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The Effect of Political Risk and Economic Stability on Foreign Direct Investment Flows in Asean-6

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***Keywords:* Control of Corruption; GDP; Inflation; FDI**

Abstract - *This study analyzes the influence of political risk and economic stability on Foreign Direct Investment (FDI) inflows in six ASEAN countries (Indonesia, Malaysia, Singapore, the Philippines, Thailand, and Vietnam) during the period 2013–2023. A quantitative approach with a panel data regression method was employed, where the dependent variable is FDI inflows (in million USD), while the independent variables consist of control of corruption as an indicator of political risk, and GDP and inflation as indicators of economic stability. Data were obtained from the World Bank, IMF, and Worldwide Governance Indicators (WGI). The regression model was selected based on the Chow and Hausman tests, and the analysis was conducted using EViews software. The results show that control of corruption has a positive and significant effect on FDI, emphasizing the importance of good governance and anti-corruption efforts in building investor confidence. GDP also has a positive and significant effect on FDI, reflecting the role of strong economic growth as a major attraction for foreign investors. Meanwhile, inflation has no significant effect on FDI, indicating that investors tend to prioritize factors such as policy stability, infrastructure quality, and institutional effectiveness over short-term price fluctuations. From a policy perspective, the findings suggest that ASEAN countries should strengthen governance quality and foster a transparent investment environment free from corruption to enhance foreign capital inflows. In addition, governments need to maintain macroeconomic stability through effective fiscal and monetary coordination while improving infrastructure and human capital development to attract sustainable long-term investments.*

Abstrak - Penelitian ini menganalisis pengaruh risiko politik dan stabilitas ekonomi terhadap arus *Foreign Direct Investment* (FDI) di enam negara ASEAN (Indonesia, Malaysia, Singapura, Filipina, Thailand, dan Vietnam) periode 2013–2023. Pendekatan yang digunakan adalah kuantitatif dengan metode data panel, dengan variabel dependen berupa aliran masuk FDI (dalam juta USD), sementara variabel independen meliputi *control of corruption* sebagai indikator risiko politik, serta GDP dan inflasi sebagai indikator stabilitas ekonomi. Data diperoleh dari *World Bank, IMF*, dan *Worldwide Governance Indicators* (WGI). Pemodelan regresi data panel dipilih berdasarkan uji *Chow* dan *Hausma*n, dengan analisis menggunakan *software EViews*. Hasil penelitian menunjukkan bahwa *control of corruption* berpengaruh positif dan signifikan terhadap FDI, menegaskan pentingnya tata kelola pemerintahan yang baik dan upaya pemberantasan korupsi dalam meningkatkan kepercayaan investor. Variabel GDP juga berpengaruh positif dan signifikan terhadap FDI, mencerminkan bahwa pertumbuhan ekonomi yang kuat menjadi daya tarik utama bagi investor asing. Sementara itu, inflasi tidak berpengaruh signifikan terhadap FDI, yang mengindikasikan bahwa investor lebih mempertimbangkan stabilitas kebijakan, infrastruktur, dan efisiensi birokrasi dibandingkan fluktuasi harga jangka pendek. Secara kebijakan, hasil penelitian ini menyarankan bahwa negara-negara ASEAN perlu memperkuat tata kelola pemerintahan dan menciptakan lingkungan investasi yang transparan serta bebas dari praktik korupsi untuk meningkatkan arus modal asing. Selain itu, pemerintah perlu menjaga stabilitas makroekonomi melalui koordinasi kebijakan fiskal dan moneter yang efektif, serta meningkatkan kualitas infrastruktur dan kapasitas sumber daya manusia guna menarik investasi jangka panjang yang berkelanjutan.

Kata Kunci: *Control Of Corruption*; GDP; Inflasi; FDI

INTRODUCTION

Foreign Direct Investment (FDI) plays a crucial role in fostering national development, particularly in developing countries. By increasing the accumulation of capital goods, FDI contributes to higher productivity and sustainable economic growth. Beyond providing the financial resources necessary for investment, FDI also facilitates job creation, enhances managerial and technical skills, and promotes technology transfer. These spillover effects help improve industrial capabilities and strengthen the overall competitiveness of host economies. The inflow of foreign investors through FDI promotes economic development by expanding capital formation, generating employment opportunities, and stimulating new sources of growth. Investment is essential for improving the standard of living in society, as national income rises, the economy's capacity to produce goods and services also increases. Therefore, FDI serves as a long-term driver of sustainable growth and plays a pivotal role in accelerating economic transformation in developing nations (Dewi & Triaryati, 2015).

Over the last two decades, the Southeast Asia region has become an increasingly attractive destination for foreign direct investment (FDI). Since the 1997–1998 economic crisis, FDI inflows into Southeast Asia have nearly quadrupled, reflecting the region's rapid development and growing global investor confidence. In fact, four ASEAN countries Vietnam, Indonesia, Thailand, and Malaysia were recorded among the world's largest FDI recipients during the 2010–2012 period (Kurniasih, 2020). This positive trend has continued in recent years. FDI inflows to ASEAN reached a record high of USD 230 billion in 2023, marking the third consecutive year of growth despite a 10 percent decline in global FDI. The region accounted for 17 percent of total global FDI inflows, up from 16.5 percent in the previous year, further strengthening its position as the largest FDI recipient among developing economies. Five major sectors absorbed 86 percent of total FDI inflows, with notable growth in financial services and high value-added sectors such as research and development (R&D). This trend reflects the ongoing transformation of several ASEAN member economies toward knowledge-based and innovation-driven industries, underscoring the region's growing attractiveness to global investors (ASEAN, 2024).

ASEAN's strategic position in the global investment landscape is also influenced by the domestic political and economic dynamics of its member states. Singapore, as one of the most advanced economies in Asia, presents a unique case of consistent and sustainable growth. The country has long been a top destination for foreign investors due to its pro-business policies and conducive investment environment. As a result, FDI remains one of the key drivers of Singapore's economic development (Ahmad et al., 2025).

According to data from the United Nations Conference on Trade and Development (UNCTAD), ASEAN countries collectively attracted US$226.32 billion in foreign direct investment (FDI) throughout 2023, representing 17% of total global FDI inflows. The distribution pattern of FDI across the region reveals significant disparities. Singapore remained the primary destination, receiving US$159.67 billion (71%) of total inflows, followed by Indonesia with US$21.63 billion (10%), Vietnam with US$18.5 billion (8%), Malaysia with US$8.65 billion (4%), and the Philippines with US$6.21 billion (3%). Other countries, including Thailand, Cambodia, Laos, and Myanmar, recorded relatively modest inflows, while Brunei Darussalam was the only country to experience negative FDI of US$51 million, indicating disinvestment or withdrawal of foreign capital. UNCTAD did not provide a detailed breakdown of sectoral FDI inflows. However, it noted that one of the largest foreign investments in Indonesia during the year was in the electric vehicle battery industry, valued at approximately US$9 billion.

This finding highlights the varying levels of investment attractiveness among ASEAN countries, emphasizing that factors such as political stability, economic policy consistency, and support for industrial innovation play crucial roles in determining FDI inflows within the region. This situation underscores the importance of political stability and consistent economic policy as key determinants in attracting foreign investment. Global investors tend to prefer destinations with low political risk, regulatory certainty, and transparent governance. This is reflected in Singapore's continued dominance as a regional investment hub, despite its relatively higher operational costs compared to other ASEAN countries. Therefore, enhancing governance quality, legal certainty, and policy effectiveness is essential for ASEAN countries to strengthen their competitiveness in attracting long-term foreign direct investment (Adi Ahdiat, 2024).

Although the overall trend of FDI inflows to ASEAN has been positive, a closer look reveals notable disparities among member countries. Singapore continues to attract the majority of investments, accounting for more than 70 percent of total inflows, while countries such as Indonesia, Vietnam, and Malaysia receive considerably smaller shares. This uneven distribution indicates that economic potential alone cannot fully explain investment patterns, as political stability, corruption control, and policy

consistency play critical roles in shaping investor confidence. Previous studies have predominantly focused on macroeconomic indicators such as GDP growth, inflation, and interest rate when analyzing FDI at the national level. However, limited research has integrated political and institutional risk factors, particularly in a comparative ASEAN-6 context. Moreover, most prior studies cover earlier periods and do not capture the post-pandemic economic dynamics and structural transformations that have reshaped investment patterns in Southeast Asia. Hence, further research is needed to provide a more comprehensive understanding of how both economic and political risk factors jointly influence FDI inflows across the region.

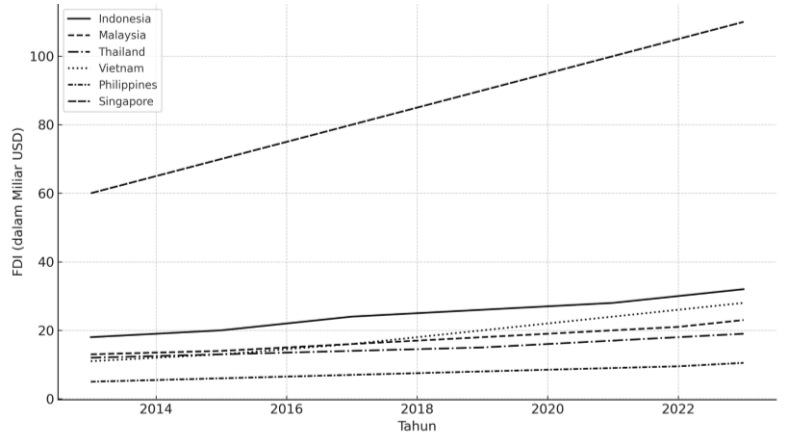

Figure 1. Trend of FDI Inflows to Asean-6 During 2013-2023

Foreign Direct Investment (FDI) plays a vital role in strengthening a country's economic system and enhancing competitiveness across sectors. The presence of foreign investment brings numerous benefits to host economies, including increased foreign exchange reserves, higher government revenues, and the ability to bridge domestic savings gaps. Moreover, FDI facilitates the development of managerial and technical skills, thereby improving overall productivity and efficiency (Sahara, 2025). Based on World Bank data, FDI in ASEAN countries has fluctuated but generally increased over the past decade, especially after 2020. Figure 1 shows that Singapore consistently receives the highest amount of FDI each year, with notable growth also observed in Vietnam, while Indonesia and Thailand demonstrate relatively stable inflows.

Furthermore, several economic indicators such as exchange rates and stock price indices also contribute to real GDP growth in the ASEAN region. On the other hand, some analyses show that an increase in FDI is not always directly proportional to economic growth if it is not supported by adequate trade policies, foreign exchange management, and macroeconomic stability. This indicates that FDI needs to be closely aligned with strategic policies and national economic structures to generate an optimal impact on development (Perdana & Setyadharma, 2022). This condition reflects that political stability and consistent economic growth, along with investor-friendly policies, are important factors in attracting FDI. ASEAN countries that are able to provide a supportive ecosystem—such as adequate infrastructure, a skilled workforce, and transparent regulations—tend to be more successful in attracting foreign investment. In the context of economic development in developing countries, Foreign Direct Investment (FDI) serves as a key instrument that not only provides capital but also offers additional benefits such as job creation, technology transfer, and enhanced production capacity. The Southeast Asian region, particularly the ASEAN-6 countries (Indonesia, Malaysia, Thailand, Vietnam, the Philippines, and Singapore), has shown a significant upward trend in FDI inflows over the past two decades, reflecting the high level of global investor confidence in the region's economic prospects. However, behind this positive trend lies a crucial issue: investors' decisions to invest their capital are strongly influenced by country risk factors.

Country risk encompasses various aspects such as political stability, macroeconomic policies, the level of corruption, and the reliability of the legal system, all of which directly affect investor perceptions of security and profitability. Therefore, even though FDI in ASEAN has continued to increase, country risk analysis remains essential for understanding the distribution patterns and dynamics of foreign investment in the region. Without adequate management of political and economic risks, FDI inflows may decline or shift to other countries perceived as more stable and profitable (Moridu et al., 2021).

Previous research by Ridho Ariyadi shows that economic growth has a positive and significant effect on investment, while inflation has a negative effect. Although interest rates and taxes also exert a positive influence on investment, the effect of taxes is not statistically significant. These findings confirm the importance of macroeconomic stability and fiscal governance in attracting investment, particularly in developing countries such as Indonesia (Ariyadi et al., 2024). Based on these considerations, this study focuses on analyzing the influence of country risk on Foreign Direct Investment (FDI) inflows in ASEAN-6 countries, emphasizing three main variables: control of corruption, gross domestic product (GDP), and inflation rate. These variables were selected because they represent the core aspects of country risk and macroeconomic conditions that are most relevant to foreign investors. Control of corruption reflects institutional quality and government integrity in managing public resources. A low level of corruption is generally associated with bureaucratic efficiency and legal certainty, thereby enhancing investment attractiveness (Zakiyyah et al., 2024).

GDP serves as a measure of economic growth and market capacity—where higher GDP levels imply greater potential profitability for investors (Kristianto et al., 2024). Meanwhile, inflation represents price stability; high or volatile inflation can create uncertainty and additional risks for investors (Anggraini et al., 2024). Therefore, this study aims to examine the effect of corruption control, GDP, and inflation on Foreign Direct Investment (FDI) inflows in six ASEAN countries (Indonesia, Malaysia, Singapore, the Philippines, Thailand, and Vietnam) during the period 2013–2023 using a panel data approach.

LITERATURE REVIEW

Country Risk Analysis

Risk is the uncertainty of an event occurring with various consequences. *Country risk* is a risk that a country has where the investment is made. Moridu et al., (2021) also explained that there are guidelines for the stages of assessing country *risk,* namely (1) macro-assessment constitutes the risk assessment of a country without considering the form of business and (2) micro assessment is a risk assessment of a country related to the form of business.

Macro assessment must take into account the characteristics politics and finances of the country being assessed, including GNP assessment, inflation trends, government spending budget (deficit or surplus), interest rates, unemployment, dependence on export revenues, trade balance and foreign exchange controls. Meanwhile, micro assessments must take into account financial variables including trends. inflation, opening quarter, etc. (Moridu et al., 2021).

In this context, an effective risk management system not only aims to avoid financial losses, but also ensures institutions, including banks and financial institutions achieve financial results with high reliability and consistency. Therefore, risk management acts as an essential prerequisite for the health, stability and resilience of the financial system (Prasetyo et al., 2024). In this study, country risk is operationalized through political and economic factors that affect foreign investors' decisions in ASEAN countries.

Political Risk

Political risk refers to the potential for change or instability in the political environment of a country that can affect business operations and investments. According to Azzahra et al., (2023) political risk includes uncertainty due to changes government policies, social conflict, or political instability that may have an impact on business continuity and profitability. Political risk is a crucial factor that can hamper a company's international investment. If the level of political risk in a country is low, it will be directly proportional to its ability to attract more foreign investment. The level of political risk of a country is directly proportional to level of economic development.

In general, developing countries tend to have a higher level of political risk. In addition, social instability, unrest communities, and social environments that are vulnerable to conflict are also significantly increasing the possibility of political risk (Azzahra et al., 2023). In this context, good governance acts as a manifestation of government. effective and transparent, capable of managing social, political, cultural and economy responsibly and based on public trust. A government that having good governance can minimize political risk because it is characterized by transparency, accountability, high integrity, and responsiveness to needs society.

Kaufmann through the Worldwide Governance Indicators (WGI) published by the World Bank, outlines six main indicators in measuring the effectiveness of governance, is this: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, dan control of corruption (Addainuri et al., 2023).

First, Voice and Accountability, aims to assess the level of citizen participation. In government elections, freedom of expression, the right to associate, and independence media in a country. *Second*, Political Stability, is an assessment of the possibility of government instability. or an overthrow involving unconstitutional or violent actions, such as domestic conflict and acts of terrorism. *Third*, Government Effectiveness, evaluating the quality of public services, including the ability of the civil service to operate without political pressure, the quality of drafting and policy implementation, as well as confidence in the government's seriousness regarding the policy.

Fourth, Regulatory Quality, evaluating the capacity of government in designing and implementing rules and regulations that support and encourage development healthy private sector. *Fifth,* Rule of Law, assessing the effectiveness of institutions and implementing values community, with a particular focus on the quality of contract implementation, systems police, justice system, and the risks of crime and discrimination.

Sixth, Control of Corruption, The Control of Corruption Indicator measures perceptions regarding the extent to which public power is used for private interests, including various forms of small and large corruption, as well as the takeover of the state by the elite and personal interests. The estimation of this indicator provides an aggregate score for each country in standard normal distribution units, with a range of values between about -2.5 up to 2.5. This indicator reflects the effectiveness of government governance in control and reduces the level of corruption in a country. The higher the value control of corruption, the more effective the policies and governance of the state in reduce corruption, and vice versa. Control of corruption is also considered as one of the one important aspect of good governance or good government management (World Bank, n.d.).

In this study, political risk is operationalized specifically through the control of corruption indicator, which reflects both the perception and reality of a country's ability to control abuse of public power for personal gain. Higher values indicate lower political risk and a more conducive environment for foreign investment. Political risk analysis in foreign investment is an important process in planning and implementing marketing strategies in international markets. With by conducting a comprehensive political risk analysis, companies can identify, evaluate, and manage political risks that may affect success. Their marketing strategy in the global market. This helps companies to reduce uncertainty and increase the chances of achieving their international marketing goals. (Deni et al., 2024).

Economic Stability

Macroeconomic stability is a condition in which a country's economy operate consistently without experiencing major fluctuations that could disrupt macroeconomic balance. This condition is characterized by economic growth that sustainable, controlled inflation, low unemployment rate, and exchange rate stable. Economic stability creates a conducive environment for economic activities. economy, including investment, production and trade, thus supporting development sustainable and inclusive (Mutiara et al., 2024)

Some of the key indicators that reflect economic stability. *First,* Controlled Inflation: Keeping inflation at a moderate level is important for maintaining people's purchasing power and creating price certainty. *Second,* Consistent Economic Growth: Stable growth reflects increased productivity and economic capacity without major shocks. *Third,* Low Unemployment Rate: Shows the economy's ability to absorbing labor, which has a positive impact on community welfare.

Fourth, Exchange Rate Stability: A stable exchange rate is important for international trade. and attract foreign investment, as well as creating certainty for economic actors. *Fifth,* Fiscal Balance and Balance of Payments: Government budget balance and a healthy balance of payments reflect the management of state finances. well, which supports overall economic stability.

Economic stability is not a static condition, but rather a continuous process. which requires adjustments to fiscal and monetary policies to respond to changes domestic and global economic conditions. Governments and central banks play a role it is important to maintain this stability so that the economy can grow healthily and sustainable. Macroeconomic stability is also a prerequisite for sustainable economic growth and inclusive development. By maintaining economic stability, the government can create a favorable environment for investment, job creation, and improvement of people's welfare (Fakultas Ekonomi dan Bisnis, 2024).

In this study, economic stability is measured using two key indicators: Gross Domestic Product (GDP) and inflation.

Gross Domestic Product (GDP)

Gross domestic product (GDP) is the value the market or final value of all final goods and services produced in a country in a certain period of time. The meaning of GDP calculates the value of all types of goods and services produced by a country's economic activities economy. GDP measures the total of goods and services that produced. This includes all goods produced in the economy and sold legally in the market. GDP includes goods and services that are currently produced. It does not include transactions involving goods produced in the past. GDP measuring the value of production within the geographical boundaries of a country (Sartono et al., 2024).

GDP is defined as the total value of all production of goods or services in a country region during a specified period of time (usually a year). GDP is different from gross national product (GNP) because GDP includes income from factors of production from outside country that is used domestically. Therefore, GDP only measures the total output of the country. in one country alone without taking other things into account (Sabrina & Soebagiyo, 2024).

A higher GDP indicates greater economic activity and larger market opportunities, which can attract foreign direct investment (FDI). Investors are more likely to invest in countries with larger and growing economies because these countries offer higher potential returns and a broader consumer base. Therefore, GDP serves as a key determinant of FDI inflows.

Inflation

Inflation is the process of a continuous and broad increase in overall prices. An increase in the prices of only a few items cannot be considered inflation unless the rise extends across a variety of goods, resulting in a general price expansion. Inflation is connected to the market system and can be caused by various factors, including increased public consumption, abundant liquidity in the market that triggers spending, or the unpredictable circulation of goods. Overall, inflation also reflects the continuous decline in the purchasing power of money (Elpisah, 2022).

The inflation rate is an important indicator that affects foreign capital investment. A country with high inflation indicates an overall rise in prices, which reduces the purchasing power of money and influences investors' decisions (Kristianto et al., 2024). Inflation represents the continuous rise in commodity prices, creating uncertainty for many business actors and causing long-term inflation. This condition can make production activities unprofitable, reduce production investment, and lower overall economic activity (Sabrina & Soebagiyo, 2024).

Although GDP serves as a primary indicator influencing foreign investors' decisions, other factors, such as inflation, also have a significant impact on investment choices. High inflation can create economic uncertainty, reduce consumers' purchasing power, and diminish the returns available to foreign investors. Conversely, stable and well-controlled inflation provides a more predictable and attractive environment for investors, which in turn can support larger inflows of FDI (Azizan et al., 2025).

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is defined as investment related to with long-term relationships and reflect long-term interest and control. long by resident entities to companies located in the economy other than the economy of origin of the foreign direct investor (FDI company or foreign affiliated company). This investment relationship is carried out by direct foreign investors or parent companies. towards business entities located outside their home country. In this case, long-term involvement long investors reflect significant influence on the management of the company where they are invested. investment is made. Initial transactions between the two entities, as well as subsequent transactions between foreign affiliates, whether incorporated or not, may be involved in activities the investment. Foreign direct investment (FDI) can be done by individuals or by business entities (Inriama & Setyowati, 2020).

FDI involves not only capital but also control over companies, resulting in subsidiaries adopting organizational structures similar to their parent firms. According to the International Monetary Fund's Balance of Payments, FDI refers to investments made to acquire a lasting interest in a company operating in an economy other than that of the investor, with the goal of obtaining a significant voice in management.

First, the Heckscher-Ohlin trade theory explains that labor-abundant regions export labor-intensive products, while capital-abundant countries export capital-intensive goods. Foreign investors consider the availability of production factors, particularly labor and capital, to maximize returns by minimizing production costs.

Second, Vernon's product life cycle theory describes three stages of a product's development. The first stage is innovation, where the product is developed and introduced. The second stage is export expansion, when firms enter new markets, including developing countries. The third stage is

standardization, where the product is fully standardized and management or research expertise becomes less critical.

Third, Dunning's eclectic paradigm, known as the OLI framework Ownership, Location, Internalization explains multinational firms' FDI decisions. Ownership refers to competitive advantages; greater advantages and internalization benefits encourage higher investment. Location advantages include lower operational costs, political support, and social acceptance. Internalization allows firms to manage foreign production directly rather than through licensing.

Finally, Moosa's theories provide additional insights. The differential rates of return hypothesis emphasize the role of marginal returns and costs in FDI decisions. The portfolio diversification hypothesis highlights that when risk neutrality is relaxed, risk alongside expected returns guides investment choices. The market size hypothesis states that FDI inflows depend on the host country's market size, measured by MNC sales or GDP, with sufficiently large markets attracting greater investment (Ardina & Rini, 2025).

METHOD

This research employs a quantitative approach using panel data analysis to examine the influence of political risk and economic stability on foreign direct investment (FDI) inflows in six ASEAN member countries—Indonesia, Malaysia, Singapore, the Philippines, Thailand, and Vietnam. The selection of these countries is based on the availability and consistency of macroeconomic data and government governance indicator reports during the period 2013–2023.

The dependent variable (Y) in this study is Foreign Direct Investment (FDI) measured in terms of annual FDI inflows (in million US dollars) based on data from the World Bank. The independent variables consist of two main groups, namely political risk indicators and economic stability. The risk indicators politics includes the variables: control of corruption (X_1) which is measured based on annual scores from the Worldwide Governance Indicators (WGI) published by the World Bank.

Meanwhile, economic stability indicators are represented by two variables. Gross Domestic Product (GDP as X_2) expressed in million US dollars as a proxy for the size and growth of a country's economy and the inflation rate (X_3) measured by the annual percentage change in the Consumer Price Index (CPI). GDP and inflation data were obtained from the World Bank World Development Indicators (WDI) and the International Monetary Fund (IMF) World Economic Outlook. To empirically examine the relationship between political risk, economic stability, and foreign direct investment (FDI) inflows in ASEAN countries, the following panel data regression model was employed:

$$FDI_{it} = \beta_0 + \beta_1 CORR_{it} + \beta_2 GDP_{it} + \beta_3 INF_{it} + \varepsilon_{it} \quad \ldots(i)$$

where:

FDI_{it} : Foreign Direct Investment inflows (million USD) for country *i* at time *t*
$CORR_{it}$: Control of Corruption Index as a proxy for political risk
GDP_{it} : Gross Domestic Product (million USD)
INF_{it} : Inflation rate (annual % change in CPI)
ε_{it} : error term

The analysis was conducted using the panel data regression approach, which combines both cross-sectional (across countries) and time-series (across years) dimensions. The most appropriate estimation model was selected through the Chow test (to choose between the Common Effect Model and the Fixed Effect Model) and the Hausman test (to choose between the Fixed Effect Model and the Random Effect Model). The final model was estimated using the Generalized Least Squares (GLS) method in EViews, which provides efficient parameter estimates by accounting for heteroskedasticity and cross-sectional correlation commonly found in panel data structures.

RESULT

In Table 1, the results of the Chow test show a cross-section Chi-square probability value of $0.0003 < 0.05$, indicating that the Fixed Effect Model (FEM) is preferred. The Hausman test yields a random cross-section probability value of $0.7645 > 0.05$, suggesting that the Random Effect Model (REM) is more appropriate. Since the results of the Chow and Hausman tests are inconsistent, the Lagrange Multiplier (LM) test is conducted. The LM test shows a Breusch–Pagan cross-section probability value of $0.001 < 0.05$, indicating that the REM is the suitable model. Therefore, based on the results of the three tests, it can be concluded that the appropriate model for this study is the Random Effect Model (REM).

Table 1. Best Model Selection

Model Selection Test	Effect Test	Prob	Information
Uji Chow	Cross-Section Chi-Square	0,0003	FEM
Uji Hausman	Cross-Section Random	0,7645	REM
Uji LM	Cross-Section Breusch-Pagan	0,0001	REM

Source: processed data

Based on the results of the panel regression, the following equation is obtained:

$$FDI_{it} = -0.228 + 0.453CC_{it} + 0.102GDP_{it} + 0.057INF_{it}$$

The regression estimation results presented in Table 2 indicate that the variable with a significant influence on Foreign Direct Investment (FDI) is *Control of Corruption* (X1), as it has a probability value of less than 0.05. Meanwhile, the variables Gross Domestic Product (GDP) (X2) and inflation (X3) do not show a significant effect on FDI since each has a probability value greater than 0.05. Based on the F-statistic value, which has a probability below 0.05, it can be concluded that, simultaneously, the three variables collectively influence FDI in the ASEAN-6 regions.

Table 2. REM Regression Estimation Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.228	0.0798	-2.858	0.006
CC	0.453	0.101	4.481	0.000
GDP	0.102	0.072	-1.420	0.001
INFLATION	0.057	0.077	0.739	0.463
R-squared	0.265			
Adjusted R-squared	0.226			
S.E. of regression	0.822			
F-statistic	7.324			
Prob(F-statistic)	0.000			

Source: Processed data, (2025)

The coefficient of determination obtained from the Adjusted R-Squared is 0.226 or 23%, indicating that 23% of the variation in FDI inflows in ASEAN-6 is explained by the variables *Control of Corruption*, GDP, and inflation, while the remaining 77% is explained by other factors not included in the model. Although the coefficient of determination is relatively low, this condition is common in cross-country panel data analyses, where FDI inflows are influenced by a wide range of macroeconomic and institutional factors that cannot all be captured within a single model. Nevertheless, the estimation results still provide meaningful insights into the role of key determinants such as corruption control, economic growth, and price stability in attracting foreign direct investment across ASEAN-6. This suggests that the model remains statistically valid and offers relevant empirical evidence on the dynamics of FDI inflows in the region.

DISCUSSION

The Impact of Control of Corruption on FDI

Based on the results of the hypothesis testing, the null hypothesis is rejected because the probability value of Control of Corruption is 0.000, which is less than the significance level of 0.05. This is means that Control of Corruption has a significant influence on the entry of foreign direct investment in ASEAN-6 countries in 2013-2023. This is in line with research by Zakiyyah et al., (2024) which noted that the level of perception of corruption, has a significant impact on FDI. Countries with high levels of corruption low rates tend to be more attractive to foreign investors because they are considered safer, more stable, and has greater profit potential. A real example is Singapore, which has a high corruption perception index score (indicating a high level of corruption). low) and consistently recorded high FDI flows.

Furthermore, Wilantari et al., (2023) emphasized that corruption can damage economy through various channels, such as decreasing state revenues from the sector taxes, reduced incentives to invest and innovate, and a breakdown in trust public towards the government and institutions. This condition ultimately creates a climate investment that is not conducive to foreign investors. In line with that (Globerman & Shapiro, 2002) in Foreign Direct Investment Flows: The Role of Governance

Infrastructure confirms that: *"Investors are more likely to invest in countries with transparent, accountable, and efficient governments, where the rule of law is respected and corruption is under control."*

This means that investors tend to invest in countries with good governments, transparent, accountable and efficient, where the law is enforced and corruption is controlled. This statement reinforces the idea that clean governance is a driving force main attraction in cross-border investment decisions. Controlling corruption is not just an issue moral and legal, but also an economic strategy in creating attraction for foreign investment. In the context of developing countries, strengthening anti-corruption institutions and increasing bureaucratic transparency is a crucial step in creating a healthy and competitive investment climate. Commitment to integrity and good governance is not only creating a positive reputation for the country in the eyes of investors, but also contributing to sustainable long-term economic development.

The Effect of GDP terhadap FDI

Based on the results of the hypothesis testing, the null hypothesis is rejected because the probability value of GDP is 0.001, which is less than the significance level of 0.05. This indicates that GDP has a significant influence on the inflow of foreign direct investment (FDI) in the six ASEAN countries during the period 2013–2023. This finding reinforces the position of GDP as one of the main indicators in attracting foreign investors.

Research from Kristianto et al., (2024) states that the increase in GDP indicates economic growth which reflects increasing income national, which then drives an increase in domestic demand. This creates broad and profitable market opportunities for foreign investors to invest capital. Research by Tiara Yesica Harwining Puspa & Masykuroh (2023) also indicates a positive influence of economic growth on FDI, consistent with the previous findings that an increase in Gross Domestic Product (GDP) tends to stimulate higher inflows of FDI. Similar results were also found by Anggraini et al., (2024) and Sabrina & Soebagiyo (2024), which show that growth the economy in ASEAN countries and Indonesia plays an important role in increasing the inflow of FDI.

Gross Domestic Product (GDP) reflects long-term growth, meaning high GDP levels will encourage more foreign investment in the country. Based on the Harrod-Domar theory of economic growth, investment is part of the income in a country's economy. The high value of Investment will drive the rate of economic growth of a country to become higher. The increasing number of requests indicates an increase in growth economy, so that this will encourage investors to make investments. The high level of national income will also increase the amount of income society and ultimately this will drive a high number of requests society towards goods and services.

Thus, there will be an increase in the company's profit level and this This will stimulate companies to make more investments (Sahara, 2025). One of the main reasons why the Southeast Asian market is a region with great potential, due to the good economic growth of ASEAN member countries. It is predicted that each ASEAN country will have quite high economic growth in future. The combination of a very large population and strong economic growth relatively high in conditions of global uncertainty makes business opportunities in ASEAN very large promising. In addition, the pleasant lifestyle of ASEAN people such as the level of happiness and generosity are one of the driving factors of growth economy (Kurniasih, 2020). GDP is a significant determining factor in attract FDI to the ASEAN region. The increase in GDP indicates economic expansion and increasing purchasing power of the people, which in turn creates prospects greater profits for investors. In this case it shows that the strategy increasing domestic economic competitiveness through GDP growth is still relevant and crucial in globally oriented economic development policies.

The Effect of Inflation on FDI

Based on the results of the hypothesis testing, the null hypothesis is accepted because the probability value of inflation is 0.463, which is greater than the significance level of 0.05. This indicates that inflation does not have a significant effect on the inflow of Foreign Direct Investment (FDI) in the six ASEAN countries during the period 2013–2023. In other words, fluctuations in inflation rates during this period were not a dominant factor influencing foreign investors' decisions to allocate capital in the ASEAN region.

This result strengthens previous findings from Tiara & Masykuroh (2023), Anggraini et al., (2024), and Sabrina & Soebagiyo (2024), which consistently show that inflation is not a dominant variable that determines FDI flows to a country. However, it is important to note that although inflation is not a determining factor key in attracting foreign investment, its role in economic growth cannot be overstated. completely ignored.

Some economists argue that inflation can function as a stimulator of a country's economic growth. When inflation has reached an alarming level *(hyperinflation),* economic uncertainty will increase, hampering business development and reducing investor interest. In such conditions, inflation can actually reduce investment indirectly through weakening macroeconomic stability (Sahara, 2025). In this context, it indicates that foreign investors are considering more other factors, such as political stability, trade policies, infrastructure, and climate investment, compared to short-term inflation fluctuations. However, the role of inflation in the dynamics economic growth remains relevant. Therefore, the government needs to maintain inflation at stable and controlled levels, not only to attract FDI, but also to ensure the sustainability of long-term economic growth.

CONCLUSION

The results of the study prove that control *of* corruption significant influence in attracting FDI to ASEAN-6 countries. The level of corruption which creates a more stable, transparent and efficient investment environment, thus increasing the confidence of foreign investors. This finding is supported by empirical studies and real examples such as Singapore, which has managed to maintain high FDI flows thanks to good governance. The positive influence of GDP on FDI proves that GDP is a factor the main determinant in attracting FDI, indicating that high economic growth correlated with the increasing interest of foreign investors. Large market, purchasing power society's increasing prosperity, and the prospect of long-term profits make GDP as a key indicator for investors in assessing a country's potential. ASEAN, with its consistent economic growth remains an attractive destination for FDI despite global uncertainty

In contrast to the two previous variables, inflation did not show a significant impact on FDI inflows in the ASEAN-6 countries during the study period. This indicates that investors tend to pay greater attention to other factors such as political stability, economic policy consistency, and infrastructure quality rather than short-term fluctuations in inflation. However, maintaining inflation at a stable and predictable level remains essential to support sustainable economic growth and reduce macroeconomic uncertainty, which may indirectly influence investment decisions. Therefore, policymakers should continue to strengthen monetary and fiscal coordination to ensure price stability while creating an investment climate that promotes confidence and long-term capital inflows.

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