

# THE EFFECTS OF WORLD BANK ASSISTANCE TO TRADE AND INVESTMENT IN INDONESIA

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## ABSTRACT

*The World Bank assistance is believed to have its effect to the economic performance in many developing countries like Indonesia. This study aims to test the main hypothesis that there is no significant effect of the assistance of World Bank to trade and investment and its implication to the economic performance in Indonesia. The study is a quantitative and explanatory research by using cross-sectional data from primary data of 135 respondents. They were chosen by purposive random sampling as representative of academicians, businessmen and government officials in Jakarta, Indonesia. The study also utilized time series data of World Bank assistance and macro economic performance of Indonesia from 1985-2010. This research analysis used Structural Equation Modelling by utilizing AMOS 18.0 and SPSS 16.0. Findings of the study reject the main hypothesis and found that there is positive and significant effect of the World Bank assistance to trade and investment in Indonesia. The study also found that the positive and significant effect of World Bank assistance to trade has its positive and significant implication to the economic performance of Indonesia. However, the direct effect of World Bank assistance to economic performance was negative and insignificant, and the effect of investment to economic performance although positive but insignificant. Conclusion of the study supported the argument of the importance role of World Bank assistance to trade and investment development, but at the same time questioned the effect of such assistance to investment and its implication to economic performance. The study recommends to increase indicators of trade, especially trade control to increase the performance of trade; and to increase indicators of investment, especially streamlining procedure to expand investment performance. The study also recommends to increase government budget balance so that in return it would increase the economic performance of Indonesia.*

**Keywords:** World Bank, Assistance, Trade, Investment, Economic, Performance, Development

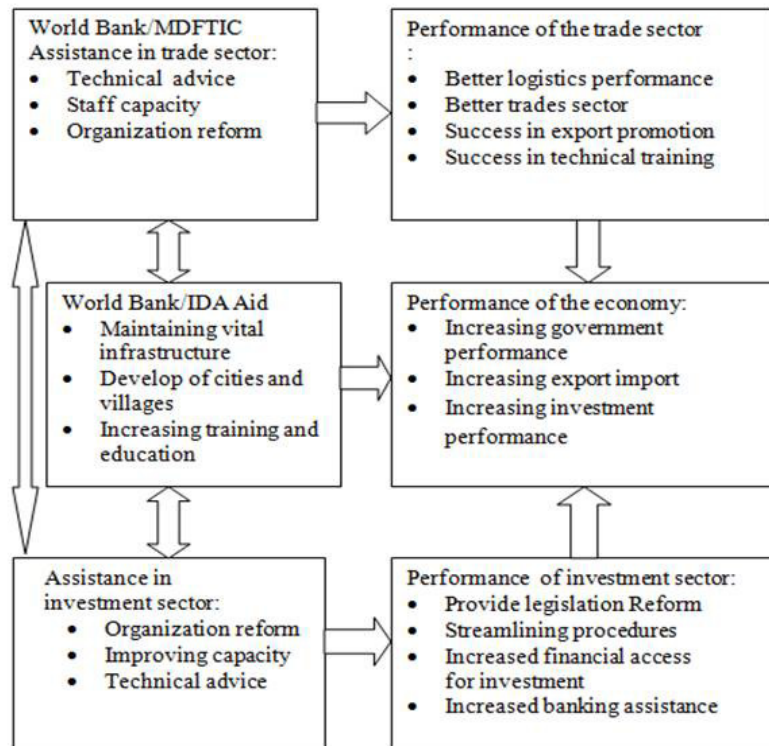
## INTRODUCTION

The World Bank is an international financial institution that provides loans to developing countries for capital programs. The World Bank's official goal is the reduction of poverty. According to the World Bank's Articles of Agreement (as amended effective 16 February 1989), all of its decisions must be guided by a commitment to promote foreign investment, international trade, and facilitate capital investment. (World Bank, 2011)

The World Bank differs from the World Bank Group, in that the World Bank comprises only two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA), whereas the latter incorporates these two in addition to three more: International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and International Centre for Settlement of Investment Disputes (ICSID)

There has been no scholarly studies analyzing the effects of World Bank aids to the economy of Indonesia, specifically on trade and investments. For the record, beginning 2008, the World Bank Group has approved Country Partnership Strategy for Indonesia. This strategy was developed with the cooperation of various parties, to guide the programs of World Bank Group for the fiscal year 2009-2012 which appears to have yielded positive results so far.

### CONCEPTUAL FRAMEWORK OF THE STUDY



### HYPOTHESIS

1. There are no difference among the profile of the government official, academic sector and business sector respondents in terms of the following:
  - a. Age;
  - b. Gender;
  - c. Educational Attainment;
  - d. Type of Business (Three Groups);
  - e. Length of Service.
2. There are no significant effect in the three (3) groups of respondents in assessing the World Bank assistance to trade and investment in Indonesia in terms of the following :
  - a. Technical assistance;
  - b. Development of staff capacity;
  - c. Organization reform;
  - d. Maintenance of vital infrastructure; and
  - e. Training and Education.

3. There are no significant difference in the assessment of the three (3) groups of respondents as to assistance of World Bank to trade and investment in Indonesia with regard to the aforementioned variables when grouped according to their profile variables
4. As assessed by the three (3) groups of respondents, there is no significant effect of the assistance of the World Bank to trade and investment to the following:
  - a. Better logistic performance;
  - b. Better trade control;
  - c. Export promotion;
  - d. Technical training assistance;
  - e. Legislation reform in investment;
  - f. Streamlining of investment procedure;
  - g. Financial access for investment; and
  - h. Increased banking assistance.
5. There is no significant difference in the assessment of the three (3) groups of respondents as to the effect of the World Bank assistance with regards to the aforecited variables.
6. There is no significant relationship between the World Bank assistance and economic prosperity of Indonesia.
7. There are no significant different in perception among three (3) groups of respondent in term of problems encountered as to the provisions of the World Bank Assistance to trade and investment in Indonesia in integrating, synchronizing, and simplifying problems. .
8. There are no significant different in term of their perception in development program that can be proposed to enhance the assistance program of the World Bank.

## RESEARCH METHODOLOGY

This chapter consists of research design of the present study which relates relevant variables with its indicators and sub indicator in order to get the observed relationship among variables. Setting and respondent from population to sample is designed to get prepare the research instruments. Data gathering procedure will be developed based on sample size and its questionnaires. Statistical treatment of data is developed to find and test the working hypotheses mentioned in the previous chapter.

**Table 1. Variable, Indicator and Questionnaire point**

<i>Variable</i>	<i>Indicator</i>		<i>Questionnaire point</i>
World Bank assistance in trade and investment (Y <sub>1</sub> )	Technical advice	X <sub>1</sub>	Quantity, quality and HRM of technical advice
	Staff capacity	X <sub>2</sub>	Quantity, quality and HRM of staff capacity
	Building organization reform	X <sub>3</sub>	Quantity, quality and HRM of organization reforms
	Maintaining vital infrastructure	X <sub>4</sub>	Quantity, quality and HRM of maintaining vital infrastructure
	Increasing training and education	X <sub>5</sub>	Quantity, quality and HRM of training and education
	Better logistic performance in trade	X <sub>6</sub>	Quantity, quality and HRM of law reform

**Table 1. Variable, Indicator and Questionnaire point (...continued)**

<i>Variable</i>	<i>Indicator</i>		<i>Questionnaire point</i>
Trade Performance (Y <sub>2</sub> )	Better trade controll	X <sub>7</sub>	Quantity, quality and HRM of trade controll
	Success in export promotion	X <sub>8</sub>	Quantity, quality and HRM of export promotion
	Success in technical training	X <sub>9</sub>	Quantity, quality and HRM of technical training
	Provide legislation reform in investment	X <sub>10</sub>	Quantity, quality and HRM of legislation reform
	Provide investment procedure streamline	X <sub>11</sub>	Quantity, quality and HRD of procedure streamline
Investment performance (Y <sub>3</sub> )	Increased financial access for investment	X <sub>12</sub>	Quantity, quality and HRM of financial access
	Increased banking assistance for investment	X <sub>13</sub>	Quantity, quality and HRM of banking assistance
	Increasing government budget performance	X <sub>14</sub>	Quantity, quality and HDR of government budget
Economic performance (Y <sub>4</sub> )	Increasing export performance	X <sub>15</sub>	Quantity, quality and HRD of import
	Increasing investment performance	X <sub>16</sub>	Quantity, quality and HRD of investment performance

Source: Analysis of the Study, 2012

### Sample

With a total population of 200 experts and officers from Jakarta, the researcher estimate that respondents can be computed for sampling size using the following Slovin Formula: (Young, 1990):

$$n = \frac{N}{1 + \frac{Ne^2}{n}}$$

$$n = \frac{200}{1 + \frac{200(0.05)^2}{n}}$$

n = 134 respondents

Where :

n is the sample size, N is population, e is the error term (5%).

Considering the computed sample size of 135 respondents, the researcher distributed the questionnaires to the respective sample respondent purposive i.e government officials 45 respondents, private citizens from the academician 45 respondents and businessman who have relations with the World Bank project 45 respondents.

### Research Instruments

The research instrument used in this study will be the survey questionnaire. The questionnaire was divided in to two parts. The first part was on the respondents' profile which included data on sex, age, and highest educational, occupation and experiences. The second part of the research instruments will be the proper questionnaire.

In answering the questioner, the respondents will be asked to rate each of questioner about the World Bank assistance using a five point rating scale i.e:

- 1 = not effective
- 2 = less effective
- 3 = Effective

4 = More effective  
5 = Most effective

To gather the desired data, the researcher distributed randomly the questionnaire to each of the respondents of World Bank in Jakarta. The study will test its validity and reliability of data/ (Wikipedia, 2012)

**Development of theoretical models**

In the theoretical model development step, the thing to do is perform a series of scientific exploration through the literature review in order to get a justification of theoretical models to be developed. SEM is used instead to produce a model, but is used to confirm these theoretical models with empirical data. The theoretical model used in this research is as follows:

$$\begin{aligned} \text{PER} &= b_1\text{TRA} + b_2 \text{INV} + b_3 \text{WBA} \\ \text{PER} &= b_1 \text{TRA} \\ \text{PER} &= b_1 \text{INV} \\ \text{TRA} &= b_1 \text{WBA} \\ \text{INV} &= b_1 \text{WBA} \end{aligned}$$

Where:

PER= Performance of the Indonesia Economy,  
TRA= Trade Performance,  
INV= Investment Performance,  
WBA= World Bank Assistance.

**RESULT AND DISCUSSION**

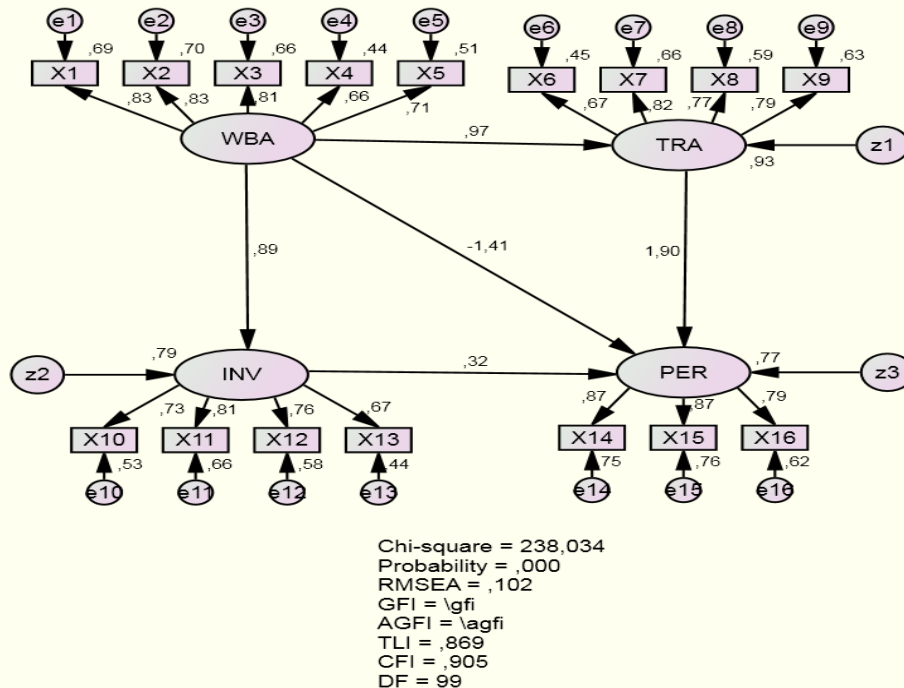


Figure 1. Model of The Effect of World Bank Assistance to Trade And Investment in Indonesia

**The Effect of World Bank Assistance to Trade and Investment in Indonesia**

Table below indicate the result of the study which is found that the effect of World Bank assistance to trade and investment in Indonesia are positive and significant at 1 percent level of significance. The coefficient of World Bank assistance to trade performance is 0.97 point. It means that every increasing of World Bank assistance by 1 point, will increase trade performance by 0.97 point. This result is relatively better that the effect of World Bank assistance to investment performance. The latter has also positif and significant result with 0.89 point. It means that every increasing of World Bank assistance by 1 point, will increase investment performance by 0.89 point.

**Table 2. The Effect of World Bank Assistance to Trade, Investment, and Economic Performance in Indonesia**

<i>Independent Variable</i>	<i>Dependent Variable</i>	<i>Coef.</i>	<i>Result</i>
World Bank Assistance (WBA)	Trade Performance (TRA)	0.97	Significant
World Bank Assistance (WBA)	Investment Performance (INV)	0.89	Significant
World Bank Assistance (WBA)	Economic Performance (PER)	-1.41	Insignificant
Trade Performance (TRA)	Economic Performance (PER)	1.90	Significant
Investment Performance (INV)	Economic Performance (PER)	0.32	Insignificant

Source: Appendix E, Result of the Study. 2012

$$PER = 1.90 TRA + 0.32 INV - 1.41 WBA$$

$$PER = 1.90 TRA$$

$$PER = 0.32 INV$$

$$TRA = 0.97 WBA$$

$$INV = 0.89 WBA$$

Where:

PER= Performance of the Indonesia Economy,

TRA= Trade Performance,

INV= Investment Performance,

WBA= World Bank Assistance.

**The Effect of World Bank Assistance, Trade, and Investment to Economic Performance in Indonesia**

This study also examine the effect of World Bank assistance, trade, and investment to economic performance in Indonesia. Result of the study shows that trade sector has positive and significant effect to economic performance. Increasing of 1 point percent of trade sector will increase 1.90 point percent of economic performance in Indonesia.

However, the study also shows that the World Bank assistance to economic performance is negatif 1.41 but insignificant. At the same time, the effect of investment sector to economic performance is 0.32 which is relatively low but insignificant. Comparing with the previous study in Chapter 2, this study will shows a comparison of aid to trade as follows:

**Table 2. The Effect of Aid to Trade and Investment**

<i>Author</i>	<i>Year</i>	<i>Resut</i>
Nilsson	1967	Aid of \$1 can increase export value of creditor by \$2.6
Nelson and Silva	2008	Aid of 1% can increase export value of creditor or donor by less than 1%
Wagner	2010	Aid of 1% can increase export value of creditor or donor by 1.33%
World Bank	2010	Infrastructure investment of \$4.7 billion can increase GDP by 2.4%
Endang Siswati	2012	Increase 1% of World Bank Assistance will increase 0.97% of trade and 0.89% of investment performance.

Sources: Suwa-Eisenmann and Verdier (2010), Author (2012)

Direct Effect and Indirect Effect of World bank Assistance

## FINDINGS

Besed on the research study undertaken by the researcher, the following findings are enumerated as follows:

1. The profile of the government official, academic sector and business sector respondents are significantly difference in terms of the following: Age, educational attainment, type of business (3 groups); length of service, but insignificantly difference in terms of gender.
2. The three (3) groups of respondents significantly difference in assess the World Bank assistance to trade and investment in Indonesia in terms of the following:
  - a. Technical assistance;
  - b. Development of staff capacity;
  - c. Organization reform;
  - d. Maintenance of vital infrastructure; and
  - e. Training and education
3. There is significant difference in the assessment of the three (3) groups of respondents as to assistance of World Bank to trade and investment in Indonesia with regard to the aforementioned variables when grouped according to their profile variables.
4. As assessed by the three (3) groups of respondents, there are positive and significant effect of the assistance of the World Bank to trade and investment to the following :
  - a. Performance of trade sector;
  - b. Logistic performance;
  - c. Trade control;
  - d. Export promotion;
  - e. Legislation reform in investment;
  - f. Streamlining of investment procedure;
  - g. Financial access for investment; and
  - h. Increased banking assistance



Overall findings of the study found that the effect of World Bank assistance to trade and investment in Indonesia are positive and significant at 1 percent level of significance. The coefficient of World Bank assistance to trade performance is 0.96 point. It means that every increasing of World Bank assistance by 1 point will increase trade performance by 0.96 point. Result of the study is relatively better that the effect of World Bank assistance to investment performance. The latter has also positive and significant result with 0.88 point. It means that every increasing of World Bank assistance by 1 point will increase investment performance by 0.88 point.

5. There are significant differences in the assessment of the three (3) groups of respondents as to the effect of the World Bank assistance with regards to the aforementioned variables.
6. There is negative but insignificant direct effect between the World Bank assistance and economic prosperity of Indonesia.
7. The study found that there are problems encountered by the respondents as to the provisions of the World Bank Assistance to trade and investment in Indonesia, i.e. in terms of integrating, synchronizing, and simplifying and coordinating problems.
8. Findings of the research shows that the development program can be proposed to enhance the World bank assistance program, especially in infrastructure program, technology program, and logistic program.

## CONCLUSIONS

The following conclusions are drawn based on the aforementioned findings as follows:

1. Age, educational attainment, type of business (3 groups); length of service are the main important variables to be studied in terms of world bank assistance to trade and investment in Indonesia.
2. The three (3) groups of respondents significantly difference in assess the World Bank assistance to trade and investment in Indonesia, however their response is positive especially in the development of staff capacity, organization reform, maintenance of vital infrastructure; and training and education.
3. There are significant effect of the assistance of the World Bank to trade and investment to the logistic performance; trade control; export and import promotion; technical training; laws reform in investment; streamlining of investment procedure; financial access for investment; and banking assistance.
4. The findings is consistent with previous studies, so that that the assistance of the World Bank to trade and investment in Indonesia must be increased to the following:
  - a. Performance of trade sector;
  - b. Logistic performance;
  - c. Trade control;
  - d. Export promotion;
  - e. Legislation reform in investment;
  - f. Streamlining of investment procedure;
  - g. Financial access for investment; and
  - h. Increased banking assistance
5. There are significant differences in the assessment of the three (3) groups of respondents as to the effect of the World Bank assistance with regards to the aforementioned variables



where the group of academician is more responsive than the other two groups of respondents.

6. There is a negative but insignificant direct effect between the World Bank assistance and economic prosperity of Indonesia. However, the indirect effect through trade is positive and significant.
7. Mostly the academicians have more optimism to encounter the problems of integrating, synchronizing, and simplifying problems rather than business groups and government officials. While in terms of coordinating problems, the three groups have no significant difference in perception.
8. Mostly academicians have more positive response in terms of education and health programs rather than the other two groups, i.e. businessmen and government officials.

## RECOMMENDATIONS

In the light of the foregoing conclusions, the following recommendations are given:

1. The study recommends to increase the number of respondents with more various age, educational attainment, length of service so that the effect of world bank assistance to trade and investment in Indonesia can be explored more persistently.
2. Results of the study recommend to the World Bank to increase the development of staff capacity, organization reform, maintenance of vital infrastructure; and training and education in order to increase the effectiveness of the assistance.
3. Results of the study recommend that the World Bank should increase the dominant and significant effect of the assistance of the World Bank to trade and investment, especially in terms of streamlining of investment procedure.
4. Due to the budget constraints, the assistance of the World Bank to trade and investment in Indonesia must be given priority to the two dominant factors found in the present study i.e. :
  - a. Trade control;
  - b. Streamlining of investment procedure
5. Since the group of academician is more responsive than the other two groups of respondents, it is recommended that the group of government and businessmen have to be given more information about the important role of the world assistance to trade and investment in Indonesia.
6. Since the study found that increasing 1 percent of World Bank assistance will increase by 0.97 percent of trade sector and increasing 1 percent of trade activity will increase economic performance by 1.90 percent. So it recommends that the effect of World Bank assistance to economic performance through trade sector must be increased in the future. According to the officer of MDFTIC, the trade program will be increased in the future, include activities in non tariff measure, logistic such as dwell time and improving logistics services and food security. It also recommends that the World Bank should increase its assistance to Indonesia through trade sector since the indirect effect through trade to prosperity is positive and significant.

7. It is recommended that the World Bank should increase its awareness in the problems of integrating, synchronizing, and simplifying to the business group and group of government official so that its assistance will be more effective.
8. It is recommend that education and health programs would be increased significantly in the near future especially in businessmen and government oficial groups.

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