ABSTRACT

Cross-country capital flows will encourage economic integration in a region. One of the motives of international capital mobility is looking for higher returns. The neoclassical investment theory reveals that capital will flow "downhill" from capital abundant economies to capital scarce economies. Therefore, capital scarce economies offer a higher rate of return. However, not infrequently, capital flows from the poor to rich countries that provide institutional quality assurance as well as other factors that are not taken into neoclassical production functions, such as human capital and the external benefits. The phenomenon of capital flows "uphill" from the poor to rich countries known as the Lucas Paradox.

This study analyzes the intra-ASEAN 5 capital flows that assumes entirely because of the capital mobility creation. In additional, also analyzes capital flows to each ASEAN 5 member countries from extra-ASEAN (Japan, Netherlands, United States, and China) during 2000-2011. This analysis based on the neoclassical model and Lucas Paradox, and applying panel data regression method with Fixed Effect Model (FEM).

The estimation results indicate that the rate of return on capital only become a consideration of Indonesia, Malaysia, Philippines, and Thailand when investing in Singapore. In the model of intra-ASEAN capital flows into Singapore also influenced by Lucas variable, namely human capital (measured by average years of schooling), Total Factor Productivity (TFP) growth, and institutional quality. Meanwhile, in the model of Singapore as the source country, capital flows affected by GDP per capita, human capital, and institutional quality. We also find that GDP per capita as a proxy of economy size become a consideration of capital flows from Japan and China to ASEAN 5. In addition, Japan also considering the institutional quality in the host county. The results also indicate human capital affects the capital flows from United States and China. However, in the case of Netherlands as a source country, both neoclassical and Lucas variables aren't significant effect on capital flows.

Keywords: capital flows, neoclassical model, Lucas Paradox, Fixed Effect Model (FEM)