5.1 Summary of Results

The study examines annual data sets of macroeconomic and non-economic determinants on inward FDI from 33 provinces in Indonesia during the 2000-2016 period. To find profound understanding regarding the factors that attract the investment, this research applied multiple regression.

The empirical results demonstrate that GRDP and population growth appear to have positive and significant effects on inwards FDI in Indonesia. Moreover, human capital appeared in a robust way to be a significant determinant of FDI location at the provincial level. Unexpected finding in this study is that pollution exerted a negative influence on FDI inflow into Indonesia. This finding implies that the pollution haven hypothesis does not apply to Indonesia. Lastly, there is no significant impact of infrastructure availability on influx FDI.

5.2 Policy Implications

After considering the macroeconomic and non-economic fundamentals that are potentially related to FDI influx, the investigated determining forces provide us an opportunity to conclude and formulate some specific policy implications as elaborated in the following points:
1) First, the regression results confirmed that an increase size of market has positive effects on inward FDI flows in provincial level. Hence, the authorities, both in national and regional, should positively concentrate in utilizing maximum capacities of the economy. Moreover, a highly significant coefficient of GRDP emphasize that GRDP occupies a particularly important place among the determinants of the FDI inflows. As a consequence, it is critically important for the governments to increase per capita GRDP in attempt to enhance comparative advantage in attracting foreign investments.

2) Second, the regression results also show that there is a positive influence of population on inward FDI. As one of the most populous economies in the world, it seems that multinationals consider Indonesia as a potential market and at the same time as a provider of human resources. Hence, the authorities should see this fact to manage the proportion of population in terms of age and income class in order to provide productive workforce and maintain household spending power.

3) The positive and significant impact of human capital, which is quantified in skilled labor force availability in promoting FDI inflows leads a conclusion that multinationals consider a high regional educational level as an important factor determining their location decisions. Accordingly, it is crucial for both national and regional government to invest more in human capital sector, particularly in education in order to upgrade labor competitiveness.

4) Lastly, the rejection of the so-called pollution haven hypothesis in this study give an implication that multinationals prefer to invest in greener countries.
Therefore, the governments should strengthen the environmental policies rather than loose them since the action can be considered as a positive externality and a complementary effort in attracting FDI inflows.

5.3 Agenda for Further Studies

Despite the contribution of this research, it has some limitations hence further studies are warranted. First, the value of R-squared in this study implies that there are other factors which can be included in examining the determinants of inward FDI in Indonesia. Accordingly, adding other factors or variables may give a better result.

Second, the fact that empirically the increasing of CO$_2$ emissions has a negative effect on FDI generates a new research inquiry on the rationale of foreign investors’ decisions which was not specifically addressed in this study. The disclosure of that question is critical for further policy formulation and a firm level case study might be the most suitable means to complete the puzzle. Also, the author encourages further researchers to utilize other proxies in quantifying the laxity of environmental policies, such as environmental quality index, level of SO$_2$, forest area coverage, and others to support the finding in this study or even to proof the existence of pollution haven hypothesis in Indonesia.

Third, the unexpected result of infrastructure availability effects on FDI inward, which is found insignificant and negative leads to further question whether infrastructure availability is really ruled out in FDI decision making. Since many studies have found that infrastructure availability is important in attracting FDI
inflows, replacing road length with other powerful variables in explaining the availability of infrastructure is suggested to be used in order to give more satisfying results in answering the question.

Lastly, the author also suggests the further researchers to utilize other variables to represent human capital such as health, productivity of labor and wage which are considered very important variables in explaining the factor. By adding these variables, hopefully will increase the robustness of human capital effects in attracting FDI inflows.