

ABSTRACT

Research on the relationship between foreign direct investment (FDI) and political stability has generally focused on one-way influences, either from FDI on political stability or vice versa. Previous studies, such as Dang (2013), suggest that an increase in FDI can strengthen political stability by improving institutional quality, while Bhujabal et al. (2024) conclude that good political stability attracts more FDI, particularly in South and Southeast Asia.

This research aims to fill this gap by analyzing the simultaneous relationship between FDI and political stability in ASEAN countries during the period from 2000 to 2022. Using the Fixed Effects Model (FEM) and Two-Stage Least Squares (2SLS) methods, it was found that there is a positive and simultaneous relationship between these two variables.

The findings indicate that investment decisions are significantly influenced by institutional factors, specifically political stability and trade openness within ASEAN. Additionally, investments made by investors also have a significant impact on political stability through their agency. However, other macroeconomic factors affecting FDI, as well as political and sociodemographic elements influencing political stability, show no significant effect in shaping this relationship. Therefore, it can be concluded that in ASEAN, investors are more focused on political stability and trade openness.

The findings of this study are expected to provide a useful reference for enhancing the investment climate and political stability in ASEAN.

Keywords: foreign direct investment, political stability, simultaneity, ASEAN, Fixed Effects Model, Two-Stage Least Squares