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Analysis of Indonesia's Attractiveness as a Foreign Investment Destination

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ABSTRACT

Purpose: *This study aims to identify and analyze the main factors influencing Foreign Direct Investment (FDI) flows to Indonesia. This study is important because FDI plays a role in strengthening economic growth, encouraging technology transfer, and enhancing national competitiveness amidst global economic dynamics.* ***Methodology:*** *The study uses a Systematic Literature Review (SLR) approach by reviewing five selected scientific journals published between 2021–2025. The analysis process includes screening, quality evaluation, and comparison of methods, variables, and key findings from each study .* ***Results:*** *The synthesis results show that GDP, exports, exchange rate stability, political conditions, and governance have a significant influence on FDI. In addition, global geopolitical tensions also influence investment risk and capital movements.* ***Findings:*** *The study finds that institutional readiness and responsiveness to global uncertainty are now key factors for investors, complementing traditional economic indicators.* ***Novelty:*** *This study offers a new integration of economic, geopolitical, and institutional factors within a comprehensive analytical framework.* ***Originality:*** *The study provides a unique perspective on the interaction between global and domestic conditions in shaping the attractiveness of FDI in Indonesia.* ***Conclusion:*** *Indonesia can increase its FDI attractiveness through strengthening governance, economic stability, and adaptive strategies to global dynamics. Future research is recommended to focus on differences in FDI across sectors.* ***Type of Paper:*** *Systematic Literature Review.*

INTRODUCTION

Foreign direct investment *(* FDI) plays a crucial role in accelerating a country's economic growth, particularly in developing countries like Indonesia. FDI brings not only capital but also technology transfer, increased production capacity, job creation, and integration into international trade networks (Manalu, 2024). In recent years, the Indonesian government has taken various strategic steps to strengthen investment attractiveness through regulatory reform, accelerated infrastructure development, and the expansion of a more conducive business climate. Policies such as simplifying licensing through *the Online Single Submission* (OSS), structural reforms in the Job Creation Law, and the provision of integrated industrial estates are concrete examples of the government's efforts to attract foreign investors. However, global competition in attracting FDI is increasingly fierce, particularly with highly competitive Southeast Asian countries such as Vietnam, Thailand, and Malaysia (Amelia & Khoirudin, 2023). This situation requires Indonesia to understand more deeply the factors investors consider when determining investment locations and how Indonesia positions itself compared to other countries in the region.

This research is motivated by the gap between Indonesia's enormous economic potential and the fluctuating annual FDI realization. On the one hand, Indonesia boasts abundant natural resources, a large domestic market, a competitive workforce, and a strategic location along global trade routes. However, on the other hand, foreign investors still face various obstacles, such as regulatory uncertainty, bureaucratic complexity, limited infrastructure in some regions, and issues related to legal certainty and policy consistency (Manalu, 2024; Rauf, 2024). This raises questions about the extent to which government efforts have overcome these obstacles and increased Indonesia's competitiveness as an investment destination (Amelia & Khoirudin, 2023). Furthermore, the shift in global investment due to the US-China trade war, digitalization, and changes in international supply chains also add to the complexity of understanding Indonesia's current investment attractiveness. This underpins the importance of further analysis of the factors that most influence investor perceptions and the challenges that remain to be addressed (Wen et al., 2024).

Several studies over the past 10 years have shown that political stability, regulatory quality, ease of doing business, and economic infrastructure are key determinants of FDI inflows. For example, Nisa and Rahman (2019) emphasized that countries with stable policies and low logistics costs have a greater chance of attracting large-scale foreign investment. Similarly, recent analyses by various international institutions, such as the World Bank and UNCTAD, over the past five years indicate that legal certainty and consistent policy implementation are crucial factors influencing global investor interest (Putriyanti, 2022). Furthermore, research on the effectiveness of the Job Creation Law demonstrates a positive impact on investor perceptions, although its implementation still faces bureaucratic challenges and institutional adaptation. Other literature also emphasizes that the development of strategic infrastructure, such as ports, airports, industrial estates, and *national strategic projects* (PSN), is a crucial catalyst for increasing investment attractiveness, particularly in the manufacturing and logistics sectors (Amelia & Khoirudin, 2023). However, these findings still need to be contextualized with Indonesia's current condition, which is in a post-pandemic economic transition phase and facing changes in regional geopolitical dynamics (Agma, 2025).

Based on the background, phenomena, and previous literature review, this study aims to analyze Indonesia's attractiveness as an FDI destination by reviewing the economic, regulatory, and institutional factors that influence foreign investor decisions. This study also aims to identify structural challenges that still hinder investment flows and evaluate the effectiveness of government policies in creating a more competitive business climate. Therefore, this study is expected to provide a comprehensive overview of Indonesia's position in the global competition to attract FDI, while also offering relevant policy recommendations to strengthen the long-term investment foundation.

METHOD

This study uses a descriptive qualitative approach with *the Systematic Literature Review* (SLR) method to gain a deep understanding of Indonesia's attractiveness as a destination for *Foreign Direct Investment* (FDI). This approach was chosen because it can produce a comprehensive picture through the interpretation of meanings, patterns, and trends emerging from various previous research results, rather than through statistical data processing. The SLR method is applied sequentially, starting from literature identification, searching for scientific sources, selecting using specific criteria, evaluating the quality of sources, and synthesizing the findings to ensure that the data collection process is systematic. This research design emphasizes traceability so that readers or subsequent researchers understand how data was obtained, selected, and analyzed in this study.

Data collection was conducted through literature searches from various credible databases such as Google Scholar, Scopus, and ScienceDirect, as well as official reports from international institutions such as UNCTAD and the World Bank. The search keywords used included “Foreign Direct Investment Indonesia,” “investment climate Indonesia,” “FDI attraction,” and “economic determinants of FDI.” The initial search process yielded approximately 65 documents consisting of journal articles, research reports, and official publications spanning the past ten years. The next stage was to apply inclusion criteria, namely: (1) articles published between 2014–2024; (2) discussing the determinants of FDI inflow into Indonesia; (3) reputable journals with peer-review standards; and (4) having direct relevance to the research variables. Next, exclusion criteria were used to filter out irrelevant documents, such as articles that were opinion-based, did not specifically address Indonesia, used outdated data, or did not meet scientific methodology standards. Through title and abstract *screening* , the number of documents was reduced to 18 potential articles. Based on *full-text screening* based on methodology, relevance of findings, and academic background, this study ultimately selected five primary journals as core sources for analysis because they met all requirements and demonstrated consistent findings regarding the attractiveness of FDI in Indonesia. This multi-layered selection process ensured that only high-quality literature was used in the analysis.

RESULTS AND DISCUSSION

RESULTS

Foreign Direct Investment (FDI) plays a strategic role in Indonesia's economic growth, particularly in strengthening national competitiveness and encouraging technology transfer. However, FDI dynamics are heavily influenced by macroeconomic factors, global geopolitical conditions, and the quality of governance, which have been the focus of various recent studies. The five key journals analyzed demonstrate variations in determinants such as GDP, exchange rates, interest rates, exports, as well as institutional aspects and geopolitical risks that shape FDI flows to Indonesia.

Table 1. Systematic Literature Review of Indonesia's Attractiveness as an FDI

No.	Title & Year	Method / Data	Variables / Focus of the Study	Key Findings
1	Factors Influencing Foreign Direct Investment (FDI) in Indonesia (Agustin Tangahu et al., 2025)	Descriptive quantitative; time series data 1992–2022 (BI, World Bank).	GDP, inflation, exchange rate.	GDP has a significant effect on FDI; inflation and the exchange rate are not significant partially. However, all three variables simultaneously have a significant effect on FDI.
2	Analysis of Factors Affecting Foreign Direct Investment in Indonesia (Amelia & Khoirudin, 2023)	Multiple regression; data 1987–2019.	Interest rates, exchange rates, exports, economic growth.	Only the exchange rate and exports significantly influence FDI. Rupiah depreciation reduces FDI, while increased exports increase it.
3	Reality of the Development of Foreign Direct Investment in Indonesia in 2019 (Mahadiansar et al., 2021)	Literature review.	FDI conditions in Indonesia 2019; institutions and governance.	An independent body is needed to oversee FDI, especially in potential areas; local government involvement in SEZs is key to accelerating the benefits of FDI.
4	The Impact of Geopolitical Tensions on Foreign Direct Investment (FDI) in Indonesia (Zaza et al., 2024)	Literature review and content analysis 2019–2024.	Geopolitical tensions, investment risks, global supply chains, green economy.	Geopolitical tensions increase investment risks, trigger capital flight, and depress exchange rates. However, they create new opportunities: industrial relocation and strengthening the green economy sector. Stable politics and a large domestic market keep FDI high.
5	The Relationship between Foreign Direct Investment (FDI) and Economic Development (Manalu, 2024)	Quantitative; panel data of 50 countries (2000–2020).	FDI, economic growth, technology transfer, human capital.	FDI has a significant positive effect on economic growth. The effect is stronger in countries with higher education and good infrastructure. FDI also encourages technology transfer and workforce skills development.

Source : Primary Data, 2025

The five journals analyzed show that the determinants of FDI in Indonesia vary depending on the approach and research period. A study by Agustin Tangahu et al. (2025) confirmed that GDP is the most dominant factor in attracting FDI, while inflation and the exchange rate do not have a significant partial effect. This finding differs from Amelia & Khoirudin (2023) who found that the exchange rate and exports are the main factors, with rupiah depreciation proven to suppress FDI. A study by Mahadiansar et al. (2021) added that the main problem with FDI lies not only in economic variables but also in institutions, thus requiring an independent body to ensure a more equitable distribution of benefits. Meanwhile, Zaza et al. (2024) identified geopolitical tensions as a new variable that increases investment risk but also opens up opportunities for industrial relocation and strengthening the green economy sector. A study by Manalu (2024) provides a cross-country perspective confirming that FDI has a significant positive impact on economic growth, especially when infrastructure quality is improved .

DISCUSSION

The analysis shows that Indonesia's attractiveness as an FDI destination is influenced by a combination of macroeconomic factors, institutional governance, and increasingly complex global geopolitical dynamics. Findings from Agustin Tangahu et al. (2025) and Amelia & Khoirudin (2023) emphasize that GDP, exports, and the exchange rate remain the primary determinants, supporting the location advantages framework in Dunning's Eclectic Paradigm. Differences in the results of the influence of inflation and exchange rates across studies indicate that investor sensitivity to macroeconomic risk is dynamic and strongly influenced by global conditions. A study by Mahadiansar et al. (2021) adds that government institutions and coordination, especially at the regional level, are crucial factors in ensuring the effectiveness and equitable distribution of FDI benefits. Findings from Zaza et al. (2024) reinforce the perspective that geopolitical tensions are now a strategic variable influencing FDI flows through industrial relocation toward a green economy. A study by Manalu (2024) shows that the impact of FDI on economic development will be optimal if a country's infrastructure and human capital are in place.

CONCLUSION

The study's findings indicate that Indonesia's attractiveness as a destination for Foreign Direct Investment (FDI) is the result of an interaction between macroeconomic factors, governance quality, and global geopolitical dynamics, which increasingly influence investor decisions. An analysis of five key journals confirms that GDP, exports, and exchange rate stability remain important determinants, but institutional effectiveness and the country's response to global uncertainty also play an increasingly significant role. These findings provide a theoretical contribution by broadening the understanding that FDI variables in Indonesia are not only relevant to classical economic theories such as *the Eclectic Paradigm* , but also illustrate the importance of institutional theory and the global risk approach.

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