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Identify the Influence of Asian's FDI Inflows to Indonesia

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Abstract:

The main objective of this research is to identify or evaluate the determinants of Foreign Direct Investment (FDI) inflows into Indonesia using the extended Gravity model.

Panel data is used to estimate and evaluate the empirical results based on data for the years 1987 to 2014. Is also examines FDI inflows between different locations and their geographical distance from Indonesia.

The results show that the inflows of FDI into Indonesia, which are supply- driven, are significantly influenced by 10 investing partners from Asian countries. The result shows that any increases in GDP, GDPGR between investing partners and Indonesia potentially attract more FDI into Indonesia – emphasising that distance has a negative impact on FDI.

Keywords*: FDI, Gravity Model, Regional integration.*

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1. Introduction

FDI is important to improve the economic development of a country, especially the states whose economy is lagging, because it does not have the technology, human resources and funding sources. FDI is an integrated motive in the development of a country. Inward FDI to Indonesia might be interested for the growth of population, the market size and low manufacturing costs. However, FDI inflows to Indonesia rose from 2004 to 2009 (World Investment Report 2011). World investment report of 2007 stated that FDI in developing world average of 23 percent of the total investments.

Funds allocated through FDI having the possibility to be invested directly in developed, developing or under developed countries. In 2007 US had a $ 500 billion inflows and $ 253 billion outflows in FDI. In 2011 FDI inflows in South Asia, Eastern Europe and Southeast Asia increased by 24 percent, while the outflows have been increased by 20 percent. Reports of world investment by UNCTAD (United Nations Conference on Trade and Development) in 2011, on the development of the 100 largest Trans-National companies of developed countries and Trans-National countries in developing and transition economies grew by 16 percent in 2009, and by 5.1 percent in 2010.

The aim of this article is to use panel data on a bilateral flow of resources belonging to individual FDI to the host countries between 1987-2014, to analyze the empirical determination of inwards FDI to Indonesia by focusing in proximity and concentration advantage. These are Asian Regional FDI flows, coming from ASEAN Economic Community, Japan, China, Hong Kong, India, Pakistan and South Korea. It appears that the average net investment inflows to Indonesia from time to time have increased, while the interest for FDI in Indonesia has increased because of high return expectation.

Besides, Indonesia needs investment in order to improve employment, economic growth, tax revenues, outpacing inflation by producing goods and services in lower cost, foreign exchange earned by the export sector and transfer of technology. Many factors rafting with the entry of FDI into Indonesia, such as gross domestic product (GDP). The growth of FDI in Indonesia from 2006 to 2011 increased by 3.7 times, while GDP growth is only 2.44 times.

The second factor is inflation, where inflation fell by 2.44 times more, while FDI increased by 3.7 times from 2006 to 2011 meaning that there is a link between the entry of FDI with falling inflation. The third factor is the entry of FDI in exports showing that FDI increased by 3.7 times while the export has increased by 1.95 times from 2006 to 2011. FDI is needed in order to export more. The fourth factor bearing on FDI in the exchange rate against the USD. This connection is shown where FDI increased by 3.7 times while the exchange rate against the USD has decreased by 4.24 times.

2. Theory and Hypothesis

2.1 Foreign Direct Investment

A multinational's decision to locate in a foreign market depends on the trade-off between the incremental fixed costs of investing in production capacity abroad and the costs of exporting the output from the domestic source country (Thalassinos and Dafnos, 2015). The gravity approach suggests that these elements are captured by the market relative sizes of the two economies and their distance from each other. Distance can be viewed as a measure of the transactions costs of undertaking foreign activities. For example, the costs of transport and communications, the costs of dealing with cultural and language differences, the costs of sending personnel abroad and the informational costs of institutional and legal factors, e.g., local property rights, regulations and tax systems are all assumed to increase with distance.

2.2 Gross Domestic Product (GDP)

Gross Domestic Product (GDP) is the market value of all final goods and services produced within a country in a given period (Mankiw *et al.,* 2012; Thalassinos *et al.,* 2015). GDP summing the various types of products into a single measure of value as economic activity. GDP includes all items produced in the economy and sold legally on the market, this does not include medications.

GDP measure the value of production in a certain time, the time is usually a year or a quarter (three months). GDP is the total output produced within the territory of a country for a year (Samuelson, 2002). Examples are cars produced by Ford (American owned company) from its plant in the UK which is considered as the Gross National Income (GNI). GDP is *"the goods and the final services based on market prices, which are produced by an economy in a given period using the production factors of the economy"*.

2.3 Income per capita (CAP)

The meaning of the income per capita has to do with the average level of income in the whole population of the country. There is a specific formula to calculate the average income level of a country's population in the period of a year. The formula is:

$$CAP = \frac{GNPn}{Pn}$$

where: CAP = Income Per Capita (income per capita) in year n, GNPn = Gross National Product in year n and Pn = Population of the country in year n. The concept of GNPn that can be used in computing the income per capita is generally either Gross Domestic Product (GDP) or Gross National Product (GNP).

2.4 Economic Growth of the Economy

The pace of economic growth shows the growth rate of the real GNP of the economy in question. The causes of economic growth is the change in the available resources

capital and labor (Dornbusch and Fischer, 1987). In the case of a high rate of growth, the production of goods and services increased, thus allowing an increase in the standard of living. The high growth rate will generally lower the unemployment rate and expanding employment opportunities. The determination of the standard of living depends on its ability to produce goods and services and productivity depends on physical capital, human capital, natural resources and mastery of science and technology (Mankiw *et al.*, 2012; Thalassinos and Kiriazidis, 2003).

Economic growth refers to the process of increasing the production of goods and services in an economy (Sukirno, 2015). An economy is said to grow when the economy is in a higher level than a year before. The increase in total production by some production members of an economy is defined as the increase in the GDP / GNP of a region or country. To calculate the rate of economic growth we use the formula:

$$g = \frac{(GDP.1 - GDP.0)}{GDP.0} \times 100$$

where g = the percentage growth rate;
GDP.1= Gross Domestic Product in year 1;
GDP.0= Gross Domestic Product in year 0.

The definition of national income is the value of goods and services produced within a country in a given year. This value can be calculated according to current prices (ie the prices prevailing in the year when GDP is calculated) and according to fixed prices that is at the prices prevailing in the base year, (Sukirno, 2015).

2.5 Inflation

Prices and inflation as a determinant of long-term economic growth is more about the value for money of the value of the goods and services known as consumer price index (Mankiw, 2012). When the consumer price index (CPI) and other price level gauges climbed, commentators often tempted to see the prices of individual indices that make up these prices. When the CPI rose by 3 percent last month it can be due to a 20 percent increase in rice prices and a 30 percent rise in the price of cooking oil. CPI is a phenomenon in the economy related to the value of currency in the economy.

The overall price level of the economy can be seen in two ways; the first level of price as the price of a set of goods and services, when the price level rises people should pay more for the goods and services they buy. Both price levels considered as a measure of value for money. The increase in the price level means a lower value for money because each unit of the local currency in public hands can only buy goods and services with much smaller amounts. The interest rate is an important variable to be understood by economists of the macro economy, because it connects

the variable of the current economy with the future economy and its effects on savings and investment. For that we need to understand the relationship between money, inflation and interest rates. Nominal interest rate is the interest rate that occurs or agreed between the receiver and the borrower of the loan.

The real interest rate is the nominal interest rate minus the inflation rate. In the long run when money is neutral, a change in money growth should not affect the real interest rates, real interest rates is a real variable. So, because real interest rates are not affected, then the nominal interest rate must be adjusted in line with changes in the rate of inflation. When the Central Bank decides to raise the rate of money growth, the result is higher inflation and higher nominal interest rates. Inflation is a rise in the general price level, while the inflation rate is the rate of change in the general price level (Samuelson, 2002). Inflation in general can be defined as the process of increasing goods' prices continuously for a certain period (Nopirin, 2009). Inflation has several elements, namely: (a) inflation is the general trend of rising prices of goods and services continually; (b) the increase does not occur continuously neither by the same percentage but most importantly the rise in general prices are kept continuously for a certain period; (c) the price increase that occurred is only temporary, did not impact further extends. In this case it is not inflation.

2.6 Trade (Net Export)

Each country will export goods which have comparative advantage, for example goods that can be produced by factors of production owned by the state in large quantities and import goods having small comparative advantage. Both countries will gain by trading. Thus, the role of international trade in economic growth is quite important (Nopirin, 2010). Exports are goods and services produced in the country to be sold abroad (Mankiw, 2012). International trade occurs because of two things:

a. Countries trade because they are basically different in production from each other. Each country can benefit by doing something better.
b. Countries trade to achieve economies of scale in production. It means that if each country produces only a certain number of goods, if they trade they can produce goods at a larger scale and therefore more efficient. World trade is a combination of both motifs.

According to the Ricardian theory, a country which has a workforce that is relatively more efficiently than in another country, can obtain a comparative advantage in producing goods, the test is done by comparing the productivity of labor and the exports of each industry between the two countries, the United States and the United Kingdom (Basri, 2010). According to Wirasasmita (2010), exports increase investment, both domestic investment and foreign direct investment while investment increases national income. Export is the transportation of goods or commodities from one country to another under legal purposes, generally through the trading process. The export process in general is an action to produce goods or

commodities in a country to transport it to other countries (Thalassinos and Politis, 2012).

2.7 Exchange Rate

Foreign exchange or the foreign exchange (FOREX) is the currency that is issued as legal tender in other countries (Amalia, 2007). Foreign currencies have a value when currencies exchange in the market for other currencies without any restriction. Foreign exchange is defined as a foreign currency and other payment instruments used to conduct or finance the international financial and economic transactions that have records in the Central Bank's official exchange rate (Hamdy, 2005).

Foreign exchange market is a market that facilitates the exchange of currencies to facilitate trade transactions and international finance. Or if interpreted in a simple way, forex market is currency trading (exchange) of a country with another country's currency while the rates of currency exchange is also called the Foreign Exchange Rate in Indonesia known as the Foreign Exchange (Amalia, 2007).

The function of the Foreign Exchange Market in order to facilitate international payments, foreign exchange market has very important role to play. The role of the foreign exchange market, among others is (Amalia, 2007):

a) Streamlining the activities of exports and imports;
b) Streamlining foreign exchange;
c) Facilitate the transfer of funds from one country to another giving the opportunity to foreign exchange traders to speculate.

3. Hypothesis Development

3.1 GDP effect on FDI

GDP has a positive influence on the inflows of FDI into Indonesia. This result is in accordance with the results by Nurhidayat (2012), Yong Ting (2005) and Sarwedi (2002) which they state that GDP is a measure of the market while the size of the market in the host country is cons idered for the entry of FDI to this country. Our research hypothesis is:

H1: *GDP affects the inflows of FDI into Indonesia.*

3.2 CAP effect on FDI

The result by Sarwedi (2002), states that per capita income has a positive effect on the volume of FDI into Indonesia while the result by Thanyakhan (2008) state that the income per capita has a negative effect on the volume of FDI into Indonesia. Our research hypothesis is:

H2: *CAP affects the inflows of FDI into Indonesia.*

3.3 GDPGR effect on FDI

The results by Nurhidayat (2012), Sarwedi (2002), Dalimunte (2004), Thanyakhan (2008), Jong Do (2010), Ancharaz (2004), Kurniati (2007) noted that economic growth has a positive influence on the inflows of FDI into Indonesia. Our research hypothesis is:

H3: *GDPGR affects the inflows of FDI into Indonesia.*

3.4 Trade effect on FDI

Sarwedi (2002), Yong Ting (2005) stated that trade has a positive influence on the inflows of FDI into Indonesia. Our research hypothesis is:

H4: *Trade affects the inflows of FDI into Indonesia.*

3.5 Exchange rate effect on FDI

Thanyakhan (2008), Ancharaz (2004), Kurniati (2007), stated that the exchange rate has a positive influence on the inflows of FDI to the host country. Our research hypothesis is:

H5: *Exchange Rate affects the inflows of FDI into Indonesia.*

3.6 INFL effect on FDI

Thnyakhan (2008) and Ancharaz (2004) stated that inflation has an impact on the inflows of FDI to the host country. Our research hypothesis is:

H6: *INFL affects the inflows of FDI into Indonesia.*

3.7 Distance effect on FDI

Thanyakhan (2008) has shown that distance is not a significant factor in determining FDI. It is evident that geographical distance between investing partners and the host country is an insignificant factor for the resistance of FDI inflows into the host country. Our research hypothesis is:

H7: *Distance affects the inflows of FDI into Indonesia.*

3.8 ASEAN effect on FDI

Thanyakhan (2008) has argued that regional economic community will encourage the volume of FDI into the host country. Our research hypothesis is:

H8: *ASEAN Economic Community affect the inflows of FDI into Indonesia.*

3.9 APEC effect on FDI

Thanyakhan (2008) has argued that regional cooperation will encourage FDI to the country. Our research hypothesis is:

H9: *APEC affects the inflows of FDI inflow into Indonesia.*

3.10 FDP, CAP, GDPGR, TRADE, X, INFL, DIST, ASEAN, APEC simultaneously influence FDI inflows into Indonesia

Thanyakhan (2008) stated that all variables affect the volume of FDI to the host country. Our research hypothesis is:

H10: *All variables affect the entry and the volume of FDI inflows into Indonesia.*

4. Research Methodology

The object used in this study are 10 Asian countries in the period of 1987-2014. The data in this research are coming form governmental reports mostly from the Central Bank of Indonesia.

4.1 Normality Test

Normality test aims to test whether the dependent and the independent variables in the regression model residuals follow a normal distribution. Widarjono (2009) suggests that residual normality test by using OLS method can be detected by Jarcu-Berra (JB) statistic. If the value of the probability of JB statistic is high or say insignificant, then we accept the hypothesis that the residuals are normally distributed. Conversely, if the value of JB statistic is small or significant, then we reject the hypothesis that the residuals are normally distributed, or say that the residuals are not normally distributed. The formulation is as follows:

$$JB = n\left(\frac{S^2}{6} + \frac{(K-3)^2}{24}\right)$$

4.2 Hypothesis Testing

We analyze the data using ordinary multiple regression model (OLS), which aims to determine the effect and the influence in a simultaneous and partial manner. Gravity model is also used aiming determine the significance of the independent variables to FDI inflows into Indonesia. The starting point of the Gravity Model formulation is expressed as a function of the general specification of the FDI. The main components of the Gravity model include national income and geographical distance (Yotov *et al.,* 2010).

5. Analysis

The results of this study are shown in Tables 1 and 2 below.

Table 1. *Summary of Result of Testing Hypothesis*

Hypothesis	Coefisien Betha	t - Statistic	Prob	Information
H1 : GDP	0,568868	5,502112	0,0000	Take effect
H2 : CAP	0,624367	2,633552	0,0090	Take effect
H3 : GDPGR	-0,127105	-1,106214	0,2698	No effect
H4 : Net Expor	-0,164576	-2,548654	0,0115	Take effect
H5 : X	0,432783	3,336222	0,0010	Take effect
H6 : INFL	0,046982	0,679715	0,4974	Take effect
H7 : DIST	-55,07811	-7,569616	0,0000	Take effect
H8 : ASEAN	-6,044292	-4,304851	0,0000	Take effect
H9 : APEC	4,095320	2,630008	0,0091	Take effect
H10 : Adj R^2	0,700602			
F-Statistic	62,62108			Take effect
Prob	0,000000			Take effect

Table 2. *Hypothesis Testing Result*

	Hypothesis	Information
H1	The rising purchasing power or the domestic market could increase the entry of FDI from Asia to Indonesia and significant	Accepted
H2	The rising income per capita increase the entry of FDI from Asia to Indonesia and significant.	Accepted
H3	The declining economy growth can increase the entry of FDI from Asia to Indonesia but less significant.	Rejected
H4	The declining net exports could increase FDI from Asia to Indonesia Accepted but less significant.	Rejected
H5	The rising exchange rate increase the entry of FDI from Asia to Indonesia and significant	Accepted
H6	The rising inflation increase the entry of FDI from Asia to Indonesia and significant	Accepted
H7	The decrease of distance between capital city of investing partner to Jakarta can increase the entry of FDI from Asia to Indonesia and significant	Accepted
H8	The decline of regional relations among ASEAN member countries can increase the entry of FDI from Asia to Indonesia and significant	Accepted
H9	Increased regional relation among member countries of APEC can increase the entry of FDI from Asia to Indonesia and significant	Accepted
H10	The effect of jointly on the inclusion of FDI from Asia to Indonesia by 70% and significant	Accepted

The first hypothesis (H1) states that the GDPij has a positive influence on the inflows of FDI into Indonesia. The size of the market is a key factor for investment

attraction in Indonesia. GDP represents the total amount of purchasing power, which is indicated by the amount of production throughout the country. This huge market has huge economies of scale in production, so the production cost per unit to be low. Because of the low production cost the economy can be competitive in the world market. The results show that GDP has an impact on the entry and the volume of FDI from Asian countries to Indonesia and this result is significant at 1% level.

The second hypothesis (H2), states that CAP, income per capita, is a measure of the purchasing power per individual. Therefore if the income per capita is high, then the purchasing power of the demand for goods and services is strong. The results showed a positive and significant beta coefficient meaning that the effect of the increase in income per capita is significant at the level of 1% of direct foreign investment into Indonesia.

The third hypothesis (H3), states that GDPGR, is a measurement of economic growth in the country over the years both in the investing country and the host partner country. If economic growth is an indicator that the welfare of the community has decreased, so that the value of goods produced and sold in Indonesia from year to year decline. Investors hope to gain in the long run a higher return in the host country considering as a main attraction for a growing market. The results showed that the beta coefficient is negative, meaning that economic growth is declining. This means that the FDI is needed in order to increase the economic growth.

The fourth hypothesis (H4), trade or net exports, states that trade is an indicator of a country's economic openness, where exports and imports are considered independent within the framework of the efficiency of goods. If electronic goods from China are cheaper than the domestic prices in Indonesia, the goods should be imported. Vice versa if the price of domestic marine fisheries in Indonesia is cheaper than the price of fish in Japan, then you should export to Japan. Accordingly each country gain cost efficiency of production of goods that are imported or exported. The results showed that the beta coefficient is negative, meaning that because of the decline in trade, FDI inflows into Indonesia are increasing. Net export contribution is still small or declining and the decline in trade is significant at 5% level. Hence, the need to invite FDI into Indonesia, so net export increase, as FDI has an extensive network in international trade.

The fifth hypothesis (H5), states that the exchange rate (X), the rupiah against the US dollar, fluctuates so we should have enough foreign exchange reserves to the rupiah against the US dollar in order to stabilize the rate. Exchange rate instability may cause a decrease in export momentum. If prices rise, the USD will gain profit for the exporter by receiving a large amount. The results showed a positive beta coefficient and a small and significant influence at 10% level. This means that if the exchange rate rise by 1%, it will increase FDI from investing partner by 0.4%.

Therefore, it should attract FDI in order to increase export and foreign exchange reserves while the exchange rate will lead to stability.

The sixth hypothesis (H6), states that inflation is a tendency to increase the prices of goods simultaneously in a given period. Rising prices will increase FDI origin countries, this will lead to rising prices of goods sold while the demand for goods decreases. The reduced demand for goods by society results in lower overall revenues. If sales revenues are below the break even point, the company will reduce its workforce, which will eventually close. The results showed that the beta coefficient is positive, meaning that for every 1% increase in inflation will increase inflows of FDI from Asian countries amounted to 0.469%. This reflects the increase in the price index because of the increased demand on substitution products which are cheaper for the consumer in his country. The implication is that FDI will increase overseas investment with low inflation, where prices can compete in the global market and domestic market. Although the effect of inflation on the entry of FDI is not significant.

The seventh hypothesis (H7), states that distance between the country of origin and the country of destination of investment is important since the costs (the cost of transportation and the cost of travel risk) is paid by companies and ultimately passed on to consumers. The further the distance between the country of origin and the country of destination of investment the higher the charging cost. The results showed that the sign of beta coefficient is negative meaning that the closer the distance between the country of origin of investors and the country of destination of the investment the higher the trade of FDI into Indonesia. The effect of the distance in the trade of FDI entry to Indonesia was significant.

The eighth hypothesis (H8), states that the ASEAN Economic Community consisting of Indonesia, Malaysia, the Philippines, Thailand, and Singapore may affects the inflows of FDI into Indonesia. This relation of economic cooperation between ASEAN countries is expected to strengthen the economic corporations in ASEAN community, where the domestic demand for goods and services are met by the ASEAN countries, while the rest can be imports from countries outside ASEAN. The results showed that the beta coefficient is negative, meaning that if the regional cooperation among ASEAN countries declined, the foreign direct investment from ASEAN countries to enter Indonesia increased significantly at the level of 1%. This means that ASEAN member countries are not able to deter FDI from Asian countries to Indonesia. It turns out that investors from Asia is the biggest partner of the APEC member countries and the rest of the ASEAN member countries to invest in Indonesia.

The ninth hypothesis (H9), states that APEC, the economic cooperation of the countries of Asia-Pacific, is encouraging imports and exports between the countries concerned. The results showed that the beta coefficient is positive meaning that the relationship between the countries concerned has been increased, the foreign direct

investment from Asian countries have also been increased in Indonesia and the effect is significant.

The tenth Hypothesis (H10), states that all variables together or in simultaneous matter variables GDP, CAP, GDPGR, TRADE, X, INFL, DIST, ASEAN, APEC affect FDI, where the influence is about 70.06% (value of the Adjusted R2). The remaining 29.94% can be contributed to other factors not examined in this study. This simultaneous effect with the entry of FDI from Asia to Indonesia is also significant.

6. Conclusion

H1: The rise in the purchasing power or the domestic market could increase the entry of FDI from Asia to Indonesia and this result is significant. Sarwedi (2002), states that GDP has a positive influence on the entry of FDI into Indonesia, as well as the results of Nurhidayat (2011), Jong Do (2010) and Yong Ting (2005). Shepherd (2013) stated that an increase of GDP for both investing partners and Indonesia raises the affiliate activity of FDI in Indonesia. This is because the coefficient of GDP is income-elastic. Thus, a large size of economies in both investing partners and Indonesia increase the entry of FDI into Indonesia. One of FDI's objectives is to have a large market share and to achieve this objective FDI produces huge quantities to benefit from economies of scale. Due to this factor, there is huge market potential to attract FDI in Indonesia. It can be argued that investing partners expect to make more profits through mass production with lower marginal costs of production in Indonesia with larger market size to serve their products.

H2: Income per capita has a positive effect on the entry of FDI into Indonesia. However, Thanyakhan (2009) states that the income per capita has a negative effect, meaning that FDI need to raise the income per capita in the partner country. He said that income per capita, as an indicator of potential market size, may develop the Indonesian economy relative to FDI production base. Based on the estimated coefficients of income per capita means that Indonesia is a labor-intensive and, simultaneously investing partners are capital-intensive in production. This could be due to other characteristics that make Indonesia attractive to investors.

H3: Economic growth has a negative and significant impact. The conclusion of the results showed that the beta coefficient is negative, meaning that the impact of economic growth is to decline to increase of FDI from Asia to Indonesia. This means that the FDI is needed to increase economic growth. This study differs from the results of Nurhidayat (2012), Sarwedi (2002), Dalimunte (2004), Thanyakhan (2008), Ancharaz (2004), Kurniati (2007) noted that economic growth had a positive effect on the entry of FDI to Indonesia.

H4: It states that net export or trade, is an indicator of a country's economic openness. This study was supported by the research of Sarwedi (2002), Yong Ting

(2005) which have stated that trade has a positive influence on the entry of FDI into the host country.

H5: It states that the exchange rate (X), the rupiah against the US dollar, fluctuates, the results showing a positive influence on the inflows of FDI into Indonesia. This research was supported by the results of Thanyakhan (2008), Ancharaz (2004), Kurniati (2007) which have stated that the exchange rate has a positive influence on the entry of FDI into the host country.

H6: It states that inflation is an increasing trend of prices of goods simultaneously in each period. The results by Thnyakhan (2008), Ancharaz (2004) states that inflation has a positive influence on the entry of FDI to the host country indicating that the high inflation rate in investing partners increases the foreign direct investment into the host country. It can be argued that the inflation rate indicates the macroeconomic stability of the investing partners and captures uncertainties in their economies, and therefore high inflation rates in their countries can encourage outward FDI.

H7: It states that distance has a negative beta coefficient meaning that the closer the distance between the country of origin of investors and the country of destination of investments for FDI into Indonesia is significant. Thanyakhan (2008) argued that distance is not a significant factor in determining FDI. It is evident that geographical distance between investing partners and the host country is an insignificant factor for the resistance of FDI inflows into the host country.

H8: It states that ASEAN Economic Community factor affects FDI. It shows that as regional cooperation among ASEAN countries declined, FDI from Asian countries to enter Indonesia increased significantly at the level of 1%. This means that ASEAN member countries are not able to deter FDI from Asian countries to Indonesia. This result is also supported by Thanyakhan (2008) stating that regional cooperation will encourage the entry of FDI into the host country.

H9: It states that APEC, has a relationship between the countries concerned and the FDI from Asian countries into Indonesia. The result is significant at 1% level. The same result is also supported by Thanyakhan (2008). The coefficient is positive since FDI may take advantage of APEC to increase its opportunity for investment and/or trade between APEC members by reducing the information cost and increasing the potential market.

H10: It states that all variables have an influence on the inflows of FDI from Asia to Indonesia and this effect is significant. This is supported by the research of Thanyakhan (2008), Sarwedi (2002), Ancharaz (2004) and Kurniati (2007).

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