

# The Role of Performance Political Stability and Macroeconomic Attracting Foreign Direct Investment in ASEAN

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## ABSTRACT

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Foreign direct investment (FDI) plays a crucial role in developing nations to raise the standard of living for their citizens and strengthen their economies. This research aims to investigate the effects of macroeconomic factors like GDP, inflation, and female employment in the industry on flows of foreign direct investment as well as factor political stability with a research focus on 5 ASEAN countries (Indonesia, Malaysia, Vietnam, Laos, Cambodia) with research 20 years. The research method used panel data regression with secondary data from the World Bank. The Fixed Effect Model is found to be the best model selection. The results showed that political stability variables as well as all macroeconomic fundamental variables as measured by GDP, Inflation, and Employment Females in Industry partially had a significant and positive effect on the inflow of Foreign direct investment in 5 ASEAN countries and simultaneously had a significant positive effect.

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## 1. Introduction

Foreign direct investment (FDI) can be interpreted as a financial method that is very influential in an industrial project work activity in the form of capital, and there is a way to boost foreign direct investment globally in a way that benefits nations that are still in the transitional or developing stages, also known as developing countries. In increasing business competition, creating jobs, creating international marketing networks, encouraging innovation, improving skills, transferring the latest technology as well as management practices, and strengthening capital flows to become a source of income, FDI plays a very influential role (Xaypanya & Rangkakulnuwat, 2015). According to Kadiša et al. (2021), The results showed that the inflow of foreign direct investment in five ASEAN countries was significantly and favourably impacted by factors related to political stability and all macroeconomic fundamental variables as measured by GDP, Inflation, and Employment of Females in Industry, partially outweighing any other effects.

Every year, foreign direct investment inflows have grown dramatically, both within and between developing nations as well as from developed to developing nations (Li et al., 2020). Developing countries need FDI to attain the level of development that developed countries enjoy today. Of course, the same is true for developing countries that need investment to achieve their economic development. ASEAN itself is now involved in the global economy through FDI, as well as the abundance and quality of its natural resources and the quality and quantity of its human resources (Brueckner et al., 2018). In general, Southeast Asian countries have relatively small economies; therefore, their role in trade activities is said to be narrower or limited. The limitations referred to here are the limited funds that developing countries have, which makes them have to look for other sources of funds for the development process in their country. One way to do this is through foreign direct investment (Kirana, 2022). So it can be said that one of the challenges in developing countries such as ASEAN is due to the lack of their national savings in supporting the economic development of a country because substantial capital is needed for this (Erum et al., 2016). The ASEAN countries' economic growth can be advanced through investment activities, mainly foreign direct investment. By enhancing the investment climate, the nation can draw in this influx of capital (Li et al., 2020). According to Hussain & Haque (2016), The scenario of economic growth is significantly influenced by foreign direct investment. If income rises, the community's consumption will rise along with it, stimulating more investment in various businesses. The swift growth of foreign direct investment presents a chance for developing nations to bolster their economies via funding (Baloch et al., 2019; Ta et al., 2020). The significant inflow of foreign direct investment (FDI) into ASEAN nations has the potential to expand their markets, create jobs for locals, and offer technological and expert support. As a result, the ASEAN region's economy will grow faster, and more funding will be required (Crescenzi et al., 2021).

In developing nations like ASEAN (Indonesia, Malaysia, Vietnam, Laos, and Cambodia), development is essential to improving the welfare of the populace. Baloch et al. (2019) also explain that countries or companies involved in international affairs can use these foreign direct investment inflows to benefit from better conditions and expand to other countries. Research Ezeji E et al. (2015) Indicates that, compared to ASEAN countries, the welfare of SAARC countries is greatly impacted by foreign direct investment (FDI). These developing nations require capital inflows to support their economic growth and capital flows for trade and investment purposes. Because of its potential to drive economic growth across various appealing sectors, ASEAN is one of the top investment destinations (Nasir et al., 2019). ASEAN is also a vast market, has diverse, affordable and

quality natural resources, with a new labour pool and significant strategic assets (Demina, 2022). There is a good chance that the influx of foreign direct investment will result in additional benefits like knowledge and technology transfer (Shaari et al., 2023). A nation's political policy is one of many factors that can increase or even lower the value of inflows of foreign direct investment. According to Marsh (2019), ASEAN countries are still classified as regions that have unequal political risks; for example, Singapore has a relatively low political risk, while Indonesia, the Philippines, Vietnam, Thailand, Brunei Darussalam, and Malaysia have a relatively medium political risk, while Cambodia, Laos, and Myanmar have political risks that can be said to be very high.

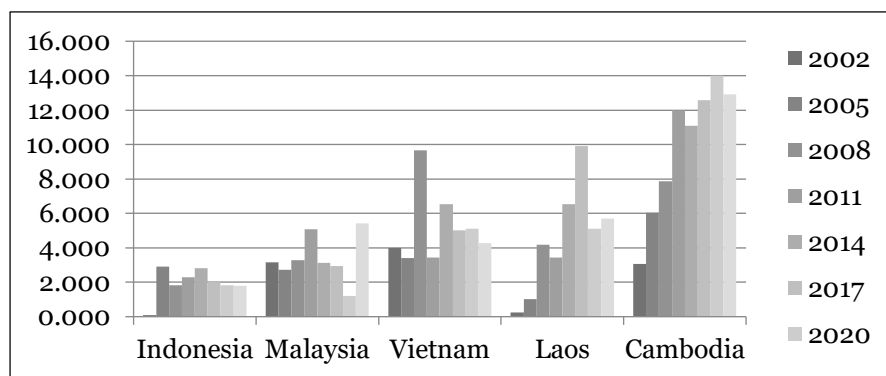


Figure 1. FDI (net inflows, % of gap) ASEAN 5  
 Source: World Bank (Processed Data, 2023)

Figure 1 shows the number of foreign direct investment inflows in 5 ASEAN developing countries; it can be seen that the graph has ups and downs. In 2020, the world is being shaken by its economy due to COVID-19, and the economies of many countries have decreased. However, from the graph, it can be seen that even in the countries of Vietnam and Cambodia in 2020, the incoming foreign direct investment has increased; Cambodia has experienced a relatively high increase, while Malaysia has experienced a very sharp decline. The fluctuations in the value of foreign direct investment inflows between 2002 and 2021 are impacted by various macroeconomic variables, in addition to other economic variables that may also impact FDI.

Numerous experts have used macroeconomic variables to study the factors that impact foreign direct investment (FDI) in ASEAN countries. The following factors are commonly used to illustrate their influence on the inflow of foreign direct investment into ASEAN member countries: GDP, Inflation, Interest Rates, Population, Trade Openness, and Exports such as those conducted by (Agustin et al., 2021; Fajar Nurbani Aslam & Ari Rudatin, 2023; Nguyen, 2020; Xaypanya & Rangkakulnuwat, 2015; Zuhroh & Harpiyansa, 2022). However, researchers investigating the determinants of FDI using political stability variables still need to be explored. As a result, it is critical to analyze or research how foreign direct investment (FDI) is determined in a nation by combining macroeconomic factors with political stability so that later it can be known what other important factors can stimulate interest from investors in funding nations or businesses by boosting inflows of foreign direct investment. Eventually, a suitable and efficient investment policy can be created to promote the sustainability of foreign direct investment in ASEAN nations and stimulate inflows. It should also be noted that some studies use political stability variables to influence foreign direct investment inflows. However, no labour research has influenced foreign direct investment inflows that concentrate on gender by using female labour variables as independent variables. Inclusive labour markets and decent work for women are one of the priority issues, emphasizing the importance of creating fair and equitable

employment opportunities for women. In addition, many studies also highlight that the majority of women tend to choose to work in the informal sector, and government efforts in addressing gender inequality can be an important indicator in creating an inclusive labour market for women. Thus, the selection of female labour variables used in influencing FDI inflows sees the concept of an inclusive labour market for female labour involves creating an enabling work environment, eliminating discrimination, and improving accessibility to create equal access to employment opportunities for women.

Gap research from this study is the combination of variables that have a significant influence from previous studies, with the research object of 5 ASEAN countries and the addition of new variables, namely political stability and labour as measured by female labour in the industrial sector. Based on the problem, this study's objective is to look into how inflows of foreign direct investment (FDI), which are essential for developing countries to improve the well-being of their citizens and strengthen their economies, are influenced by political stability, macroeconomic fundamentals as measured by GDP, inflation, and the employment of women in industry

## **2. Literature Review**

Political stability has the meaning of a condition of government that exists in a country that has the power to survive during political symptoms (Kurul & Yasemin Yalta, 2017). Political stability is also considered as one of the main factors affecting the rise and fall of investment Bitar et al. (2019) The reason is that a change in the political situation can lead to a decrease in investment in a country. In general, political stability occurs when the government successfully handles a crisis and also when the government manages to control or control its society properly (Mohamed, 2019). Political Risk Theory, proposed by Theodore H. Moran, emphasizes the importance of the investment decision-making process in terms of political uncertainty. According to Rashid et al. (2017), investors tend to be reluctant to place their capital or make Foreign Direct Investment (FDI) in a country or company in a destination country that experiences political instability because it will result in the risk of production disruption, restrictions on company operations, and property damage which in turn can harm investors. Investors become more confident in investing if the political risk of a country is low, which explains that later, the obstacles that hinder their business activities in a country get smaller (Erkekoglu, 2016). In line with the view of institutional theory put forward by North, research by Khushnood et al. (2020) concluded that nations with robust governance frameworks can attract more foreign direct investment (FDI) than nations with less effective governance. Previous studies indicate that political stability significantly impacts foreign direct investment inflows, particularly in developing nations. Empirical studies supporting this argument were conducted by (Hoang & Bui, 2015; Rashid et al., 2017; Sabir et al., 2019). However, there is a different view from Salem & Younis (2021) which claims that FDI inflows are not considerably impacted by political risk. This occurs as a result of additional data showing that investors give other factors like the availability of natural resources, skilled labour, and other factors that are essential to their business priority.

GDP can be considered as one of the main factors that can attract FDI into developing countries (Sahu, 2020). According to Piketty et al. (2018), Higher GDP growth in developing countries can lead to an increase in people's income. Endogenous Growth Theory explains that high economic growth can attract foreign direct investment (FDI) by providing attractive profit prospects for foreign investors. In this context, a fast-growing country signals to foreign investors that investment in that country has promising profit

potential. The relationship between GDP and FDI is that when people's income is high in a country, it is in line with the country's high income level, which will undoubtedly affect people's growing desire for goods and services. Empirical studies conducted by (Sengupta & Puri, 2018) show how GDP growth will positively affect foreign direct investment inflows. This research is supported by several other researchers, such as (Ashurov et al., 2020; Dabrowski, 2019; Paul et al., 2021; Rashid et al., 2017; Sayari et al., 2018) and Jaiblai & Shenai (2019) which suggests that in a country GDP can affect FDI inflows significantly and positively.

Inflation is a general price increase that continues to occur over a while. Peter Buckley and Mark Caisson's Inflation Effect Theory explains that high inflation in a country can attract investors to conduct FDI. This is because high inflation rates can reduce the actual value of investment, and the potential profits foreign investors can obtain will be reduced or decreased. In addition, high inflation can also explain economic uncertainty, which in turn can reduce investor confidence. A high inflation rate can indicate that economic conditions in a country are less stable and that the government cannot maintain economic balance. Some empirical studies conclude that macroeconomic stability, as measured by the inflation rate, has a negative relationship with the amount of FDI that enters a nation or region. Previous researchers who supported this theory were conducted by Omodero (2019) and Shaari et al. (2023) which suggest that the inflow of foreign direct investment will be significantly and negatively impacted by inflation.

Not only that, but the last factor that affects foreign direct investment is labour. This is similar to the human capital theory proposed by Theodore Schultz, which consistently establishes a connection between foreign direct investment and labour. According to this theory, for investors to invest in a country is influenced by many things, such as the quality, quantity, cost, and excellence of the country's labour. Dinh et al. (2019) revealed that although foreign direct investment (FDI) does not directly affect economic growth in lower-middle-income countries in the short term, it does in the long term. To benefit from foreign direct investment (FDI), it is critical to equip a well-trained workforce with the skills necessary to take advantage of new technologies as FDI flows in. Wage and labour costs are significant in luring foreign direct investment (FDI). Countries with competitive labour costs are often attractive to foreign investors, especially in industries that require large amounts of labour, such as the manufacturing sector. Potential labour factors can affect investment because they use more productive workers; as a result, when the number of productive workers increases, so does business productivity. The study conducted by Ngo et al. (2020) findings demonstrated that the labour force and fiscal policy significantly affect investment in Vietnam. Another empirical study that examines the effect of the labour force on FDI inflows in a country was conducted by Cung Huu NGUYEN (2021) who found that the labour force positively affects FDI in Vietnam with a significant level of 5%. Due to labour's abundance, youth, and high quality, FDI inflows into a country or region are positively correlated with the labour and labor force (Sunaryo & Nurhayati, 2023). According to Rahim (2023), the industrial sector employs a large number of people, indicating that labour absorption significantly lowers poverty and increases GDP per capita.

### **3. Research Method**

This study used five developing nations in the ASEAN region as a sample. This research approach will use panel data regression techniques, quantitative descriptive methods, and Views 12 data processing tools. The type of panel data used in this study is a balanced panel with an equal number of time series observations in each cross-section unit.

The following method will use path analysis or linear regression to determine how these variables relate. In the context of panel data model regression, the use of variables is divided into two (2), namely the dependent variable (Y) used, namely FDI (Foreign Direct Investment) while the independent variable (X), which consists of Gross Domestic Product, Inflation, Political Stability, Employment Female In Industry. Where for time-series data in the form of data on 20 years. The cross-section data is taken from 5 developing ASEAN member countries: Indonesia, Malaysia, Vietnam, Laos, and Cambodia. The panel data regression method was chosen to measure and test a country's political stability and macroeconomic fundamental variables on FDI inflows in ASEAN 5, namely Indonesia, Malaysia, Vietnam, Laos, and Cambodia. Panel data regression analysis allows researchers to consider variations between individuals and variations within the same period. This method allows researchers to find the effect of various independent variables simultaneously and control for individual and time effects. The research results can later be presented as graphs, tables, and statistical findings that illustrate the relationship between the variables under study.

Table 1. Description of Operational Variables

No	Variable	Description	Source
1	Foreign Direct Investment (FDI)	Foreign Direct Investment: Net Inflow (% of GDP)	The World Bank Data
2	Political Stability (PS)	Political Stability and Absence of Violence/Terrorism	The World Bank Data
3	Gross Domestic Product Growth (GDP)	Gross Domestic Product (current US\$)	The World Bank Data
4	Inflation (INF)	Inflation GDP deflator (annual %)	The World Bank Data
5	Employment In Industry Female (EIF)	Employment in industry, female (% of female employment) (modelled ILO estimate)	The World Bank Data

Source: World Bank, 2023.

The World Bank provided the data, which showed net foreign direct investment inflows as a percentage of GDP, for the dependent variable, which was FDI. While Political Stability is the state in which a country is relatively stable in terms of politics, GDP (current US dollars) serves as a benchmark for describing a nation's economic growth; the independent variables include inflation, which gauges the overall rise in the cost of goods and services, without major internal conflicts, revolutions, or changes in government and labour used to determine the availability of adequate labour supply as well as the quality of labour that can help smooth out foreign investors who invest in destination countries. According to the formulation of the problem above, ascertain how the global crisis and macroeconomic fundamentals impacted the performance of foreign direct investment in ASEAN 5, the following model specifications were used in the panel data model's regression analysis :

$$FDI_{it} = \beta_0 + \beta_1GDP_{it} - \beta_2INF_{it} + \beta_3PS_{it} + \beta_4EIF_{it} + \epsilon_{it} \dots\dots\dots(1)$$

Noted:

FDI = Foreign Direct Investment net inflows (% of GDP);  $\beta_0$  = Constanta;  $\beta_{1, 2, 3, 4}$  = Coefficient; LOG = Logarithm; GDP = Gross Domestic Product (million US\$); INF = Inflation (%); PS = Political Stability (decimal scale -2, 5 until 2, 5); EIF = Employment in Industry Female (%);  $I = 5$  Countries in the ASEAN;  $t =$  time

Three models are used in the analysis: the random effect model (REM), fixed effect model (FEM), and common effect model (CEM) using the panel data analysis regression

method. The Chow test is the initial assessment used to determine which of the three models is the best, which determines whether there is a structural difference between two different panel data regression models; this test is beneficial in determining whether two groups of observation units have similar regression functions. The Hausman test is then used to determine whether to use a panel data regression model with fixed or random effects. The hypothesis that unobserved individual effects do not correlate with the regression model's independent variables is investigated in this work. The Lagrange Multiplier Test sometimes referred to as the Breusch-Pagan test, is used to assess if the unobserved effects in the panel data regression model follow a particular pattern or are random. This test aids in determining which approach, using random or fixed effects, is preferable.

#### 4. Results and Discussion

This study's analysis focuses on how the dependent variable of foreign direct investment inflows will be influenced by the independent variable of political stability as well as macroeconomic fundamental variables measured by GDP, Inflation, Employment Female in Industry in 5 ASEAN countries (Indonesia, Malaysia, Vietnam, Laos, Cambodia) with the research period 20 years as a whole. In this first discussion, panel data will be used to be tested initially to determine which model to select for panel regression. In addition, three models, CEM, FEM, or REM, will be selected by the model selection process.

Table 2. Best model test results

Effects Test	Probabilities	Description
Chow Test	0.0000	Fixed Effect
Hausman Test	0.0000	Fixed Effect
LM Test	0.0000	Random Effect

Source: Processed Data, 2023

The probability value is  $0.0000 < \text{sig. } 0.05$ , which indicates from these results that the Chow test FEM model is the most appropriate model to apply. It is clear from the Hausman test results that the probability value is  $0.0000 < \text{sig. } 0.05$ , indicating that the FEM model is the most appropriate one to use. The Breusch-Pagan coefficient value in the LM test is  $0.0000 < \text{sig. } 0.05$ , indicating that LM Breusch-Pagan will accept H1 and select REM as the optimal model. The Fixed Effect Model (FEM) is the optimal model to utilize, determined by selecting the best model among the three tests conducted. Finding information on variations in the examined dependent variable's properties in each cross-section's beginning condition is one advantage of utilizing panel data with Fixed Effect Models (FEM) (Badriah & Istiqomah, 2022). The following regression results are used for estimation once the optimal panel model has been obtained:

Table 3. Fixed Effect Model

Variable	Coefficient	Probabilities	Description
C	-28.25886	0.0070	Significant
PS (X1)	1.415414	0.0349	Significant
GDP LOG (X2)	1.211780	0.0055	Significant
INF (X3)	0.077476	0.0372	Significant
EIF (X4)	0.163832	0.0310	Significant
Adjusted R-square	0.713193		
Prob (F-statistic)	0.000000		

Source: Processed Data, 2023

The regression results' equation is as follows:

$$FDI_{it} = -28.258 + 1.415 SP + 1.211 LOGGDP + 0.077 INF + 0.163 EIF + \epsilon_{it} \dots\dots\dots(2)$$

Based on Table 3, the partial test results (t-test) show that the probability value of all independent variables is below  $\alpha = 0.05$  or smaller than 0.05, thus indicating that the independent variables, including Political Stability (PS), Gross Domestic Product (GDP), Inflation (INF) as well as Employment of Women in Industry (EIF) individually or partially have a significant and positive influence on the dependent variable, namely foreign direct investment inflows.

Based on the parameter estimation results with the FE model in the F test (simultaneous test), the Prob. F Statistic is 0.0000, meaning the value is smaller than 0.05, thus indicating the relationship between the independent and dependent variables. So, in this case, the percentage scale of the independent variables, namely political stability, gross domestic product, inflation, and employment females in the industry, can explain the significant simultaneous influence on the dependent variable foreign direct investment net inflows in 5 ASEAN countries.

Furthermore, the coefficient of determination's value adjusted R<sup>2</sup> is 0.7131. This means that the independent variable namely Political Stability, Gross Domestic Product, Inflation, and Employment of Female In Industry can explain or influence changes in the dependent variable (Foreign Direct Investment net inflows) by 71.31%. In comparison, the remaining 28.69% is explained by additional factors outside of this research model or not covered in the discussion.

According to the processed data, there is a positive and significant correlation between political stability and foreign direct investment, meaning that as stability rises, investor interest will as well. The results of these findings support the validity of the current theory, which states that when a country's political stability index is high, its political climate is stable, attracting investors. In addition, the findings are in line with several previous researchers, such as Akin (2019) and Abdillah et al. (2020) which demonstrate how foreign investment is positively and significantly impacted by political stability. Because foreign direct investment plays such a significant role in developing nations through bribery, seeing an unstable political situation can provide opportunities for foreign investors to influence weaker political regimes to benefit economically through tax evasion, accelerating agendas, or even personal interests (Uddin et al., 2019). So, political stability generates strong investor interest in ASEAN countries. In a situation where political stability can improve the economy, investors want to invest in the destination country because the country has stable political stability through good governance standards and good democratic conditions or strengths so that potential losses that investors are worried about will not occur; This is because foreign investors need certainty from the government in making policies. They were supported by several other researchers, such as (Hoang & Bui, 2015; Rashid et al., 2017) and also Sabir et al. (2019) which suggest that in a country political stability can affect FDI inflows significantly and positively.





Figure 2. Political Stability and Absence of Violence/Terrorism ASEAN 5  
Source: World Bank (Processed Data, 2023)

Figure 2 above shows the latest data on the level of stability of 5 ASEAN countries, including Indonesia, Malaysia, Vietnam, Laos, and Cambodia. From the picture above, looking at each colour item shows the range of value levels of political stability; the colour from the sharpest indicates a high value of political stability, while the dimmest colour indicates a low value of political stability. According to the World Bank assessment, the number -2.5% indicates that the political stability indicator in the country is included in the worst category, and the number 2.5% indicates that the political stability indicator in the country is considered the best. In this case, Vietnam has good political stability because it has the highest value, followed by Laos, Cambodia, Indonesia, and Malaysia, which has the lowest value, which means that of the 5 ASEAN member countries, Malaysia's political situation is considered the worst.

The processed data show a strong and positive relationship between GDP and the inflow of foreign direct investment. Therefore, investor interest in investing in the five ASEAN countries will increase with increased GDP. If the GDP in a country increases, it can encourage the inflow of FDI in a country to be greater or increase so that GDP significantly contributes to helping FDI inflows. The GDP is a valuable tool for determining a nation's level of income generation. When a nation's income is high, people's incomes also rise, eventually attracting investors because it may produce more significant profits and raise the demand for goods and services. The results of the study align with those of some earlier researchers Zuhroh & Harpiyansa (2022) who discovered that a nation's GDP significantly influences the foreign direct investment that enters six ASEAN nations. Supported by several other researchers, such as (Ashurov et al., 2020; Dabrowski, 2019; Paul et al., 2021; Rashid et al., 2017; Sayari et al., 2018) and Jaiblai & Shenai (2019) suggests that a country's GDP can affect FDI inflows significantly and positively.

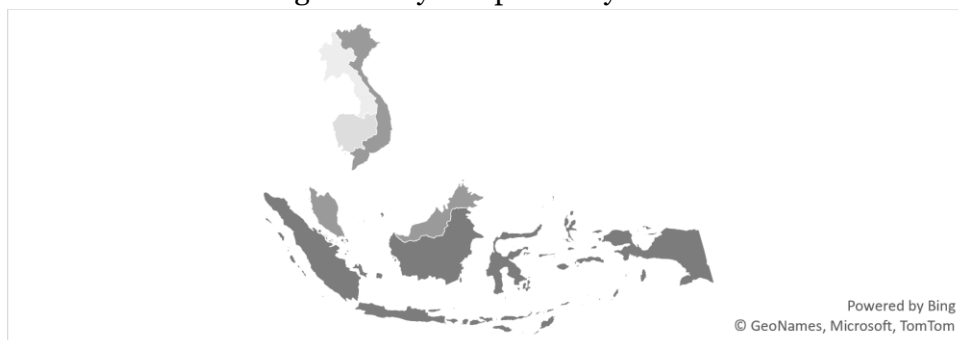


Figure 3. Gross Domestic Product (LOG current US\$) ASEAN 5  
Source: World Bank (Processed Data, 2023)

Figure 3 above shows data on the value of GDP in 5 ASEAN countries, including Indonesia, Malaysia, Vietnam, Laos, and Cambodia. From the picture above, looking at each colour item, one can know the range of value levels of GDP; the colour the sharpest indicates a high GDP value, while the dimmest colour indicates a low GDP value. In this case, Indonesia is the country with the highest GDP growth value because it has the most significant value, followed by Malaysia, Vietnam, Cambodia, and Laos, which has the smallest value so that it can be interpreted from the five member countries of the ASEAN region, GDP growth in Laos is considered the lowest.

The data processing indicates a significant positive correlation between foreign direct investment inflow and inflation. The study's findings contradict the widely held belief that rising inflation will inevitably lead to falling levels of foreign direct investment. Additionally, the findings of this study run counter to those of other studies by Sunaryo & Nurhayati (2023), which claim inflation raises investment costs and has a detrimental effect on investment performance. Inflation has a negative relationship that causes high investment costs and disrupts investment performance (Manan & Aisyah, 2023). However, the results of this study are in line with Putri et al. (2021) which claims that the amount of foreign direct investment has a considerable positive correlation with the inflation rate. It can be explained by the fact that investor profits can also rise when inflation arises in developing nations due to consumption demand exceeding the supply of goods and services. However, this is only the case while inflation remains within acceptable bounds. The increase is typically the result of population growth, economic expansion, rising public welfare spending, and rising purchasing power, all of which affect rising manufacturing, production, and demand for goods and services. Supported by several other researchers such as (Agudze & Ibhagui, 2021; Jaiblai & Shenai, 2019; Sajilan et al., 2019) (Jaiblai & Shenai, 2019; Sajilan et al., 2019) Agudze & Ibhagui (2021) suggests that in a country inflation can affect FDI inflows significantly and positively.



Figure 4. Inflation GDP deflator (annual %) ASEAN 5

Source: World Bank (Processed Data, 2023)

Figure 4 above shows the latest data on the inflation rate of 5 ASEAN countries, including Indonesia, Malaysia, Vietnam, Laos, and Cambodia. From the picture above, by looking at each colour item, the range of value levels of political stability; the colour from the sharpest indicates a high inflation value, while the dimmest colour indicates a low inflation value. In this case, the country of Laos is a country with a high inflation rate. The high inflation in Laos in 2022, according to (Viva body, 2022) explains that Laos online media, namely Laotiantimes, states that the increase in inflation in Laos is the leading cause of a surge in the price of fuel oil. The second highest inflation value is followed by Indonesia, Malaysia, Cambodia, and Vietnam, which has the lowest inflation value.

The processed results indicate a strong positive and significant correlation between employment and foreign direct investment. These findings suggest that investors' interest in investing in the five ASEAN nations will rise in tandem with increases in employment. These findings follow the validity of the current theory that countries with high employment levels tend to attract more FDI due to significant labour markets and potential consumers. Countries with a skilled and well-trained workforce are also more likely to attract foreign investors. In addition, the findings are in line with some previous researchers, such as Noviani & Istifadah (2020) who discovered that labour has a significantly positive impact on the inflow of foreign direct investment in six ASEAN nations. Here, the destination country must also improve the quality of its human resources workforce to be more competitive, innovative, and creative in terms of productivity, skills, and educational capacity. Being responsible and learning foreign languages is also essential to compete with foreign labour; the government of ASEAN countries must take concrete actions that can increase investor interest in investing.



Figure 5. Employment in industry, female (% of female employment) ASEAN 5  
Source: World Bank (Processed Data, 2023)

Figure 5 above shows the latest data on the percentage of female labour in the industry in 5 ASEAN member countries, including Indonesia, Malaysia, Vietnam, Laos, and Cambodia. From the picture above, by looking at each colour item, one can see the range of value levels of the percentage of the workforce; the colour from the sharpest shows the high value of the workforce, while the dimmest colour shows the low value of the workforce. In this case, Vietnam is the country with the most female labour in the industrial sector because it has the highest value, followed by Cambodia, Malaysia, Indonesia, and Laos, which have the lowest value, so it can be interpreted that the five member countries of the ASEAN region, the minor contributor to female labour in the industrial sector in Laos.

In line with Stephen Hymer's theory on foreign direct investment. Then developing countries, especially in the ASEAN region, are attractive areas for investment. From the analysis, it is known that simultaneously Foreign Direct Investment in 5 ASEAN countries is influenced by political stability, GDP, Inflation, and also labour. Based on the panel method with a Fixed Effect on the partial test results (t-test), the results of the analysis of government quality as measured by variables of political stability partially or individually affect the inflow of foreign direct investment in 5 ASEAN countries. In addition, the analysis found that macroeconomic variables such as GDP, Inflation, and labour also have a partial or individual effect on FDI inflows. Based on the results of the above analysis, it is known that some of the variables selected in this study are in line with or support the validity of the current theory. Whereas, inflation contradicts the widely held belief that an increase in inflation will inevitably lead to a decrease in the level of foreign direct investment, but it is supported by several other researchers such as (Agudze & Ibhagui, 2021; Jaiblai & Shenai,

2019; Sajilan et al., 2019) which shows that in a country inflation can affect FDI inflows significantly and positively.

## 5. Conclusion

Research on FDI has been the focus of the last few decades, especially for developing countries, development in developing countries such as ASEAN has a very important role in the welfare of its people, but in this case, there is a problem regarding the limited funds owned by developing countries. So by the title of this research is to investigate the influence of political stability factors as well as macroeconomic fundamentals such as GDP, inflation, and female employment in the industry on foreign direct investment flows with a research focus on 5 ASEAN countries (Indonesia, Malaysia, Vietnam, Laos, Cambodia). This study found that Governance Indicators, which are measured using political stability variables and all macroeconomic fundamental variables, including GDP, Inflation, and labour individually or partially have a significant influence and also show positive values on FDI performance in 5 ASEAN countries. And simultaneously or simultaneously able to affect the net inflow of foreign direct investment in 5 ASEAN countries.

Therefore in this suggestion for political stability, it is expected that the government will have the capacity to improve and maintain policies and improvements in the socio-political stability sector so that investors feel safe and not worried about investing. The government is also expected to maintain macroeconomic stability to maintain the inflow of foreign direct investment. Increased foreign direct investment can make the economic structure stronger and less vulnerable in the event of economic instability. In this case, the government is expected to continuously increase the country's GDP. Another significant factor affecting FDI inflows is inflation, the stability of the inflation rate must be maintained so that inflation does not experience a sharp rise. Although inflation is an attraction for investors, it is seen that inflation is still within reasonable limits. In addition, labor also plays a vital role in FDI inflows. In this case, the government must continue to improve the quality of its human resources. The availability of qualified, responsible, innovative and creative human resources can also lead to increased investment in a country.

For future research, it is recommended that researchers add governance indicator variables and other macroeconomic variables related to variables that can affect foreign investment inflows to better understand the impact and influence of other variables that have not been covered in this study on FDI inflows. Future researchers are also encouraged to expand the scope by addressing the limitations of this study, covering diverse aspects such as expanding the research subjects, extending the research period, and using diverse methodologies.

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