ABSTRACT

This study attempts to give a comprehensive understanding of how the exchange rate regime affects the behavior of bilateral FDI, especially in intra-ASEAN. Instead of using the conventional exchange rate regime classification, this study will employ a new bilateral exchange rate regime dataset by Harms & Knaze (2021) to eliminate a misleading result. Moreover, the de facto policy will perform in this study to capture the ex-post behavior of monetary authority. This study will use panel data of nine ASEAN countries from 2000 to 2019. The estimation method used is the Random Effect Model.

The analysis results show that horizontal bands, residual and managed floating are preferable in attracting bilateral FDI, especially in ASEAN. Meanwhile, the exchange rate volatility shows a negative effect on bilateral FDI which shows that the foreign firms tend to delay investment in the host country in order to collect more future information. The results imply that the foreign firms' motive is production flexibility and market-seeking in the host countries.

Keywords: *Bilateral Exchange Rate Regimes, Foreign Direct Investment, Exchange Rate Volatility, Panel Data Analysis, Random Effect Model*