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DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN ASEAN: THE ROLE OF GROSS DOMESTIC PRODUCT, INTEREST RATE, INFLATION AND TRADE OPENNESS

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Abstract. *Economic development is widely regarded as a pivotal factor in augmenting government revenue, a notion exemplified by the significance of foreign direct investment (FDI). This study aims to examine the impact of key economic variables, including Gross Domestic Product (GDP), real interest rate, inflation, and Trade Openness (TO), on FDI. With quantitative methods through panel data regression which is used as a research method over a period of time 2019 to 2023 in several countries, namely Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. The findings indicate that the variables of gross domestic product (GDP), inflation and trade openness exert a positive and significant influence on foreign direct investment (FDI). Conversely, real interest rates demonstrate no substantial impact on FDI.*

Keywords*: ASEAN, FDI, GDP, Inflation, Real Interest Rate, Trade Openness*

Abstrak. Pembangunan ekonomi merupakan salah satu elemen utama dalam meningkatkan pendapatan negara, dengan investasi asing langsung (FDI) sebagai salah satu contohnya. Penelitian ini bertujuan untuk menganalisis pengaruh variabel Gross Domestic Product (GDP), suku bunga riil, inflasi, dan keterbukaan perdagangan (Trade Openness/TO) terhadap Foreign Direct Investment (FDI). Dengan metode kuantitatif melalui regresi data panel digunakan sebagai metode penelitian pada rentang periode 2019-2023 di beberapa negara, yaitu Indonesia, Malaysia, Thailand, Vietnam, dan Filipina. Hasil penelitian menunjukkan bahwa variabel GDP, inflasi, dan keterbukaan perdagangan memiliki pengaruh positif dan signifikan terhadap FDI, sedangkan suku bunga riil tidak memiliki pengaruh yang signifikan terhadap FDI.

Kata kunci: ASEAN, FDI, GDP, Inflasi, Keterbukaan Perdagangan, Suku Bunga Riil

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INTRODUCTION

Investment is a pivotal aspect for a nation, serving as the primary catalyst for economic growth and transformation. A notable form of investment is that of foreign direct investment (FDI). According to economists and policymakers, FDI is regarded as a primary catalyst for economic development and growth FDI is frequently defined as an investment made by the company of the investor's country (home country) to the investment destination country (host country) (Agustin et al., 2021b). As Aminda et al. (2022) assert, FDI can be regarded as a genuine investment in physical capital goods, land, and inventories, where capital, management, and investors maintain control over the utilisation of invested capital. In this context, foreign direct investment is one type of state financing that is welcomed by the government in addition to domestic sources (Rahmawati, 2022) because foreign direct investment is considered more resilient to economic downturns (Ramadhani, 2024).

The Association of Southeast Asian Nations (ASEAN) comprises a number of Southeast Asian countries, including Indonesia, Malaysia, Thailand, Vietnam, and the Philippines. It has evolved into a pivotal region within the global economy. The region's economic development is significantly influenced by foreign direct investment (FDI) flows. Notably, the region has been identified as a notable contributor to global economic growth, with the potential to become one of the world's leading economic powers. The region is experiencing rapid economic growth and has become a magnet for foreign investment (Scientific, 2021). However, disparities in FDI receipts among ASEAN member countries are evident, reflecting the varying economic characteristics, political stability, and investment policies of each nation (Pratama & Renea, 2021). A salient issue that emerges is the manner in which economic factors, including Gross Domestic Product (GDP), real interest rates, inflation, and trade openness, influence FDI inflows. Financing constraints persist as a hindrance to economic development. There are various strategies that can be employed to address these challenges, including the attraction of foreign investment to Indonesia (Sangur & Liur, 2022). Research findings from Agustin et al. (2021b) indicate that when an economy exhibits robust growth trends, it can serve as a catalyst for foreign direct investment (FDI), particularly in the long term, due to the positive outlook on economic activity in the destination country.

This research was conducted because there are several main issues that require deeper attention, such as FDI inequality in ASEAN. For example, countries such as Singapore and Malaysia tend to attract more FDI than other countries such as Laos or Cambodia. A country's competitiveness in investment does not necessarily occur and take place continuously, as it is influenced by several other factors. These include the ability of a country to formulate policies related to business and investment and to improve the quality of services to the community. These factors determine the success of increasing competitiveness towards investment and the success of a country (Nairobi & Afif, 2022). Furthermore, political stability is often considered favourable, but in some cases, high stability can be associated with authoritarian rule or inflexible regulation, reducing investment attractiveness (Pendidikan et al., 2021). Although the ASEAN region is recognised for its high level of economic openness, previous research indicates that trade openness may not always have a significant impact on FDI (Riamurty, 2024). In the context of FDI, it is challenging to ascertain the extent to which trade openness can serve as a primary driver of foreign investment.

The aim of this study is to analyse the effect of GDP, real interest rate, inflation, and trade openness variables on FDI in five ASEAN countries (Indonesia, Malaysia, Thailand, Vietnam, and the Philippines) in the period 2019-2023. Utilising the panel data regression method, it is anticipated that this study will enhance comprehension of the dynamics of FDI in the ASEAN region and provide pertinent policy recommendations to enhance the economic competitiveness of these countries in attracting foreign investment.

Gross Domestic Product (GDP) is a leading indicator that measures the total value of goods and services produced by a country during a given period. GDP can be defined in two ways: firstly, as the sum of value added generated by all business units; secondly, as the sum of the value of final goods and services produced by all economic units. GDP growth reflects the aggregate value of goods and services produced within a country's borders, indicating shifts in economic momentum and influencing market sentiment (Zaxidov, 2024) . Furthermore, GDP is also indicative of societal welfare, as it is a measure of the income accrued from the sale of goods and services (Sujianto et al., 2020). However, it is important to note that GDP does not consider economic activities that occur outside the market or the environmental impact of such production (Halim, 2019).

The real interest rate is defined as the interest rate that has been adjusted for inflation, thereby reflecting the true cost of borrowing after consideration of changes in the purchasing power of money. According to Mishkin (2019), the real interest rate is calculated by subtracting the expected inflation rate from the nominal interest rate. This is a crucial step in accurately measuring the true cost of borrowing or return on investment, as nominal interest rates may not always provide a reliable indicator of these values. To illustrate this point, consider a scenario where the nominal interest rate is set at 5%, while the inflation rate is 2%. In this case, the real interest rate would be approximately 3% (Mishkin, 2019). This highlights the fact that the real interest rate provides a more accurate picture of the incentives for savers and costs for borrowers in the economy.

In the field of macroeconomics, inflation is a key metric used to assess the stability of a nation's economy. In economic discourse, inflation is delineated as the persistent and generalised increase in the prices of goods and services over a duration of time. This phenomenon is indicative of a decline in the value of the currency, resulting in a decrease in the purchasing power of the population as prices of goods and services rise. However, it is important to note that an increase in the price of only a small number of goods or services cannot be categorised as inflation (Bank Indonesia, 2024). According to the International Monetary Fund (IMF), inflation is defined as the rate of increase in prices over a period of time, which can be caused by a number of variables, including increased consumer demand and uneven distribution of goods. The Consumer Price Index (CPI) is another tool that can be used to measure inflation (Sujianto et al., 2020). In this case, inflation is defined as an increase in demand for goods and services in the economy as a whole (Halim, 2019).

Openness is defined as the degree to which a country allows the supply of goods and services through its territory without significant barriers (Marbun, 2018). A country's level of trade openness is positively correlated with its contribution to GDP (Marbun, 2018). Trade openness significantly affects the economic growth of ASEAN countries, as well as encouraging foreign direct investment into Indonesia (Rahmadiza, 2023). However,

international trade openness in the services sector has not functioned well to boost ASEAN countries' economic growth (Rahmadiza, 2023). In economics, trade openness is defined as the degree of openness of a country's economy to international trade (Fitriani et al., 2021). This can be measured by calculating the ratio of the total value of exports and imports to Gross Domestic Product (GDP), with a higher ratio indicating a greater degree of openness (Suryanto & Kurniati, 2022). Increased trade openness can facilitate foreign investment, and there is a positive correlation between trade openness and international trade (Fitriani et al., 2021).

In economic theory, investment is defined as the expenditure on capital goods and production equipment with the objective of replacing existing capital goods and augmenting the existing capital goods in the economy, which will subsequently be utilised in the production of goods and services in the future. In the field of economics, investment can be defined as the allocation of resources, including assets or capital, into projects or assets with the expectation of future gains (CNN Indonesia, 2023). Investments can yield profits for investors through two primary mechanisms. Firstly, if investments are made in property that can be sold, profits can be generated through profit.

Secondly, if their investment is made in a re-implementation plan, they will generate profits through accumulated profits. In essence, investing encompasses all activities related to the appreciation in value of currency. Investors who allocate capital to property or assets can expect to yield either an immediate increase in income or the potential for future appreciation in the value of the property or asset. In monetary terms, an investment is defined as an asset acquired for the purpose of allowing an increase in value over time (Wardhana, 2022).

Foreign direct investment (FDI) is defined as the investment of capital by a company in a foreign country over an extended period of time. According to Krugman (1988), FDI constitutes an international capital flow, whereby a company from one country expands or establishes a company in another country, involving not only the transfer of resources but also control of the overseas company. The country of investment is designated the home country, while the home country of the investing company is termed the host country.

This investment may take various forms, including the establishment of a new company, the acquisition of a local company, or the formation of a collaborative enterprise. FDI plays a pivotal role in economic development, particularly in developing countries (Usmany et al., 2023). Furthermore, FDI has the potential to enhance the competitiveness of local industries through superior knowledge transfer and more effective business practices (Andriani, Heidy & Suryanto, 2024).

METHOD

In accordance with the principles of direct investment theory, foreign direct investment (FDI) is prone to flowing to countries that possess large and developed markets, as evidenced by the presence of high GDP. The GDP is widely regarded as a reliable barometer of economic growth and market attractiveness (Anggraini, 2021). The relationship between GDP and FDI is such that an increase in the public's income, concomitant with a high level of national income, will trigger an increase in the demand for goods and services (Agustin et al., 2021). A country with a large GDP is indicative of the potential for high domestic consumption and broad market opportunities, which in turn attract foreign investors to invest their capital (Agustin et al.,

2021). An increase in GDP can also reflect economic stability and promising growth projections, which can increase foreign investors' confidence to invest. Research conducted by Kirana (2022) found that GDP has a positive and significant effect. Consequently, the primary hypothesis formulated in this study is as follows H_1: Gross Domestic Product exerts a positive and significant influence on Foreign Direct Investment.

The relationship between interest rates and the role of time in economic activities is a subject of considerable interest. The motivation for this relationship is the desire to have money now (Jannah et al., 2021). In accordance with the precepts of direct investment theory, a decline in real interest rates results in a reduction in the cost of capital and an augmentation in the profits of foreign investors. When real interest rates are lower, the probability of foreign companies making direct investments is increased, as financing costs become more affordable (Alfiyahnur & Juliannisa, 2023). This, in turn, facilitates the expansion of their operations within the country. Moreover, lower interest rates are often indicative of monetary policies that favour economic growth, thereby engendering a more stable and attractive investment environment for foreign investors (Alfiyahnur & Juliannisa, 2023). Conversely, higher real interest rates increase the cost of borrowing and financing for foreign companies, which may reduce potential returns on investment. Higher interest rates are often indicative of tight monetary policy and economic uncertainty, which can increase risk and make foreign investors more cautious (Sari & Baskara, 2020). Research conducted by Manan & Aisyah (2023) found that interest rates affect Foreign Direct Investment. The second hypothesis formulated in this study is as follows H_2: Real Interest Rate exerts a positive and significant influence on Foreign Direct Investment.

According to direct investment theory, high inflation can create high economic instability. Instability creates a form of uncertainty that distorts investor perceptions (Fong Yi et al., 2020). This uncertainty increases the risk faced by foreign investors, which in turn can reduce FDI flows that include controlled inflation rates. High inflation can cause price instability, reduce consumer purchasing power, and increase operating costs for foreign companies investing in the country (Purnama, 2022). All these factors make countries with high inflation less attractive to foreign investors, due to higher risks. High inflation can also reduce the competitiveness of domestic industries, which could make foreign companies more reluctant to invest. In addition, uncontrolled inflation is often followed by tight monetary policy (such as increasing interest rates), which can increase the cost of capital and make investment more expensive (Wilantari et al., 2020). Research conducted by (Putri et al., 2021) found that inflation affects Foreign Direct Investment. Thus, the third hypothesis prepared in this study is H_3: Inflation exerts a positive and significant influence on Foreign Direct Investment.

In accordance with the precepts of direct investment theory (for example, the eclectic paradigm theory or the OLI framework proposed by John Dunning), the phenomenon of FDI is propelled by three primary factors: ownership advantages, location advantages and internalisation advantages. Trade openness can be defined as the absence of barriers to trade activities and the smooth flow of capital between countries (A'yun & Khasanah, 2022). It is evident that nations that exhibit greater openness to trade frequently possess location advantages that are more appealing to foreign investors, including larger markets, enhanced access to global markets, and policies that support international trade (Saepudin & Marselina, 2022). The implementation of policies that promote free trade, such as the elimination of tariffs

and import restrictions, has been identified as a key factor in enhancing the attractiveness of a nation's market to foreign investors, thereby facilitating the capitalisation opportunities available to them (A'yun & Khasanah, 2022).

Furthermore, the openness of a nation's economy to international trade and investment can facilitate the transfer of technology and knowledge between the home country and the host country. It enables domestic firms to acquire knowledge and technology from foreign firms through various mechanisms, such as demonstration effects and labour mobility, which improve their technical efficiency and thus increase the level of investment in the country (Sugiharti et al., 2022). Consequently, FDI is more likely to flow to countries that have open trade policies, which facilitate the operation of foreign firms and their access to international markets. Research conducted by Shara & Khoirudin (2024) found that trade openness has a significant positive effect on FDI. Consequently, the fourth hypothesis formulated in this study is as follows H_4: Trade openness exerts a positive and significant influence on Foreign Direct Investment.

In accordance with the precepts of direct investment theory, a nation exhibiting a high GDP is indicative of a more substantial and stable market, in addition to offering promising economic growth prospects for foreign investors. Consequently, foreign companies are more inclined to allocate capital to countries with higher GDP, with the objective of capitalising on their extensive market potential and enhancing their production efficiency (Davis & Akbar, 2022). Reduced real interest rates are also expected to decrease the cost of capital, thereby reducing the cost of financing direct investment projects, thus rendering countries with lower cost of capital more attractive to foreign investors (Borah et al., 2020). Furthermore, lower inflation is expected to have a positive influence on FDI, given that high inflation rates increase economic uncertainty and undermine a country's competitiveness, thus prompting foreign investors to avoid countries with high inflation (Syarkani, 2021). Higher trade openness is expected to increase FDI, as countries with open trade policies offer easier access for foreign investors to enter the global market (Aslam & Rudatin, 2023). Open trade policies reduce barriers for investors and provide more incentives for them to invest directly, given the efficiency benefits and wider market access (Aslam & Rudatin, 2023).

Consequently, foreign investors will evaluate the prevailing economic conditions, and the interplay among these factors will determine the attractiveness of a country for direct investment. Shifts in these economic factors will influence foreign investment decisions in a concomitant manner, precluding the ability to consider these factors in isolation. Research conducted by Saragih et al. (2021) found that all variables affect foreign direct investment simultaneously. Consequently, the fifth hypothesis formulated in this study is as follows H_5: Gross domestic product, real interest rates, inflation and trade openness collectively influence foreign direct investment.

The object of this research is the growth of Foreign Direct Investment Inflows in Vietnam, Malaysia, Thailand, Indonesia for the period 2019-2023 and how gross domestic product, real interest rates, inflation, and trade openness affect FDI. The method used is a quantitative method by conducting panel regression (pooling regression) using the following econometric model:

$$\mathbf{Y = C + AX_1 + BX_2 + CX_3 + DX_4 + e}$$

By using secondary data, namely annual reports on GDP, real interest rates, inflation and trade openness from 2019 to 2023 obtained from the World Bank publication.

Table 1. Data Collection Source

Variable	Year	Source
GDP (constant 2015 US$)	2019-2023	**World Bank**
Real interest rate (%)	2019-2023	**World Bank**
ion, consumer prices (annual %)	2019-2023	**World Bank**
Trade (% of GDP)	2019-2023	**World Bank**
Foreign direct investment, net inflows (BoP, current US$	**2019-2023**	**World Bank**

Source: World Bank, 2024

The methods applied to analyse data and test hypotheses include data quality tests, such as classical assumption tests (normality tests, multicollinearity tests and heteroscedasticity tests). Multiple linear regression analysis, partial t-test, simultaneous F-test and the determination coefficient test (R^2) are used for hypothesis testing.

RESULTS

The normality test is a statistical procedure that is utilised to ascertain the normality of the distribution of research data (Ghozali, 2018). Data is declared to be normally distributed if the asymp. sig. (2-tailed) value is greater than 5%.

Tabel 2. Normality Test Result

	Unstandardized Residual
N	25
Test Statistics	0,180
Asymp. Sig. (2-tailed)	0,360

Source: SPSS output, 2024

As demonstrated in Table 2, the data appears to be normally distributed, as evidenced by the approximate significance level of 0.05. (2-tailed) from the Kolmogorov test is 0.360 or more than the 0.05 level.

As Ghozali (2018) elucidates in his book, the multicollinearity test is a multivariate statistic employed to identify multicollinearity issues in regression models. The data is deemed to be free from multicollinearity symptoms if the Tolerance value is greater than 0.10 and the VIF value is less than 10.

Tabel 3. Multicolinearity Test Result

	Tolerance	VIF
Gross Domestic Product	0,498	2,007
Real Interest Rate	0,933	1,072
Inflation	0,959	1,043
Trade Openness	0,499	2,002

Source: SPSS output, 2024

As illustrated in Table 3, the Tolerance value of the four variables is greater than 0.10, and the VIF value of the four variables is less than 10. Consequently, the research data is deemed to be free from symptoms of multicollinearity.

The heteroscedasticity test is a statistical technique that is utilised to ascertain whether the variation of errors in a regression model remains constant throughout the range of predictor values (Ghozali, 2018). The null hypothesis is rejected if the Sig value is statistically significant. (2-tailed) > 0.05.

Tabel 4. Heteroskedasticity Test Result

Abs_RES	Sig.
Gross Domestic Product	0,521
Real Interest Rate	0,272
Inflation	0,573
Trade Openness	0,550

Source: SPSS output, 2024

As demonstrated in Table 4, the Sig value of the four variables is greater than 0.05. Consequently, the research data is deemed to be free from symptoms of heteroscedasticity.

Table 5. Autocorrelation Test Result

	Unstandardized Residual
Z	-1.204
Asymp. Sig. (2-tailed)	.229

Source: SPSS output, 2024

Table 5 shows that the asymp. sig. (2-tailed) value of the run test is 0.229. This means that it can be concluded that this research data passes the autocorrelation test.

According to Ghozali (2018), the coefficient of determination (R^2) test is employed to ascertain the extent to which the independent variables can account for their influence on the dependent variable.

Table 6. Determination Coefficient Test Result (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0,803	0,644	0,573	4,80115011

Source: SPSS output, 2024

As illustrated in the above table, the Adjusted R Square value is 0.573, indicating that 57.3% of the variation in the independent variable is attributable to the dependent variable, with the residual 42.7% being explained by other variables.

The partial t-test is a statistical technique that is utilised for the purpose of decision-making concerning a statement or hypothesis that has been proposed with respect to parameters or characteristics that are present within a population (Ghozali, 2018). The primary objective of hypothesis testing is to ascertain whether the empirical evidence derived from the observed data supports or refutes the proposed hypothesis (Ghozali, 2018). The declaration of a data set as having a positive and significant effect is contingent upon the attainment of a significant value that is less than 0.05.

Table 7. Multiple Linear Regression Test Result and Partial t-Test

	B	Standar error	t	Sig.
Constant	1,279E+10	5,5520367	2,317	0,031
Gross Domestic Product	0,25	0,005	5,224	0,000
Real Interest Rate	1,1011213	3,0992782	0,326	0,748
Inflation	1,4305075	5,4653173	2,617	0,016
Trade Openness	8,8831053	2,7599538	3,200	0,004

Source: SPSS output, 2024

Based on Table 7, a multiple linear regression formula can be prepared, namely:

$$\mathbf{Y = 1{,}279E{+}10 + 0{,}25}X_1 \mathbf{+ 1{,}10}X_2 \mathbf{+ 1{,}43}X_3 \mathbf{+ 8{,}88}X_4 + e$$

The interpretation of the formula is a constant value of 1.279E+10, indicating that if the values of the Gross Domestic Product, Real Interest Rate, Inflation, and Trade Openness variables remain constant, the value of Foreign Direct Investment will also remain constant at 1.279E+10. The Gross Domestic Product variable coefficient is 0.25, indicating that an increase of 1 unit in the Gross Domestic Product variable results in a 0.25 increase in the Foreign Direct Investment value. Furthermore, the Real Interest Rate variable coefficient is 1.101, indicating that an increase of 1 unit in the Real Interest Rate variable results in a 0.101 increase in the Foreign Direct Investment value. Finally, the Inflation variable coefficient is 1.430, which indicates that an increase of 1 unit in the Inflation variable will result in a 1.430-unit increase in the value of Foreign Direct Investment. Finally, the coefficient of the Trade Openness variable is 8.883, which means that if the value of the Trade Openness variable increases by 1 unit, the value of Foreign Direct Investment will increase by 8.883.

Another interpretation shows that the research results of the Gross Domestic Product variable have a Sig. value of 0.000 less than 0.05 and has a positive variable coefficient; meaning that H1 is accepted, that Gross Domestic Product has a positive and significant effect on Foreign Direct Investment. Next, the Real Interest Rate variable has a Sig. value of 0.748 greater than 0.05 and has a positive variable coefficient; this means that H2 is rejected, that the

Real Interest Rate does not have a positive and significant effect on Foreign Direct Investment. Next, the inflation variable has a Sig. value of 0.016 less than 0.05 and has a positive variable coefficient; meaning H3 is accepted that inflation has a positive and significant effect on FDI. Finally, the variable Trade Openness has a Sig. value of 0.0004 less than 0.05 and has a positive variable coefficient; meaning that H4 is accepted, that Trade Openness has a positive and significant effect on Foreign Direct Investment.

Simultaneous F test is a statistical technique used in regression analysis to test hypotheses about a group of regression parameters together (Ghozali, 2018). A data is declared simultaneously positive and significant if the significant value is <0.05.

Table 8. Simultaneous Test Result

	Sum of Squares	df	Mean Square	F	Sig.
Regression	8,350E+20	4	2,087E+20	9,056	0,000
Residual	4,610E+20	20	2,350E+19		
Total	1,296E+21	24			

Source: SPSS output, 2024

As demonstrated in Table 8, the statistical significance (Sig. value) of the simultaneous F test is 0.000, which is less than 0.05. Therefore, it can be concluded that Hypothesis 5 is accepted, signifying that the Gross Domestic Product, Real Interest Rate, Inflation, and Trade Openness exert a positive and significant effect on Foreign Direct Investment simultaneously.

Gross Domestic Product (GDP) on FDI

The findings of the study reveal a significant and positive relationship between Gross Domestic Product (GDP) and FDI, with a regression coefficient of 0.25 indicating that an increase in GDP by one unit can result in an increase in FDI by 0.25. This observation aligns with the results reported by Kirana's study (2022), which also found a positive influence of GDP on FDI. The study posits that large domestic markets, economic stability, and high consumption opportunities act as attractors for foreign investment. Agustin et al. (2021) found that the economic attractiveness of a country is indicated by a large GDP, which encourages investors to make long-term investments. However, this is inconsistent with the findings of Nairobi and Afif (2022), who state that high GDP does not always have a large impact on FDI.

The authors contend that while a high GDP signifies a substantial market potential, bureaucratic impediments, unfriendly investment policies, or political instability can diminish the attractiveness of foreign investment.In the context of direct investment (FDI) theory, it is posited that FDI is attracted to large markets, as indicated by high GDP. This theory underscores that high GDP signifies opportunities for economic growth and stability, thereby becoming an influential factor in investment decisions. The findings of the study demonstrate that GDP is a variable with a substantial influence on FDI, as evidenced by the coefficient of 0.25, which signifies that GDP plays a significant role in encouraging FDI in ASEAN.

Real Interest Rate on FDI

The findings of the study reveal a significant and positive relationship between Gross Domestic Product (GDP) and FDI, with a regression coefficient of 0.25 indicating that an increase in GDP by one unit can result in an increase in FDI by 0.25. This observation aligns with the results reported by Kirana's study (2022), which also found a positive influence of

GDP on FDI. The study posits that large domestic markets, economic stability, and high consumption opportunities act as attractors for foreign investment. Agustin et al. (2021) found that the economic attractiveness of a country is indicated by a large GDP, which encourages investors to make long-term investments.With a significant value of 0.748, real interest rates do not significantly affect FDI. Although the regression coefficient of 1.101 shows a positive correlation, this correlation is not significant. This finding aligns with the research conducted by Putri et al. (2021), who concluded that real interest rates are often less significant than other factors such as investment policies, political stability, and infrastructure.

In the ASEAN context, investors may not prioritize interest rates. The outcomes of this study stand in contrast to those of Sari and Baskara (2020), who contend that real interest rates exert a substantial influence on foreign investment, financing costs, and profitability.In accordance with direct investment theory, low interest rates are expected to reduce the cost of capital and enhance the attractiveness of investment. However, in practice, factors such as economic and political stability may supersede the significance of interest rates. This observation indicates that ASEAN investors may prioritize factors beyond real interest rates, such as trade policy and macroeconomic stability, when making investment decisions.

Inflation on FDI

The findings of this study indicate a positive and significant impact of inflation on FDI, as evidenced by a significant value of 0.016 and a regression coefficient of 1.430. This observation aligns with the findings of Putri et al. (2021), who assert that moderate inflation attracts FDI by reflecting healthy economic dynamics and market opportunities. This suggests that controlled inflation can serve as a positive signal for investors. However, Purnama's (2022) findings contradict this assertion. Purnama's research indicates that high inflation leads to increased operational costs, economic uncertainty, and reduced consumer purchasing power, thereby making FDI less appealing. In contrast, the present study suggests that controlled inflation can serve as a signal of economic stability.The theory further posits that low inflation may signify economic stagnation. The findings of this study indicate that inflation in the ASEAN region appears to be within an acceptable range and demonstrates economic dynamics that are appealing to investors, as evidenced by the coefficient of 1.430. This suggests that inflation plays a role in enhancing investor confidence in the potential of ASEAN markets.

Trade Openness on FDI

A substantial value of 0.004 and a regression coefficient of 8.883 reveal a positive and significant relationship between trade openness and international direct investment. This finding aligns with the research of Shara and Khoirudin (2024), which posits that trade openness exerts a positive influence on FDI. The rationale behind this relationship is twofold: first, trade openness facilitates technology transfer, and second, it enhances the attractiveness of investment locations and provides easier access to global markets.

However, Rahmi (2019) found that trade openness does not always have a positive impact on FDI, especially in situations involving non-tariff barriers, protectionist policies, and complex bureaucracy. The Eclectic Paradigm Theory proposed by Dunning asserts that trade openness fosters locational advantages through access to global markets and operational efficiency. This finding lends support to this theoretical framework. The regression data indicates that the coefficient of 8.883 signifies that trade openness is the most significant factor

in attracting foreign investment to ASEAN, thereby underscoring the importance of free trade policies and regional economic integration.

Gross Domestic Product, Real Interest Rate, Inflation, and Trade Openness on FDI

The findings of the study indicate that all variables have a positive and significant impact on FDI, with a highly statistically significant result, as indicated by the F test value of 0.000. This finding aligns with the conclusions of Saragih et al. (2021), who reported that the combined macroeconomic variables exhibit a substantial cumulative effect on FDI. This finding suggests that investors consider a combination of various factors that influence their decision-making process, rather than just a single variable. In contrast, Wilantari et al. (2020) posit a contradictory viewpoint, asserting that macroeconomic policy imbalances have the potential to attenuate the collective impact of multiple variables on FDI. They further emphasize the significance of cooperation between variables in this context. This research explanation also supports the theory of direct investment, which posits that a country's investment climate is influenced by various macroeconomic components, such as GDP, inflation, interest rates, and trade openness.

CONCLUSION

This study underscores the significance of economic policies that prioritize macroeconomic stability and trade openness as key factors in attracting foreign investment. Achieving economic stability, which is achieved through effective inflation management and the establishment of competitive interest rates, is paramount in cultivating a conducive investment environment. Nevertheless, it is imperative to acknowledge that the survival of investment competitiveness is contingent upon the implementation of comprehensive policy support. The efficacy of enhancing investment competitiveness is contingent upon a nation's capacity to implement policies that promote business development, investment facilitation, and the delivery of quality public services. Moreover, the role of ASEAN regional cooperation in fortifying free trade policies and diminishing tariff barriers to bolster increased FDI is of significant consequence. The development of adequate infrastructure, the provision of appropriate investment incentives, and the strengthening of local institutions have been identified as strategic measures with the potential to enhance the competitiveness of the region's economy. This research also opens up opportunities for further studies on the influence of other factors, such as political stability and the quality of human resources, on FDI.

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