

**MACROECONOMIC AND FOREIGN DIRECT INVESTMENT:  
A CASE STUDY IN INDONESIA**



**THESIS**

**SUBMITTED TO THE FACULTY OF ISLAMIC ECONOMICS AND  
BUSINESS, SUNAN KALIJAGA STATE ISLAMIC UNIVERSITY  
YOGYAKARTA, AS ONE OF THE REQUIREMENTS FOR OBTAINING A  
BACHELOR'S DEGREE IN ISLAMIC ECONOMICS.**

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**SHARIA ECONOMICS STUDY PROGRAM  
FACULTY OF ISLAMIC ECONOMICS AND BUSINESS  
SUNAN KALIJAGA STATE ISLAMIC UNIVERSITY YOGYAKARTA  
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2025**

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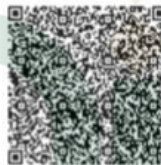
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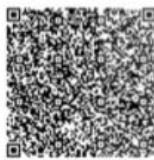
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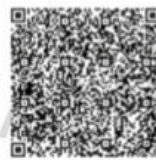
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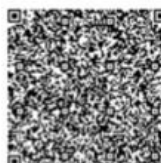
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## THESIS APPROVAL LETTER

To:

**Dear Dean of the faculty of Islamic Economics and Business  
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In Yogyakarta**

*Assalamualaikum Wr. Wb.*

Reading, researching, providing clues and correcting and making corrections as necessary, I as a supervisor am of the opinion that your thesis :

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Thesis Title : **Macroeconomic and Foreign Direct Investment: A  
Case Study in Indonesia**

It can be submitted to the Faculty of Islamic Economics and Business. Department/Sharia Economics Study Program, UIN Sunan Kalijaga Yogyakarta as one of the requirements to obtain a Bachelor of Science degree in the field of Islamic economics.

With this, I hope that the thesis mentioned above can be submitted soon. I thank you for your attention.

Yogyakarta, 06 February 2025

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## STATEMENT OF AUTHENTICITY OF THESIS

*Assalamualaikum Wr. Wb.*

I am the undersigned:



Name : Zaimatus Sholihah  
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declare that the thesis entitled “**MACROECONOMIC AND FOREIGN DIRECT INVESTMENT: A CASE STUDY IN INDONESIA**” is truly the author's own work, not a duplication or adaptation of the work of others, except in parts that have been referred to and mentioned in the bodynote or bibliography. If at a later time it is proven that there are deviations in this work, the full responsibility lies with the compiler.

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## **PUBLICATION APPROVAL PAGE**

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**MOTTO**

**“LIFE IS NEED A CHANGE TO BE BETTER, ESPECIALLY IN THE  
EYES OF ALLAH”**





## DEDICATION PAGE

*Bismillahirrahmanirrahim*

*Puji Syukur* to Allah SWT and *sholawat* and *salam* always poured out to the Prophet Muhammad SAW. This thesis is an offering to:

“The two most precious people in my life Mr. Zainal Abidin and Mrs. Siti Khoimah, thanks to the prayers and support given so that my life becomes easier and smoother. Not to forget my beloved sister Ainur Rohmah and Qoqo and my extended family. I just want to give my best for every trust they give, grow into a useful person. Thank you for always keeping me in your prayers and always providing support to achieve whatever my dreams are. This achievement is a special offering to you and your family.”



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## ARABIC - LATIN TRANSLITERATION GUIDELINES

Transliteration is the transfer of writing from one language into the writing of another language. In this thesis, the transliteration in question is the transfer of Arabic writing to Latin. The writing of Arabic-Latin Transliteration in this thesis uses transliteration based on the Joint Decree of the Minister of Religion of the Republic of Indonesia and the Minister of Education and Culture of the Republic of Indonesia Number: 158 of 1987 and Number: 0543 b/U/1987. The outline of the description is as follows:

### A. Single Consonants

Arabic Letter	Name	Latin Letter	Name
أ	Alif	Not symbolized	Not symbolized
ب	Ba	B	Be
ت	Ta	T	Te
ث	Ša	š	es (with a dot above)
ج	Jim	J	Je
ح	Ḥa	ḥ	ha (with a dot below)
خ	Kha	Kh	ka and ha
د	Dal	D	De
ذ	Žal	Ž	Zet (with a dot above)
ر	Ra	R	er
ز	Zai	Z	zet
س	Sin	S	es
ش	Syin	Sy	es and ye

ص	Ṣad	ṣ	es (with a dot below)
ض	Ḍad	ḍ	de (with a dot below)
ط	Ṭa	ṭ	te (with a dot below)
ظ	Ẓa	ẓ	zet (with a dot below)
ع	`ain	`	inverted commas (above)
غ	Gain	G	ge
ف	Fa	F	ef
ق	Qaf	Q	ki
ك	Kaf	K	ka
ل	Lam	L	el
م	Mim	M	em
ن	Nun	N	en
و	Wau	W	we
هـ	Ha	H	ha
ء	Hamzah	‘	apostrof
ي	Ya	Y	ye

**B. Duplicate Consonants due to Syaddah Written in Duplicate**

مُتَعَدِّدَة	Written	<i>muta'addidah</i>
عِدَّة	Written	<i>'iddah</i>

### C. Ta' Marbutah

#### 1. Ta' marbutah live

Ta' marbutah live or which gets fathah, kasrah, and dammah harakat, transliteration is “t”.

حكمة	Written	<i>hikmah</i>
جزية	Written	<i>jizyah</i>

#### 2. Ta' marbutah dies

Ta' marbutah dies or which gets a sukun harakat, the transliteration is “h”

كرامة الأولياء	Written	<i>karāmah al-auliya'</i>
----------------	---------	---------------------------

#### 3. If the last word with ta' marbutah is followed by a word that uses the article al and the two words are read separately, then the ta' marbutah is transliterated with “h”

زكاة الفطر	Written	<i>zakāh al-fiṭr</i>
------------	---------	----------------------

### D. Short Vowels and Their Applications

َ	Fathah	Written	<i>a</i>
ِ	Kasrah	Written	<i>i</i>
ُ	Dammah	Written	<i>u</i>
فَعَلَ	Fathah	Written	<i>fa'ala</i>
ذَكَرَ	Kasrah	Written	<i>zūkira</i>
يَذْهَبُ	Dammah	Written	<i>yazhabu</i>

### E. Long Vowels

1. Fathah + alif	Written	<i>ā</i>
------------------	---------	----------

جاهلية	Written	<i>jāhiliyyah</i>
2. <i>Fathah</i> + <i>yā'</i> mati	Written	<i>ā</i>
تنسي	Written	<i>tansā</i>
3. <i>Kasrah</i> + <i>yā'</i> mati	Written	<i>ī</i>
كريم	Written	<i>karīm</i>
4. <i>Ḍammah</i> + <i>wāwu</i> mati	Written	<i>ū</i>
فروض	Written	<i>furūd</i>

#### F. Double Vowels

1. <i>Fathah</i> + <i>yā'</i> mati	Written	<i>ai</i>
بينكم	Written	<i>bainakum</i>
2. <i>Fathah</i> + <i>wāwu</i> mati	Written	<i>au</i>
قول	Written	<i>qaul</i>

#### G. Consecutive Short Vowels in One Word Separated by an Apostrophe

أأنتم	Written	<i>a'antum</i>
أعدت	Written	<i>u'iddat</i>
لئن شكرتم	Written	<i>la'in syakartum</i>

#### H. Compound words Alif + Lam

1. When followed by a Qomariyah letter, it is written using the letter “a”

اقرآن	Written	<i>al-Qurān</i>
-------	---------	-----------------

القياس	Written	<i>al-Qiyās</i>
--------	---------	-----------------

2. When followed by a Shamsiyyah letter, it is written according to the first letter of the Shamsiyyah

السَّمَاء	Written	<i>as-Samā</i>
الشَّمْس	Written	<i>asy-Syams</i>

### I. Putting Words into Sentences

Written according to its pronunciation

ذَوِ الْفُرُض	Written	<i>ẓawi al-furūd</i>
أَهْلُ السُّنَّة	Written	<i>ahl -as-sunnah</i>

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YOGYAKARTA

## PREFACE

*Puji Syukur alhamdulillah* the author thanks *Allah SWT* for all the blessings, grace in the form of health and strength and guidance, so that the author can complete this final project entitled “**Macroeconomic and Foreign Direct Investment: Case Study In Indonesia**”. *Shalawat* and *salam* are always poured out to our lord the Prophet *Muhammad SAW*, his family and friends.

This thesis is prepared in order to fulfill one of the requirements to achieve a Bachelor's degree in Sharia Economics Study Program at the Faculty of Economics and Islamic Business, UIN Sunan Kalijaga Yogyakarta. Of course, the preparation of this thesis cannot be separated from the help of Allah SWT and the help of all parties, so that this thesis can be realized. On this occasion the author would like to express his gratitude to those who have provided assistance, input and motivation in completing this thesis, these parties are:

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2. Mr. Prof. Dr. Misnen Ardiansyah, S.E., M.Si., Ak., CA., ACPA., as Dean of the Faculty of Economics and Islamic Business of Sunan Kalijaga State Islamic University.
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The author realizes that this thesis is still far from perfection, for that with an open heart the author receives constructive criticism and suggestions, hopefully this thesis can be useful for those who read and study it. Aamiin.

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## **ABSTRACT**

In recent decades, Foreign Direct Investment (FDI) has been one of the main drivers of economic growth and investment in Indonesia. Foreign investment inflows to Indonesia reached USD 50.37 billion in 2023, an increase of 10.43% from the previous year. This shows the recovery of investor confidence in the Indonesian economy. This study analyzes the influence of macroeconomic variables on foreign investment in Indonesia. This study uses Indonesian time series data from 1988 to 2023. The data analysis technique used is the ARDL method.

The results showed that GDP has a negative effect on FDI in the short term but has a positive and significant effect in the long term. Inflation shows a positive and significant effect on FDI in the short term but has no significant effect in the long term. Interest rate has a positive and significant effect on FDI in the short term but not in the long term. Labor force has a positive and significant effect on FDI in the short and long term.

**Keywords: FDI, GDP, Inflation, Interest Rate, Labor Force**



## ABSTRAK

Beberapa dekade terakhir, Penanaman Modal Asing (PMA) menjadi salah satu faktor pendorong utama pertumbuhan ekonomi dan investasi di Indonesia. Arus masuk investasi asing ke Indonesia mencapai USD 50,37 miliar pada tahun 2023 meningkat sebesar 10,43% dari tahun sebelumnya. Hal tersebut menunjukkan pulihnya kepercayaan investor terhadap perekonomian Indonesia. Penelitian ini menganalisis pengaruh variabel makroekonomi terhadap penanaman modal asing di Indonesia. Penelitian ini menggunakan data time series Indonesia tahun 1988 hingga 2023. Teknik analisis data yang digunakan adalah dengan metode ARDL.

Hasil penelitian menunjukkan bahwa PDB memiliki pengaruh negatif terhadap FDI dalam jangka pendek tetapi berpengaruh positif dan signifikan dalam jangka panjang. Inflasi menunjukkan pengaruh positif dan signifikan terhadap FDI dalam jangka pendek tetapi tidak berpengaruh secara signifikan dalam jangka panjang. Suku Bunga memiliki pengaruh positif dan signifikan terhadap FDI dalam jangka pendek tetapi tidak dalam jangka panjang. Angkatan kerja berpengaruh positif dan signifikan terhadap FDI dalam jangka pendek maupun jangka panjang.

**Keywords: PMA, PDB, Inflasi, Suku Bunga, Angkatan Kerja**



# CHAPTER I

## INTRODUCTION

### A. Background

Investment plays an important role as one of the key factors in driving a country's economic growth. With investment, both domestic and foreign, various economic sectors can develop faster (Mahadiansar et al., 2021). Investment also provides the capital boost needed to strengthen infrastructure, expand industries, and improve the quality of human resources, which will overall increase the competitiveness of the national economy in the global market. Hence, investment is considered a key pillar in supporting sustainable and inclusive economic development.

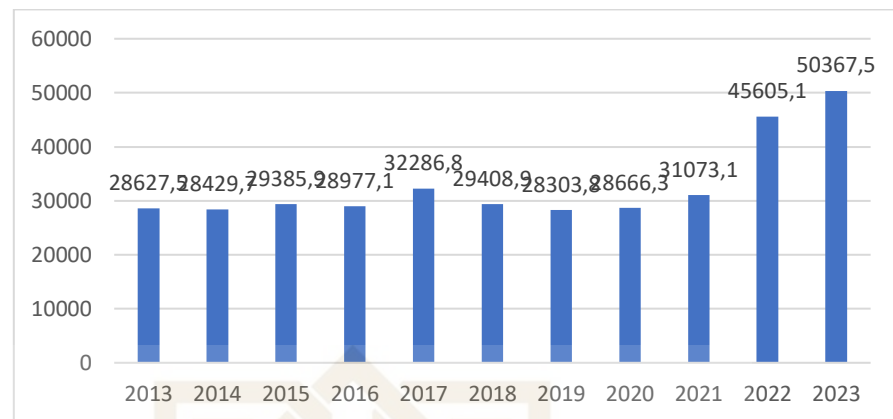
Foreign Direct Investment (FDI) as a form of investment, also has an important role in expanding markets, increasing employment, and increasing the economic growth of a country, especially for developing countries such as Indonesia (Ilham, M., et al, 2023). One of the factors that encourage investors from developed countries to invest in developing countries is lower labor costs compared to their home countries. This is an effort to reduce production costs, expand business and marketing and thus increase profitability. Many developing countries act as producers of raw materials, making it easier for developed countries to obtain these resources (Putri, K, N., et al. 2021).

Based on data from the Investment Coordinating Board (BKPM), Indonesia recorded a positive trend in investment realization. For example,



in the third quarter of 2018, investment realization reached a nominal IDR431.48 trillion, reflecting an increase of 15.24% compared to the same period the previous year. The downstream sector is also one of the biggest contributors to this achievement, which has directly created more than 650,000 new jobs. This shows that effective investment not only boosts economic growth, but also has a real impact in creating economic opportunities and improving people's quality of life (Wau et al., 2024).

However, in Indonesia itself, the performance of FDI still requires more attention to improve the country's economy. This is because FDI plays a strategic role in supporting infrastructure development and increasing the competitiveness of the industrial sector in Indonesia. In addition, the benefits obtained by investment destination countries through FDI include the addition of jobs for people in developing countries which have an impact on increasing people's income, increasing state revenue through taxes, improving the quality of domestic labor through training, and transferring technology from developed countries to developing countries (Khodijah P, N., et al. 2021). Therefore, optimizing the performance of FDI is crucial to achieve the modernization of important sectors, create more jobs, and improve the quality of human resources. In the last 10 years, the growth of FDI in Indonesia can be said to have fluctuated.



**Figure 1.1 Graph of Indonesia's Foreign Direct Investment (FDI) in the Last 10 Years**

Source: Statistics Indonesia (BPS) (2024)

The development of Foreign Direct Investment (FDI) in Indonesia from 2013 to 2023 shows significant dynamics, influenced by various global and domestic economic factors. From 2018 to 2019, foreign investment experienced a decline of 12.34%. Globally, economic uncertainty increased due to the trade war between the United States and China that began in 2018, which became one of the causes of the disruption of international trade stability and made investors tend to hold back expansion to developing countries including Indonesia. However, the COVID-19 pandemic in 2020 led to a sharp contraction in FDI inflows, with many investment projects delayed or canceled.

After this difficult period, 2021 marked the beginning of a recovery with FDI realization of USD 31.07 billion. This recovery continued into 2022, where total FDI reached USD 45.6 billion. The year 2023 became the peak of this positive trend, with foreign investment realization reaching USD 50.3 billion or around 10.45% of total national investment. Sectors

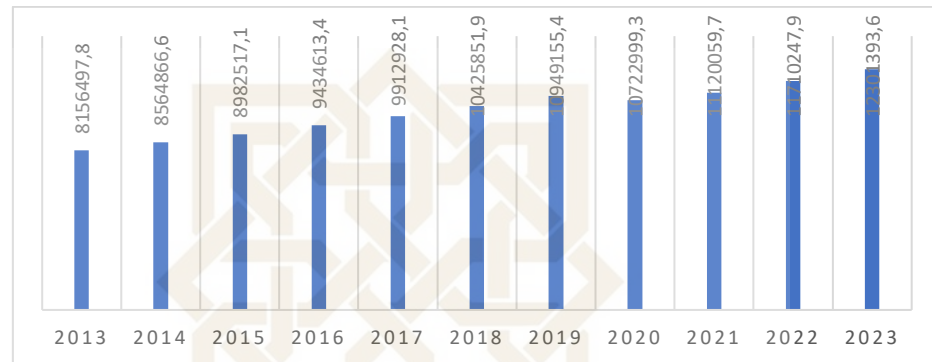
such as transportation, telecommunications, and base metal industries show significant growth.

Countries such as Singapore, China, and Japan remain the main contributors to foreign investment in Indonesia. Data from the Central Bureau of Statistics Indonesia shows that despite the challenges faced during this period, the government's policies focusing on economic stability and structural reforms managed to re-attract the interest of foreign investors. Thus, the trend of FDI in Indonesia over the past decade reflects the country's resilience and appeal as an investment destination despite global challenges.

In each year, there are many factors that affect the rise and fall of FDI levels in a country and several studies have discussed what factors affect the increase and decrease in FDI. In the research from (Kristianto A., et al. 2024) indicates that macroeconomic fundamental factors are quite important in attracting FDI. One of the macroeconomic fundamental factors that affect foreign investment is the economic growth of a country through gross domestic product, inflation, exchange rates and labor.

Gross Domestic Product (GDP) is considered as an important factor influencing Foreign Direct Investment (FDI) in Indonesia. As an indicator of a country's productivity and economic prospects, GDP effectively reflects economic growth. Research by Suhendri et al. (2021) found that GDP has a positive and significant effect on foreign investment in Indonesia. Therefore, the government should focus on increasing GDP

by promoting efficient economic activities through various regulations and policies that create a favorable investment environment and increase productivity in key sectors. A strong GDP growth rate benefits the country by attracting more investors to invest (Susilo, 2020).



**Figure 1.2 Graph of Indonesia's Gross Domestic Product (GDP) in the Last 10 Years**

Source: Statistics Indonesia (BPS) (2024)

In the last ten years, Indonesia's Gross Domestic Product (GDP) has shown positive growth despite having to face various global and domestic economic challenges. (Kurniawan et al., 2021) in their research stated that Indonesia's average GDP growth ranges from 4-5% per year, with various variations according to economic conditions. In 2019 to 2020, there has been a COVID-19 pandemic with GDP based on Purchasing Power Parity (PPP) decreasing to around \$3.2 trillion. 2021 is a transition period after the previous year was affected by the COVID-19 pandemic. Where the Indonesian economy began to experience economic recovery by showing growth of 3.69% which then jumped to 5.31% in 2022. This recovery was supported by increased domestic consumption accompanied by the easing

of social restrictions and mass vaccination policies that increased community mobility (Susilo, 2020).

Based on data from Coordinating Minister for Economic Affairs Airlangga Hartarto in the Press Conference on Indonesia's Economic Growth in the Fourth Quarter of 2022, high global commodity prices, such as coal and palm oil, benefited Indonesia's exports and supported the trade surplus. Recovery was also seen in the tourism and transportation sectors which recovered rapidly along with an increase in domestic and foreign tourist visits. In addition, the economic upturn amid the post-pandemic recovery was also supported by the return of investment activity in the energy, transportation, and tourism sectors. FDI also returned, focusing on technology and renewable energy sectors. The government is also encouraging foreign investment outside Java as part of its economic equalization strategy. High global commodity prices also attracted investment in the mining and energy sectors, which supported the trade surplus and GDP growth (Khodijah P, N., et al. 2021).

Another factor that needs to be considered regarding the factors influencing FDI is the inflation rate. Inflation is a monetary phenomenon that is very common and can be found in almost all countries in the world. According to research from Saragih, (2021), a high rate of inflation can make goods and services less competitive and lead to a decline in corporate profits. Inflation can also lead to an increase in output because in an

inflationary environment, product price increases usually precede wage increases, resulting in higher corporate profits. However, a sufficiently high rate of inflation (hyperinflation) can have the opposite effect of reducing output.



**Figure 1.3 Indonesia's Inflation Rate Over the Last 10 Years**

Source: *World Bank Data* (2024)

Based on the chart above, Indonesia's inflation rate has experienced various fluctuations over the past decade, but the overall trend has been downward. According to data released by the Central Bureau of Statistics (BPS) in 2021, inflation began to show signs of recovery, driven by increased investment in strategic sectors such as infrastructure and technology. The absorption of foreign direct investment helped to increase production capacity and the supply of goods, which helped to control inflation. In 2023, inflation declined to 2.61 percent, in line with price stabilization and the government's efforts to control inflation through tighter monetary and fiscal policies. During this period, FDI remained a key driver of Indonesia's economic growth, but the relationship between

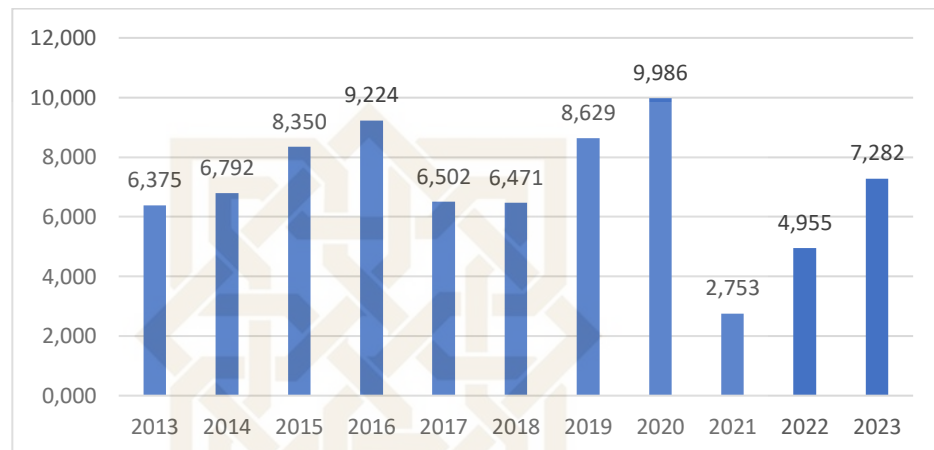
FDI and inflation indicates that while foreign investment can boost production and supply, external factors such as global commodity prices also significantly influence domestic inflation levels.

In line with the research conducted by Kristianto et al (2024), inflation significantly affects FDI in Indonesia in both simultaneous test (F-test) and partial test (t-test). This indicates that if a country experiences a high increase in inflation, it will lead to a decline in people's purchasing power due to the continuous increase in prices of goods and services. This condition can cause economic instability and reduce the attractiveness of the domestic market for foreign investors. Investors tend to avoid countries with high inflation rates because the risks to their investment returns also become greater. Conversely, if inflation remains stable and under control, people's purchasing power will be better, creating a more conducive economic environment for investment.

In addition, the interest rate in a country is considered to be one of the most important factors influencing investment decisions. In economic theory, the interest rate represents the cost of capital that investors must pay to use borrowed funds. If the interest rate is higher than the expected return on capital, the investment becomes less economically attractive because the potential profits from the investment cannot cover the interest cost. This situation can cause foreign investors to delay or even cancel plans to expand or start new businesses in the host country. Conversely,



low interest rates create a more favorable investment climate because lower borrowing costs allow investors greater flexibility in taking risks to achieve long-term profits.



**Figure 1.4 Indonesian Interest Rate Graph for the Last 10 Years**

Source: *World Bank Data* (2024)

Various classical and modern economic theories emphasize that investment is closely related to interest rates, with interest rates being one of the key factors in investment decisions. In theory, interest rates affect the cost of capital, meaning that when interest rates rise, the cost of borrowing or raising capital also rises. This leads to a reduction in investment spending as investors tend to postpone or reduce investment in less profitable projects due to the rising cost of capital. Conversely, when interest rates fall, the cost of capital becomes lower, making investment more attractive to economic agents.

This is supported by research (Manan, et al., 2023) which found that interest rates have a negative and significant relationship to investment. In

other words, the higher the interest rate in a country, the less interested investors are in investing. Research (Shara, Y., et al., 2021) also states that interest rates have a negative and significant effect on foreign direct investment. An increase in interest rates will weaken investment, while a decrease in interest rates can encourage increased investment. However, this view contradicts the findings of (Kristianto, et al., 2024), which show that interest rates have a significantly positive effect on foreign direct investment. Similarly, (Astuty, et al., 2018) concluded that interest rates have a positive, albeit insignificant, relationship with foreign direct investment in Indonesia.

The labor force is also one of the key factors influencing foreign investors' decision to invest in a country. The availability of abundant and skilled labor can be an attractive factor for foreign investors to invest in Indonesia. According to the Central Statistics Agency (BPS), the labor force in Indonesia will reach 138.22 million people in 2020, with a labor force participation rate of 69.23%. This large availability of labor provides opportunities for foreign investors to meet their labor needs in their business operations.

The study conducted by Utma et al. (2019) shows that the Labor Force Participation Rate (LFPR) has a positive and significant impact on the Indonesian economy. This indicates that the higher the labor force participation rate, the greater the contribution to economic growth, which

in turn can attract more foreign investment. In addition, research by Pratama et al. (2022) found that labor force participation has a positive and significant impact on economic growth in Central Java Province. Although this study focuses on a single province, its findings provide insight into the importance of the labor force in driving economic growth and attracting foreign investment at the regional level.

However, the mere availability of an abundant labor force is not sufficient to attract foreign direct investment (FDI). The quality of human resources is also a key consideration for foreign investors. Therefore, improving the quality of education and vocational training is a key factor in enhancing the competitiveness of Indonesian workers in the eyes of foreign investors. Overall, the labor force plays an important role in attracting foreign direct investment to Indonesia. A large and high-quality labor force can enhance Indonesia's attractiveness as a foreign investment destination, ultimately contributing to national economic growth.

In general, Foreign Direct Investment (FDI) plays a crucial role in a country's economic development, including capital transfer, job creation, and technology transfer. Therefore, it is essential to understand the determinants of FDI itself. Hence, this study is titled **“Macroeconomics and Foreign Direct Investment: A Study Case in Indonesia”** to ensure that policies aimed at encouraging FDI inflows to Indonesia can be more effective. The objective of this study is to analyze the impact of GDP,

inflation, exchange rate, and labor on foreign direct investment (FDI) in Indonesia using data from the period 1988-2023.

## **B. Problem Formulation**

1. How does Gross Domestic Product (GDP) affect Foreign Direct Investment (FDI) in Indonesia?
2. How does inflation influence Foreign Direct Investment (FDI) in Indonesia?
3. How do interest rates affect Foreign Direct Investment (FDI) in Indonesia?
4. How does the labor force impact Foreign Direct Investment (FDI) in Indonesia?

## **C. Research Objectives**

1. Knowing how the relationship between Gross Domestic Product (GDP) and Foreign Direct Investment (FDI) in Indonesia in the period 1988-2023
2. Knowing how inflation affects Foreign Direct Investment (FDI) in Indonesia in the period 1988-2023
3. Knowing whether interest rates have a significant effect on Foreign Direct Investment FDI in Indonesia in the period 1988-2023
4. Knowing whether the labor force has a significant influence on FDI in Indonesia in the period 1988-2023

#### **D. Research Benefits**

This study is expected to provide both theoretical and practical contributions. From a theoretical perspective, it can contribute to the economic literature, especially in understanding the factors affecting foreign direct investment (FDI) in Indonesia. On a practical level, the findings can assist policy makers in developing effective strategies to attract FDI, while also serving as a reference for business professionals and foreign investors. In addition, this research can assist the government in designing more efficient economic policies, which will ultimately benefit society by promoting job creation and economic growth.

## **CHAPTER V**

### **CONCLUSION**

#### **A. Conclusion**

Based on the in-depth discussion presented in this study regarding the analysis of the influence of gross domestic product (GDP), inflation, interest rates, and labor force on foreign direct investment (FDI) in Indonesia using the Autoregressive Distributed Lag (ARDL) approach, several conclusions were drawn as follows:

1. GDP has a negative impact on FDI in the short term but has a positive and significant effect in the long term. This indicates that although high economic growth in recent years may create uncertainty for investors in the short term, overall, stable GDP growth remains a crucial factor in attracting foreign investment in the long run. This finding aligns with endogenous growth theory, which states that sustained economic growth enhances investment attractiveness.
2. Inflation has a positive and significant effect on FDI in the short run, but no significant effect in the long run. This finding suggests that in the short run, rising inflation may be perceived as a signal of strong economic growth and profit opportunities for investors. In the long run, however, persistently high and uncontrolled inflation may increase uncertainty and investment risks, thereby reducing its importance for FDI. This is consistent with the Purchasing Power Parity (PPP) theory, which explains that high inflation can erode the value of investments.

3. Interest rates have a positive and significant effect on FDI in the short run, but a negative and insignificant effect in the long run. This suggests that in the short run, rising interest rates may attract investors seeking high returns. However, in the long run, excessively high interest rates increase the cost of capital and may reduce the attractiveness of foreign investment in the real sector. This finding supports the cost-of-capital theory, which suggests that high interest rates increase the cost of borrowing and reduce incentives to invest.
4. The labor force has a positive and significant impact on FDI in both the short and long run, except for the data from three years ago, which shows a negative impact on FDI. This suggests that labor force growth accompanied by improvements in the quality of the labor force can attract more foreign investment. However, if labor force growth is not accompanied by sufficient job creation, labor market rigidity may occur, leading to higher unemployment rates and reducing the attractiveness of foreign investment. This finding is consistent with Becker's (1964) human capital theory, which argues that investment in human capital is crucial for raising productivity and attracting foreign investment.
5. Overall, this study highlights that stable and well-focused macroeconomic policies are essential for attracting foreign direct investment to Indonesia. The government needs to ensure sustainable economic growth, keep inflation within acceptable limits, manage interest rate policy with a



balanced approach, and improve the quality of the labor force to remain competitive in the global market. With the right strategies, Indonesia can remain an attractive destination for foreign investment in the long term.

## **B. Suggestions**

Based on the research findings and conclusions outlined, several suggestions can be considered as input and recommendations for future research and relevant stakeholders.

1. The government is expected to maintain strong macroeconomic stability through policies covering various aspects of economic development. This stability is a key factor in increasing the confidence of foreign investors to invest in Indonesia. In addition to creating a conducive investment environment, the government must also play an active role in promoting a business climate that is attractive to investors. Furthermore, improving the quality of human resources and developing the skills of the workforce are strategic steps to enhance national competitiveness. With the right policies in place, the transfer of technology and know-how - both domestically and internationally - can be made more effective, thereby strengthening sustainable economic growth.
2. Future researchers are advised to develop models by incorporating additional variables that provide a more comprehensive analysis of the impact of GDP, inflation, interest rates, and labor on FDI. In addition,

the use of more recent data and the application of different analytical methods can provide a broader perspective for understanding the dynamics of foreign investment. This approach also makes it possible to examine differences before and after a given period and to examine economic developments in more detail.



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