The Effect of Gross Domestic Product, Government Military Expenditure on Foreign Investment in ASEAN Countries

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Abstract
The purpose of this study is to see the impact of Gross Domestic Product, Military Expenditure on Foreign Direct Investment in ASEAN countries. The results of this study show that GDP has a negative influence on foreign investment and the increase or decrease of Milex significantly affects foreign direct investment according to the political stability in each country. In some countries, it is said that increasing Milex does not necessarily make a country safer. An increase in Milex can occur when conflicts in a country or region increase and as a result investor confidence decreases. Whereas in other countries with higher political stability, descriptive statistics of military spending are used in this study and the data used in this study are from SIPRI, Word Bank, and data from the financial statements of ASEAN countries. Before the analysis, the constant value is, meaning that if the independent variable Milex is equal to zero, then the dependent variable (Foreign Investment) will have a value of 10.58533. The regression coefficient value of GDP (X1) is -0.180875 and Milex (X2) is 0.541519 and has a positive sign which means that if Milex increases by 1 unit, the dependent variable, namely Foreign Direct Investment, will also increase by 0.180875 and vice versa. it shows that the Jarque-Bera value is 67.16348 with a probability of 0.00000. The output result of the Adjusted R-Square value is 0.872961, or 87.29%.

Keywords: Asean, Economy Defense, FDI, GDP, Military Expenditure

INTRODUCTION

Every country tries to maintain its national defense and security for the continuity of development. In Indonesia, this is regulated in Article 30 paragraph 1 of the 1945 Constitution, which states that every citizen has the right and obligation to participate in the country's defense and security efforts. FDI (Foreign Direct Investment) is investment or investment that comes from abroad or foreign parties. In short, the concept of direct investment is foreign investment. Countries with lower political stability and security are more likely to receive less FDI than countries with higher political stability and security (Aziz & Khalid, 2019).

In Indonesia, FDI is regulated under the Investment Law and is an important source of economic development. FDI can bring additional capital, advanced technology, and much-needed managerial skills to the country. The main objective of FDI is to make a profit, and some of the factors that attract foreign investors include cheap labor, access to raw material sources, as well as vast market potential. FDI also contributes significantly to the Indonesian economy, with around 63.42% of total investment coming from foreign direct investment (Murzal J, 2024).

The response to reducing conflict, and maintaining domestic and regional peace is to increase Milex. A strong defense policy can create a conducive environment for FDI. Guaranteed national security will increase the confidence of foreign investors to invest. Conversely, security instability can hinder the flow of foreign investment. Therefore, maintaining national defense and security is a crucial step in supporting economic growth through FDI. Such a policy not only helps to protect the country from internal and external conflicts but also brings other side and promotional effects such as secure income along with profits for investors (Deger & Sen, 1983). The consistency in the relationship between military spending and Foreign Direct Investment (FDI) suggests that countries with higher military spending are often considered "safer", making

it easier for foreign investors to invest in the country. This is due to their ability to secure the homeland, which in turn increases foreign investors' confidence to invest in the country. Research shows that in countries experiencing conflict, increased military spending can attract FDI as investors see it as a commitment to security. This option means that if FDI levels are to increase, policymakers and governments should consider increasing military spending (Thakur, 2021).

However, the impact of military spending on FDI is not always positive. In non-conflict situations, increased military spending does not show significant effects on FDI flows. In contrast, in countries that are not experiencing conflict, high military spending can be seen as an indication that public resources are being diverted from other productive sectors, which may reduce the attractiveness for investors (Mukhopadhyay & Das, 2018). This consistency is in line with the research of Sijabat (2023) The results of his research show that an increase or decrease in Milex has no significant effect on foreign direct investment. It can be said that an increase in Milex does not necessarily make a country safer. Milex may increase if conflicts in a country or region increase and investor confidence decreases as a result. From this research gap, we started this study to look at the impact between FDI and Milex itself to anticipate bias. Therefore, if governments want to increase FDI levels, they need to consider increasing military spending as part of the policy strategy. This means that policymakers must balance the need for security with investment in infrastructure and other sectors that support economic growth.

The selection of ASEAN countries in this study is because ASEAN as a regional institution in Southeast Asia consists of countries that have cultural, historical, and political similarities. ASEAN forms a Security Political Community which is one of the pillars of the ASEAN Community based, as it aims to integrate a stable, peaceful, prosperous, and harmonious Southeast Asian region (Mohadib, 2018). In this context, political and security integration in ASEAN aims not only to maintain peace, but also to enhance the region's attractiveness to foreign investors. By creating stability through multilateral cooperation and commitment to the peaceful resolution of differences, ASEAN countries can strengthen their position as safe and attractive investment destinations. Through these efforts, ASEAN strives to be a community that is responsive to regional and global challenges, and plays a central role in the evolving regional security architecture. Based on the United Nations Conference on Trade and Development (UNCTAD) survey of multinational companies, Southeast Asian countries remained the main destination countries for host countries of foreign direct investment in 2013-2015.

In this context, Sandler and Hartley explain that defense economics applies economic principles to defense-related issues, including an analysis of how military spending can affect foreign investment flows. (Sandler & Hartley, 1995). Research shows that there is a positive relationship between military spending and FDI. One study found that a 1% increase in military spending correlated with a 0.4829% increase in foreign direct investment. This suggests that countries that increase their military spending are often seen as safer by investors, thus attracting more investment. However, there is also the view that high military spending can "crowd out" foreign investment by creating a less hospitable business environment[1]. This demonstrates the complexity in the relationship between military spending and FDI, where the effects can vary depending on each country's political and economic context. Thus, for policymakers, understanding these dynamics is important to formulate strategies that not only focus on improving security but also on creating a conducive investment climate (Thakur, 2021).

Topics related to defense economics include, for example, the level of defense spending, the impact of defense spending on products and employment at home and abroad, aspects related to the existence and size of the defense sector, as well as the relationship between defense spending and technological change and the impact of defense spending in the context of international stability or instability. In another explanation, according to Yusgiantoro, defense

economics is a branch of science that applies economics to national defense issues. This discipline helps us find the best way to allocate various national resources
to meet security needs and counter threats that affect national sovereignty (Yusgiantoro, 2014)

Increases and decreases in military spending (Milex) have a significant impact on a country's economy. Military spending is often considered an indicator of national security, and the stability that results from this spending can attract foreign direct investment (FDI). according to research Mubarok A et al. (2023) shows that military spending can contribute positively to economic growth. For example, higher military spending is often correlated with an increase in Gross Domestic Product (GDP) in several countries, including Middle Eastern countries and Turkey. Increased military spending can also have a positive impact on employment levels and infrastructure development. Investments in the defense sector often result in advances in technology and innovation that can benefit the civilian sector. In addition, there are also negative impacts of military spending, such as the allocation of large resources to military spending can divert funds from other social and economic development programs, potentially exacerbating poverty levels. This suggests that while military spending can stimulate growth, there are significant opportunity costs. High military spending without being matched by social development can create income inequality, potentially leading to social conflict in the community.

Literature Review. Previous research on Milex and FDI includes, among other things, The Effect of Government Military Spending on Foreign Direct Investment (Thakur, 2021), Armed Conflict, Military Expenses and FDI Inflow to Developing Countries (Aziz & Khalid, 2019). Military Spending, Economic Growth, and Investment: A Disaggregated Analysis by Income Group (Kollias & Paleologou, 2019). and The Effect of Defense Budget, Defense Equipment Imports, Defense Equipment Exports and Inflation on Economic Growth in Indonesia 1980-2019 (Saputro et al., 2021), The Association between Foreign Investment and Gross Domestic Product in Ten ASEAN Countries (Sijabat, 2023).

The theory of FDI

Foreign direct investment (FDI) theory explains how and why firms invest in other countries. In this context, the Keynesian view of investment provides important insights into the factors that influence investment decisions. According to Keynesian theory, investment is influenced by several key factors:

1. Interest Rates: Low interest rates tend to encourage investment as borrowing costs become cheaper. Conversely, high interest rates may discourage investment.

2. Operating Costs: The costs associated with running a business, such as wages and raw material costs, also affect investment decisions. If operating costs are high, then the potential profit from the investment may be reduced.

3. Expected Rate of Return (MEC): Marginal Efficiency of Capital (MEC) is the net return expected from an additional investment. Investors will compare the MEC to the cost of capital to determine if an investment is worth making.

4. Economic Situation: In addition to the above factors, the overall economic situation also plays an important role. In a stable and growing economy, investors are more likely to make investments due to better profit prospects.

RESEARCH METHODS

The research method used in this research is descriptive quantitative research method, namely. seeking information about existing symptoms, clearly defining achievable goals, planning approaches, and collecting information as material for preparing reports (Sugiyono, 2021). The data used is secondary information collected through documentation from the World Bank and SIPRI. Before conducting the analysis, a model selection test, classical assumption test including normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test were conducted. Hypothesis testing with t-test (partial) and F-test (simultaneous).

In this study, the data was transformed into natural logarithm form (Ln). According to Sugiyono (2021), the use of natural logarithms in research aims to reduce excessive data variability. The natural logarithm model has several conditions including:
1) Ln model coefficients have a simple interpretation
2) Ln models often reduce a common statistical problem called heteroscedasticity.
3) The Ln model is easy to calculate.

This research conducts data processing and data analysis using Eviews 9 which is used to calculate the statistical value of the panel regression test, and estimation of model parameters, model fit test, classic hypothesis testing, and calculate panel regression test data.

RESULT AND DISCUSSION

Panel Data Regression Analysis

From the results of model selection testing, it can be concluded that the best model that can be used in this study is the Random Effect Model. The test results are shown in Table 1. With conditions: Ho: If the probability (p) ≥ 0.05 means that Milex simultaneously or partially has no effect on Foreign Direct Investment. Ha: If the probability (p) ≤ 0.05 means that GDP and Milex simultaneously or partially affect Foreign Direct Investment.

Table 1
(Random Effects Model) Panel Regression Estimation

Dependent Variable: Y
Method: Panel EGLS (Two-way random effects)
Date: 02/02/23   Time: 07:40
Sample: 2006 2019
Periods included: 14
Cross-sections included: 4
Total panel (balanced) observations: 56
Swamy and Arora estimator of component variances

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	10.58533	0.788958	13.41684	0.0000
X1	-0.194851	0.047507	-4.101503	0.0001
X2	0.541519	0.034809	15.55670	0.0000

Source: Eviews 9.0

In the table of data processing results using Eviews 9.0, a simple linear regression equation can be seen which explains whether there is a relationship between the independent variable and the dependent variable. From the panel data regression calculation, the following equation is obtained: $Yt = \beta0 + \beta1X1t + \beta2 X2 \varepsilon$

$Y = 10.58533 + - 0.180875X1 + 0.541519X2 \varepsilon$ Based on the panel data analysis using the Two-way random effects method with the research period 2006-2019, the following is the statistical interpretation of the variables tested:

a. The Constant variable (C) shows a coefficient value of 10.58533 with very strong statistical significance. With a t-statistic of 13.41684 and a probability of 0.0000, this indicates that the constant has a significant influence in the model.
b. The variable X1 shows a negative coefficient of -0.194851, with a t-statistic of -4.101503 and a probability of 0.0001. This indicates a statistically significant inverse relationship between variable X1 and the dependent variable Y.
c. The X2 variable displays a positive coefficient of 0.541519, with a t-statistic of 15.55670 and a probability of 0.0000. This indicates a highly significant positive effect of variable X2 on the dependent variable.
d. The study uses a total of 56 balanced panel observations with 14 research periods and 4 cross-sections included in the analysis, providing a comprehensive picture of the relationship between the variables under study.
e. The variance component estimator uses the Swamy and Arora method, which allows controlling for random effects in the panel data model, thus improving the reliability of the statistical analysis results.

Classical Assumption Test

Given that the research data used is secondary data, to fulfill the predetermined requirements before hypothesis testing through the t test and F test, it is necessary to test several classical assumptions used, namely normality, multicollinearity and heteroscedasticity which can be explained in detail as follows:

Normality Test According to Ghozali (2016), the purpose of the normality test is to determine whether each variable is normally distributed or not. The normality test is needed to test other variables by assuming that the residual values follow a normal distribution. The test in this study shows normal results and the results can be shown as follows:

Table 2

Normality Test

Source: Eviews 9.0
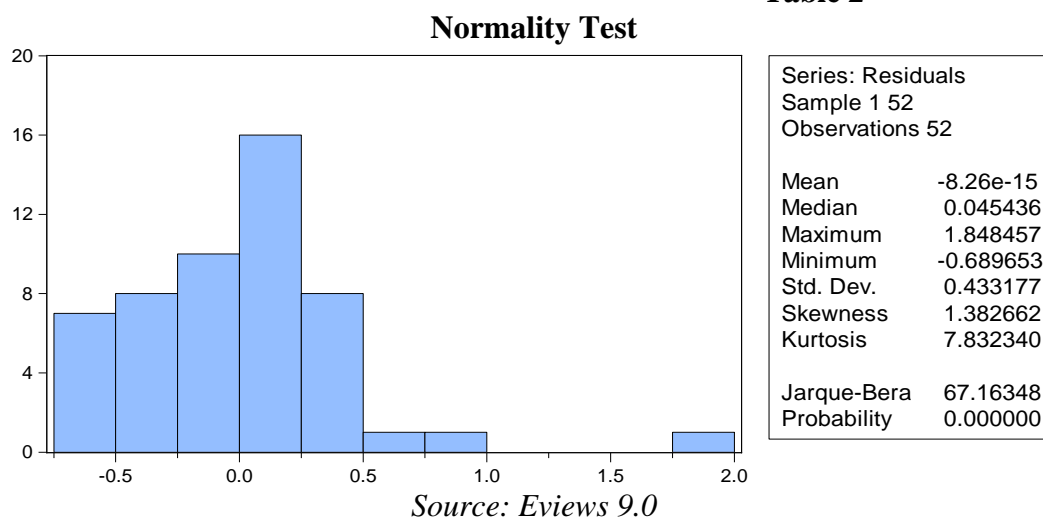
Based on the normality test conducted, this study uses a sample of 52 observations with residual distribution characteristics that can be described as follows: The mean residual is very low (-8.26e-15), close to zero, which indicates balance in the model. The median is 0.045436 which is relatively close to the mean, indicating the symmetry of the distribution. has a Standard deviation of 0.433177, illustrating the level of dispersion of the residuals and the range of residual values ranges from a minimum of -0.689653 to a maximum of 1.848457, so the Normality Test reaches a Skewness Coefficient of 1.382662 indicating a distribution skewed to the right. The Kurtosis of 7.832340 indicates a distribution that is more spiky than the standard normal distribution. In addition, the Jarque-Bera Test yields a value of 67.16348 with a probability of 0.000000, which statistically significantly rejects the hypothesis of perfect normality. Although

the residual distribution has some deviations from theoretical normality, this does not necessarily indicate the invalidity of the research model. However, in theory, the central limit theorem states that data that has a sample size of more than 30 is considered normal. Because the normality test is basically intended for data that has a small sample. For data with a large number of samples, it is considered normal.

a) The multicollinearity test aims to test whether the regression model finds a correlation between independent variables (independent). In a good regression model, there should be no correlation between independent variables. If the independent variables are correlated, then the variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between independent variables is equal to zero (Ghozali, 2016). The multicollinearity test results are shown in the table below:

Table 3
Multicollinearity Test

Variance Inflation Factors
Date: 02/02/23   Time: 07:30
Sample: 1 52
Included observations: 52

Variable	Coefficient Variance	Uncentere... VIF	Centered VIF
C	0.551123	146.7395	NA
X1	0.002754	21.12489	1.012733
X2	0.001028	138.4297	1.012733

Source: Eviews 9.0

. In this study, the multicollinearity test was carried out using Variance Inflation Factors (VIF) to assess the level of collinearity between independent variables. The following is a detailed interpretation of the analysis results: The Constant Variable (C) has a Coefficient of Variance: 0.551123, Uncentered VIF: 146.7395, Centered VIF: Not Available (NA). Variable X1 has a coefficient of variance: 0.002754, uncentered VIF: 21.12489, and centered VIF: 1.012733. Variable X2 has a variance coefficient: 0.001028, uncentered VIF: 138.4297 and centered VIF: 1.012733. It can be concluded that the centered VIF values for X1 and X2 are both close to 1 (1.012733), which indicates that there is no significant multicollinearity between the independent variables. In this study, both independent variables have very low VIF, which means that the variables do not have a high linear correlation.

b) Heteroscedasticity Test The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another. If the variance of one residual observation to another observation is fixed, it is called homoscedasticity and if the variance is different it is called heteroscedasticity.

Table 4
Heteroscedasticity Test

Heteroskedasticity Test: Harvey

F-statistic	3.175125	Prob. F(2,49)	0.0505
Obs*R-squared	5.965881	Prob. Chi-Square(2)	0.0506
Scaled explained SS	3.980801	Prob. Chi-Square(2)	0.1366

Source: Eviews 9.0

Based on Table 4, the heteroscedasticity test using the Harvey method was conducted to test the consistency of the residual variance. The following is a comprehensive interpretation of the analysis results: F-statistic: 3.175125, with a probability value of F (2,49): 0.0505. meaning that the probability value is very close to the significance limit of 0.05, indicating a weak indication of potential heteroscedasticity. The test results show that the research model is at the threshold of the heteroscedasticity criteria. Despite the weak indication, there is no statistically significant evidence to reject the assumption of homoscedasticity. This finding indicates that the estimation method used is still reliable, but it is recommended to consider correction techniques or robust estimation in further analysis to anticipate minimal potential bias.

c) The autocorrelation test used uses the Durbin Watson technique provided that the Durbin Watson value is between -2 to 2 without autocorrelation symptoms.

Table 5
Autocorrelation Test

Dependent Variable: Y
Method: Least Squares
Date: 02/02/23   Time: 07:34
Sample: 1 52
Included observations: 52

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	9.498199	0.742377	12.79431	0.0000
X1	-0.224987	0.052480	-4.287098	0.0001
X2	0.597849	0.032068	18.64305	0.0000
R-squared	0.877942	Mean dependent var		21.71324
Adjusted R-squared	0.872961	S.D. dependent var		1.239890
S.E. of regression	0.441929	Akaike info criterion		1.260626
Sum squared resid	9.569757	Schwarz criterion		1.373198
Log likelihood	-29.77627	Hannan-Quinn criter.		1.303783
F-statistic	176.2250	Durbin-Watson stat		1.296576
Prob(F-statistic)	0.000000			

Source: Eviews 9.0

Based on the results of the least squares estimation, this study reveals statistical characteristics that provide comprehensive insight into the quality of the regression model: by characterizing the Constant variable (C): Valued at 9.498199 with a probability of 0.0000, indicating strong statistical significance. Variable X1: Coefficient -0.224987 with t-statistic -4.287098, indicating a significant negative relationship. Variable X2: Coefficient 0.597849 with t-statistic 18.64305, displaying a very strong positive influence. the Prob. Chi-Square value is 1.296576 between -2 and 2, so H0 is accepted, meaning there is no correlation. The regression model shows high predictive quality with the ability to explain 87.79% of the dependent variable. The strong statistical significance of all independent variables strengthens the validity of the research model.

Simultaneous Significance Test (F Statistical Test) Simultaneous Test (F Test) is used to determine whether the independent variables in this study, namely X1 and X2, simultaneously have a significant effect on the dependent variable Y. The significance level used in this study is 0.05. The following are the results of the F test:

Table 6
F Statistical Test

Dependent Variable: Y
Method: Least Squares
Date: 02/02/23   Time: 07:34
Sample: 1 52
Included observations: 52

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	9.498199	0.742377	12.79431	0.0000
X1	-0.224987	0.052480	-4.287098	0.0001
X2	0.597849	0.032068	18.64305	0.0000
R-squared	0.877942	Mean dependent var		21.71324
Adjusted R-squared	0.872961	S.D. dependent var		1.239890
S.E. of regression	0.441929	Akaike info criterion		1.260626
Sum squared resid	9.569757	Schwarz criterion		1.373198
Log likelihood	-29.77627	Hannan-Quinn criter.		1.303783
F-statistic	176.2250	Durbin-Watson stat		1.296576
Prob(F-statistic)	0.000000			

Source: Eviews 9.0

Based on the results of the F-statistic test on the regression model, the study reveals critical information about the validity and strength of the overall model: The probability value of 0.000000 which is far below the significance level of 0.05 indicates that the regression model is comprehensively significant. This means that the independent variables (X1 and X2) together have a meaningful influence on the dependent variable. These two indicators confirm that the model has very strong predictive ability, with the independent variables being able to explain 87.79% of the variation in the dependent variable. The constructed regression model meets strict statistical significance criteria, providing high methodological confidence in explaining the relationship between the research variables.meaning that H0 is rejected and H1 is accepted. So it can be concluded that together the independent variables GDP and Milex have a significant effect on the dependent variable Foreign Direct Investment.

The Coefficient of Determination (R2) test in this study is used to measure how far the model's ability to explain the variance of the dependent variable. The coefficient of determination is a test to determine how much influence the independent variable (X) has on the dependent variable (Y).

Table 7
Determination Coefficient Test

Dependent Variable: Y
Method: Least Squares
Date: 02/02/23   Time: 07:34
Sample: 1 52
Included observations: 52

Variable	Coefficien...	Std. Error	t-Statistic	Prob.
C	9.498199	0.742377	12.79431	0.0000
X1	-0.224987	0.052480	-4.287098	0.0001
X2	0.597849	0.032068	18.64305	0.0000
R-squared	0.877942	Mean dependent var		21.71324
Adjusted R-squared	0.872961	S.D. dependent var		1.239890
S.E. of regression	0.441929	Akaike info criterion		1.260626
Sum squared resid	9.569757	Schwarz criterion		1.373198
Log likelihood	-29.77627	Hannan-Quinn criter.		1.303783
F-statistic	176.2250	Durbin-Watson stat		1.296576
Prob(F-statistic)	0.000000			

Source: Eviews 9.0

Determination Coefficient Analysis: Evaluation of Model Predictive Ability Based on statistical output, this study revealed the important characteristics of determination coefficient in regression models: R-squared has a value of 0.877942 (87.79%), Adjusted R-squared: 0.872961 (87.30%). meaning are both indicators indicate that independent variables (X1 and X2) have the ability to explain very strong dependent variables. Specifically, 87.79% of variations in dependent variables can be explained by regression models. Only 12.21% of variations are caused by factors outside the model. The minimal difference between R-squared and Adjusted R-squared confirms that the model does not overfittings. Adjusted R-squared is slightly lower, accommodating the complexity of independent variables. It can be concluded that the regression model shows excellent predictive quality, providing high methodological belief in explaining the structural relationships between research variables. The determination coefficient indicates that the research model has a superior statistical significance and predictive ability.

According to the Asian Development Bank (ADB) in 2015, emerging markets, including Indonesia, face serious challenges with a decrease in capital flows and currency depreciation. Interest rate hikes in the United States are expected to exacerbate this trend, which could result in further reductions in foreign direct investment (FDI) in the region. Despite the potential growth in some major countries such as China and India, growth forecasts for Indonesia itself are not very encouraging, with ADB cutting Indonesia's economic growth forecasts to about 5%. This decline reflects the impact of global economic uncertainty and the internal challenges faced by Indonesia in attracting foreign investment. Overall, the situation suggests that in order to increase the flow of FDI and economic stability, it is important for the Indonesian government to create an environment that is more conducive to investors, including through policies that support macroeconomic stability and strengthening financial systems (Wibowo A, 2015).

In line with the theory put forward through the Keynesian view of investment which states that investment depends on interest rates, operating costs, and expected returns. The expected rate of return called MEC (Marginal Efficiency of Capital) is the expected rate of return for additional investment. However, Keynes also argued that interest rate is not the only factor that affects investment, but another factor that affects investment, which is the economic situation. One of the economic situation and stability in developing countries such as most of ASEAN, is reflected in their Defense Expenditure and national income (Messakh, 2019).

According to Thakur (2021) explains that empirically, the level of military spending in a country is a significant determinant of the level of foreign direct investment the country receives, even after Thakur. politics and corruption. Moreover, this association is positive. This finding is consistent with the results of (Mukhopadhyay & Das, 2018;Mohadib, 2018).

This means that policymakers and governments should consider raising the level of military spending if the goal is to increase the level of foreign direct investment inflows. As such, military officials can use this study as sub-proof of the broader theory that military spending increases domestic economic growth. In turn, this nuanced indicator of economic development could provide policymakers and voters with more holistic evidence of the greater economic benefits of military spending, enabling more votes on expanded military spending legislation.

The restriction on this study is the limited use of countries in ASEAN, 2 countries, Myanmar and Cambodia labeled as highly uncertain data because the country figures are self-reported without cross-examination by independent external parties and 12.71% are described by other factors not tested in the study.

CONCLUSION

The decline in Revenue is inseparable from the weakening global economic growth. The growth potential of emerging Asia Pacific economies is constrained by the lack of infrastructure and over-reliance on commodities of some countries amid a fragile global economic recovery. This comprehensive research explores the complex relationship between Gross Domestic Products (GDP), military spending and Foreign Direct Investment (FDI) in the Southeast Asia region. Through a deep quantitative analysis using panel regression models with the Random Effects method, the study uncovered a series of significant findings that have important implications for theoretical and practical understanding of the regional investment climate

Empirical results suggest that independent variables (GDP and military spending) have substantive statistical influence on FDI. Specifically, the GDP variable displays significant negative coefficients (-0.180875), indicating an inversion relationship with foreign investment. The findings imply that GDP increases are not always directly proportional to the increase in FDI in the ASEAN region. Military spending (Milex) resulted in a very significant positive coefficient (0.541519), signaling its positive contribution to the attractiveness of foreign investment. This indicates that the security stability created through defense spending can increase investor confidence.

The research enriched the framework of Keynesian investment theory by integrating security and defense dimensions in investment climate analysis. By recommending policies such as:
1. The government needs to consider the balance between military spending and economic infrastructure development.
2. Creation of a conducive investment environment requires a multidimensional approach.
3. Political and security stability is a key prerequisite in attracting foreign investment

The study contributes significantly to understanding the complexity of factors affecting foreign investment in the ASEAN region, emphasizing the important role of integrated security stability and economic policy.

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