

Determinant of Foreign Direct Investment G-20 Countries

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Abstract

Foreign Direct Investment (FDI) has long been identified in the empirical literature as a potential contributor to economic growth and is considered an important source of capital in both developing and developed countries. This study aims to identify and analyze the determinants of FDI in G-20 countries, taking into account variables in economic, socio-political, and institutional contexts. This research offers a more comprehensive approach by integrating economic, socio-political, and institutional dimensions into a single panel analysis model. This research contributes to the literature through a more holistic understanding of the factors influencing FDI flows in G-20 countries. Based on the analysis of the data regression panel, results were found that any increase in the labor force and political stability of G-20 member countries will encourage an increase in the value of FDI in those countries. Meanwhile, interest rates, economic scale, and financial development do not show a significant influence on FDI in G-20 countries. The findings of this study provide important insights for policymakers in G-20 countries in developing strategies to increase FDI attractiveness by taking into account the key factors that have been identified. These results can also assist international investors in making more informed decisions related to the location of their investments, taking into account the dominant economic aspects in attracting FDI.

Keywords: Foreign Direct Investment, Interest Rates, Labor Force, Economic Scale, Financial Development, Political Stability

Abstrak

Foreign Direct Investment (FDI) telah lama diidentifikasi dalam literatur empiris sebagai kontributor potensial terhadap pertumbuhan ekonomi dan dianggap sebagai sumber modal yang penting di negara-negara berkembang maupun maju. Penelitian ini bertujuan untuk mengidentifikasi dan menganalisis faktor-faktor penentu FDI di negara-negara G-20, dengan mempertimbangkan variabel-variabel dalam konteks ekonomi, sosial-politik, dan kelembagaan. Penelitian ini menawarkan pendekatan yang lebih komprehensif dengan mengintegrasikan dimensi ekonomi, sosial-politik, dan kelembagaan ke dalam satu model analisis panel. Penelitian ini berkontribusi pada literatur melalui pemahaman yang lebih holistik mengenai faktor-faktor yang memengaruhi arus FDI di negara-negara G-20. Berdasarkan analisis regresi data panel, ditemukan hasil yang menunjukkan bahwa setiap peningkatan angkatan kerja dan stabilitas politik negara anggota G-20 akan mendorong peningkatan masuknya nilai FDI di negara tersebut. Sedangkan, suku bunga, skala ekonomi, dan financial development tidak menunjukkan pengaruh signifikan terhadap FDI di negara-negara G-20. Temuan penelitian ini memberikan wawasan penting bagi pembuat kebijakan di negara-negara G-20 dalam mengembangkan strategi untuk meningkatkan daya tarik FDI dengan memperhatikan faktor-faktor kunci yang telah diidentifikasi. Hasil ini juga dapat membantu investor internasional dalam membuat keputusan yang lebih tepat terkait dengan lokasi investasi mereka, dengan mempertimbangkan aspek-aspek ekonomi yang dominan dalam menarik FDI.

Keywords: Investasi Asing Langsung, Suku Bunga, Tenaga Kerja, Skala Ekonomi, Pembangunan Keuangan, Stabilitas Politik

INTRODUCTION

The influence of Foreign Direct Investment (FDI) on the economy of the destination country has been the focus of various studies (Bermejo Carbonell & Werner, 2018). FDI is recognized as an important source of capital and a potential contributor to economic growth, especially in developing countries (Sigh) *et al.*, 2019). Both developed and developing countries make FDI a relevant field of study because of its strategic role in global economic activity (Saini & Singhania, 2018). Through the existence of multinational companies (MNCs), FDI provides benefits to recipient countries, especially in the form of knowledge and technology transfer (Wickramarachchi, 2019). De Mello (1997) also emphasized that FDI is a combination of capital, technology, and knowledge, so that its impact on economic growth can vary between countries.

The rapid increase in international activity has encouraged the formation of various regional economic cooperation organizations as part of the process of globalization and economic integration (Chen *et al.*, 2021). In the context of an open economy, Foreign Direct Investment (FDI) inflows are an element that cannot be ignored. FDI plays an important role in driving economic growth and expanding the scale of business activities in G-20 countries. The increase in people's income strengthens consumption, which ultimately encourages increased investment in various business sectors. As a group of developed and developing countries, the G-20 is the region with the largest FDI attraction, absorbing about 60% of global FDI flows (Unctad, 2023). This is natural considering that the G-20 represents more than 80% of the world's Gross Domestic Product (GDP) (Chen & Jiang, 2023).

Interest rates are one of the important factors that affect Foreign Direct Investment (FDI) inflows. Low interest rates encourage investors to invest as the cost of using funds becomes smaller (Anwar, 2016). In the context of investment decisions, the expected rate of return must exceed the interest rate otherwise the investment is considered unprofitable (Maharani & Setyowati, 2024). In addition, the availability of labor also plays a role in attracting FDI. Countries that have effective policies in the development of skills and the health of human resources gain a competitive advantage, so that they are better able to provide a workforce that suits the needs of foreign investors (Emmanuel *et al.*, 2019).

The development of the financial sector plays an important role in attracting Foreign Direct Investment (FDI) because it is able to create a stable, efficient, and attractive business environment for foreign investors. Developed financial sectors provide better access to financing, reduce risk, and improve market efficiency, thus becoming a major driver of foreign investment inflows (Ahmed & Jahanzeb, 2021). Furthermore, financial development enhances the attractiveness of a country through various mechanisms, such as financial market efficiency, reduced costs and risks, ease of access to credit, modern financial infrastructure, macroeconomic stability, strong regulations, and effective financial intermediation (C. P. Nguyen & Lee, 2021).

Political stability is an important factor influencing FDI inflows. Countries with good institutional quality and low political risk tend to be more attractive to foreign investors (Mohamed & Sidiropoulos, 2010). Political risks such as riots, asset damage, operational restrictions, and property takeovers increase uncertainty and reduce investment interest, as reflected in the World Governance Indicator (WGI) indicator. The threat of terrorism and violence also worsens political stability and lowers investor confidence (Kraay *et al.*, 2010). Therefore, political stability and institutional quality are consistently associated with increased net FDI inflows (Chandra &

Handoyo, 2020).

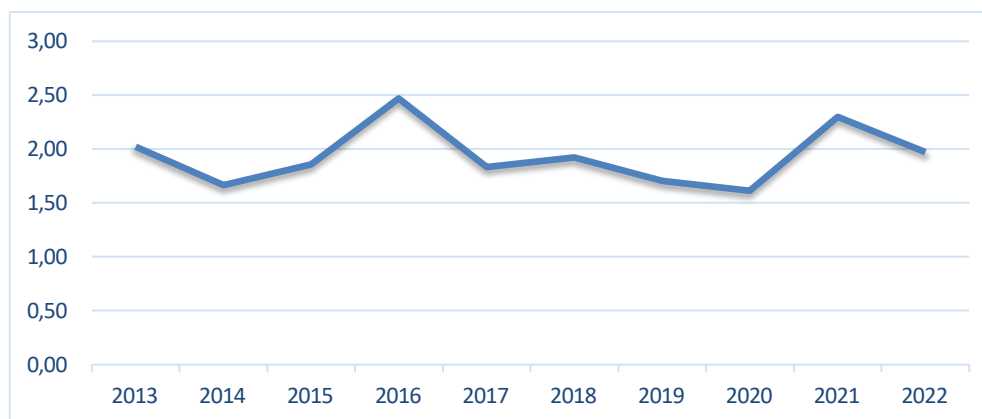


Figure 1. Foreign Direct Investment of G-20 Countries in 2013-2022

Source: World Bank (data processed)

Based on Chart 1, FDI inflows in G-20 countries showed a fluctuating trend during the 2013–2022 period. The peak of FDI occurred in 2016 at 2.47%, before experiencing a sharp decline in 2020 to 1.61% due to the impact of the Covid-19 pandemic. In 2021, FDI increased significantly again to reach 2.30%, especially in OECD countries, and remained at a high level in the first quarter of 2022. This increase was influenced by a smaller portion of revenue transferred to the parent company, thus increasing the amount of income reinvested. However, in 2022, FDI again experienced a decline triggered by global uncertainty due to the war in Ukraine. In this case, it has led some G-20 member states to significantly restrict trade and investment in one or more countries in the context of the war in Ukraine (Crisis *et al.*, 2022).

This study aims to analyze the dynamics and determinants of FDI by considering economic, socio-political, and institutional dimensions in one comprehensive panel model. The selection of G-20 countries is based on their significant contribution to the global economy, which is more than 80% of the world's GDP, 75% of international trade, and 60% of the world's population (Chen & Jiang, 2023). As developed countries with large consumer markets, G-20 members are also attractive locations for foreign investors. The multidimensional approach used offers a wider scope of analysis than previous studies that generally focused on economic determinants. Thus, this study contributes to a more holistic understanding of the factors influencing FDI flows in G-20 countries. In addition, as explained by Todaro & Smith (2011), Multinational Corporation (MNC) is oriented towards profit maximization so that it is more likely to choose to invest in developed countries that offer lower risk and higher potential returns, compared to developing countries that face issues of poverty, inequality, employment conditions, and environmental problems.

Foreign Direct Investment (FDI)

According to neoclassical theory, direct investment makes a positive contribution to the economic development of the destination country by improving its welfare status (Chandra & Handoyo, 2020). Direct investment leads to the formation of capital in the destination country, thereby influencing the reinvestment of profits and further capital inflows into the country. The influx of foreign capital makes the balance of payments lower and provides higher production by replacing unproductive methods (Saini & Singhania, 2018). Almost all countries are actively looking to attract foreign direct investment as it is expected to have a beneficial effect on revenue generation from capital flows, advanced technology, management skills, and market knowledge (Fernandez

et al., 2020). Dunning & Lundan (1993) developing his theory by synthesizing previously published theories. According to Dunning, international production is a process influenced by ownership, internalization, and localization advantages. So that the paradigm International Labour Organization (ILO) explains why companies invest abroad (Kok & Ersoy, 2009).

Interest Rates and Foreign Direct Investment

Interest rates reflect the cost of using funds and are influenced by the demand and supply of money (Kimberly, 2019). When interest rates fall, the cost of capital decreases, encouraging increased investment (Jayasekara, 2023). Conversely, high interest rates increase borrowing costs, reducing the interest of foreign investors due to the high cost of capital (Alshubiri, 2022). According to Nopirin, (2011) If the expected profit from an investment is greater than the interest rate that must be paid on the investment fund, then the entrepreneur will be more interested in making the investment. The lower the interest rate, the smaller the cost of using funds, which can motivate entrepreneurs to invest.

Investors will make investments if the expected profit expectation is higher than the cost of capital or the interest rate to be paid. The lower the interest rate or cost of capital, the more the investor motivation to invest because the expected profit expectation is higher than the cost of capital to be paid (Sukirno, 2016). Research conducted Maharani & Setyowati (2024) obtained the results that interest rates have a positive effect on FDI. Research with different results was carried out Alshubiri (2022) shows that interest rates have a negative effect on FDI in G7 and GCC countries. In contrast to the findings made by Fajar Nurbani Aslam & Ari Rudatin (2023) and Washima (2023) that interest rates have no influence on FDI. (H1: Interest rates have a negative effect on FDI)

Workforce and Foreign Direct Investment

Labor is an important factor in investment decisions because it affects production costs, productivity, and operational efficiency (Sigh *et al.* 2020). One of the main reasons foreign companies invest in a particular country is to take advantage of lower labor costs. Competitive labor costs can attract investors because they reduce production costs, while high productivity increases competitiveness (Glam & Böke, 2017). Research conducted Mitra & Abedin (2022) found that the decline in the labor force had a negative effect on the inflow of FDI. While Elmawazini *et al.* (2018) found that labor productivity growth showed a non-significant positive impact on FDI. In line with Liu & Guo (2023) finding labor flexibility can positively affect FDI. (H2: Labor force has a positive effect on FDI)

Economies of Scale and Foreign Direct Investment

Economic growth reflects stability and potential profits for investors (Dinh *et al.*, 2019). Acceleration theory and income according to Sukirno (2016) explained that when economic activity increases, the demand for goods and services increases, thus encouraging investment. According to the Two-Gap theory, the limitations of domestic savings can be met through foreign capital such as FDI (Vo) *et al.*, 2019). In research Ayenew (2022) finding that economic growth has an influence on FDI. In line with research Leitão *et al* (2023) and Oyegoke & Aras (2021) that economic growth has an influence on FDI. Meanwhile, on the other hand, research Bride *et al* (2020) found that economic growth had no effect on FDI. In line with Sokhanvar (2019) found that economic growth had no effect on FDI. (H3: Economic scale has a positive effect on FDI)

Financial Development dan Foreign Direct Investment

Endogenous growth theory emphasizes the role of the financial sector in driving innovation, investment, and economic efficiency (Luis A. Rivera Batis, 1991). Financial developments facilitate financing, reduce risk, and increase access to capital for foreign investors (Dimitrova et al. 2020). Research Haque et al. (2022) found that financial development has an effect on FDI. In line with Nguyen & Lee (2021) found that financial development has a positive effect on FDI. Affirmed by Yeboua (2019) found that financial development has a positive effect on FDI. (H4: Financial development has a positive effect on FDI).

Political Stability and Foreign Direct Investment

According to the theory of institutional economics, political stability, the rule of law, and the quality of regulation affect the certainty and risk of investments. North (1990) emphasizes that political institutions, including regulations, policies, and political systems, have a significant impact on economic behavior. Strong political stability can create certainty for economic actors, which is an important factor in investment and business decision-making. Political stability provides certainty for investors, reduces the risks associated with policy changes, and creates a conducive environment for foreign investment. In line with the theory of political risk and state risk, political instability hinders FDI inflows and adversely affects investment reciprocity (Korsah) *et al.*, 2022). Political stability can affect an investor's ability to invest in a country. Where political stability affects foreign direct investment flows, especially in developing countries. One of the factors that affect foreign direct investment is political stability, according to him political stability in general is considered as a determinant of foreign direct investment (Bitar *et al.*, 2019).

Research results (Nurhasanah, 2022; Chandra & Handoyo, 2020; Purwono & Hayati, 2021; Sari & Satrianto, 2021) find that the political stability variable has a positive influence on FDI inflows. Other findings were made by São Paulo *et al.*, (2023) showed different results that political stability had a negative effect on FDI inflows. The results are different from the research conducted (Goddess) *et al.*, 2023; Nairobi & Afif, 2022) shows that political stability has no effect on FDI. (H5: Political stability has a positive effect on FDI).

METHODOLOGY

This study uses a quantitative approach with secondary data. The type of data used is panel data, with a population consisting of member countries of the Group of Twenty (G-20). The sampling method applied is purposive sampling, with criteria determined based on the availability of data relevant to the research variable. The data used for each of the following variables:

Table 1.
Variable Operational Definition

Variabel	Notation	Variable Type	Indicator	Source
Foreign Direct Investment	FDI	They depend	FDI <i>Inflows</i>	World Bank
Interest Rates	SB	Independent	<i>Real interest rate (%)</i>	World Bank
Workforce	AK	Independent	<i>Labor Force Total</i>	World Bank
Scale Finances	OR	Independent	GDP (constant 2015 US\$)	World Bank
<i>Financial Development</i>	FD	Independent	<i>Financial Development Index</i>	IMF
Political Stability	SP	Independent	<i>Political Stability: Estimate</i>	WGI

Source: Data processed, 2024

The selected sample is countries that are actively reporting indicators such as Foreign Direct

Investment (FDI), interest rates, labor force, economic scale, financial development, and political stability. Based on these criteria, the researcher selected 12 countries as a research sample, namely South Africa, the United States, Argentina, Australia, Brazil, India, Italy, South Korea, Mexico, Russia, and China, covering a 10-year research period from 2013 to 2022.

The data collected will go through several statistical tests, including a model determination test between Common Effect Model (CEM), Fixed Effect Model (FEM), or Random Effect Model (REM) based on the results of the Chow Test to choose the right model between CEM or FEM, the Hausman Test to choose the right model between FEM or REM, and the Lagrange Multiplier (LM) Test to choose the model between CEM or REM. If consistently the results of the Chow test and the Hausman test are FEM, then there is no need to perform the LM test (Widarjono, 2017). The model of the equation is:

$$FDI = \beta_0 + \beta_1 SB_{it} + \beta_2 AK_{it} + \beta_3 SE_{it} + \beta_4 FD_{it} + \beta_5 SP_{it} + \varepsilon_{it}$$

Where

FDI: Foreign Direct investment;

β_0 : Constant;

SB: Interest Rate;

AK: Labor Force;

SE: Economic Scale;

FD: Financial Development;

SP: Political Stability;

ε : Error;

The classical assumption test is the next step in statistical testing after the right model is known. This test is used to verify whether the data to be used in the regression analysis meets the necessary basis and later produces a best, linear, unbiased estimator (BLUE) (Widarjono, 2017). As for the first assumption, the heteroscedasticity test is to test residual homogeneity. The second assumption is an autocorrelation test to test the serial correlation between residual variables. And assumption three, a multicollinearity test to test the relationships between the free variables used in the model.

The hypothesis test is carried out after the classical assumption test is met, which consists of a t-test, f-test, and a determination coefficient test. The t-test was performed to see the partial influence between independent variables on dependent variables. Then, the f-test is carried out to determine the simultaneous influence of all independent variables on dependent variables. Finally, test the coefficient of determination to see how much the independent variable is able to explain the dependent variable (Widarjono, 2017).

DISCUSSION AND FINDINGS

Model Estimation Results

The results of the parameter estimation of the panel data regression model with the CEM, FEM, and REM model approach can be seen in the following Table 2:

Table 2.
Parameter Estimation Results of Panel Data Regression Model

Variabel	Model estimation approach		
	Common effect	Fixed effect	Random effect
C	0.8093	0.0212	0.9405
Interest rates	0.4685	0.1011	0.6753
Workforce	0.0005	0.0007	0.0147
Scale finances	0.0171	0.8428	0.0856
Financial development	0.8488	0.1158	0.4895
Political stability	0.0003	0.0036	0.0101
R-squared	0.2558	0.4456	0.1363
F-statistics	0.0000	0.0000	0.0005

Source: Data processed, 2024

The results of the parameter estimation of the data regression model of this panel show the results of the significance between the variables that will be selected by the best model through the model determination test, then the classical assumption test and the hypothesis test.

Model Determination Test

The results of the determination of the panel data model were carried out through three tests, namely the Chow test, the Hausman test, and the Langrange Multiplier test. Furthermore, the test results can be seen in the following table:

Table 3.
Model Determination Results

No	Estimation	Statistics	Prob.	Verdict
1	Chow Test	4.548	0.0000	FEM
2	Hausman Test	36.64	0.0000	FEM

Source: Data processed, 2024

Based on table 3, the results of the model determination test are known in the chow test with a probability value of $< 5\%$ so that the best model chosen is the Fixed Effect Model (FEM). Furthermore, in the thirist test, it is known that the probability value is $< 5\%$ so that it is stated that the best model chosen is the fixed effect model. And because the chow test and thirst test consistently show the value of prob. the significance is less than 5%, then the best model decision is the fixed effect model and the Langrange Multiplier test no longer needs to be done.

Classic Assumption Test

Fixed effect as the selected model is first carried out a classical assumption test to prove that the Fixed effect model has met the assumptions of the OLS method. The results of the classical assumption test can be seen in the following table 4:

Table 4.
Classical Assumption Test Results

Test Type	Test Equipment	Test Results	Conclusion
Heteroscedasticity Test	Graph Residual	-2.5 – 2.5	No problem
Autocorrelation Test	Durbin Watson	$dw = 2.041$	No problem
Multicollinearity Test	Partial Correlation	< 0.85	No problem

Source: Data processed, 2024

The results of the classical assumption test that have been summarized in table 4 show that the heteroscedasticity test does not exceed the residual limit of -5.00 to 5.00, this indicates that the residual fixed effect model is homogeneous or there is no heteroscedasticity problem.

Furthermore, the results of the autocorrelation test were found to be $n = 120$, $k = 5$, $dw=1.595$, $du=1.789$, $4-du=2.211$, and $4-dl=2.386$. The value obtained $du=1.789 < dw=2.041 < 4-du=2.211$ which means that there is no autocorrelation problem. For the multicollinearity test, the correlation coefficient of the free variable was obtained not exceeding 0.85. So that the FEM model used is not indicated by the problem of multicollinearity.

FEM Model Estimation Results

The results of the estimation of the panel data regression model estimated by the fixed effect model will show significance tests through t-tests, F-tests, and determination coefficients as shown in table 5:

Table 5.
Fixed Effect Model Results

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	-2.529950	1.081245	-2.339850	0.0212
SB	-0.056071	0.033895	-1.654271	0.1011
AK	5.447252	1.562471	3.486.305	0.0007
SE	0.186122	0.936379	0.198768	0.8428
FD	5.806209	3.660960	1.585980	0.1158
SP	1.206996	0.405542	2.976257	0.0036
R-squared	0.5202		Durbin-Watson stat	2.041
Adjusted R-Square	0.4456			
F-statistic	6.979			
Prob (F-statistic)	0.0000			

Source: Data processed, 2024

Based on table 5, the regression equation of *the fixed effect* model can be formed as follows:

$$FDI = -2.5299 - 0.0560SB_{it} + 5.4472AK_{it} + 0.1861SE_{it} + 5.8062FD_{it} + 1.2069SP_{it} + \varepsilon_{it}$$

The results also show that partially the interest rate variable has a probability value of $0.1011 > 5\%$ with a negative coefficient which means that it has no effect on FDI. Then the labor force obtained a probability value of $0.0007 < 5\%$ with a negative coefficient, which means that it has a significant positive effect on FDI. Furthermore, the economic scale obtained a probability value of 0.8428 with a positive coefficient which means that it has no effect on FDI. The financial development variable obtained a probability value of 0.1158 with a positive coefficient, this means that it has no effect on FDI and for the political stability variable obtained a probability value of 0.0035 with a positive coefficient, it means that it has an effect on FDI.

Simultaneously, all independent variables used in the model had an effect on the dependent variable with an f-statistic probability value of $0.000 < 5\%$ and for the determination coefficient, an adjusted R-square value of 0.5202 was obtained, which means that the independent variable was able to explain the FDI determinant of 52.02% and the remaining 47.98% was explained by other variables outside the study.

The Effect of Interest Rates on Foreign Direct Investment

Based on the results of the estimation test fixed effect *model* shows that the interest rate variable has no effect on FDI (H_1 rejected). This means that raising or decreasing interest rates does not change the decision of foreign investors to invest their capital in a particular country (Sukirno,

2016). Moreover, G-20 countries have a relatively stable level of economic maturity and financial system, so interest rate fluctuations do not substantially change the risk or the rate of real return on investment. Changes in interest rates have more effect on short-term and speculative portfolio investments (Soewignyo *et al.*, 2021). Meanwhile, FDI in G-20 countries remains determined by structural attractiveness and long-term economic prospects, not by interest rates alone. The findings of this study are in line with the research (Mokuolu, 2018; Alshubiri, 2022; Fajar Nurbani Aslam & Ari Rudatin, 2023).

The Influence of the Labor Force on Foreign Direct Investment

The results of the study found that the labor force variable has a positive and significant influence on FDI. This is in line with the hypothesis that has been built (H2 accepted). The labor force has a significant influence on Foreign Direct Investment (FDI) flows in G-20 countries because the availability of large and qualified labor is one of the main factors considered by foreign investors. G-20 countries generally have a large workforce with relatively high levels of education, skills, and productivity, so they are able to support the efficiency of the production process and the adoption of technology brought by multinational companies. The larger and more competent the labor force, the lower the cost of production per unit and the higher the potential for increased output, which ultimately increases a country's attractiveness as a direct investment destination. In addition, a flexible workforce that is adaptive to technological changes allows foreign companies to carry out long-term expansion and scale their businesses without facing labor shortages. Therefore, in the context of G-20 countries, the labor force plays a fundamental role as a fundamental factor that strengthens the investment climate and encourages the inflow of FDI in a sustainable manner (Mina, 2020). The findings of this study are in line with the research C. H. Nguyen (2021) dan Serfraz (2018).

The Influence of Economies of Scale on Foreign Direct Investment

Based on the results of the regression test, it shows that economic scale does not have a significant effect on FDI. Apparently, this is because most of the countries in this group already have relatively large and mature market sizes and production capacities. This condition causes the variation in economic scale between G-20 countries to be less relevant in distinguishing the attractiveness of foreign direct investment. Multinational investors no longer make the size of the economy the main determining factor, but rather focus on operational efficiency, institutional quality, policy stability, technological innovation, and integration in the global value chain (Maharani & Setyowati, 2024).

This result is in stark contrast to Market Expansion Investment Theory, which states that strong economies of scale increase the size of the domestic market, which in turn encourages foreign investors to make direct investments to take advantage of greater market opportunities (Alfaro & Charlton, 2007). This is because foreign companies investing in G-20 countries generally operate at optimal production scales globally, so the additional benefits of domestic economies of scale do not provide a significant improvement in investment decisions. Thus, although economies of scale can theoretically improve production efficiency, in practice in established G-20 countries, this factor is no longer the main driver of FDI inflows compared to long-term structural and strategic factors. These findings are supported by research (Siregar & Endraswati, 2024).

The Influence of Financial Development on *Foreign Direct Investment*

Based on the results of the test estimation, it shows that the financial development does not

correspond to the hypothesis proposed (H4 rejected). This is because the financial system in these countries has generally been at a relatively advanced and stable level. This condition causes the difference in the level of financial deepening between G-20 countries to be not large enough to influence the investment decisions of multinational companies. Foreign investors usually have access to global and internal financing sources (internal funds), so dependence on the destination country's domestic financial system is low (Pham *et al.*, 2022).

Financial developments do not play an important role in driving FDI. The findings in this study are also supported by Farooq *et al.*, (2021) which concludes that only financial development that reaches a minimum level in a given country will have an increasing impact along with the improvement of the financial market. Thus, although financial development can theoretically improve the efficiency of capital allocation, in the context of G-20 countries with well-established financial systems, this variable is no longer the main determinant in attracting FDI.

The Effect of Political Stability on Foreign Direct Investment

From the results of the panel data regression test, it was found that the political stability variable had a positive and significant influence on FDI. This seems to be because foreign direct investment is long-term and involves a large capital commitment and is not easily withdrawn. Foreign investors strongly consider the level of policy certainty, regulatory consistency, and low political risk in determining investment locations. G-20 countries with high political stability are able to create a conducive business environment, reduce uncertainty related to changes in economic policies, nationalization of assets, and political conflicts that have the potential to increase investment costs and risks. In addition, political stability strengthens the government's credibility in maintaining the investment climate and protecting property rights, thereby increasing the confidence of foreign investors.

In the context of G-20 countries, although economic conditions are relatively strong, differences in the level of political stability remain an important differentiating factor in attracting FDI, so political stability plays a key determinant that encourages the sustainable inflow of foreign investment (Sari & Satrianto, 2021). The greater the value of the WGI indicator, the better the country's political stability will be (Kaufmann & Kraay, 2015). The findings of this study point to the fact that policymakers need to analyze FDI trends and their relationship to a country's risk factors. The findings of this study are supported by research Nurhasanah (2022) which shows that political stability has a positive effect on FDI.

CONCLUSION

Based on the results of the panel's data regression, labor force and political stability were shown to have a significant positive effect on FDI, while interest rates, economies of scale, and financial sector development did not show a significant influence. These findings underscore the importance of political stability and workforce quality in attracting foreign investment in G-20 countries. This study has limitations in the scope of variables and a relatively limited data period, so it has not fully described other factors such as institutional quality, infrastructure, or trade policy. The implication is that G-20 countries need to maintain political stability, improve the quality of the workforce, and strengthen the financial sector to create a more conducive investment climate. Further research is suggested to add more comprehensive variables, update data periods, and use more varied methodological approaches to gain a deeper understanding of FDI determinants

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