ABSTRACT

The main problem for any country, especially in developing countries in the process of economic development, is the level of output produced is low as a result of limited capital flows. To be able to increase economic development, one way that can be done is by attracting foreign direct investment. With foreign direct investment (FDI), each country obtains additional capital flows (through capital transfers) that can be used to improve their economic performance. In addition, FDI also has other benefits such as increasing the transfer of technology, creating new jobs and increasing economic growth.

This study aims to analyze the determinants of foreign direct investment (FDI) in terms of institutional and macroeconomic factors in ASEAN countries in the period 2003-2019. The data used in this study is panel data, sourced from the World Bank and UNCTAD. then this research uses panel data regression analysis method with Fixed Effect Model (FEM) approach.

The results of this study show that institutional quality variables such as political stability and the absence of violence/terrorism, government effectiveness have a positive and significant influence on FDI inflows. Then, the control of corruption has a negative and significant effect on FDI inflows. Meanwhile, macroeconomic variables such as trade openness, market size, infrastructure have a positive and significant influence on FDI inflows in ASEAN countries. On the other hand, inflation has a negative and significant effect on FDI inflows. With these results, the quality of institutions and macroeconomic conditions in the ASEAN region plays an important role in attracting FDI inflows.

Keywords : Foreign direct investment, Institutional quality, Trade openness, Inflation, Market size, Infrastructure.