

# FDI and Tax Policy: Evidence from Indonesia

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**Abstract.** Foreign Direct Investment (FDI) is an investment from one country into another country. The purpose of this research is to determine the factors that affect the FDI inward in Indonesia. The research object used is the condition of FDI in Indonesia within 50 years from 1970 until 2019 with quantitative research methods. Data analysis was performed using the multiple linear regression and using software statistic E-views. The results shows that Tax Treaty has positive significant effect on FDI. Tax Incentive have no effect on FDI. Corporate Income Tax Rate has negative significant effect on FDI. Furthermore, GDP per Capita and Inflation Rate have no effect on FDI. Trade Openness have no effect on FDI. This indicates that double taxation avoidance agreements are legalized and active between Indonesia and other countries, enlarging the number of foreign direct investment entering Indonesia. The lower the corporate income tax rate imposed in Indonesia, enlarging the Foreign Direct Investment inward in Indonesia.

## 1 Introduction

In the midst of the Covid-19 pandemic which is currently sweeping the entire world, the Foreign Investment Coordinating Board noted that the realization of foreign investment in Indonesia reached Rp. 111.7 trillion in the first quarter of 2021. This amount of foreign investment exceeded the total investment. Domestically, amounting to IDR 108 trillion [1]. Above than 70% FDI outward from developed and emerging countries goes to other developing and emerging countries, and 50% of the FDI outward goes to source economy's countries. Moreover, developed countries mostly invest in other developed countries [2]. As a developing country, Indonesia recorded a fairly good foreign investment. Over time, the era of globalization which is developing very quickly has a significant impact on various aspects of human life. Through Globalization, everything becomes easier and unlimited. One of the impacts of the globalization era is the existence of international relations between countries through international trade, international agreements, foreign policy policies, and others.

At the second Indonesian Muslimah Congress held in 2018 at the Grand Cempaka Hotel, Minister of Finance Sri Mulyani Indrawati said that globalization has made the boundaries between countries very thin [3]. He said that the delivery of goods between countries which was previously limited by high taxes and import duties, with globalization is now lower. These taxes and import duties are lower because of international agreements between countries. With international agreements

between countries as well as lower taxes and import duties, transactions between countries are also increasing and it is possible to make foreign investment.

In policy number 17 of 2003 concerning State Finances, it is stated that state revenues are all revenues originating from tax revenues, non-tax state revenues and grant receipts from within and outside the country. Of the three sources of state revenue previously mentioned, tax revenues are the largest contributor to state revenue in Indonesia. According to the Directorate General of Taxes, the sources of state revenue originating from taxes are divided into seven sectors, namely income tax, value added tax, sales tax on luxury goods, land and building tax, export tax, international trade tax and import duties and excise. So, it can be concluded that taxes have a very important role in the development of the country. With the increasingly thin borders between countries, one of the tax revenues that contributes greatly to the state is tax revenue originating from foreign investment or what is commonly called Foreign Direct Investment.

The Ministry of Investment said that Indonesia is the fourth most population country in the world. Which makes Indonesia has a large number of workers and abundant natural resources. Therefore, among foreign investors, Indonesia is one of the most promising countries to invest in. One of the factors that causes Indonesia to have high foreign investment is by signing a Double Taxation Avoidance Agreement (P3B). Several developing countries, including Indonesia, prefer to invest funds and time in conducting P3B negotiations [4]. In addition, the country is also willing

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to experience tax revenue lost in the hope of attracting more FDI (Foreign Direct Investment). With the double tax treaty, it is hoped that it can demonstrate a commitment that the country provides the same treatment for both domestic and foreign investors in terms of regulations. [5].

The Tax Treaty hold an important role in transactions between countries because it is a bilateral tax agreement between Indonesia and other countries to prevent double taxation. From 1960 to the present, Indonesia has signed many international tax-related agreements including bilateral investment agreements and double taxation avoidance agreements [6]. The Indonesian government hopes that the agreement will increase the interest of foreign investors to invest in Indonesia so as to increase the country's economic growth. As of 2021, Indonesia has signed 68 Double Taxation Avoidance Agreement documents with other countries. Research conducted by Rizky and Tjen [6] showed that FDI inflows to Indonesia are influenced by tax treaties. However, the research conducted by Pribadi et al [7] had very different results, namely that there was no significant relationship between tax treaty and FDI.

Indonesia is also doing various things to attract investors. In addition to the Double Taxation Avoidance Agreement (P3B), the Indonesian government is also trying to attract investors by implementing Tax Incentives. Tax incentives are tax facilities provided by the government to investors so that they are interested in investing in the country [8]. Although the state will lose potential tax revenues so that it can cause an economic distortion, this does not stop the state from providing tax incentives because the provision of tax incentives will stimulate investors to invest in Indonesia [9]. Therefore, all countries in the world are competing to provide the best tax incentives in order to attract investors. This statement is supported by research conducted by Utami [9] which states that the Tax Holiday facility offered by the Indonesian government in 2011 was able to increase FDI inflows into Indonesia. However, the results of the research by Siregar and Patunru [10] said that Tax Incentives have no effect on FDI in Indonesia.

Most of the state's investment through foreign direct investment is by means of mergers and acquisitions by large, long-established companies that have gone global for restructuring or refocusing their core business [11]. Thus, one of the factors that influence the company's decision to invest is the Corporate Income Tax Rate. The smaller the corporate income tax rate that applies in a country, the company's expenses will also be smaller so that the company can get a larger net income after tax [12]. That way, companies will choose to invest in countries that have a lower Corporate Income Tax Rate. From the state side, by imposing a lower corporate income tax rate, it is hoped that it will create an investor-friendly state condition so that it can attract investors to invest [12]. This statement is supported by the research of Siregar and Patunru [10] who concluded in their research that the corporate income tax rate has an effect on foreign direct investment inflows. However, Cheng

et al [13] have a different opinion obtained from their research in 2017. The results of their research are that there is no significant relationship between the corporate income tax rate in China and foreign direct investment.

The three factors previously described are factors originating from the taxation sector. Outside of the taxation sector, there are still many factors that influence the entry of Foreign Direct Investment into Indonesia. Examples are GDP per capita, trade openness and inflation rates. According to Sukirno [14], GDP is the total value of goods or services that have been produced by a country in a period of one year which is assessed from the production factors both owned by that country and foreign countries. The value of GDP can show how the state of a country's economy is, the higher the value of a country's GDP means that the country has a good economic condition. Another factor that influences FDI is trade openness.

Trade openness shows the degree to which a country conducts international trade with other countries. The greater the trade openness, the more international trade transactions will occur, so this can attract more investors to invest in the country. The inflation rate, which is the rate of price increase, can also be said to be one of the determining factors for investors to invest in a country. Countries that have a low inflation rate are considered to have good economic stability. Investors will be more interested in investing in countries that have good economic stability. So, the lower the inflation rate can attract more FDI. Based on the results of research that has been carried out by previous researchers, it was found that there were inconsistencies in the results of one study with another. Therefore, this study was conducted to determine how the actual effect of the Tax Treaty, Tax Incentive and Corporate Income Tax Rate on Foreign Direct Investment with the conditions that exist in Indonesia. Previous research did not explain how tax policy should be in relation to FDI prevailing in Indonesia. This research to contribution provides study results in the form of factors that influence FDI in Indonesia and provides an overview to the Indonesian government in implementing optimal tax policies.

## 2 Literature Review

### A. Eclectic Theory

J.H. Dunning, an economist from England, proposed a method to analyze the factors that influence foreign direct investment with an eclectic approach that combines three main theories of foreign direct investment. The three main theories of foreign direct investment combined are known as O-L-I, namely Ownership Advantage, Location Advantage and Internalization Advantage [15]. Based on the Ownership Advantage theory, Dunning [15] concludes that companies or investors will be interested in investing in the form of FDI if the investment recipient company has a competitive advantage over other companies. In terms of Location Advantage, Dunning [15] said that a geographically strategic location and has various aspects

of advantages that only exist in the country such as low labor costs, natural resource wealth, low tax rates, and many more can also be a factor. important considerations for companies or investors to invest in the form of FDI. As for the Internalization Advantage, Dunning [15] sees it from the side of internal advantages. Companies or investors before investing in the form of FDI will first analyze which is more profitable internally, whether to make their own products or use outsourced personnel. If a company has advantages in terms of internalization advantages such as having a good workforce at an affordable cost, then the company or investor will be interested in investing in the form of FDI. From the theory put forward by Dunning [15], it can be concluded that if the investment recipient company has a superior competitive advantage and can compete with other companies, and is in a strategic location and good state conditions and the investor's decision to invest can provide benefits to investors. investors, investors will be interested in investing in the form of FDI.

#### B. Foreign Direct Investment

According to Hindrayani [16], Foreign Investment or what is commonly called Foreign Direct Investment (FDI) is the provision of loans or purchases of company ownership outside the territory of their own country. Foreign Direct Investment has many benefits for the country. According to the Investment Coordinating Board (BKPM), FDI has benefits as funding that can help the state to fund various sectors that lack funds, besides that FDI also reduces unemployment by opening up new jobs. from abroad and can be developed in Indonesia, FDI can also encourage community economic growth by helping MSMEs (Micro, Small and Medium Enterprises). For domestic entrepreneurs, the existence of FDI can help them to market their products to international markets. Furthermore, the most tangible benefit and the one that has the most significant impact on the state is that it can increase state revenues through taxes and create a more stable relationship in the economic sphere of the two countries.

#### C. Tax Incentive

One of the instruments often used by developing countries to attract investors is to apply Tax Incentives or commonly called Tax Incentives. The definition of tax incentives according to Winardi as quoted by Hasibuan [8] is "Taxation with the aim of providing incentives. The use of taxes is not only for the purpose of generating government revenue, but also to provide an impetus towards economic development, in certain fields. The tax incentives offered by Indonesia to attract investors to invest in the form of FDI are divided into two, namely Tax Holidays which are regulated in PMK No. 35 of 2018 concerning the Provision of Corporate Income Tax Reduction Facilities and Tax Allowance as regulated in PP No. 9 of 2016 concerning Amendments to PP No. 18 of 2015 concerning Income Tax Facilities for Investment in Certain Business Fields and or in Certain Areas [17].

#### D. Corporate Income Tax

One of the factors that can be considered by investors when investing in the form of FDI is the Corporate Income Tax Rate (Corporate Income Tax Rate). The definition of Corporate Income Tax Rate is the tax rate imposed on the income of a company [18]. One example of a form of FDI is by conducting a merger or acquisition. So this activity cannot be separated from the obligation of companies to pay taxes, especially corporate taxes or corporate taxes [18]. Corporate Income Tax is imposed on an entity or company on the income they earn and is usually very different, depending on the field and business policy. The lower the tax rate imposed by country, the more interested investors will be to invest. Therefore, every country is competing to compete in providing incentive policies, one of which is by imposing a reduction in corporate income tax rates.

#### E. GDP per Capita

GDP (Gross Domestic Product) is the total value of all goods and services produced by a country in a certain period including goods and services produced by companies owned by residents of that country and by residents of other countries living in the country concerned [19]. According to economists, GDP can reflect the economic performance of a country. So, the higher the GDP obtained, the better the economic performance of the country. Meanwhile, GDP per Capita is used to measure the level of people's prosperity. This is because GDP per Capita is obtained from GDP divided by the total population of the country. So, GDP per Capita can be one of the factors that an investor considers to invest.

#### F. Trade Openness

According to the OECD, Trade Openness or trade openness is often used to measure how important international transaction relationships are to domestic ones. Trade Openness consists of a country's export and import components. Exports and imports are mostly carried out because every country depends on other countries to meet their domestic needs because not all commodities are owned by every country [20]. Thus, the application of trade openness policies, especially for developing countries, can be one of the factors that encourage economic growth [21]. So that the existence of trade openness can attract investors to invest in the country concerned.

#### G. Inflation Rate

Inflation rate is the level of price increase or more precisely the increase in the price of goods that are general and continuous [22]. There are two inflation rate indicators, namely the consumer price index and the producer price index which follow changes in prices paid by consumers and producers. The inflation rate itself can show the level of stability of a country. If a country's inflation rate is low, it shows that the country's level of stability is quite good. So that investors will be more interested in investing in countries that have a stable level.

### 3 Methods

#### A. Population and Sample

The research population includes all FDI that has entered Indonesia since the issuance of policy no. 78 of 1958 concerning Foreign Investment to date. In determining the research data, the researcher used a purposive sampling method with the main consideration being the completeness of the required data. Complete in the sense that all research variable data is provided by the organizations concerned and the data can be accessed publicly because all research data is secondary data which is very dependent on the availability of data on the official website concerned. After considering this, it was decided that the research data used by the researcher was FDI data that entered Indonesia in the period 1970 - 2019. This research used purposive sampling. From the 64 data total population, 14 data cannot be using because they did not display the information needed for this study so that only 50 data were used.

#### B. Hypothesis Development

##### 1. Effect of Tax Treaty on Foreign Direct Investment in Indonesia

According to the eclectic theory put forward by Dunning [15], in terms of location advantage, investors will be interested in investing if a company or country has advantages in terms of an integrated location and good country conditions for investing. Indonesia itself is a country that has a strategic location, which is surrounded by oceans which can make it easier to transport international goods. In order to facilitate the occurrence of international trade, international agreements were drawn up. Tax treaty is one of the international agreements in the field of taxation. With the existence of a tax treaty between countries, transactions between countries will be easier and clearer so that this can attract investors to invest in Indonesia. Without a tax treaty, there will be a possibility of double taxation which will result in investors not being interested in investing. This statement is supported by previous research conducted by Rizky and Tjen [6] and Petkova, Stasio and Zagler [23] which showed that tax treaties have a significant effect and can increase FDI. Research conducted by Satrio and Lestari [24] found that medium-term and long-term tax treaties have a positive relationship with FDI. In addition, Pham and Ly [25] conducted research on Vietnam using data from ASEAN countries and concluded that the tax treaty had a significant effect on FDI inflows from ASEAN countries to Vietnam.

H1: The Tax Treaty has a significance effect on Foreign Direct Investment in Indonesia.

##### 2. The Effect of Tax Incentives on Foreign Direct Investment in Indonesia

Tax incentives are one of the important factors for investors when they want to invest. Each country competes to offer the best tax incentives in order to attract investors. The existence of tax incentives in a

country can be an advantage of that country. This is in line with the theory put forward by Dunning [15] related to Location Advantage where with the benefits offered in investment destination countries, investors will be interested in investing in the form of FDI. The better and more profitable the tax incentives offered by the government are, the more interested investors will be to invest. This statement is supported by research conducted [9]. The result of research conducted by Utami [9] is that the Tax Holiday facility offered by the Indonesian government is able to increase FDI inflows into Indonesia. Research conducted by Herdiyati and Wahyudi [26] also said that the Tax Holiday facility offered by the government can attract investors to invest in Indonesia.

H2: Tax Incentive has a significance effect on Foreign Direct Investment in Indonesia.

##### 3. Effect of Corporate Income Tax Rate on Foreign Direct Investment in Indonesia

Corporate Income Tax Rate can also be one of the factors considered by investors who will invest in the form of FDI. Most of the state's investment through foreign direct investment is by way of mergers and acquisitions between old companies that have gone global for restructuring or refocusing their core business [11]. Thus, the amount of the Corporate Income Tax rate set by the government can be a factor for investors to consider. This is in line with the eclectic theory proposed by Dunning [15] in terms of Location Advantage. The amount of tax rate that must be issued can be taken into consideration by investors before conducting a merger or acquisition with an international company. If the tax rate offered is lower and can reduce spending, investors will be interested in investing in the form of FDI. This statement is supported by research on the Nigerian state conducted by Eiya and Okaiwele [27]. They conclude that the corporate income tax rate has a significant relationship with foreign direct investment. Siregar and Patunru [10] also support this statement by concluding that the corporate income tax rate affects foreign direct investment inflows.

H3: Corporate Income Tax Rate has a significance effect on Foreign Direct Investment.

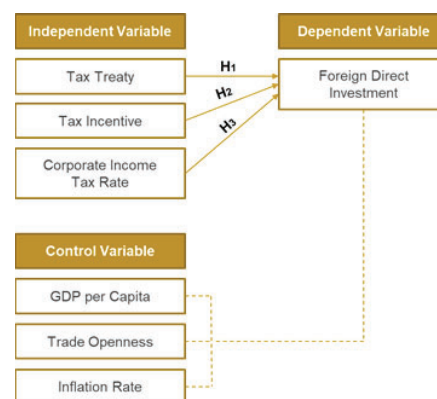


Fig. 1. Conceptual Framework

## 4 Data Collection

The research method used in this research is quantitative research. In providing an overview of how tax policy can affect the dependent variable is FDI, in this study the independent variables used are Tax Treaty, Tax Incentive and Corporate Income Tax. While the control variables in this study are GDP per Capita, Inflation Rate and Trade Openness in Indonesia. The data used are secondary data obtained from publicly available data and laws issued by the Government of the Republic of Indonesia, namely data from foreign direct investment entering Indonesia, the number of tax treaties currently active in Indonesia, data on the implementation of tax incentives and corporate income tax rate that applies in Indonesia. As well as data on GDP per Capita, Inflation Rate and Trade Openness in Indonesia in a span of 50 years, namely in the period 1970 - 2019. This study will use the E views application as a tool to test the effect of independent variable to the dependent variable. The tests carried out in this study are descriptive statistical tests, namely to describe the data using the mean, median, minimum, maximal, and standard deviation. This study uses time series data.

## 5 Results and Discussion

### 5.1 Statistic Descriptive

Descriptive statistical test is a method used to be able to explain research data briefly so that it is easy to understand and interpret. With descriptive statistics, a complete picture of the distribution of research data can be seen clearly and is more meaningful. In this study, descriptive statistics will be presented in the form of a table containing the number of observation data, mean, median, min, max, and standard deviation of each research variable. The results of descriptive statistical calculations can be seen in the table below.

**Table 1.** Statistic Descriptive

| Variable  | n  | Mean         | Median      | Minimum    | Maximum      | Standard Deviation |
|-----------|----|--------------|-------------|------------|--------------|--------------------|
| FDI       | 50 | 9816847892   | 5335569400  | 133000000  | 35265575100  | 11483905089        |
| LOGFDI    | 50 | 9.43642      | 9.72310     | 8.12385    | 10.54735     | 0.85391            |
| DTT       | 50 | 29.28000     | 24.00000    | 0.00000    | 65.00000     | 26.2515617         |
| TI        | 50 | 0.26000      | 0.00000     | 0.00000    | 1.00000      | 0.4430875          |
| CITR      | 50 | 0.34440      | 0.35000     | 0.25000    | 0.45000      | 0.07525            |
| GDP       | 50 | 1308,0151324 | 715,0979972 | 79,1781880 | 4135,2015313 | 1270,9944864       |
| LOGGDP    | 50 | 2.90495      | 2.85390     | 1.89861    | 3.61650      | 0.45869            |
| TRADE     | 50 | 0.50547      | 0.50145     | 0.28683    | 0.96186      | 0.10974            |
| INFLATION | 50 | 0.10858      | 0.08079     | 0.03031    | 0.58451      | 0.09746            |

Because the data in this study used a time series, a stationarity test, cointegration test and error correction model were carried out to see whether the data used in this study was stationary. So in this research data there is a long-term relationship (or balance) between variables and there is a possibility of an imbalance (disequilibrium) in the short-term relationship, so it can be concluded that the DTT and CITR variables have a long-term effect on FD and there is no independent variable that has an influence short term to FDI. The data in this study have also passed the classical assumption

test, the data are normally distributed, there is no multicollinearity, heteroscedasticity and autocorrelation.

### 5.2 Analysis Multiple Linier Regression

After carrying out the previous tests, the last step is to perform multiple linear regression analysis and test the hypothesis. Due to the large unit difference, the FDI and GDP variables are first transformed into log form in order to provide better data processing results. Then the multiple linear data regression equation in this study is as follows:

$$\begin{aligned} \text{Log}(FDI) = & \alpha + \beta_1 DTT + \beta_2 TI(Dummy) \\ & + \beta_3 CITR + \beta_4 \text{Log}(GDP) \\ & + \beta_5 TRADE + \beta_6 INFLATION + \epsilon \end{aligned}$$

Detail:

Log (FDI) = *Foreign Direct Investment* in Indonesia (USD)

DTT = *Total Double Tax Treaty* in Indonesia per one year

TI(Dummy) = *Tax Incentive* in Indonesia (1 = applies; 0 = not applies)

CITR = *Corporate Income Tax Rate* applies in Indonesia (%)

Log (GDP)= *GDP per Capita* in Indonesia (USD)

TRADE = *Trade Openness* in Indonesia (%)

INFLATION = *Inflation Rate* di Indonesia (%)

$\alpha$  = Constant

$\beta$  = Regression coefficient

$\epsilon$  = Error

The following is a summary of the results of the multiple linear regression model which is presented in the following table form:

**Table 2.** Multiple Linear Regression Model

| Variable           | Coefficient | Std. Error | t-Statistic       | Prob.    |
|--------------------|-------------|------------|-------------------|----------|
| C                  | 22.85065    | 2.757164   | 8.287736          | 0.0000   |
| DTT                | 0.047079    | 0.011504   | 4.092267          | 0.0002   |
| TI                 | -0.301866   | 0.597501   | -0.505214         | 0.6160   |
| CITR               | -0.090155   | 0.038423   | -2.346391         | 0.0236   |
| LOGGDP             | 0.112304    | 0.308669   | 0.363831          | 0.7178   |
| TRADE              | -0.005346   | 0.018777   | -0.284737         | 0.7772   |
| INFLATION          | 0.018560    | 0.017834   | 1.040682          | 0.3038   |
| R-squared          | 0.850559    |            | F-statistic       | 40.78992 |
| Adjusted R-squared | 0.829707    |            | Prob(F-statistic) | 0.000000 |

\*sig = 5%

Based on the results of the regression model obtained, the regression equation formed is as follows:

$$\begin{aligned} \text{Log}(FDI) = & 22.85065 + 0.047079 DTT \\ & - 0.301866 TI(Dummy) \\ & - 0.090155 CITR \\ & + 0.112304 \text{Log}(GDP) \\ & - 0.005346 TRADE \\ & + 0.018560 INFLATION + \epsilon \end{aligned}$$

### 5.3 Coefficient of Determination Test Results (R<sup>2</sup>)

The Coefficient of Determination (R<sup>2</sup>) test was conducted to find out how much ability the regression

model used in explaining the variation of the dependent variable was. In this study, testing the coefficient of determination using the values of the R-Squared and Adjusted R-squared in the regression model. Based on the results of the regression model, the R-squared value in this study was 0.850559 or 85.06%. This value indicates that the variation of the independent variables and control variables, namely DTT, TI, CITR, GDP, TRADE and INFLATION can explain the dependent variable, namely FDI by 85.06%. While the remaining 14.94% is influenced by other factors outside the variables studied. However, the use of the R-squared value in the coefficient of determination test is considered to have a weakness because the R-squared value can give biased results to the number of independent variables included in the model [28]. Therefore, Ghozali [28] suggests using the value of the adjusted R-squared in testing the coefficient of determination because the adjusted R-squared value can increase or decrease every time there are additional variables into the regression model. The adjusted R-squared value in this study was 0.829707 or 82.97%. This value indicates that the variation of the independent variables and control variables, namely DTT, TI, CITR, GDP, TRADE and INFLATION can explain the dependent variable, namely FDI by 82.97%. While the remaining 17.03% is influenced by other factors outside the variables studied.

#### 5.4 F Value and T-Statistic Test Results

In this study, the simultaneous significance test used the value of the probability F-statistic in the regression model. Based on the results of the regression model, the value of the probability F-statistic is  $0.000000 < 0.05$ , it can be concluded that the independent variables and control variables in this study, namely DTT, TI, CITR, GDP, TRADE and INFLATION have a simultaneous effect on the dependent variable, namely FDI significantly. In this study, the partial significance test used the value of the probability t-statistic in the regression model. Based on the results of the regression model, there are two independent variables that have a significant effect on the dependent variable, namely DTT and CITR. Meanwhile, the TI variable has not significantly affected the dependent variable. Likewise with the control variable, there is no control variable that has a significant effect on the dependent variable.

#### 5.5 Discussion

So, it can be concluded that at the 95% confidence level, the Double Tax Treaty has a significant positive effect on Foreign Direct Investment entering Indonesia. Thus, the first hypothesis can be accepted. In addition, based on the results of the long-term effect on ECM (Error Correction Model) it was found that DTT had a long-term effect on FDI, but for the short-term effect test it was found that DTT had no short-term effect on FDI. The results of this study are in line with research conducted by [24].

At the 95% confidence level, Tax Incentives have no effect on Foreign Direct Investment entering Indonesia. Thus, the second hypothesis is rejected. In addition, based on the results of the long-term effect on ECM (Error Correction Model) it was found that TI has no long-term and short-term effect on FDI. The results of this study are in line with research conducted by [10].

Confidence of 95% Corporate Income Tax Rate has a significant negative effect on Foreign Direct Investment entering Indonesia. Thus, the third hypothesis can be accepted. In addition, based on the results of the long-term effect on ECM (Error Correction Model) it was found that CITR had a long-term effect on FDI, but for the short-term effect test it was found that CITR had no short-term effect on FDI. The results of this study are in line with research conducted by [10].

The test results of each control variable on Foreign Direct Investment:

- Variable Gross Domestic Product (GDP) that at the 95% confidence level Gross Domestic Product have no effect on Foreign Direct Investment entering Indonesia.
- Trade Openness (TRADE) variable that at the 95% confidence level, Trade Openness have no effect on Foreign Direct Investment entering Indonesia.
- Variable Inflation Rate (INFLATION) that at the 95% confidence level the Inflation Rate have no effect on Foreign Direct Investment entering Indonesia.

### 6 Conclusion

The Double Tax Treaty has a significant positive effect on Foreign Direct Investment entering Indonesia. Based on the results of the long-term effect test on ECM (Error Correction Model) it was found that DTT had a long-term effect on FDI, but for the short-term effect test it was found that DTT had no short-term effect on FDI. Thus, it can be said that the more double taxation avoidance agreements are legalized and active between Indonesia and other countries, enlarging the number of foreign direct investment entering Indonesia.

Tax Incentive have no effect on Foreign Direct Investment entering Indonesia. In addition, based on the results of the long-term effect on ECM (Error Correction Model) it was found that TI has no long-term and short-term effect on FDI. So, it can be said that the existence of Tax Incentives does not guarantee that Foreign Direct Investment entering Indonesia will be even greater.

Corporate Income Tax Rate has a significant negative effect on Foreign Direct Investment entering Indonesia. The third hypothesis can be accepted. Based on the results of the long-term effect test on ECM (Error Correction Model) it was found that CITR had a long-term effect on FDI, but for the short-term effect test it was found that CITR had no short-term effect on FDI. So, it can be said that the lower the corporate income tax rate imposed in Indonesia, the larger the Foreign Direct Investment inward in Indonesia.

For the future research, we suggest to conduct research looking for variables that affect FDI in Indonesia before and after covid-19. The future research can add other variables such as economic growth and the Corruption Perception Index. The limitations of this study are limitations in data collection because the data used comes from third-party secondary data sources, namely official websites, but not all of them disclose complete and clear information.

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