of human beings is a process. Because of this process of development, people have the ability to start over, create new things, and make progress. It is of the utmost importance since it results in the development of infinite vitality through education, health, nutrition, and a higher standard of living. This makes it one of the most important things in the world. As a result, the idea of human development considers economic advancement to be a prerequisite that must first be met, but it is not a prerequisite that alone is adequate.

Human development can be defined as the knowledge, skills, abilities, qualities, and numerous features present in humans that are inherited and are tied to economic actions. Human development can also be thought of as the process by which people acquire these aspects. In another sense, human development can be understood to refer to the process by which individuals obtain these characteristics. A further aspect of what it means to develop as a human being is the accumulation of material wealth as well as positive qualities and distinguishing traits. It is a collection of skills,

capacities, and information that a person obtains over the course of their lifetime that enables them to engage in economic activity and earn a livelihood for themselves. This collection of skills, capabilities, and knowledge is known as a person's "capital." Making investments in areas such as education, healthcare, training, and other kinds of human capital can lead to an increase in a person's overall human capital.

This connection between human and economic growth is a bidirectional correlation, which means that one of them is copied by the other in both a positive and a negative way. Both human and economic growth are related. Since improved human capabilities are the root cause of increased economic growth and since human progress often results in more chances for people to make use of human resources, we can conclude that increased economic growth is a direct result of increased human capabilities (Mukherjee and Chkraborty, 2010). The expansion of international trade has the potential to become an unstoppable force, not just for the expansion of the economy but also for the expansion of human potential. Despite this, its influence on the progression of humanity can be seen in the present day. Because nations that have greater access to labour are able to produce goods that are more environmentally friendly as a result of trade, and vice versa, trade can have either a positive or negative impact on the composition of an economy depending on how it is used. Commercial exchange has a significant and largely positive influence on the development of human civilization.

People are compelled to relocate to cities as a result of the limited employment opportunities and the increased environmental tension there. This leads to an increase in the number of people living in urban regions in the countries that are located in Asia. This particular kind of enhanced expansion in metropolitan regions led to rises in per capita income, education, investment, increased demand, high output, and high levels of human development (Khan "et al." 2020 & Babar "et al." 2022) This type of accelerated growth occurs in metropolitan areas. This results in an increased standard of living as well as greater economic growth in a number of Asian countries. Helping one another out is one of the most important things that can be done to further the development of humanity. Through an increase in the level of self-assurance that is connected with public expenditures, the provision of aid helps to contribute to an overall rise in the standard of living enjoyed by the general population. The amount of assistance provided has seen a considerable rise in recent years, climbing from 127.3 billion US dollars in 2010 to 134.8 billion US dollars in 2013. (World Bank, 2014)

This research is a significant effort to highlight the influence of foreign direct investment, government development aid, trade openness, urban population, and economic growth on human development in selected Asian countries. Ali “et al.” (2020), Anis “et al.” (2022), and Sami “et al.” (2022) Asia is where you'll find the countries of concern. This research will ensure that new ideas are created, which will allow representatives to make key policy decisions in order to maintain a balance between high levels of economic growth and high levels of human development. The following provides an overview of the structure of the study: Section II contains a review of the relevant literature, which can be found there. The data and the method are discussed in the following section (III). The discussion of the findings and their interpretation can be found in Section IV. In contrast to this, the conclusion is discussed in Section V of the paper.

Review of Literature:

This section includes not only a review of some experimentally conducted studies on human development but also an explanation of other significant factors. According to the findings of Hamdi and Hakimi's (2021) research, the two most important factors in determining the level of human development in the Middle East and North African region are the degree to which commerce is open and the amount of foreign direct investment received. In other words, the degree to which commerce is open and the amount of foreign direct investment received are directly proportional to each other. To put it another way, the amount of foreign direct investment received and the degree to which businesses are allowed to conduct business freely are directly proportional to one another. Using data from 2002 to 2015, researchers were able to show that as these countries became more open to trade and foreign direct investment, the levels of human development in those countries improved.

Tripathi (2021) conducted research to investigate the extent to which the urbanisation of 187 nations had an effect on the overall human development of those nations. The author has conducted the analysis of the data, which spans the years 1990 to 2017 and comes from a variety of countries, using a method known as the "random effect." According to the findings of the study, an increase in the human development index was caused by an increase in the total urban population, the proportion of urban populations, and the urban population growth rates of agglomerations in these countries. This was the case despite the fact that the percentage of people living in urban areas was smaller than the total number of people living in urban areas. In addition, the Human Development Index (HDI) of the world's urban population as a whole rose, with the exception of countries with

upper middle incomes. Dina (2020) used a two-stage least-squares test to investigate the relationship between economic development and human development in Arab countries. Her research focused on the manner in which the economic development of Arab countries influences the human development of those countries. According to the findings, there was a correlation between an increase in a country's economic growth and an increase in that country's level of human development. Furthermore, it was demonstrated that there is a causal effect associated with the correlation between economic growth and human advancement. This association is associated with the advancement of humankind. For the purpose of the research that Korhan and colleagues (2018) carried out in Nigeria between the years 1972 and 2013, both the human development index (HDI) and foreign direct investment (FDI) were analyzed. They investigated the connection that existed between the two. Based on the findings of the Johansen cointegration test, it appeared that over the course of several years, direct investment from other countries contributed favourably to the growth of the human population. The findings led to this conclusion being drawn about the situation.

Siddique (2017) carried out research with the purpose of determining the impact that the influence of international aid has on human development. In order to accomplish this, he utilised data from 124 different countries spanning the years 1980 to 2013. According to the findings, an increase in human development (HD) was seen in these countries as a direct result of an increase in the quantity of foreign aid that was received. This was determined by looking at the correlation between the two variables. Very recently, Herzer (2015) performed an investigation of the long-term effects of trade openness on population health by employing the cointegration approach on data from the United States time series spanning the years 1960 to 2011. The time period covered in this investigation was from 1960 to 2011. This analysis focused on the years 1960 through 2011, including both years inclusively. According to the findings, international trade has, throughout the course of time, contributed to an increase in the overall population's health, as measured by life expectancy. This improvement can be seen in both developed and developing countries. This benefit is observable in both wealthy countries and developing ones alike.

Panel data analysis was used in the research that Cao and Jariyapan (2012) carried out in China to assess how the effects of foreign direct investment and human capital contributed to the country's overall economic growth. According to the results of the research, direct investment from other nations was a significant component that led to the development of economic growth and general

welfare. Papageorgiou et al. (2007) came to their conclusion with the assistance of data from 67 countries that import technology. They found that the spread of medical technology through more open trade was the most important reason for recent health improvements in a lot of developing countries. Arcelus, Sharma, and Srinivasan (2004) investigated the effect that foreign direct investment had on human development by using HDI ratings for both middle-income and low-income nations after collecting data over a twenty-year period beginning in 1975 and ending in 1999. This investigation spanned a period of twenty years and began with the collection of data in 1975 and ended in 1999. This investigation spanned a twenty-year period, beginning in 1975 and coming to a close in 1999. The study's results showed that in both groups of countries, the level of human development improved when there was more foreign direct investment.

Alfaro (2003) found, through the use of methods of panel data analysis in 47 different nations, that foreign direct investment improved human development. Despite this, the researcher found that the effect was marginal. Despite the fact that the study was carried out, this was something that was noticed. In spite of this, foreign direct investment helped accelerate the growth of the workforce in the manufacturing and service sectors. However, a study that was carried out by Carkovic and Levine (2002) discovered that human capital and foreign direct investment each have a substantial influence that complements one another when it comes to generating economic growth. This was one of the discoveries made by the two researchers after carrying out their investigation on the topic. In addition to this, it was discovered that the level of human capital that was present in the economy was positively impacted by the amount of foreign direct investment that was taking place in the sector.

Hypothesis Development:

H₁: There is a positive relationship between foreign direct investment and human Development.

H₂: The greater the level of official development assistance, the greater the level of human development.

H₃: Trade openness and human development are positively associated.

H₄: Increased urbanization will boost Asian countries' human development.

H₅: There is a positive relationship between economic growth and human development.

Data and Methodology:

This study highlights environmental degradation situation in 8 Asian economies (Pakistan, Bangladesh, India, Sri Lanka, Indonesia, Philippine, Malaysia and Iran) from 2003 to 2018 taking into consideration important factors like foreign direct investment, official development assistance, trade openness, urban population and economic growth. Because of unavailability of data in concerned countries, these Asian countries are selected. Dependent variable is hum which reveals development Index (HDI) that indicates human development. Data of all such factors has been taken from website of World development indicators (WDI). Fixed effect method is used in order to check how foreign direct investment, official development assistance, trade openness, urban population and economic growth leads to increase human development in selected Asian countries.

Model Specification:

The study reveals that foreign direct investment, official development assistance, trade openness, urban population and economic growth leads to increased human development in selected Asian countries when using fixed effects.

For this, a model is given below.

$$HDI_{it} = \beta_0 + \beta_1 OFDA + \beta_2 FDIN_{it} + \beta_3 TOPN_{it} + \beta_4 UPOP_{it} + \beta_5 LGDPPC_{it} + uit$$

where the subscript "i" shows the selected, specific countries (i = 1...8 for selected Asian countries), however, "t" reveals the time specification. Where HDI_{it} indicates the human development index measured by life expectancy at birth, the literacy rate, and standard of living measured by GNI per capita. OFDA stands for official development assistance, also known as aid. FDIN_{it} calculates net foreign direct investment inflows as a percentage of GDP. TOPN_{it} indicates trade openness. UPOP_{it} reveals the urban population as a percentage of GDP. The gross domestic product per capita (GDP-US) is measured by LGDPPC_{it}.

Analysis, Results, and Discussion:

In this portion of the article, we perform an empirical analysis of the method by which a number of Asian countries, notably those from East Asia, impact the variables that explain human development. In particular, we focus on the effects that East Asian countries have. More specifically, our attention is directed toward the nations of East Asia.

Table 1; contains the descriptive data that were gathered on the significant parameters that were considered in the course of this research endeavor. The fact that the data used in the study is riddled

with inconsistencies makes it difficult to work with. [cause and effect] In terms of the human development index, the sample consists of countries with scores that range from 0.471 to 0.805 percent of the maximum possible score. This represents the full range of possible points. The overall OFDA in Asian countries saw a mean growth of 1.6188 percent between the years 2003 and 2018, making it the fastest growing indicator in the region. Alterations in the degree of commercial openness can be portrayed in a manner that is comparable to the example that came before it by utilising, in addition to other factors, a range that extends from 25.3062 to 210.3738 as the presentation range. The LGDPPC rate in Asian countries comes in at 3.3874 percent on average across the entire region.

Table 1: Descriptive statistics:

Variables	Observations	Mean	Standard Deviation	Minimum	Maximum
HDI	128	0.6582	0.0959	0.471	0.805
OFDA	128	1.6188	1.0545	-0.2542	5.0745
FDIN	128	0.5935	0.7329	-0.2875	4.3131
TOPN	128	64.1745	41.8963	25.3062	210.3738
UPOP	128	44.1351	18.1057	18.196	76.036
LGDPPC	128	3.3874	0.3570	2.7545	4.0831

Empirical Estimations:

Table 2 shows results of fixed effects and the dependent variable is HDI. Hausman specification test (REM): This test is based on technique generally used in making a comparison of fixed and random effects estimates of coefficients. To select FEM or REM, Hausman test is considered.

Probability of $\chi^2 = 0.000$

The p- value by Hausman suggests for fixed effects

Table 2: Fixed Effect Results, Dependent Variable is Human Development Index (HDI)

Variables	Coefficients	Standard Errors	T-values
FDIN	0.0033**	0.0012	2.86
OFDA	-0.0002	-0.0026	-0.08
TOPN	0.0002**	0.0001	1.93
UPOP	0.0057*	0.0061	9.40
LGDPPC	0.233*	0.2190	10.64
C	-0.3877	0.0591	-6.56
R-Square within	0.91		
R-Square between	0.54		
R-Square overall	0.54		

t-values are in parentheses

*** p<0.01, ** p<0.05, * p<0.1

Discussion of Results:

Foreign direct investment has a significant impact on both the quality of living standards and the rate of human development in a country. The findings of the study suggest that higher levels of human development are linked to higher levels of foreign direct investment. [Citation needed] The fact that it has a positive coefficient demonstrates that it has had a positive impact on human development in the Asian countries that were chosen for this study. It has been found that in certain Asian nations, an increase of one percentage point in foreign direct investment leads to an increase of 0.0033 percentage points in human development. These findings are consistent with what Hamdi and Hakimi found in their research, so there is no need for further investigation (2021).

In these specific Asian countries, the amount of foreign assistance received is a significant factor that not only raises the overall standard of living but also determines the level of human advancement that has taken place. Having said that, this does not result in a materially different outcome. This demonstrates that official development assistance is either not being used effectively in these countries or is not being provided in adequate amounts in order to advance human development. Either way, this is a problem that needs to be addressed.

The pace of economic growth is an aspect of the economy that is of the utmost importance. Because it leads to an increase in the number of employment opportunities available to the population, which in turn helps to improve both their standard of living and their overall human development? Workers have access to a wide variety of opportunities that can help them increase their incomes

and better provide for their families when they take part in economic activities. The availability of a large number of job opportunities is another factor that contributes to growth. After experiencing growth, the economy is in a much better position to maintain its stability. It has a significant influence on the current state of the economy. There is a relationship between a nation's gross domestic product and the level of human development in that nation. When there is a one percent increase in total GDP, there is also a 0.233 percent increase in overall human development. It's possible that this is because the increased production of goods and services in these countries contributes to an improvement in the overall quality of life and human development. This is just one possible explanation for this phenomenon. The results of the study have Dina's full and unqualified support (2020).

The liberalization of trade in these nations is also contributing to the quickening of the pace of human development in these regions. Efforts made toward the reduction of poverty can be made more effective by boosting economic activity in the form of increased production, investments, and exports. In addition to this, it causes an increase in production. As a result of an increase in investment activity among the populace, people's living standards improve. An increase of one percent in trade openness leads to an increase of 0.0002 percent in human development in these countries, as indicated by the findings. The results obtained by Hamdi and Hakimi, in addition to those obtained by Herzer (2015), are considered to be more favourable. A high standard of living as well as overall human development are both supported by a sizable urban population. People move to towns and cities in search of jobs that pay better and provide a better standard of living for themselves and their families. The consistently rising population has a sizeable and undeniably beneficial effect on the state of the economy. The variable that represents the urban population has been given positive coefficients to represent its value. According to the findings of the study, there has been a 0.0057 percent increase in human development in Asian countries where there has been a one percent increase in the urban population. This is the conclusion reached by the researchers after conducting their research. The results that Tripathi was able to achieve lend credence to the discoveries (2021).

Conclusion and Policy Suggestions:

Throughout the course of this research project, a number of different factors, such as economic growth, urbanisation, openness to trade, official aid for development, and foreign direct investment, have been taken into consideration in relation to their potential effects on human

development in eight different Asian countries. These nations include China, Japan, South Korea, Singapore, Taiwan, Thailand, and Vietnam. We have made use of the method of fixed effects in order to investigate any possible correlations that may exist between the variables. Because of this, we have been able to carry out our research in a more efficient manner. We have consistently relied on the human development index as our primary metric of choice whenever there has been a need to evaluate the level of human progress. This has been the case whenever there has been a need for a comprehensive proxy. According to the findings of the research that was carried out, the growth of the urban population, the expansion of the economy, the opening of markets to trade, the provision of official assistance for development, and direct investment from other nations all contribute to improvements and enhancements in human development. According to the findings of the study, higher levels of urban population, economic growth, openness to trade, and foreign direct investment all contribute to higher levels of human development and higher living standards for the populations of the selected Asian countries. Furthermore, higher rates of urbanisation are associated with lower rates of poverty. In addition to this, there is a correlation between higher levels of urban population and lower levels of poverty. In addition to this, there is a connection between higher levels of urban population and lower levels of poverty. This correlation has been observed in numerous studies.

According to the findings of the study, the governments of the various Asian countries that were selected for this analysis have a responsibility to play their part in fostering higher levels of human development and improved living standards. This is the conclusion that can be drawn from the findings of the study. This is the conclusion that can be drawn from the findings of the research. This is the conclusion that one is able to arrive at after considering the findings of the research that was carried out. In addition to this, it is absolutely necessary to beef up the policies that are already in place in order to improve urbanization and the quality of the environment in the areas that surround the city. These economies have an immediate need to find ways to use energy in a manner that is significantly more effective and to generate significantly more goods and services in order to boost exports and bring in more money. In addition, they have an immediate need to find ways to use energy in a manner that is significantly more efficient. In addition to this, they have a pressing requirement to develop significantly more effective methods for the consumption of energy. All of these factors will be helpful in achieving high living standards as well as economic

growth and development in the selected Asian countries. This will be the case in terms of achieving high living standards.

References:

Acemoglu, D., Johnson, S., & Robinson, J. (2005). Institutions as the fundamental cause of long-run growth. In: Aghion, P., & Durlauf, S. (Eds.), *Handbook of Economic Growth*. Elsevier, North Holland, pp. 385–472

Alfaro, L. (2003). Foreign Direct Investment and Growth: Does the Sector Matter? Harvard Business School, Harvard University, Working Paper, 14,1-31

Ali, M. S., Riaz, L., & Anis, W. (2021). Comparative study on the impact of individual and institutional ownership on firm performance: Evidence from Pakistan Stock Exchange. *Journal of Humanities, Social and Management Sciences (JHSMS)*, 2(2), 150-167.

Babar, R., Anis, W., Fareed, H. D. N., & Ullah, S. (2022). Women malnutrition's socioeconomic factors and consequences: a case study of district Peshawar. *Journal of Humanities, Social and Management Sciences (JHSMS)*, 3(1), 117-137

Cao, X. and Jariyapan, P. (2012). Foreign Direct Investment, Human Capital and Economic Growth of People's Republic of China Using Panel Data Approach

Carkovic. M and Levine. R (2002). Does Foreign Direct Investment Accelerate Economic Growth? Working Paper, University of Minnesota

Gökmenoğlu, K.K.; Apinranb, M.O and Taşpınar, N (2018). Impact of Foreign Direct Investment on Human Development Index in Nigeria. *Business and Economic Research Journal*. 9(1), 1-13.

Hamdi, H and Hakimi, A. (2021). Trade Openness, Foreign Direct Investment, and Human Development: A Panel Cointegration Analysis for MENA Countries. *The International Trade Journal*, 36(4). DOI:10.1080/08853908.2021.1905115

Herzer, D. (2015). The long-run effect of trade on life expectancy in the United States: An empirical note. *Applied Economics Letters*, 22(5), 416–420.

Khan, K., Rehman, A. U., Jabbar, A., & Anis, W. (2020). Do Bubble Behaviour Exists in Gold Price? An Assessment of Political and Economic Factors. *Indian Journal of Economics and Business*, 19(2).

MUKHERJEE & KHAKRABORTY. (2010). "Is there any any relationship between Economic Growth and Human Development?" Evidence from Indian States. https://mpra.ub.uni-muenchen.de/22997/1/MPRA_paper_22997.pdf

- Omar, D.A. (2020). Inter-Relationship between Economic Development and Human Development- Analytical Study of selected Arab Countries. *Utopía y Praxis Latinoamericana*, 25(1), 85-95.
- Papageorgiou, C., Savvides, A., & Zachariadis, M. (2007). International medical technology diffusion. *Journal of International Economics*, 72(2), 409–427.
- Siddique, H. M. A Ansar, R. Naeem, M.M. and Yaqoob, S. (2017). Impact of FDI on Economic Growth: Evidence from Pakistan. *Bulletin of Business and Economics*, 6(3), 111-116.
- Tripathi, A (2021). How does urbanization affect the human development index? A cross-country analysis. *Asia-Pacific Journal of Regional Science*, Springer, vol. 5(3), 1053-1080, October.
- Ullah, S., Anis, W., & Kamal, A. (2022). The Analysis of Time Stealing Behavior among Employees: Determinants and Effects on Organizational Performance. *Journal of Workplace Behavior*, 3(1), 83-98.
- UNDP (United Nations Development Programme). 2014. Human Development Report 2014: Sustaining Human Progress: Reducing Vulnerabilities and Building Resilience. New York
- UNDP (United Nations Development Programme). 2016. Human Development Report 2016: Human Development for Everyone. New York
- World Bank. 2014. The World Bank Annual Report 2014. Washington, DC. © World Bank. <https://openknowledge.worldbank.org/handle/10986/20093> License: CC BY-NC-ND 3.0 IGO.”