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I, the undersigned, certify that

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Candidate for the degree of

**BACHELOR OF FINANCE**

Has presented his/her thesis of the following title

**DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN INDONESIA**

As it appears on the title page and front cover of the thesis that the research is acceptable in format and content and that a satisfactory knowledge of the field as covered by the thesis.

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## DECLARATION

I, **Safira Sri Ramadianti**, hereby declare that the research project is based on my original work except for quotations and citations which have been duly acknowledged. I also declare that it has not been previously or concurrently submitted for any other degree at MSU or other institution.

Safira Sri Ramadianti



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## ACKNOWLEDGEMENT

First, I am grateful to Allah SWT, who always gave me hope when I was at my lowest point and for blessing me with good health and strength, which have enabled me to pursue my education and resilience necessary to complete this research project. My sincere love and thanks to my parents, Suzy Permata Sari and Sri Haryanto, for their constant love, support, and motivation during my academic journey. Also, my brother Fachriza Sri Ramadianto and my sister Zahra Sri Ramdianti who are always be there for me and supporting me.

I would like to express my gratitude to my lecturer, Dr. Aza Azlina Md. Kassim and my supervisor Madam Hani Soraya Binti Ishak, for their support, guidance, and invaluable expertise throughout my research project.

Special thanks to my friends Anindya, Athaya, Cela, Khofifah, Nawira, Naya, Nendya, and Syifa, Aji, Gavin, and Wahyu for their emotional support and invaluable assistance throughout this journey. Best wishes to all my friends for their future life.

Finally, I would like to take this opportunity to express my heartfelt gratitude to all those who have supported me in completing my research. I am grateful for dear support and belief in me. Thank you all very much.



## DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN INDONESIA

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### ABSTRACT

As a developing country, Indonesia can benefit from foreign direct investment (FDI) as an alternative financing source to aid its development. The goal of this research is to investigate the determinants of FDI in Indonesia. This research aims to determine the primary factors that affect FDI in Indonesia in the period of 2011 - 2022. These factors include economic growth, inflation, interest rate, exchange rate, and labor cost. The research used a quantitative approach and time series data sourced from the Bank of Indonesia and the Central Bureau of Statistics. The data is analyzed using the multiple linear regression method through IBM SPSS. The result shows that economic growth and inflation significantly positively affect FDI. On the other hand, interest and exchange rates have a positive but insignificant effect on FDI. Meanwhile, the test results on labor costs have a negative insignificantly on FDI. These findings may assist the government in strengthening policies and regulations regarding foreign investment, which should align with policies aimed at promoting foreign investment.

**Keywords:** FDI, economic growth, inflation, interest rate, exchange rate, and labor cost.

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## CHAPTER I INTRODUCTION

### 1.1 Background of the Study

Foreign Direct Investment (FDI) has an important role in Indonesia, especially in economic development. Regarding the aspect of making a contribution to the economic development of a country, FDI plays a role in providing employment, improving the implementation of import subsites to increase foreign exchange, exporting to strengthen the nation's cash flow, and carrying out development in underdeveloped areas, as well as infrastructure for industrialization and technology transfer (Susilo, 2018).

The amount of FDI entering the world has significantly increased during the past 20 years. FDI can support the economic development of a nation via a variety of means. One element that affects FDI investment is economic growth, which has a long-term positive influence on the macroeconomic analysis of a country's economic growth as measured by the natural national income balance (Alshomali, 2019). The number of investors that choose to invest in Indonesia will depend on how well the economy is doing. A country's economy growing is a sign of good economic growth. A country's economy must grow for domestic savings and investment to rise and have a favorable effect on FDI (Sasana & Fathoni, 2019). This growth must also increase the quantity of goods and services available to consumers. When price increases continue and have

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an impact on one another, inflation is thought to have occurred. Inflation serves as a gauge for measuring the degree of change.

Investment costs, such as the cost of capital and economic growth and inflation, influence investor interest in making investments. The interest rate on loans, used in a nation as investment charges in the cost of capital, can be used to gauge the cost of capital (Alshomali, 2019). A nation sets its interest rates, whereby a decrease in interest rates corresponds to a decrease in inflation. Consequently, consumer spending grows, and interest in investing rises. The inflow of FDI in the host country is subject to various factors, including the currency's exchange rate. In addition, the exchange rate functions as a measure of stability, allowing foreign investors to utilize it as one of their primary investment decision-making tools.

Furthermore, the level of labor cost has a direct influence on the investment decisions of investors. A lower labor cost will likely stimulate more significant investment as it reduces production costs. A higher labor cost may discourage investment due to increased production costs (Pratiwi & Triani, 2019).

## 1.2 Problem Statement

Foreign Direct Investment (FDI) refers to a type of investment over an extended period of time formed by a foreign person or entity in the host nation to achieve specified financial goals (Al-Qaisi, 2017). FDI is highly beneficial to Indonesia's sustainable growth, and increasing foreign

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investment can directly enhance the living conditions of the Indonesian people. FDI can enable a corporation to gain control of its international business operations and boost income (Saepuloh et al., 2019).

Indonesia is currently confronted with various challenges when it comes to attracting and retaining FDI in the midst of a rapidly changing global economic landscape. One major concern revolves around the insufficient infrastructure in the country. Indonesia is now placed 72 in the Global Competitiveness Report, down from 52 in 2017, which illustrates that while Indonesia's infrastructure is growing quickly, other countries have had faster growth, pushing Indonesia down the list (Fernandez & Joseph, 2020). Meanwhile, infrastructure is essential for emerging economies', long-term growth and competitiveness, especially when considering FDI. It raises living standards and aids in job creation. In addition, the government is committed to launching measures that will encourage private sector participants to make significant investments in infrastructure projects, ensuring the country's world-class infrastructure is built within a set time frame.

Another significant obstacle affecting FDI inflows to Indonesia is the complex and time-consuming bureaucratic procedures of obtaining permits and licenses. Investors often encounter excessive red tape and regulatory obstacles, resulting in delays and uncertainty regarding their investment plans. The World Bank's Doing Business report for 2021 ranked Indonesia 140th out of 190 countries regarding of business efficiency, reflecting the challenges faced by investors when navigating



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the country's regulatory environment (World Bank, 2021). To address this, it would be beneficial to streamline and simplify administrative processes, reduce regulatory burdens, and enhance transparency, ultimately improving the investment climate and attracting a greater amount of FDI.

Furthermore, the Indonesian government must think carefully about its policies because they will impact the macroeconomic environment and the country's ability to spend or make money. In order to embed confidence in foreign investors and encourage long-term commitments, it is essential to establish clear and stable legal frameworks, along with predictable and consistent policies.

There are few studies that have been conducted on foreign direct investment in Indonesia (Dewi & Hutomo, 2021; Fernandez & Joseph, 2020; Syukri et al., 2021). Among other studies, Yi et al. (2019) have identified the factors that influence foreign investment, but it focuses on Asean-5 countries. Previous studies have focused on inflation, interest, and exchange rates, yet only some studies included economic growth (Syukri et al., 2021). In addition, several studies have included labor cost in determining FDI (Dewi & Hutomo, 2021). Therefore, examining the determinants of FDI in Indonesia is essential. This study provides empirical evidence by identifying whether interest rate, inflation, economic growth, exchange rate, and labor cost contribute to FDI.

### 1.3 Research Objectives

The research objectives classified into two categories, such as:

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## General Objectives

The general objective of this study is to examine the factors that influence FDI in Indonesia.

## Specific Objectives

1. To determine the relationship between economic growth and FDI in Indonesia.
2. To ascertain the relationship between inflation and FDI in Indonesia.
3. To identify the relationship between interest rate and FDI in Indonesia.
4. To ascertain the relationship between the exchange rate and FDI in Indonesia.
5. To investigate the relationship between labor cost and FDI in Indonesia.

## 1.4 Research Questions

The following questions are going to be figured out in this research:

1. Does economic growth have a significant relationship with foreign direct investment in Indonesia?
2. Does inflation significantly affect foreign direct investment in Indonesia?
3. Is interest rate significantly affect foreign direct investment in Indonesia?
4. Does the exchange rate have a significant relationship with foreign direct investment in Indonesia?

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5. Is labor cost significant to determine the foreign direct investment in Indonesia?

### 1.5 Scope

The study focuses around the associations between interest rate, inflation, economic growth, exchange rate, labor cost on FDI. The five independent variables in this study, economic growth, inflation, interest rate, exchange rate, and labor cost will be compared. This will affect the dependent variable, foreign direct investment (FDI). This study is focused on FDI in Indonesia. The Central Bank of Indonesia's website was used as the foundation for this study's secondary data collecting ([www.bi.go.id](http://www.bi.go.id)) and the Indonesia Central Bureau of Statistics ([www.bps.go.id](http://www.bps.go.id)). Data for all variables that will be studied will begin from 2011 - 2022.

### 1.6 Significance

This research can provide valuable insights for policymakers in the government by analyzing the variables that impact FDI in Indonesia. The outcomes of this study can aid policymakers in the government to implement effective FDI policies in Indonesia. By utilizing variables that significantly impact FDI, policymakers can work towards increasing the inflow of FDI to the country. Increased FDI in Indonesia is expected to drive economic development.



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Furthermore, this study aims to offer an understanding of the factors that impact foreign investment. Investors are essential as they can contribute significantly towards achieving economic stability. A more stable economy can be achieved in the future by attracting a larger number of foreign investors to invest in our country.

Finally, this study will be helpful and serve as a reference for academic purposes. This study is anticipated to provide information and guidance for future readers and students who will be conducting research.

### 1.7 Organization of the Study

The study is divided into five separate chapters. The first chapter provides an overview of the entire study, including the topic, background, problem statement, research objectives, research questions, the study scope, and significance. The second chapter reviews the relevant literature about the variables employed in this study. Moreover, a discussion of FDI in Indonesia is included in this chapter. Next, the third chapter explains the research design, population, data collection method, measurement of variables, and data analysis used to test the connection between interest rate, inflation, economic growth, exchange rate, labor cost, and FDI. Chapter four presents the data analysis and methods results in the previous chapter. Researchers will examine the outcomes contained in the research questions and the hypothesis based on the data provided. Chapter five

provides a summary of the major findings, a discussion of their significance, implications, and suggestions for further research.



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## CHAPTER 5

### CONCLUSIONS AND RECOMMENDATION

#### 5.1 Introduction

The purpose of this chapter is to provide an overview of the research methodology that was employed in the study. In addition, the main findings of this study were discussed in order to verify the stated research objectives and hypotheses throughout Chapter 1. This chapter includes a research summary, a discussion of the findings, an analysis's contribution, and a recommendation for additional study. The research is ultimately summarized in a conclusion.

#### 5.2 Overview of the Study

The purpose of this study is to examine the factors that influence foreign direct investment (FDI) in Indonesia. This study will highlight five research question. These questions center around economic growth, inflation, interest rates, currency exchange rates, and labor costs, which may be significantly correlated with FDI.

The data collection procedure involved obtaining information from official websites such as the Central Bank of Indonesia, the Indonesia Central Bureau of Statistics, and other reliable sources. In addition, the data analysis was done with the help of the SPSS program.



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As a result, the data analysis performed on the findings reported in Chapter 4 revealed that only Hypotheses 1 and 2 could acquire a regression test that was acceptable in terms of FDI, respectively ( $p < 0.05$ ). In other words, a significant and positive relationship exists between economic growth and inflation to FDI.

Table 5.1 Summary of the Hypotheses Testing

*Summary of the Hypotheses Testing*

Hypothesis	Accepted ( $p < 0.05$ )	Rejected ( $p > 0.05$ )
H <sub>1</sub> : Economic growth has a significant effect on FDI	✓	
H <sub>2</sub> : Inflation has a significant effect on FDI	✓	
H <sub>3</sub> : Interest rate has a positive relationship with FDI		✓
H <sub>4</sub> : Exchange rate is positively related to FDI		✓
H <sub>5</sub> : Labor cost has a negative impact on FDI		✓

### 5.3 Discussion of Result

#### 5.3.1 Hypothesis 1

The primary research question addressed in this study is "Does economic growth have a significant relationship with foreign direct investment in Indonesia?". Hypothesis 1,  $H_1$ , is then created in response to this research topic to ascertain how economic growth in Indonesia affects foreign direct investment.

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After analyzing the research results, it was shown that FDI is positively impacted by economic growth. The impact of economic growth on FDI is significant.

The findings are comparable to those of Saepuloh et al. (2019) who proposed that economic growth has a positive and statistically significant connection with FDI in their journal articles. The amount of a country's gross domestic product (GDP) that is considered the most significant shows the market size in that country. If the market size in the country is significant, investors will be interested in learning more about the opportunity to invest in the nation.

Aside from that, the result contradicts the study conducted by Sari and Baskara (2018) in that there is no significant connection between economic growth and FDI, but a positive one exists. A possible explanation for the insignificant result is that foreign direct investment is also influenced by more significant factors, such as the economic climate in the investor's home country.

### 5.3.2 Hypothesis 2

The second research question is "Does inflation significantly affect foreign direct investment in Indonesia?". Then, Hypothesis  $H_2$  is created to research the effects of inflation on the FDI. After analyzing the findings, there showed that inflation positively impacts FDI. In addition, inflation is positively and significantly related to the FDI.

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This result is similar to the study from Dadu and Payu (2022), as they proved that inflation has a significant and positive relationship with FDI, as hypothesized. Meanwhile, Asiamah et al. (2019) proved that inflation significantly but negatively impacts FDI. It is significant because stable inflation conditions encourage foreign investors to invest in a country. As a result of a country's stable inflation, foreign direct investment receipts will continue to increase.

As opposed to that, a journal article by Saepuloh et al. (2019) and Rahmadila et al. (2021) came with different research results, which asserted that inflation has no negative and insignificant association with FDI. The possible reason to support this is that investors are better off avoiding the danger of excessive inflation in the target nation.

### 5.3.3 Hypothesis 3

The third research question highlighted is “Is interest rate significantly affect foreign direct investment in Indonesia?”. Therefore, Hypothesis 3,  $H_3$  is established to look into how interest rates affect FDI. It can be determined through data analysis that there is a positive but insignificant correlation between the interest rate on FDI. As a result, Hypothesis 3 is rejected because it is not supported by the results.

A similar outcome to the research from Pratama and Setyowati (2022) showed an insignificantly positive impact



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between interest rate and FDI. This was evaluated by utilising the Error Correction Model (ECM) and the Ordinary Least Square Model (OLS). The output of the ECM model shows that short-term changes in the value of the FDI are unaffected by changes in the benchmark interest rate established by Bank Indonesia. Moreover, the OLS model estimates that the variable of interest rate has a positive relationship that is deemed insignificant on the long term. This suggests that a rise in interest rates would moderate the influx of foreign direct investment capital into Indonesia.

Nevertheless, it differs from the study by Sari and Baskara (2018), who found that interest rate is significant but negatively related to FDI. They argued in favor of this result by asserting that if interest rates rise, less investors will be interested in making investments in Indonesia.

#### 5.3.4 Hypothesis 4

The research question number four is, “Does the exchange rate have a significant relationship with foreign direct investment in Indonesia?”. Then, Hypothesis 4,  $H_4$ , is established to determine whether the exchange rate has an impact on FDI.  $H_4$  is, however, rejected by the finding analysis, and the result is not shown to be statistically significant in this assertion. This outcome is in line with research by Korneles and Sangur (2022), which found a negligible positive correlation between the

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exchange rate and FDI. Therefore, a potential reason is that Indonesia has a less stable level of international trade, so the floating exchange rate method, which is elastic, will cause the exchange rate to fluctuate frequently in the short term. In contrast, investors focus more on countries with more stable exchange rates.

In contradiction, the other outcome from Sasana and Fathoni (2019) found that the exchange rate negatively and significantly affects FDI in 6 ASEAN countries. The possible reason for this contradicting result is that they are strengthening their local currencies' exchange rates to attract more FDI. If FDI is used to produce products for export, boosting the local currency will reduce FDI because labor costs will increase.

### 5.3.5 Hypothesis 5

Last, the fifth research question is "Is labor cost significant to determine foreign direct investment in Indonesia?". After that, Hypothesis 5,  $H_5$  is created to identify whether labor cost influences FDI. After the findings were analyzed, labor costs negatively correlated with FDI. The results are similar to the journal articles by Pratiwi and Triani (2019), which proposed that labor cost has a negative and insignificant relationship with FDI. They reinforced this conclusion by claiming that the labor cost decline will harm human capital, resulting in reduced education, health, and well-being. Education, health, and welfare declines

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will lower human capital. Thus, a fall in the labor cost does not affect investors' interest in reducing their money because a low labor cost should benefit investors by lowering the burden and increasing the rate of return.

However, this outcome contradicts the research done by Saepuloh et al. (2019) which discovered that labor cost significantly and positively impacts FDI. They supported this outcome by stating that one indicator of a country's prosperity is its labor cost, so it can be concluded that Indonesia is prosperous enough to attract foreign investors.

## 5.4 Contribution of the Study

### 5.4.1 Body of Knowledge

This research project is similar to other research papers in that it evaluates several academics who have conducted substantial research on foreign direct investment. In this context, this research paper seeks to identify determinant factors that significantly impact foreign direct investment. In addition, future researchers with pertinent research topics can use this study to review the relevant literature and reference source.

### 5.4.2 Theory

The primary objective of this research study is to highlight the factors that influence FDI. According to Aliber (1971), capital market theory defines interest rate as crucial in determining the



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availability of funds and the cost of capital for firms seeking to invest in foreign markets. Furthermore, the theory emphasizes the significance of interest rates and exchange rates in the decision-making process of firms when considering foreign investment. In order to attract foreign investment, countries must offer a stable and efficient market environment with competitive interest rates and favorable exchange rates. Hence, the factors above shall be considered by the stakeholders engaged in overseas investment, particularly the Indonesian government and multinational corporations. As a result, this will serve as valuable input for developing strategies and policies to maximize FDI as a critical driver of Indonesia's economic expansion.

### 5.4.3 Practical

The emphasis of this study on macroeconomic factors provides benefits for governance and management. The management of the national economy and political stability to ensure inflation, interest rate, exchange rate stability is a critical responsibility of the government. As a result, this can bring benefits to businesses in Indonesia and encourage greater inflows of FDI. Investors and shareholders can obtain valuable insights into Indonesia's macroeconomic conditions that can aid them in making investment decisions.

Based on the findings of this study, individuals or investors who want to develop their understanding of the factors

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influencing foreign investment can gain insight from this research. Concurrently, this research study will be vital as it will aid the government in strengthening foreign investment policies and regulations consistent with policies that enhance foreign investment.

### 5.5 Recommendation for Future Research

There are some suggestions to be made for the research projects that will be carried out by researchers in the future. The research results state that other factors or independent variables influence foreign direct investment growth. The relationship between non-economic factors and foreign direct investment in Indonesia has not yet been examined in this study. To determine how non-economic variables affect foreign direct investment, it is recommended to include them in future research. Future researchers are anticipated to examine other determinant indicators unrelated to macroeconomic aspects to advance research methods. For more researchers to add other factors that could affect foreign direct investment, such as exports, imports, tax rates, and privatization, and use different analysis methods to get different views on similar research.

Additionally, we highly recommend that future researchers who are interested in this study should aim to maximize the sample size. This research examines the factors that have influenced FDI in Indonesia during the last 12 years. Researchers are advised to use monthly,

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quarterly, or semiannual data instead of annual data to increase the sample size.

## 5.6 Conclusion

The study's primary objective is to identify the variables that have a major impact on foreign direct investment (FDI) in Indonesia. The research found that economic growth and inflation factors had a big impact on FDI in Indonesia. Additionally, although it is not statistically significant, there is a positive association between interest rates and exchange rates in regard to FDI. However, it is important to note that labor cost does not have an impact on FDI. Researcher hoped that this study would offer the government advice on how to boost FDI in Indonesia during this difficult time. The government is expected to be able to encourage even better economic growth and maintain inflation stability so that domestic investors are interested in investing in Indonesia. This is because the quantity of money invested in the current year significantly impacts the future that will be experienced in the following years. Consequently, it is hoped that the government will encourage even better economic growth and maintain inflation stability with fiscal policy. With the proper policies and actions, Indonesia can continue to attract substantial FDI, contributing to economic prosperity and the overall development of the country.



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## LIST OF APPENDICES

### APPENDIX A (TURNITIN REPORT)

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ORIGINALITY REPORT



PRIMARY SOURCES

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02

Management and Science University

## Determinants of Foreign Direct Investment in Indonesia

FBMP RESEARCH COLLOQUIUM 2023

Presented by  
Safira Sri Ramadanti  
012022090960

LECTURER  
AP Dr Aza Azlina Md. Kassim

SUPERVISOR  
Hani Soraya Binti Ishak

SESSION : FEBRUARY 2023

BACHELOR IN FINANCE  
FACULTY OF BUSINESS MANAGEMENT AND PROFESSIONAL STUDIES

02

Management and Science University

## Presentation Outline

01. Introduction
02. Literary Review
03. Methodology
04. Analysis
05. Discussion
06. Conclusion

03

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## Background

- Foreign Direct Investment (FDI) acquired an important role in Indonesia
- FDI plays a role in providing employment, improving the implementation of import subsidies to increase foreign exchange, exporting to increase the country's foreign exchange, and carrying out development in underdeveloped areas, as well as infrastructure for industrialization and technology transfer.

04

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## Research Problem

Indonesia is currently confronted with various challenges when it comes to attracting and retaining foreign direct investment (FDI)

Indonesia is now placed 72 in the Global Competitiveness Report, down from 52 in 2017 (Fernandez et al., 2020)

From the scenario, the Indonesian government must think carefully about its policies because they will impact the macroeconomic environment and the country's ability to spend or make money

05

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## Research Question & Objectives

**RESEARCH QUESTION**

- Does economic growth have a significant relationship with foreign direct investment in Indonesia?
- Does inflation significantly affect foreign direct investment in Indonesia?
- Is interest rate significantly affect foreign direct investment in Indonesia?
- Does the exchange rate significantly relate to foreign direct investment in Indonesia?
- Is labor cost significant to determine the foreign direct investment in Indonesia?

**RESEARCH OBJECTIVES**

- To determine the relationship between economic growth and FDI in Indonesia.
- To ascertain the relationship between inflation and FDI in Indonesia.
- To identify the relationship between interest rate and FDI in Indonesia.
- To ascertain the relationship between the exchange rate and FDI in Indonesia.
- To investigate the relationship between labor cost and FDI in Indonesia.

06

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## Literature Review

**FOREIGN DIRECT INVESTMENT (FDI)**

is a process of when foreign investors from one country invest their money in another which is a type of international capital flow. (Sasana & Fathoni, 2019)

**INFLATION**

defined as a rise in the money supply that may be attributed to rising prices (Rahmadia et al., 2021)

Stable inflation conditions encourage foreign investors to invest in a country (Aslamah et al., 2019)

**EXCHANGE RATE**

defined as a comparison of the value of one currency to another currency from another country (Dewi & Hutomo, 2021)

Investors focus more on countries with more stable exchange rates (Korretes & Sangar, 2022)

**ECONOMIC GROWTH**

defined as the economic condition of a country when it sees growth toward more sustainability within a given length of time (Saepuloh et al., 2019)

Economic growth has a positive influence on FDI inflows (Sumiyati, 2021).

**INTEREST RATE**

defined as a fee that the capital borrower must pay to the fund lender in exchange for the loan money (Dewi & Hutomo, 2021)

If interest rates increase, the interest of investors to invest in Indonesia will decrease (Sari and Baskara 2018)

**LABOR COST**

low labor costs play a crucial role in encouraging FDI (Bayraktar-Sajlam & Sayek Böke, 2017)

07

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## Framework & Hypothesis

H1 : There is significant connection between economic growth and FDI  
 H2 : There is significant connection between inflation and FDI  
 H3 : There is significant connection between interest rate and FDI  
 H4 : There is significant connection between exchange rate and FDI  
 H5 : There is significant connection between labor cost and FDI

08

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## Population & Sampling

**01. POPULATION**

The population of this study is Economic Growth, Inflation, Interest Rate, Exchange Rate, and Labor Cost. The sample data was collected from the period of 2011 to 2022.

**02. SAMPLING**

This research use census sampling as technique sampling, where sample is population of this research.

suatu masalah.



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### Summary of Measurement

Variable	Measurement	Source	References
Foreign Direct Investment (FDI)	The value of foreign direct investment inflows into Indonesia.	Indonesian Economic and Financial Statistics (SEK)	(Dewi & Hutomo, 2021)
Economic Growth	Gross Domestic Bruto (GDP)	bps.go.id	(Saepuloh et al., 2021)
Inflation	Inflation rate (Consumer Price Index)	bi.go.id	(Erina et al., 2021)
Interest Rate	The certificate of Bank of Indonesia interest rate	bi.go.id	(Saepuloh et al., 2021)
Exchange Rate	US\$/IDR Exchange rate	bi.go.id	(Sumiyati, 2021)
Labor Cost	Average national minimum wage (annual)	bps.go.id	(Dewi & Hutomo, 2021)

### Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Economic Growth	12	.00	.04	.0136	.01019
Inflation	12	.05	.21	.1265	.05214
Interest Rate	12	.11	.23	.1692	.03976
Exchange Rate	12	8799.25	15049.25	12866.4792	2114.73799
Labor Cost	12	988829.00	2725505.00	1976663.9167	626304.97898
Foreign Direct Investment	12	978055000	5857250000	4759906458.33	1313037400.223
Valid N (listwise)	12				

### Normality Test

One-Sample Kolmogorov-Smirnov Test	Unstandardized Residual
N	12
Normal Parameters <sup>a</sup> :	Mean .0000000 Std. Deviation .1620552
Most Extreme Differences:	Absolute .153 Positive .153 Negative -.113
Test Statistic	-.142
Asymp. Sig. (2-tailed)	.2002

Asymp.sig value 0.200 > 0.05

It can be determined that the data is normally distributed.

### Multicollinearity Test

Model	Unstandardized Coefficients			Standardized Coefficients			Collinearity Statistics	
	B	Std. Error	Beta	T	Sig.	Tolerance	VIF	
1 (Constant)	22.262	4.060		5.483	.002	.379	1.364	
Economic Growth	.242	.073	.568	3.324	.016			
Inflation	.605	.200	.602	3.029	.023			
Interest Rate	.110	.342	.052	.321	.739			
Exchange Rate	.518	.528	.265	1.009	.348			
Labor Cost	-.172	.244	-.118	-.707	.506			

Tolerance value > 0.10 or VIF value < 10

It can be concluded that there is no multicollinearity among the independent variables proposed in the study.

DW Value: 1.939

Durbin-Watson (DW) values fall within the range of -2 to +2, or (-2 < DW < 2), it can be concluded that there is no autocorrelation or related issues in this study.

Model Summary <sup>a</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.948 <sup>b</sup>	.899	.816	21942	1.939	

a. Predictors: (Constant), Labor Cost, Economic Growth, Interest Rate, Inflation, Exchange Rate  
 b. Dependent Variable: Foreign Direct Investment

### Autocorrelation Test

### Multiple Linear Regression Analysis

Model	Unstandardized Coefficients			Standardized Coefficients			Sig.
	B	Std. Error	Beta	T	Sig.		
1 (Constant)	22.262	4.060		5.483	.002		
Economic Growth	.242	.073	.568	3.324	.016		
Inflation	.605	.200	.602	3.029	.023		
Interest Rate	.110	.342	.052	.321	.739		
Exchange Rate	.518	.528	.265	1.009	.348		
Labor Cost	-.172	.244	-.118	-.707	.506		

a. Dependent Variable: Foreign Direct Investment

Multiple regression analysis can be seen from table with the regression equation as follows:

$$Y = 22.626 + 0.242 \cdot X_1 + 0.605 \cdot X_2 + 0.110 \cdot X_3 + 0.538 \cdot X_4 - 0.172 \cdot X_5$$

### Coefficient of Determination

Model Summary <sup>a</sup>						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson	
1	.948 <sup>b</sup>	.899	.816	21942	1.939	

a. Predictors: (Constant), Labor Cost, Economic Growth, Interest Rate, Inflation, Exchange Rate  
 b. Dependent Variable: Foreign Direct Investment

The result indicates that the independent variables have an **89.9%** impact on the dependent variable. However, the residual of **10.1%** was affected by external factors that were not included in the research framework.

### Conclusions

The research findings indicate that **economic growth and inflation factors have a significant and positive impact on FDI in Indonesia.**

Based on the previously mentioned results analysis, it is hoped that the Indonesian government will prioritize foreign direct investment by focusing on the indicators identified in this research. These findings hopefully could aid the government in enhancing policies and regulations concerning foreign investment, which should be in line with policies aimed at encouraging FDI.

Future researchers are anticipated to examine other determinant indicators unrelated to macroeconomic aspects to advance research methods.

### Discussion of Findings

Saepuloh et al. (2019)	H1 is accepted, economic growth has positive and significant impact on FDI in Indonesia	H1
Dadu and Payu (2022)	H2 is accepted, inflation is positively and significantly related to the FDI in Indonesia	H2
Pratama and Setyowati (2022)	H3 is rejected, there is a positive but not significant relationship between the interest rate on FDI in Indonesia	H3
Korneles and Sangur (2022)	H4 is rejected, exchange rate has insignificant but have positive impact on FDI in Indonesia	H4
Pratiwi and Triani (2019)	H5 is rejected, labor cost has negative and insignificant impact on FDI in Indonesia	H5

Thank You

## RUBRICS

STUDENT NAME: \_\_\_\_\_

MATRIC ID: \_\_\_\_\_

Measurable Attributes	1	2	3	4	Weight	Marks
1. Explication of how the study relates to a phenomenon or area of interest within the discipline	Provides a vague (or no) description of the relationship	Provides some explication of the relationship	Provides a clear explication of the relationship	Explicates the relationship in an insightful manner	1	
2. Specification and limitation of the research problem and questions	Provides very vague description of the research problem and questions	Provides limited specification of the research problem and questions	Provides clear specification and limitation of the research problem and questions	Provides an engaging specification and limitation of the research problem and questions	1	
3. Review of literature	Reports on earlier literature without connecting it to the research problem and question, and/or fails to identify relevant literature	Reports on earlier literature without connecting it clearly to the research problem and question	Reviews earlier literature relevant to the research problem and questions	Demonstrates critical thinking creativity and insight in reviewing earlier literature relevant to the research problem and questions	4	

<p><b>4. Develops a systematic and logical approach to the inquiry</b></p>	<p>Provides a vague explanation of the approach to the inquiry;  Fails to logically describe planned approach</p>	<p>Describes logically and clearly the research approach</p>	<p>Describes logically and clearly the research approach with a clear justification of the chosen approach above other approaches</p>	<p>In addition to the description for "Good": Explains how the chosen approach fits into existing paradigms of research methodologies and their limits</p>	<p>2</p>	
<p><b>5. Develops conceptual Synthesis/framework</b></p>	<p>Fails to develop a conceptual structure</p>	<p>Identifies some appropriate concepts and explains what they mean</p>	<p>Clearly identifies appropriate concepts and explains what they mean in the context of the study; Demonstrates a conceptual structure</p>	<p>Develops and applies a clear and consistent conceptual structure through synthesis of other/new concepts or lenses</p>	<p>4</p>	
<p><b>6. Collects and uses empirical material/data (if applicable)</b></p>	<p>Fails to clarify what material/data is used or how it is used; or uses inappropriate material/data; or exhibits inappropriate use of material/data</p>	<p>Identifies appropriate material/data and explains how it is used</p>	<p>Clearly identifies appropriate material/data and explains how it is used; Uses material/data in a way that is consistent with the logic of the inquiry and its purpose</p>	<p>In addition to the description for "Good": Identifies problematic issues and limits to the use of the material/data</p>	<p>3</p>	
<p><b>7. Interprets and discusses results; draws conclusions</b></p>	<p>Provides unclear interpretations and conclusions, and/or provides conclusions that do not</p>	<p>Makes some interpretations and draws conclusions;  Provides little discussion</p>	<p>Provides clear interpretations that emerge from analysis and draws</p>	<p>In addition to the description for "Good": Identifies and discusses problematic issues and limits; Where relevant,</p>	<p>4</p>	



<p><b>8. Academic style, language use and readability</b></p>	<p>Uses nonacademic style; inaccurate language use interferes with reading and comprehension; citation format not observed</p>	<p>Uses language sufficiently accurately and appropriately for comprehension but use of illustrations and examples infrequent and/or not fully competent; citation format not always observed</p>	<p>Uses appropriate academic language well; minor errors may exist but do not interfere with fluent reading and comprehension; illustrations and examples contribute to the clarity of the arguments; citation format almost always observed</p>	<p>Produces a thesis that meets academic writing standards; readily conveys meaning; illustrations and examples enhance the clarity of the arguments; citation format consistently observed</p>	<p>3</p>	
<p><b>9. Consistency and coherence of the thesis</b></p>	<p>Text is fragmented and unbalanced; internal links among theory, methods and results are not explicit; problems with headings and paragraph and section structure</p>	<p>Text is not fully balanced; some key internal links are missing; does not fully form a coherent whole; some problems with headings and paragraph and section structure</p>	<p>Forms a balanced and coherent whole; some internal linkages are implicit rather than explicit; headings and paragraph and section structure typically support the overall coherence</p>	<p>Forms a coherent whole with consistent and explicit internal linkages; has a logical flow of argumentation with neat headings and clearly structured paragraphs and sections</p>	<p>3</p>	
<p><b>TOTAL</b></p>						