

An Analysis Of The Determinants Of Foreign Direct Investment In Asian Emerging Market Period 2011-2015

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ABSTRACT

This study aims to investigate the determinants of FDI in the Asian emerging market period 2011-2015. The framework was formulated into three groups with seven independent variables, i.e., *Economic Conditions (Market Size and Trade Openness)*, *Host Country Characteristics (Tax Rate, Interest Rate, and Infrastructure)*, and *MNE Strategies (Political Risk and Human Capital)*. The type of research used is quantitative explanatory research with panel data from nine Asian countries based on a purposive sampling technique. The method of analysis used is panel data regression. The results showed that simultaneously, the framework of determinant FDI significantly influenced the inflow of FDI into Asian emerging markets with an *F-stat* of 70,67 and *R²* of 0.96. Partially, *Market Size*, *Trade Openness*, and *Infrastructure* have a positive and significant influence on FDI. *Tax Rate* has a negative influence as a determinant factor inhibiting FDI inflows. While *Interest Rate*, *Political Risk* and *Human Capital* have no significant influence on FDI. Based on the result, it could be inferred that the framework of determinant FDI, which has been formulated, will be able to explain the inflow of FDI in Asian emerging markets. Of the three groups of determinants, *MNE Strategies* is the weakest model because the two variables have no significant influence on FDI.

Keywords: Determinant FDI, Emerging Markets, MNE Strategies

INTRODUCTION

The Emerging market is a major player in the global economy that, in some aspects, is better than the developed market. Data statistics show that emerging markets represent 86% of the world's population, 75% of the world's land mass and resources, and contribute 50% of the world's GDP. That means the emerging market has great potential as a new investment niche with a strong, stable market structure and long-term profits (BRII, 2011).

Foreign direct investment (FDI) has an important role in the international economy, especially for countries emerging markets. FDI creates direct, stable, and long-lasting economic relations between countries. Viewed from the side home country, FDI is a long-term investment strategy in other countries in the form of greenfield, mergers and acquisitions, and joint ventures to expand its market segmentation abroad. From the side host country, FDI plays a role in increasing foreign exchange for economic development in the country.

Emerging Asia is the region that is the largest net recipient of FDI among regions emerging from the rest of the world, which covers around 50% of total FDI to regional countries emerging in this world.

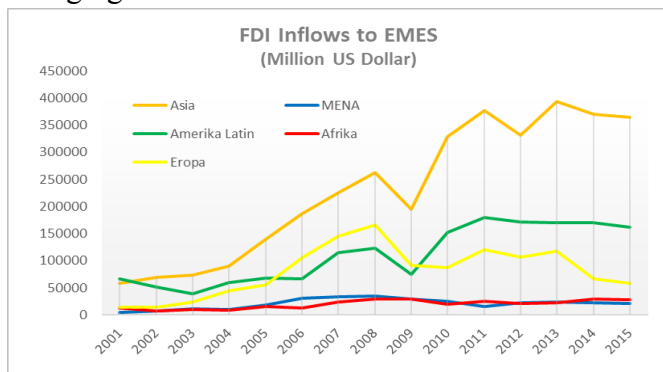


Figure 1. The inflow of FDI to emerging Market

Source: databank.worldbank.org (2017)

Both researchers and economic experts often use several approaches to analyze FDI movements, including Dunning's eclectic approach (1979), Hymer's imperfect market approach (1976), and Rugman's internalization theory (1986).

Of these three approaches, it turns out that they have not been able to satisfy economic scientists regarding what factors actually stimulate FDI inflows into a country. This concern often causes debate among academics and economic practitioners (Pambudi & Hakim, 2013).

Differences between the income of economists in determining the factors that determine FDI still occur and have yet to find agreement. Artige and Nicolini (2010) stated that in economic literature studies, determining the determinants of FDI is still a long-standing debate. Furthermore, Chakrabarti (2001), Demirhan and Masca (2008), and Faeth (2009) explained that this debate is most likely due to differences in theoretical perspectives, empirical approaches, sample selection, and the combination of variables used. As a result, the conclusions obtained vary both in terms of the direction of the relationship and statistical significance.

A new step was taken by Catherine and Rashid (2012) by categorizing explanatory variables into two groups of FDI determinants, namely macroeconomic factors and country characteristics. This model was built based on a literature study that found that macroeconomic factors and country characteristics are equally good at explaining FDI inflows, so these factors are considered capable of providing an overview for investors about the conditions of countries receiving FDI.

The weakness of the research conducted by Catherine and Rashid is that many variables need to be more significant and show a relationship that is contrary to existing hypotheses and theories, especially in the country characteristics model. This condition causes researchers to refrain from drawing definite conclusions regarding the determinants of FDI in each country. Apart from that, each model has quite a large number of variables, which has implications for the weakness of the model in explaining the relationships that occur.

Based on the explanation above, this research seeks to complement previous research. The difference between this research and Catherine and Rashid's research is the simplification of model construction and the variables used. The determinants of FDI are categorized into three groups so that the perspective in this research is more holistic than the previous study.

The three groups of determinants in question are *Economic Conditions*, *Host Country Characteristics*, and *Multinational Enterprise (MNE) Strategies*, which will be analyzed in a unified model. The determinants used are Market Size, Trade Openness, Tax Rate, Interest Rate, Infrastructure, Political Risk, and Human Capital.

LITERATURE REVIEW

Perfect Market Theory

Two main assumptions in perfect market theory can be used as hypotheses to explain FDI, namely, rate of return and market size. First, in the model Heckscher-Ohlin on neoclassical trade theory, FDI is considered as part of international capital transfer. This model is based on the assumption that differences in productivity are caused by the proportion of production factors owned (endowment factors) by each country, causing differences in the prices of goods produced (Vintila, 2010; Jonathan & Colin, 2006; Wadhwa & Sudhakara, 2011).

This theory suggests that capital movements do not face risks or obstacles. Capital will flow from countries with low rates of return to countries with high rates of return (Vintila, 2010; Wilhelms and Witter, 1998). Based on this proposition, risk is neutral, where there is no monopoly or oligopoly, thus making the rate of return only depend on alternative investment decisions (Moosa, 2002). However, the existence of risks and obstacles to capital movements may make this proposition incorrect because capital can freely move in any direction.

Second, the market size hypothesis asserts that the amount of FDI in the host country depends on market size. FDI will flow to countries with larger, developing markets and high purchasing power, thereby allowing companies to obtain higher returns on invested capital (Demirhan and Masca, 2008; Moosa, 2002; Sethi et al., 2002).

Imperfect Market Theory

There are three hypotheses in imperfect market theory, namely the industrial organization hypothesis, the internalization hypothesis, and the location hypothesis. (Moosa, 2002: 30). First, according to the industrial organization hypothesis, when a company establishes a subsidiary in another country, the company will face some disadvantages in competition with local companies. Differences in language, culture, legal systems, and differences in other countries' characteristics cause this deficiency.

Second, according to the internalization hypothesis, FDI arises from the company's efforts to replace market transactions with internal transactions. This thinking is a development of the ideas of Coase (1937), which states that certain marketing costs can be saved by forming a

company. The emergence of this idea was based on market imperfections and failures, especially semi-finished goods, human resource expertise, knowledge, marketing, and business management. The advantage of internalization is that it avoids time delays, haggling, and buyer uncertainty.

Third, according to the location hypothesis, the immobility of several production factors, such as labor and natural resources, can trigger companies to undertake FDI. This immobility leads to locational differences related to production cost factors. One form of location difference that is related to production cost factors is the advantage of locations that have low wages. Thus, the wage level in the host country is an important factor as a determinant of FDI entry into that country (Moosa, 2002).

Theory of Institutional FDI Fitness

According to Wilhelms and Witter (1998:1), FDI Fitness refers to a country's ability to attract, absorb, and retain FDI. This concept is based on Darwin's thinking, which states that it is not the largest and strongest countries that are able to attract FDI, but those that are able to adapt and read opportunities to existing conditions. Fitness demonstrates the ability to be responsive to threats and opportunities, creativity and flexibility in carving out a niche in which a country can survive against competitors in attracting FDI. This theory consists of four elements, namely government, market, education, and social culture.

Eclectic Theory

Eclectic theory, or what is more popularly called the OLI Paradigm (Ownership, Locations, and Internalization), is an idea proposed by Dunning (1988) to explain the determinants of FDI. Dunning offers a more holistic approach to explaining the determinants of FDI. He built an eclectic model based on three main concepts in imperfect market theory, namely ownership (Hymer 1976), locations, and internalization (Rugman 1986).

Ownership advantages is an advantage possessed by a company, which makes the company advanced or prominent in certain sectors. Advantages owned internally by the company are usually called firm-specific assets consisting of tangible assets (capital goods and machinery) and intangible assets (knowledge, organizational and entrepreneurial skill, access to market, and technology). In contrast, location advantage is an advantage that is owned in a

certain areas and can only be used in that area. However, the use of advantages is open to all companies, such as cheap labor, cheap natural resources, and a favorable climate. Temporary Internalization advantages are an action to avoid the existence of disadvantages or capitalization of natural resources caused by market price systems and government policies.

Theory of Integrative School

According to Wilhelms and Witter (1998:10), an integrative school is an approach that tries to offer categorical thinking about the determinants of FDI by analyzing it from two perspectives, namely the host country and the home country. This theory is the result of integrating concepts of dependency school with modern school. Wilhelms and Witter (1998:10) further explained that eclectic theory, internalization of industrial organization theory, is a theory that explains the determinants of FDI from the investor's perspective. Meanwhile, perfect market theory and institutional FDI fitness better explain the determinants of FDI from a free market perspective. This theory contributes more to explaining the determinants of FDI from the perspective host country.

Integrative school theory is considered better than previous theories in explaining FDI. The main reason is that this theory accommodates more variables (heterogeneous) than previous theories. The integrative school considers macro, micro, and meso-economic variables. Macro variables cover the economy as a whole; micro variables show company activities and meso variables reflect government sectoral policies related to business and investment (Wilhelms and Witter, 1998:10).

The Determinants of FDI

The determining factors of FDI inflows are classified into three perspectives: *Economic Conditions*, *Host Country Characteristics*, and *MNE Strategies*. This classification refers to Lall's (1997) conceptual model, which explains that these three factors can accommodate various perspectives on FDI determinants developed by economists. Table 1 explains the selection of variables used in this research.

Table 1. Selection of FDI Determinants

Determinant Classification	Variable	Selected		Reason
		Of	No	
Economic Conditions	Market size	√		SD
	Economic Growth		x	VK

	Inflation Rate		x	VK
	Exchange Rate		x	VK
	Trade Openness	√		SD
	Macroeconomic Stability		x	DTT
Host Country Characteristics	Tariff		x	JD
	Tax Rate	√		SD
	Interest Rate	√		SD
	Infrastructure	√		SD
	Ownership Policies		x	DTT
	FDI Policies		x	DTT
	Education		x	STVL
	Location		x	DTT
	Market Competitiveness		x	SDO
MNE strategies	Labor Cost		x	DTT
	Political Risk	√		FPD
	Financial Risk		x	STVL
	Human Capital	√		CKTK
	Economic Risk		x	STVL
	Perception of Location		x	DTT
	Sourcing of product inputs		x	DTT
	Investment Motive		x	DTT

Source: Adopted based on Lall's model (1997)

Information:

SD : Often used by previous researchers

VK : Controversial variable

DTT : Data not available

JD : Rarely used by previous researchers

STVL : Already represented by other variables

SDO : Difficult to operate

FPD : The most dominant factor of country risk

CKTK : Reflection of the quality of the workforce in host country

Hypothesis Model

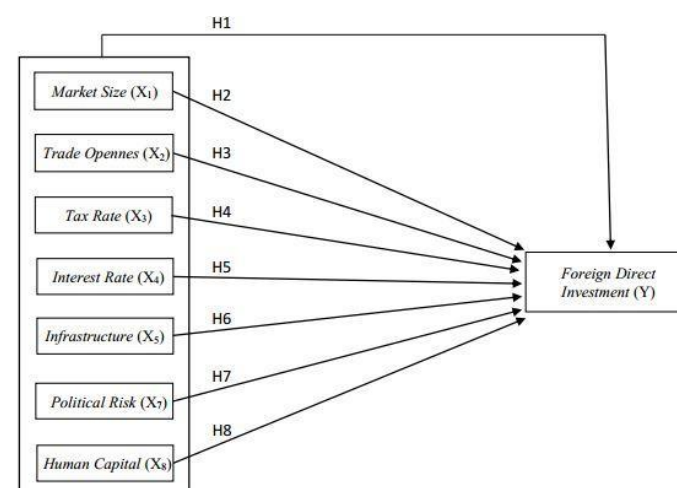


Figure 2. Hypothesis Model of FDI Determinants

H1: All dependent variables have a simultaneous and significant effect on Foreign Direct Investment (AND)

- H2: *Market Size* (X1) has a positive and significant influence on FDI (AND)
- H3: *Trade Openness* (X2) has a positive and significant influence on FDI (AND)
- H4: *Tax Rate* (X3) has a negative and significant influence on FDI (AND)
- H5: *Interest Rate* (X4) has a negative and significant influence on FDI (AND)
- H6: *Infrastructure* (X5) has a positive and significant influence on FDI (Y)
- H7: *Political Risk* (X6) has a negative and significant influence on FDI (Y)
- H8: *Human Capital* (X7) has a positive and significant influence on FDI (Y)

RESEARCH METHODS

Types of Research

The type of research used in this research is explanatory with the type of causal research. In causal research, we want to explain the effect of changes in value variations in a variable on changes in value variations in one or more other variables (Silalahi, 2012).

Population and Sample

The population in this study is all countries in the Asian region. Techniquesampling, which is used, is purposive sampling. The data used to determine the sample in this research ismarket classification published by MSCI in 2017. The selected samples were nine countries classified as emerging markets, namely China, India, Indonesia, South Korea, Malaysia, Pakistan, Philippines, Taiwan, and Thailand.

Data Types and Sources

This research uses secondary data in the form of panel data (pooled data) from nine countries of emerging market Asia 2011-2015. The type of panel data used in this research is a balanced panel, where each unit cross section has a number of observations time series of the same one. The data sources used come from the UNCTAD, IMF, World Bank, KPMG, and publication documents of The Global Competitiveness Report.

Data Analysis Method

The analytical method used in this research is panel data regression with the help of the software Eviews 10. The analysis stages are as follows.

- Panel data estimation uses three approaches: Common Effect, Fixed Effect, and Random Effect.
- Test the model estimation using the Chow Test, Hausman Test, and Lagrange Multiplier Test
- The goodness of Fit Test, which includes the F Test, T-test, and Adjusted R2.
- Interpretation.

RESULTS AND DISCUSSION

Panel Data Estimation

1. Common Effect Model

The Common Effect Model is the simplest estimation method with the assumption that the intercept and slope are constant over time and cross sections. So, this model does not pay attention to individual effects (country characteristics) or time effects that exist during observation.

Table 2. Estimation results in common effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-8.140139	2.686703	-3.029788	0.0044
LOG_MARKT?	1.272168	0.114039	11.15554	0.0000
OPEN?	0.014103	0.003250	4.339032	0.0001
TAX?	-0.046717	0.029952	-1.559761	0.1273
INTRST?	0.051429	0.052663	0.976570	0.3351
LOG_INFRA?	-0.584793	1.074035	-0.544482	0.5894
LOG_POLRISK?	0.431978	0.899488	0.480249	0.6339
LOG_HUCAP?	-2.721620	2.243021	-1.213372	0.2327

Source: Output Eviews 10 (2017)

2. Fixed Effect Model

The fixed effect model takes into account differences in individual characteristics. So, the model structure will produce different intercept α values between countries, but the slope value of every country is the same.

Table 3. Estimation results fixed effect model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-29.45637	17.45766	-1.687304	0.1023
LOG_MARKT?	2.787779	1.159957	2.403347	0.0229
OPEN?	0.012147	0.009412	1.290559	0.2071
TAX?	-0.153609	0.037711	-4.073340	0.0003
INTRST?	0.167985	0.104125	1.613305	0.1175
LOG_INFRA?	1.934500	1.454279	1.330212	0.1938
LOG_POLRISK?	0.377966	0.554645	0.681455	0.5010
LOG_HUCAP?	-0.207571	6.149925	-0.033752	0.9733
Fixed Effects (Cross)				
_CHINA--C	-3.872780			
_INDIA--C	-0.104491			
_INDONESIA--C	-0.128871			
_KOREA--C	-2.405386			
_MALAYSIA--C	1.478639			
_PAKISTAN--C	2.763951			
_FILIPINA--C	3.194635			
_TAIWAN--C	-0.952208			
_THAILAND--C	0.026510			

Source: Output Eviews 10 (2017)

3. Random Effect Model

Method random effect is almost the same as a fixed effect, considering individual characteristics. However, the difference is that the determination of α and β is based on the assumption that the intercept is α randomly distributed between μ units. In other words, the slope has a value that is fixed, but the intercept varies for each individual.

Table 4. Estimation results in random effect model

Weighted Statistics			
R-squared	0.471589	Mean dependent var	0.958863
Adjusted R-squared	0.371619	S.D. dependent var	0.390753
S.E. of regression	0.309751	Sum squared resid	3.550002
F-statistic	4.717318	Durbin-Watson stat	1.684499
Prob(F-statistic)	0.000734		
Unweighted Statistics			
R-squared	0.589899	Mean dependent var	9.122013
Sum squared resid	34.92375	Durbin-Watson stat	0.171229

Source: Output Eviews 10 (2017)

Panel Data Model Estimation Test

1. Chow Test

The Chow test is used to determine which model is more appropriate between common effect with fixed effect as a panel data estimation model. The hypothesis used is as follows.

H_0 : Random Effect Model

H_1 : Fixed Effect Model

Results Chow test shows that the value Prob. The cross-section chi-square (p-value) is 0.0000. So H_0 was rejected because of p-value < alpha (0,0000 < 0.05). That means that the correct model to use is a fixed effect.

Table 5. Results Chow test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	13.519675	(8,29)	0.0000
Cross-section Chi-square	69.922500	8	0.0000

Source: Output Eviews 10 (2017)

2. Hausman Test

Because the result of the test is a model fixed effect chosen, the next step is needed, namely, the Hausman test, to determine which model is more accurate between a fixed effect or random effect. The hypothesis used is as follows.

H_0 : Random Effect Model

H_1 : Fixed Effect Model

Results The Hausman test in Table 6 shows that the value Prob. The cross-section random (p-value) is 0.0000. Based on the

requirements of the hypothesis, it can be seen that p-value (0,0000) < alpha (0.05). H_0 was rejected, which means the model fixed effect is better than the random effect. Because the Chow and Hausman test already chose a fixed effect model, the next test (Lagrange multiplier) can be done without having to do it.

Table 6. Results Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	104.524813	8	0.0000

Source: Output Eviews 10 (2017)

Test Goodness of Fit

Table 7. Estimation Results Fixed Effect Model Weighted

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-16.95324	3.523500	-4.811478	0.0000
LOG_MARKT?	1.976513	0.223073	8.860395	0.0000
OPEN?	0.009911	0.002544	3.895385	0.0005
TAX?	-0.153329	0.026177	-5.857312	0.0000
INTRST?	0.107078	0.071278	1.502264	0.1438
LOG_INFRA?	1.271167	0.570987	2.226263	0.0339
LOG_POLRISK?	0.042692	0.456165	0.093589	0.9261
LOG_HUCAP?	0.105749	2.726520	0.038785	0.9693

Source: Output Eviews 10 (2017)

Based on Table 7, the single model equation can be formulated as follows:

$$\log(\text{FDI}) = -16,95324 + 1,976513 \cdot \log(\text{Market}) + 0,009911 \cdot \text{Open} - 0,153329 \cdot \text{Tax} + 0,107078 \cdot \text{Intrst} + 1,271167 \cdot \log(\text{Infra}) + 0,042692 \cdot \log(\text{Polrisk}) + 0,105749 \cdot \log(\text{Hucap})$$

Mark intercept α from the single equation above is -16.95324. This means that the average value of FDI of emerging Asia is -16.95324, assuming all independent variables *ceteris paribus* (or, if possible, zero value). However, because this model is a fixed effect that takes into account differences in individual characteristics, the interpretation of the intercept must be based on the intercept value for each individual in the system equation.

Table 8. Intercept Value Host Country

No	Host Country	Intersep
1	China	-2.065625
2	India	0.654056
3	Indonesia	0.108198
4	Korea Selatan	-1.864173
5	Malaysia	0.976810
6	Pakistan	1.826672
7	Filipina	2.136526
8	Taiwan	-1.420503
9	Thailand	-0.351961

Source: Output Eviews 10 (2017)

Table 8 shows the values fixed effect China has the smallest, namely -2.065625; thus, China is a host country with the smallest intercept compared to the rest. If it is assumed that the independent variables do not change (constant), then the determinant of FDI in China will only depend on the individual Chinese effect of -2.065625. Meanwhile, the Philippines has the largest intercept, namely 2.136526. If the independent variable is assumed to be constant, The determinant of FDI in the Philippines will only depend on the individual Filipino effect of 2.136526.

Simultaneous Significance Test (F-test)

Table 9. F-test Results

R-squared	0.973373	Mean dependent var	13.3309
Adjusted R-squared	0.959600	S.D. dependent var	11.3974
S.E. of regression	0.295358	Sum squared resid	2.52984
F-statistic	70.67366	Durbin-Watson stat	2.10887
Prob(F-statistic)	0.000000		

Source: Output Eviews 10 (2017)

The table above shows that the value of the *F-count* is 70.67366. Meanwhile, the value of the *F-table* is 2.27. This means that *F-count* > *F-table* equal to $70.67366 > 2.27$. Meanwhile, if it is tested by comparing values Prob. of *F* with alpha is 5%, then it is obtained Prob. *F* < alpha is equal to $0.000000 < 0.05$.

Thus, hypothesis H0 is accepted. It can be concluded that the fixed effect model is worthy of being used to explain that there is a significant simultaneous influence between *log(Market)*, *Open*, *Tax*, *Intrst*, *log(Infra)*, *log(Porisk)*, and *log(Hucap)* against *log(FDI)*.

Partial Significance Test (t-Test)

The following are the results of the partial significance test for all independent variables on the dependent variable.

Table 10. t-test results

Variable	Coefficient	t-Statistic	Prob.
C	-16.95324	-4.811478	0.0000
LOG_MARKT?	1.976513	8.860395	0.0000
OPEN?	0.009911	3.895385	0.0005
TAX?	-0.153329	-5.857312	0.0000
INTRST?	0.107078	1.502264	0.1438
LOG_INFRA?	1.271167	2.226263	0.0339
LOG_POLRISK?	0.042692	0.093589	0.9261
LOG_HUCAP?	0.105749	0.038785	0.9693

Source: Output Eviews 10 (2017)

Adjusted R²

Table 11. Test Results Adjusted R²

R-squared	0.973373	Mean dependent var	13.33090
Adjusted R-squared	0.959600	S.D. dependent var	11.39742

Source: Output Eviews 10 (2017)

Mark Adjusted R-Square in Table 11 is 0.9596. This value can be interpreted as that *Market Size (X1)*, *Trade Openness (X2)*, *Tax Rate (X3)*, *Interest Rate (X4)*, *Infrastructure (X5)*, *Political Risk (X6)*, and *Human Capital (X7)* has a proportion of influence on *Foreign Direct Investment (Y)* of 96%. Meanwhile, the remaining 4% (100% - 96%) is influenced by other variables that are not in this research model (*ceteris paribus*).

DISCUSSION

1. Influence Market Size to Foreign Direct Investment

The *t-test* results state that *Market Size* has a significant positive influence, with *t-count* amounting to 8.860395 and Prob. of 0.0000. This means factors *Market Size* which is measured by Real GDP capable of attracting FDI inflows to emerging market Asia. This result is in line with existing theory building. Like Demirhan and Masca's (2008) neoclassical domestic investment theory, Moosa (2002) and Sethi et al. (2002) state that the amount of FDI in a host country depends on market size. FDI will flow to countries with larger, developing markets and high purchasing power, such as emerging market Asia. The *t-test* results also show that *Market Size*'s beta is the highest among the other determinant factors, which is 8.860395. It means *Market Size* is the strongest determinant to explain FDI inflows.

2. Influence Trade Openness to Foreign Direct Investment

Trade Openness is influential, positive, and significant towards FDI with a t count amounting to 3.895385 and Prob. of 0.0005. This shows that *Trade Openness* is able to explain FDI inflows to emerging markets in Asia. This finding is in accordance with the premise of Hoang (2012) that the higher the level of *Trade Openness* in a country, the trade barrier in this country will continue to decline. So, foreign investors have more freedom to distribute their capital without worrying about restrictions on existing trade. Several studies have been conducted by Fernandez-Arias (2000), Asiedu (2002), and Ruth (2004) concluded that *Trade Openness* has a positive and significant effect on FDI inflows.

3. Influence Tax Rate on Foreign Direct Investment

The results of this research show that the Tax Rate (as measured by corporate tax rate) has a significant negative influence on FDI inflows in emerging market Asia, with t count amounting to -5.857312 and Prob. of 0.0000. These findings are in line with the model concepts that are built and support previous research, including Hartman (1994), Hines and Rice (1994), Loree and Guisinger (1995), Cassou (1997), and Kemsley (1998) who found that policy corporate tax rate relatively high in the host country has a negative and significant influence on FDI inflows. It means profit or return companies will decrease with the implementation of the policy corporate tax the highest.

4. Influence Interest Rate on Foreign Direct Investment

According to classical economists, the relationship between interest rates and investment is negative. The higher the interest rate in a host country, the desire of foreign companies to invest in that country will be smaller (Moosa, 2002). A study conducted by Ruth (2014) shows that Interest Rate has a negative influence that can inhibit FDI inflows to host country. The results of this study are not in accordance with theoretical assumptions because Interest Rate has a positive relationship with FDI, although not significant, with a value t count amounting to 1.502264.

Variable failure Interest Rate as a determinant of FDI barriers is likely due to interest rates not reflecting the reality of market prices. It is the policy Interest Rate that is set by the Central Bank in each host country not followed by local banks. For example, the Interest Rate set by Bank Indonesia as the reference interest rate for conventional banks is not able to reflect the reality of interest rates in the money market for the short term; the reason is BI Rate requires a long time, namely a year (Kompas, 2016).

5. Influence Infrastructure to Foreign Direct Investment

Westerfield and Jordan (2004) explain that countries with quality infrastructure will make it easier to stimulate the inflow of FDI. Transportation facilities such as ports and ships have standards. International standards are an important factor for investors to consider. These factors will facilitate the flow of distribution and sales of products, especially foreign companies

that invest with the aim of moving their production location (horizontal FDI).

The results of this research show that Infrastructure (which is measured with the overall infrastructure index) has a significant positive effect on FDI inflow to emerging market Asia, with t count amounting to 2.226263 and Prob. of 0.0339. This means the better the infrastructure quality index of the host country will be better at stimulating the inflow of FDI into the host country. These findings support previous research as done by Loree and Guisinger (1995), Pambudi and Hakim (2013), Yin et al. (2014), and Masudi (2016), who found that Infrastructure has a significant positive influence on FDI inflow.

6. Influence Political Risk to Foreign Direct Investment

Political risk is one form of country risk that investors consider before carrying out FDI in other countries. Country risk is considered an uncertainty factor that can hinder FDI activities. According to Moosa (2002:50) Lack of political stability in a country can hinder FDI inflows. The results of research conducted by Asiedu (2002), Moosa (2005), and Hoa and Lin (2016) found that Political Risk has a negative influence on FDI.

The results of the analysis show that the influence of Political Risk No in accordance with the hypothesis built due to the relationship between Political Risk with FDI No is significant to the value Prob. < alpha ($0.9261 < 0.05$). These results indicate that political risk is only one of the factors considered by investors in doing FDI in emerging market. Investors' perceptions may pay more attention to factors of financial risk that exist in a host country, such as exchange rates, FDI policies, and facilities doing business in that country.

7. Influence Human Capital to Foreign Direct Investment

Based on the theory of institutional FDI fitness, countries by level of higher education will attract more investors to undertake FDI. The most important reason is that the workforce in the country is ready to transfer technology, and knowledge and have professional standards tall one. The results of studies conducted by Moosa (2005), Pambudi and Hakim (2013), and Masudi (2016) show that Human Capital, as measured by the level of higher education, quality of labor, and education index, has a positive and significant influence on the flow enter FDI.

These results show a contradiction with the theory and results of previous research. Human Capital does not have a significant effect on FDI in emerging market Asia. This is thought to be due to the assumption that investors are more interested in the quality of human resources in the host country, which might happen for advanced markets. So these factors are not relevant if used to explain FDI inflows in emerging market. Investors might consider cheap labor more than human capital when deciding to undertake FDI in emerging markets.

CONCLUSION AND SUGGESTION

Conclusion

Based on the previous analysis and discussion, the results of this research can draw the following conclusions.

1. The FDI determinant model used in this research is divided into three groups: *Economic Conditions*, *Host Country Characteristics*, and *MNE Strategies*. These groups of determinants are sufficiently good at explaining FDI inflows in emerging market Asia. *F-test* results show that simultaneously, all independent variables (*Market Size*, *Trade Openness*, *Tax Rate*, *Interest Rate*, *Infrastructure*, *Political Risk*, and *Human Capital*) have a significant effect on the inflow of *Foreign Direct Investment* in nine countries in emerging market Asia with an influence proportion of 96%.
2. *Economic Conditions* can be used as a good model in explaining FDI inflows in emerging market Asia. It is because the two variables in this determinant factor, namely *Market Size* and *Trade Openness*, have a significant influence, and the direction of the relationship is according to the hypothesis.
3. *Host Country Characteristics* can be used as a good model as a determinant factor of FDI in emerging market Asia. In this group of determinants, two variables have a significant effect on FDI: *Tax Rate* and *Infrastructure*. Meanwhile, the *Interest Rate* does not significantly affect FDI.
4. *MNE Strategies* cannot be used as a good model yet determinants of FDI. This is because the two variables tested were not significant in explaining FDI inflows in emerging market Asia.

Suggestion

Based on the conclusions above, suggestions can be given through the results of this research are good for policymakers and future researchers:

1. The Central Bank of Indonesia and the Ministry of Finance should pay attention to determinant factors that have the potential to attract FDI to Indonesia, especially *Market Size*, *Trade Openness*, *Tax rate*, and *Infrastructure*. It is hoped that the schemes/strategies will be interesting inward FDI formulated can be effective.
2. It is hoped that future researchers will be able to test the determinant framework FDI was adopted from the Lall (1997) model comprehensively with the addition of variables, samples and a longer period. This FDI determinant model is still relatively new; therefore, it needs to be further verified and developed.

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