Analysis Of The Influence Of Foreign Capital Investment, Exports, Imports And Foreign Debt On Foreign Exchange Reserves Of Asean Countries

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Abstract:  
Because a country lacks the resources necessary to meet its own demands due to a lack of resources, international trade is today essential to a country’s development. This fact cannot be disputed. To gain what is required to quicken the country's development operations, support or cooperation with other nations that have benefits or superior resources is therefore required. This study examines how foreign debt, imports, exports, and foreign direct investment (FDI) affect foreign exchange reserves. The Random Effect Model (REM) was used in this study's panel data analysis with research samples from ASEAN's emerging nations, including the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Thailand, and Vietnam, from 2017 to 2022. The study's findings indicate that while imports have a negative and major impact on the economy, exports and foreign debt have a partially positive and large impact. FDI, nevertheless, has a negligible and unimportant impact. Foreign debt, FDI, imports, and exports all have an impact on foreign exchange reserves simultaneously.

Keywords: development countries, export, import, foreign debt, foreign direct investment.

Introduction  
Every country in the world must carry out development, such as economic development, human development, and all aspects of development in that country. In developing countries, development is important to increase economic growth and social welfare. One way to support the current development process is through international trade. It cannot be denied that international trade currently plays a very important role in supporting a country's development because a
The creation of AFTA intends to improve the ASEAN nations' competitiveness, particularly to draw in international investment. The AFTA process involves removing additional non-tariff barriers and lowering tariffs by 0 to 5 percent between ASEAN nations. Additionally, the establishment of the ASEAN Economic Community, or MEA, which was accomplished in 2015, was announced by ASEAN officials at the Indonesia-hosted ASEAN Summit in 2003. Every ASEAN nation will be able to conduct business with other nations in Southeast Asia with ease thanks to the MEA, which is a type of single market in the region of Southeast Asia that is accomplished through a free trade system. Every ASEAN nation will be impacted by the MEA's implementation, both positively and negatively. Each ASEAN nation must develop its domestic economic structure in order to reduce the negative effects of the MEA. The presence of the nation's foreign exchange reserves is one of the economic factors that needs to be given priority (Gandhi, 2006).

Foreign exchange reserves are a source of funding for carrying out international transactions in the process of international trade. The total amount of foreign currency held by a nation's government and private sector is known as its foreign exchange reserves. The US dollar, the Japanese yen, and other highly recognized and respected international currencies are typically utilized as foreign currency. Singapore, Thailand, and Indonesia are the three countries that have the highest foreign exchange reserves in ASEAN. Singapore's foreign exchange reserves reached 251,058 billion USD in 2016; this number has decreased slightly compared to the previous year's amount of 251,876 billion USD. Singapore's foreign exchange reserves of more than 200 billion USD are considered reasonable considering Singapore's status as a developed country. Laos and Malaysia also experienced a decline in foreign exchange reserves. Other nations, excluding Singapore, Laos, and Malaysia, went through the exact opposite situation, seeing a growth in the size of their foreign exchange reserves. Since foreign exchange reserves can also be thought of as governmental revenue, they can be used to conduct development projects that will raise capital and stimulate the economy. The country's economic stability's susceptibility to changes in the global economy can be influenced by a little amount of foreign exchange reserves. However, if they are not put to better use, excessive foreign exchange reserves are likewise a waste. You can check a country's balance of payments to discover where its foreign exchange reserves are (Hidayta, 2023). The balance of payments consists of debit transactions and credit transactions. Debit transactions show that the large amount of capital flows issued by one country to another country will reduce foreign exchange reserves. Meanwhile, credit transactions show the amount of capital flowing into a country from other countries and will increase foreign exchange reserves. Therefore, it can be concluded that if a country's balance of payments is in deficit (minus), the country's foreign exchange reserve position will decrease in line with the maturity of payments for that transaction.

**Literature Review**

One of the economic activities that cannot be separated from international trade is capital flow activity, both capital inflows and capital outflows from a country. By examining the level of foreign exchange reserves, one can determine this capital. If foreign currency reserves can cover import requirements for at least three months, they are considered safe (Hady, 2001). A country's ability to conduct international trade is measured by its foreign exchange reserves, which also serve as a barometer for the health and fragility of its economic foundations. As a result, a country's substantial foreign exchange holdings can serve as an indicator of both its economic expansion and the macroeconomic soundness of its banking system and external sector. Different countries are encouraged to aim to grow their foreign exchange reserves because of the significance of these reserves. Foreign exchange reserves grow as a result of the nation's export and import activity as well as capital inflows. Capital flows can take the form of foreign investment, foreign debt, foreign aid, and other sources of foreign financing. Abundant resources are a golden
opportunity for a country. This is because good and optimal use of resources can bring benefits to the country. Apart from being able to meet domestic needs, these excess resources also have the opportunity to be traded between countries. In international trade, the excess resources or superiority of a country is the main reason for that country to export (Ridho, 2015).

In essence, export activities are a source of state income, especially foreign exchange reserves. This is because the country that exports will receive payment in the form of foreign exchange. Therefore, a decline in export volume will be followed by a decline in the nation’s foreign exchange reserves. When compared to other sources of foreign exchange, exports are one of the key factors that help a nation’s foreign exchange reserves grow. Seeing the importance of exports, it is necessary to improve the standard quality of export commodities to create competitiveness. Export development policies are very important to minimize the negative impacts arising from export activities (Hidayat & Tannady, 2023). Export development policies consist of effective policies, namely foreign exchange earnings policies, excise policies regarding changes in raw material costs, financial, monetary, and capital policies, as well as policies implemented by many countries, especially those related to prices and government subsidies. One effort to improve community welfare is to meet community needs. However, because a country cannot meet its own needs, or, in other words, there is a lack of domestic production, this requires the country to import to meet domestic needs. Buying foreign goods or services and shipping them from one nation to another is known as importation. Foreign cash obtained from foreign exchange reserves is utilized as a method of payment when buying products or services. As a result of the restricted domestic production, the relationship between imports and foreign exchange reserves is such that the availability of foreign exchange has a significant impact on the sustainability of import activities. Domestic activities will be impacted if import activity is restricted (Salvatore, 2013).

Apart from that, in implementing a country's economic development, the lack of capital to drive economic activities can be supported by foreign debt funding sources. Foreign debt is a normal and common thing, especially for developing countries. Having a small amount of savings means that investment activities cannot be carried out adequately (Tannady et al., 2020). Foreign debt can play an important role in dealing with the problem of lack of funds, especially foreign exchange reserves. In order to boost foreign exchange reserves and reduce foreign debt, foreign debt will generate a high rate of return on foreign exchange if it is invested profitably. To see whether the debt a country has is classified as safe or not, it can be measured by comparing the amount of debt to the country's GNI. GNI (gross national income) is the added value of all economic activities owned by the residents of a country, both domestically and abroad, without being reduced by the depreciation of the domestic capital stock. The comparison uses GNI because the GNI value of a country can show the country's ability to repay loans and interest and see whether the country's economic growth is stable or not (Andry et al., 2020).

In addition, investment contributes significantly to a nation's economic growth. There are two types of investments: local investments and international investments (Tannady & Purnamaningsih, 2023). A country’s stock of foreign exchange reserves will rise as a result of capital flows from abroad. This is so because foreign currency, which can be acquired through foreign investment, makes up the majority of the country's foreign exchange reserves. In contrast to long-term foreign investment (foreign direct investment, or FDI), the impact of short-term foreign investment (hot money) is extremely susceptible to capital flight. Long-term growth is made easier by the presence of FDI and can result in the expansion of many types of capital flows. Reserves of foreign currency may help a country draw in investment. This is due to the fact that when a crisis arises, foreign exchange reserves can create a positive sentiment to stop money outflows. Investors won't rush to shift their money abroad when foreign exchange reserves are sufficient, potentially worsening the situation (Sonia & Setiawina, 2016).

**Methodology**

The panel data approach is used in this study. In this study, eight ASEAN nations the Philippines, Indonesia, Cambodia, Laos, Malaysia, Myanmar, Thailand, and Vietnam were chosen as the study sites. Annual data is what was used. Data on foreign exchange reserves, exports, imports, foreign debt, and foreign direct investment are needed for this study. Purposive sampling was used as the sample strategy in this study. In this study, Southeast Asian nations that are members of ASEAN are used. The information used in this study is secondary. It is crucial to decide on the data gathering strategies needed for the research before beginning any actual investigation. The proper data collection techniques

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include documentation and literature study approaches because the data used in this research is secondary. The documentation method refers to a technique for gathering data or information on research-related topics by reviewing earlier written reports that include numbers or facts. When doing a literature study, information is gathered by digging further into earlier studies that are pertinent to the research object. The EViews 9 and Excel software packages were used in this study to calculate the data. Without performing any data treatment, we were able to dramatically increase the number of observations by mixing time series with cross-sectional data. Therefore, panel data analysis enables outcomes that are satisfactory. The research's analysis model is multiple linear regression analysis.

Case studies

The probability value for the export variable is 0.0006, which is less than the significance level of 5% (0.0006 < 0.05). H0 is therefore disregarded, indicating that exports and foreign exchange reserves have an impact on one another. The probability value for the import variable is 0.0140, which is less than the significance level = 5% (0.0140 < 0.05). H0 is therefore rejected, indicating that imports and foreign exchange reserves have an impact on one another. The probability value for the external debt variable is 0.0372, which is less than the significance level of 5% (0.0372 < 0.05). H0 is therefore disregarded, indicating that there is a relationship between foreign debt and foreign exchange reserves. The probability value for the FDI variable is 0.6686, which is less than the 5% level of significance (0.6686 > 0.05). H0 is therefore acknowledged, indicating that there is no relationship between foreign direct investment and foreign exchange reserves. Export and import operations are considered to be a part of international trade. In contrast to imports, which include purchasing products or services from another nation, exports involve the sale of goods or services between nations. As a result of the fact that a country's exports serve as its revenue and its imports serve as its expenditure, international commerce is crucial in determining whether a country's economy is growing or shrinking.

According to this study, exports have a favorable and noteworthy impact on the growth of foreign exchange reserves. This implies that a country's foreign exchange reserves will be larger the higher the exports it produces. Imports, on the other hand, have a negative and considerable impact on the growth of foreign exchange reserves. This implies that a country's foreign exchange reserves will decrease in proportion to its level of imports. Because foreign exchange is essentially the means of payment for both exports and imports, exports and imports have a considerable impact on foreign exchange reserves. The amount of foreign exchange reserves in a nation will directly increase or decrease with every increase in exports or imports made by that nation. Some ASEAN nations can be classified as having a tendency to export, while others can be categorized as having a tendency to import. As a result of their net exports, Indonesia, Malaysia, Thailand, and Vietnam are characterized as inclined to be exporters because their exports outweigh their imports. The Philippines, Cambodia, Laos, and Myanmar, on the other hand, are typically importers. This is because these countries do not get net exports because the value of imports exceeds the value of exports. In addition, many import-heavy nations have deficits in their balance of payments. The findings of this study are corroborated by earlier studies.

The government has the right to carry out economic policies, such as borrowing or debt. This was done to cover the budget deficit in order to stabilize the country's economic condition. This is normal, especially for developing countries, because a lack of income can hinder the country's economic development. Debt is divided into foreign debt and domestic debt. Foreign debt can come from private institutions, foreign governments, or international financial institutions such as the IMF. According to this study, the development of foreign exchange reserves is positively and significantly impacted by foreign debt. This is due to the fact that foreign debt raises the amount of assets because it is reflected in the capital balance statement. The balance of payments of a nation will be enhanced by an increase in the capital account. Thus, a country's buildup of foreign exchange reserves will expand as its foreign debt does. The ratio of a nation's foreign debt to its GNI provides insight into that nation's capacity to repay its loans. According to the IMF, between 28% and 58% of a nation's foreign debt can be deemed safe. It can be claimed that the country tends to be less able to pay its debts if the debt ratio surpasses the usual maximum debt ratio limit.

The foreign debt ratio of most ASEAN countries is categorized as safe. Only Laos and Malaysia have a debt ratio of more than 58%. However, it cannot be immediately concluded that Laos and Malaysia are less able to pay their debts. The economic structure of a country also influences its ability to pay its debts, which in this case can be differentiated
based on developed and developing countries. Malaysia is a developed country, so its economic structure can be said to be strong, especially because Malaysia tends to be an exporter. The country's ability to pay its debts in foreign currency can be improved by raising its foreign exchange reserves, which can be accomplished by boosting net exports. Laos, on the other hand, tends to be an importer, which may cause a decrease in its foreign exchange reserves. Therefore, Laos' capacity to settle its debts tends to be lower. When it comes time to pay off foreign debt, having the financial wherewithal to do so can cause serious issues because, although initially foreign debt can increase a country's foreign exchange reserves, doing so will cause reserves to decrease. The findings of this study are corroborated by earlier studies.

Investment is a crucial component that serves as a catalyst for a nation's growth and development. Investments are split into two categories, domestic and foreign, depending on the source. A country's stock of foreign exchange reserves will rise as a result of capital flows from abroad. This is so because foreign currency, which can be acquired through foreign investment, makes up the majority of the country's foreign exchange reserves. In this research, foreign direct investment has a negative and insignificant influence. According to the author, this result is obtained because the influx of investment funds from foreign investors into a country will not result in profits in the form of foreign exchange for the country that is the destination of the investment. This is because there is a conversion of the foreign investor's currency into the currency of the investment destination country. The development of foreign exchange reserves in the countries under study is so unaffected by foreign direct investment. An earlier study that examined "Factors that Influence Foreign Exchange Reserves and Net Exports in Indonesia" provided support for the findings of the current study. His study's findings showed that foreign direct investment had a negligible impact.

**Conclusion**

Exports have a favorable and large impact on foreign exchange reserves, according to data processing results. This implies that a country's foreign exchange reserves increase in direct proportion to its exports. Because any country that exports will receive paid in foreign currency, the quantity of that country's foreign exchange reserves will directly increase. As a result, exports are thought of as a country's revenue because they can raise it as indicated by rising foreign exchange reserves. Data processing indicates that imports have a large negative impact on foreign exchange reserves. This implies that a country's foreign exchange reserves will decrease in direct proportion to its level of imports. This is due to the fact that every country that imports will incur foreign exchange payments, which will afterwards entail a reduction in the size of that country's foreign exchange reserves. Because imports can lower a country's revenue as indicated by a decline in foreign exchange reserves, they are therefore referred to as a country's expenditure. Data processing indicates that foreign debt has a considerable and favorable impact on foreign exchange reserves. As a result, a country's foreign exchange reserves will increase in proportion to its level of foreign debt. This is due to the fact that every nation with a foreign debt will also have money or debt in the form of foreign currency, both of which will immediately increase the size of the nation's foreign exchange reserves. Data processing findings show that foreign direct investment has little impact on foreign exchange reserves. This is due to the fact that an influx of investment funds from overseas investors will not generate returns for the country that will be the investment's destination in the form of foreign currency. Exports, imports, foreign debt, foreign direct investment all have a considerable impact on foreign exchange reserves, according to the results of simultaneous data processing. Therefore, if a country's exports, imports, foreign debt, or foreign direct investment all change at the same time, the quantity of foreign exchange reserves in that country will likewise fluctuate.

**References**


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