Journal of Economics, Business, and Accountancy Ventura Vol. 26, No. 2, August– November 2023, pages 167-179

Does Corruption Affect Foreign Direct Investment? Empirical Evidence from ASEAN Plus Three Countries

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A R T I C L E I N F O

Article history:
Received: 13 September 2022
Revised: 26 September 2023
Accepted: 4 October 2023

JEL Classification:
F21, H54, O16, D73

DOI:
10.14414/jebav.v26i2.3256

Keywords:
Corruption, Exchange rates, Economic growth, Political stability, Foreign direct investment

A B S T R A C T

Corruption poses a significant challenge in numerous countries, impacting foreign investment, including those within the ASEAN Plus Three (APT) region. This study aims to ascertain the influence of corruption and other factors – specifically, the exchange rate, political stability, and economic growth – on the appeal of foreign direct investment in APT countries. The research employs the Error Correction Model (ECM) for statistical testing to analyze both short- and long-term effects. The findings indicate that corruption and exchange rate fluctuations do not exert a significant impact on foreign investment inflows into APT countries, regardless of the time horizon. In the short term, a surge in corruption cases tends to diminish the interest of potential foreign direct investors. However, over the long term, foreign investors anticipate that APT countries will adopt more stringent measures to combat corruption, thus fostering a corruption-free environment. This expectation is bolstered by the presence of political stability and robust economic growth in APT countries, which stand as pivotal considerations for foreign direct investment. Therefore, APT countries, particularly Indonesia, ought to establish transparent investment guidelines, root out corruption, ensure political stability, maintain exchange rate stability, and prioritize policies aimed at stimulating economic growth in order to entice foreign investment.

A B S T R A K

Korupsi merupakan tantangan yang signifikan di berbagai negara, yang berdampak pada investasi asing, termasuk di kawasan ASEAN Plus Three (APT). Penelitian ini bertujuan untuk mengetahui pengaruh korupsi dan faktor-faktor lain-khususnya nilai tukar, stabilitas politik, dan pertumbuhan ekonomi-terhadap daya tarik investasi asing langsung di negara-negara APT. Penelitian ini menggunakan Error Correction Model (ECM) untuk pengujian statistik guna menganalisis dampak jangka pendek dan jangka panjang. Temuan menunjukkan bahwa korupsi dan fluktuasi nilai tukar tidak memberikan dampak yang signifikan terhadap arus masuk investasi asing ke negara-negara APT, terlepas dari jangka waktunya. Dalam jangka pendek, lonjakan kasus korupsi cenderung mengurangi minat calon investor asing. Namun, dalam jangka panjang, investor asing mengantisipasi bahwa negara-negara APT akan mengadopsi langkah-langkah yang lebih ketat untuk memerangi korupsi, sehingga mendorong lingkungan yang bebas korupsi. Harapan ini didukung oleh adanya stabilitas politik dan pertumbuhan ekonomi yang kuat di negara-negara APT, yang menjadi pertimbangan penting bagi investasi asing langsung. Oleh karena itu, negara-negara APT, khususnya Indonesia, harus membuat pedoman investasi yang transparan, membasmi korupsi, memastikan stabilitas politik, menjaga stabilitas nilai tukar, dan memprioritaskan kebijakan yang bertujuan untuk mendorong pertumbuhan ekonomi untuk menarik investasi asing.

1. INTRODUCTION

Since the economic crisis in 1997-1998, Southeast Asia has emerged as a highly appealing investment destination, with Foreign Direct Investment (FDI) into the region nearly quadrupling (Setyadharma & Fadhilah,

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2021). According to a survey conducted by UNCTAD on transnational companies from 2013 to 2015, countries in Southeast Asia continued to be prioritized as host nations for FDI. The Association of Southeast Asian Nations (ASEAN) Plus Three (APT) cooperation is a consultative platform comprising ASEAN countries (Indonesia, Thailand, Malaysia, Singapore, the Philippines, Brunei Darussalam, Vietnam, Laos, Myanmar, and Cambodia) and three additional countries—namely the People's Republic of China (PRC), Japan, and South Korea. APT was established in response to the economic crisis that struck the Asian region in 1997. This cooperative forum serves as a means to broaden the foundation of trade cooperation, bolster the economy, and enhance regional security (Cory, 2019).

In 2015, there was a clear recognition of the robust connection between investment and trade within ASEAN and APT. According to data from the ASEAN Secretariat and World Bank (2015), ASEAN's total trade with Japan, South Korea, and China amounted to no less than US$ 708.6 billion, accounting for 31.1% of the overall ASEAN trade. Concurrently, FDI from these three countries into ASEAN stood at US$ 31 billion, constituting roughly 26% of the total ASEAN FDI. Singapore led in yearly FDI, while Japan saw the most substantial increase in FDI among APT countries. Conversely, Brunei Darussalam experienced a decline in FDI levels from 2012 to 2016. To address investment concerns, ASEAN countries have developed the ASEAN Comprehensive Investment Agreement (ACIA). This initiative, in line with decisions made during the 39th ASEAN Economic Ministers Meeting in 2007, has fostered a framework for a free and open investment regime in ASEAN, contributing to economic integration under the ASEAN Economic Community. The agreement encompasses various sectors, including manufacturing, agriculture, fishery, forestry, mining and quarrying, and any other sectors unanimously agreed upon by all member states. It stands as a pivotal economic instrument driving regional economic integration, striving to establish a liberal, transparent, competitive, and facilitative investment environment within ASEAN. This detailed framework for mutual investment has proven instrumental in enabling member states to expand their trade and investment activities within ASEAN regions, and even extend to Japan, Korea, China, Australia-New Zealand, and India (Bath & Nottage, 2015). Nonetheless, ASEAN countries continue to grapple with widespread corruption, exacerbating uncertainties in the economic environment.

Corruption encompasses a range of unethical practices, including fraud detrimental to the state and society, as well as political and administrative misconduct, such as exploiting one's position, authority, or status for personal gain. This unethical behavior uniquely impacts different countries, each with its own set of implications. Empirical evidence presents a mixed picture regarding how a country's corruption index affects its attractiveness to foreign investors. Some studies suggest that countries with low corruption levels are more appealing to foreign investors, as they can reduce unnecessary costs like licensing fees resulting from bureaucratic inefficiencies (Cieślik & Goczek, 2018; Hanousek et al., 2021; Zakharov, 2019). According to the 2021 Corruption Perception Index (CPI) report, Singapore stands out as the least corrupt country in the ASEAN region and ranks fourth globally. It boasts high indicators in competitiveness, risk management, and democracy. Singapore's policies, combining innovation with socio-political influences, have played a crucial role in its economic success (Dai et al., 2021). This underscores the link between strong legal frameworks against corruption and economic competitiveness. In contrast, Malaysia, with a CPI score of 45, ranks as the second cleanest country in the region according to the 2021 report. While this ranking is relatively favorable compared to other ASEAN nations, Malaysia is currently grappling with an upswing in corruption levels, particularly in its business sector, particularly in relation to informal gifts or payments (Yusof & Arshad, 2020; Zain et al., 2019). Despite targeting foreign-owned firms, the business sentiment in Malaysia remains optimistic, and resilience is anticipated. Conversely, the countries with the lowest CPI scores have struggled to make significant progress in recent years. Cambodia, Myanmar, and Laos continue to grapple with severe corruption issues. Nonetheless, Cambodia actively welcomes FDI in export-oriented manufacturing industries (Sokang, 2018), Myanmar has established special investment zones (Bolesta, 2018), and Laos has seen substantial investment in agribusiness concessions (Lu & Schönweger, 2019).

The corruption landscape in APT Countries can be summarized as follows: Singapore holds the top spot as the least corrupt country, followed by Japan in the second place and Brunei Darussalam in the third place. Despite occasional associations with political nepotism, particularly in Singapore due to Prime Minister Lee Hsien Loong being the son of former Prime Minister Lee Kuan Yew, who held office for 33 years, and in Brunei Darussalam, which operates under a royal political system with significant nepotism potential,

both countries are considered to have relatively low levels of corruption. Notably, Brunei Darussalam records a government corruption perception score significantly lower than other ASEAN nations. Among ASEAN+3 countries, South Korea stands out in the yellow zone due to a corruption scandal involving former President Park Guen Hye and Lee Jae-Yong, a high-ranking official and heir of Samsung Electronics. Malaysia, too, grapples with a major corruption scandal, allegedly involving former Prime Minister Najib Razak through the 1 Malaysia Development Berhad project, which aimed to establish Kuala Lumpur as a financial hub in Asia. This led to Malaysia canceling a multi-billion-dollar project with China during Prime Minister Mahathir Mohammad's tenure. Both Thailand and Indonesia have not been immune to nepotistic practices, which have become somewhat commonplace. Cambodia, led by Prime Minister Hun Sen since 1985, finds itself at the bottom of the ASEAN corruption perception rankings. The prevalence of corruption in ASEAN countries has left government institutions and markets highly vulnerable, particularly in nations like Vietnam, the Philippines, Cambodia, Laos, and Myanmar. This situation poses a threat to business continuity and hampers investment entry. It highlights a significant gap: countries with lower CPI levels, indicating higher corruption levels, are paradoxically more appealing to investors.

2. THEORETICAL FRAMEWORK AND HYPOTHESES

The relationship between investment and economic growth has been a subject of ongoing debate. Notable studies have concluded that investment exerts a positive and significant influence on economic growth through various channels. These channels often involve investors directing their substantial capital towards key sectors in host countries, with the aim of development and maximizing returns. However, investors must navigate the potential for corruption in these host countries. In cases like Malaysia and Indonesia, high levels of corruption at the administrative level have contributed to an increase in illegal factory activities, resulting in elevated environmental pollution (Ridzuan, 2019). While these countries dominate in agribusiness sectors and attract significant investments, corruption within this sector has negatively impacted their environmental quality. Corruption, fundamentally, entails the misuse of public office for personal gain. This can manifest when an official accepts, solicits, or extorts a bribe. Moreover, it occurs when private entities actively offer bribes to gain an unfair advantage and generate profit. Abuse of public office for personal gain can also occur without direct bribery, through practices such as patronage, nepotism, misappropriation of state assets, or diversion of state revenues (Watkins, 2021). Academic concern over corruption predates its elevation to a highly contentious issue among practitioners.

Numerous studies, including those by Aidt (2016) and Rose-Ackerman (2017), have sought to gain a deeper understanding of the intricate factors that underlie the existence and persistence of corruption. However, this line of academic inquiry has yet to yield significant cross-national empirical testing, limiting its ability to provide substantial and compelling insights into the ramifications of corruption. Rose-Ackerman (2017) in particular illustrates that weak institutions, partially indicated by the prevalence of corruption, hinder economic growth. Similarly, Stone et al. (1992) employ surveys to collect evidence of elevated transaction costs associated with activities often linked to corruption, such as customs procedures. Nevertheless, this study does not elucidate why certain East Asian countries deviate from this pattern.

Corruption can serve as a facilitator for certain businesses to secure additional advantages and preferential treatment (Dimant & Tosato, 2018). According to Rose-Ackerman & Palifka (2016), corruption might emerge as a means to introduce market mechanisms and address missing incentives in environments burdened by cumbersome or inadequately enforced regulations. In some developing nations, corruption may stimulate FDI when the gains in revenue outweigh the associated costs (Hamdi & Hakimi, 2012). It can also function as an efficiency-enhancing 'lubricant' when confronted with stringent economic regulations, particularly in cases of governmental and bureaucratic shortcomings. Companies derive benefits from corruption in three key ways.

Firms may engage in bribery in host countries for several reasons: (1) to streamline bureaucratic processes in obtaining necessary permits, which could otherwise impede business operations (Luo et al., 2010); (2) to secure access to publicly funded projects (Leitão, 2010); and (3) to bypass regulations and gain a competitive edge, possibly through monopoly power (Castro et al., 2020; Kivyiro & Arminen, 2015). Consequently, the advantages gained from such actions may, in some cases, outweigh the costs and uncertainties associated with corruption. Companies, in their selection of FDI locations, do so strategically, considering

the trade-off between the benefits and drawbacks of investing in a country with higher corruption levels. Corruption can pose an entry barrier for new market entrants, introducing additional operational costs. This lends support to the FDI theory likening corruption to 'sand in the gears'. However, if the benefits of corruption prove to be greater than the costs, multinational enterprises (MNEs) may be willing to accept the associated risks in order to leverage their advantages, aligning with the 'corruption as grease' theory. Once companies opt for a country with elevated corruption levels, corruption can function as a lubricant for operations, enabling them to gain further advantages (Rose-Ackerman & Palifka, 2016).

Exchange rate fluctuations have a notable impact on both foreign investment and the prevalence of corruption. Essentially, the exchange rate represents the cost involved in international transactions. Studies by Balan (2019) and Alshubiri (2022) have found that a depreciation of a country's exchange rate, meaning a decrease in value relative to a second country's foreign currency, leads to an increase in FDI. This is particularly relevant for countries like Cambodia and Myanmar, where a depreciation in the exchange rate results in lower labor wages and production costs for foreign investors. Consequently, this enhances the attractiveness of these countries for foreign investment. It's worth noting that the exchange rate index can also exert a positive influence on FDI (Takagi & Shi, 2011).

On the other hand, The Asian Development Bank has noted that FDI exhibits interdependence over time (Estrada et al., 2015). This interdependence accounts for intangible and unpredictable elements that impact industry dynamics, including how firms perceive the industry's suitability for FDI. These perceptions, in turn, may be influenced by the state of the sector in the preceding period. As mentioned earlier, business competition could be a contributing factor to this interdependence. Our second crucial empirical finding indicates that in industries conducive to FDI, the exchange rate level significantly and positively influences FDI inflows in a profitable manner. This implies that foreign investors, benefiting from an increase in their home country's currency income, may find it more advantageous to invest in a host country with a stronger currency compared to other alternatives. The other two exchange rate-related factors are deemed insignificant, and both measures of sunk costs have a notably adverse impact on FDI.

A business based in an industrialized nation may opt for direct investment in a developing country based on the expectation of higher future profitability compared to available investment opportunities domestically or in other industrialized nations. This decision is influenced by political and economic factors that determine the relative advantages of such an investment. While the current economic outlook may be favorable and hold promise for the future, it's important to recognize that these opportunities may not materialize due to unfavorable political circumstances. Therefore, considering both economic and political factors is crucial when assessing foreign investment prospects. Foreign investors place greater confidence in investments when the political stability of the host country is assured, as measured by standards of good governance, human rights treatment, adherence to constitutional order, and overall democratic governance. Investors will also consider the country's political stability index, as it relates to assessing the risk-return profile of the investment. Countries with stable political conditions foster a conducive market environment, allowing for smooth economic operations by both production and consumption households, thereby stimulating investment growth. Barry (1985) asserts that political unrest can hinder economic progress and deter foreign investment. Companies owned by foreign entities may face additional challenges in the face of internal political turmoil, including the potential for partial or complete nationalization. This threat is independent of the political orientation of the governing administration, as both right- and left-wing governments may resort to nationalism to bolster their positions. An inverse relationship is expected between increased political volatility and the inclination of decision-makers to pursue direct investments. Sabir et al. (2019) highlight that in industrialized nations compared to developing ones, the coefficients representing control of corruption, government effectiveness, political stability, regulatory quality, the rule of law, and voice and accountability exert a greater influence on FDI inflows. They conclude that institutional quality plays a more prominent role in FDI in developed countries than in less developed ones. In contrast, while factors such as GDP per capita, trade openness, agriculture value added as a percentage of GDP, and infrastructure have positive and statistically significant effects on FDI inflows in developing countries, GDP per capita, agriculture value added as a percentage of GDP, and inflation has a negative impact on FDI inflows in developed countries.

Investment decisions are influenced by various factors, and one significant consideration for investors is the potential for economic growth. A robust economic growth trajectory implies higher returns for

foreign investors, making the prospect of increased investment more appealing. A nation with a high growth rate not only impacts output and income levels but also leads to a surge in demand for goods and services. This, in turn, translates to increased corporate profits, which in itself encourages further investment in the country. FDI inflows play a pivotal role in driving economic growth, given their potential to facilitate technology transfer, enhance domestic enterprise productivity, and address financial capital requirements, ultimately leading to the creation of employment opportunities. Research conducted by Ourvashi (2012) across 45 developing countries in Africa, Latin America, and Asia underscores the significance of bureaucratic quality and macroeconomic stability in influencing FDI. The impact of corruption, economic growth, and exchange rates on foreign investment varies across different countries. Corruption, in particular, can play a dual role, acting both as a barrier to entry for new players and as a channel for incumbents to gain additional advantages and incentives for further investment. The 'corruption as sand' perspective highlights how corruption can elevate costs and uncertainties for businesses, thereby dampening FDI. This argument is supported by several factors: firstly, corruption leads to increased business costs and durations (Cuervo-Cazurra, 2012; Bahoo et al., (2020)); secondly, firms engaging in corruption allocate resources to bribery, which reduces profitability (Zimelis, 2020); and thirdly since bribery is illegal and corruption contracts lack legal enforceability, companies face additional contract-related risks and uncertainties (Pinkham & Peng, 2017). Consequently, corruption adversely affects FDI by escalating costs and uncertainties for companies operating in the host country. Despite its detrimental effects on economic growth and its deterrent impact on new entrants, corruption continues to persist. In light of this context, this study aims to analyze the influence of corruption, exchange rates, political stability, and economic growth on FDI in APT countries.

3. RESEARCH METHOD

This study examines the relationship between FDI as the dependent variable and four independent variables: corruption (measured by CPI), exchange rates (ER), political stability (PSI), and economic growth (GR), spanning the period from 2008 to 2018. FDI entails the international flow of investment capital, wherein a company from one country establishes operations in another. Corruption (CPI) refers to the abuse of public power for private gain. Exchange Rates (ER) represent the relative value of a country's currency in comparison to another. Political Stability (PS) is a measure of perceptions regarding the likelihood of political instability, including politically motivated violence or terrorism. Economic growth (GR) signifies the expansion in the production of goods and services within a specified economic area over a given time interval. Time-series data is considered stable when it exhibits no systematic changes over time, or when both the mean and variance remain constant (Gujarati, 2021). To ensure the accuracy of the model, the Augmented Dickey-Fuller (ADF) unit-roots test was performed at the level. The results, as presented in Table 1, indicate that none of the variables display stationarity at this level, given that the probability values exceed the significance threshold of 5% or 0.05. Consequently, the analysis proceeds with the first-order integration test, a more rigorous unit root test, to obtain stationary data.

The need for a degree of integration test arises from the observation that the variables are not stationary at the initial level. To address this, a transformation is required to render the research variables stationary. This involves conducting a unit root test at the first difference, denoted as 'd(1)'. Upon reviewing the estimation outcomes presented in Table 2, which encompass the degree of integration test using the unit-roots test at the first difference, it becomes evident that all variables demonstrate stationarity at this level ('d(1)'). This is confirmed by the probability values, which are less than 5%, indicating statistical significance.

The ECM assesses the long-term relationship by examining the stationarity of residuals in the equation model. The unit root test results for the residuals in Equation 1, as detailed in Table 3, indicate that the Error Correction Term (ECT) is stationary at the level. This suggests the presence of a long-term relationship between the variables under investigation, signifying cointegration. To further analyze this relationship, we employ Ordinary Least Squares (OLS) regression to estimate the long-term association between the independent and dependent variables.

Table 3 presents an F-statistic value of 0.000 for the long-term equation, which falls below the 5% significance level. This suggests that the long-term equation holds validity. Evaluating the coefficients and associated probability values, we can affirm that both political stability and economic growth exert a positive

Table 1. Unit root test estimation results at Level

Variable	Probability	Significant Level	Description
FDI	0.2184	0.05	not stationary
CPI	0.9829	0.05	not stationary
ER	0.4532	0.05	not stationary
PSI	0.1836	0.05	not stationary
GR	0.5477	0.05	not stationary

Source: Data processing

Table 2. Unit root test estimation results at Level 1

Variables	Probability	Significance level	Description
FDI	0.0000	0.05	Stationary
CPI	0.0000	0.05	Stationary
ER	0.0000	0.05	Stationary
PSI	0.0000	0.05	Stationary
GR	0.0000	0.05	Stationary

Source: Data processing

Table 3. Co-integration test and results of long-term estimates

Variable	Coefficient	t-Statistic	Probability
C	-4.3896	-3.3760	0.0010
CPI	0.0232	0.7983	0.4261
ER	-0.0001	-0.3064	0.7598
PSI	0.0961	4.4559	0.0000*
GR	0.8168	6.0252	0.0000*
ECT		-3.8483	0.0001*
Prob.(F-statistic)	0.0000		

*Significant at α 5%, ** Significant at α 10%
Source: Data processing

Table 4. Results of short-term estimates

Variable	Coefficient	Probability
C	0.1551	0.2003
D(CPI)	-0.0118	0.3560
D(ER)	-0.0002	0.0815
D(PSI)	0.0078	0.7405
D(GR)	0.3079	0.0000*
ECT(-1)	-0.5341	0.0000*
Adjusted R-squared	0.5213	
Prob. (F-statistic)	0.0000	

*Significant at α 5%, ** Significant at α 10%
Source: Data processing

and statistically significant influence on FDI in APT countries. This finding aligns with our earlier determination of cointegration among stationary variables at the first difference. Consequently, the ECM estimation was undertaken, and its validity hinges on the presence of a significant ECT, as proposed by Engle (1987).

Examining the short-term calculations in Table 4, we observe a noteworthy negative and significant value for the ECT. These estimation results affirm both short-term and long-term relationships among the variables under consideration, namely corruption, exchange rates, political stability, and economic growth, in relation to FDI. The F-test, employed to assess the collective impact of all independent variables on the dependent variable, yields a result of 9.2629 with a corresponding probability value of 0.0000. This value is less than the 5% significance level, providing strong evidence that corruption, exchange rates, political stability, and economic growth collectively exert a substantial influence on FDI in developing countries.

The adjusted R-squared value of 0.52 signifies that corruption, exchange rates, political stability, and economic growth account for 52% of the variation in FDI. The remaining 48% can be attributed to other factors not considered in this study. At a 5% confidence level, it is concluded that only changes in the economic growth variable (GR) demonstrate significance in relation to changes in FDI, while the other variables do not. The ECT coefficient offers insight into the pace at which FDI adjusts. With a value of 0.5341, it implies that approximately 53.40% of the adjustment toward equilibrium in FDI occurs within one year.

4. DATA ANALYSIS AND DISCUSSION

The Southeast Asian market exhibits substantial potential for several compelling reasons. The combination of a sizable population and robust economic growth, particularly amidst global uncertainty, renders ASEAN a highly promising landscape for business opportunities. Moreover, as ASEAN comprises developing nations on a trajectory towards developed status, the potential for growth and investment opportunities is extensive. Additionally, the favorable lifestyle within the ASEAN community, characterized by high levels of happiness and generosity, serves as a catalyst for economic advancement.

The estimation results derived from the ECM in Tables 3 and 4 reveal a significant negative value for the ECT at -0.5341, with a probability value of 0.0001. This indicates the validity of the model utilized in this study. The F-statistical probability value of 0.0000 underscores that corruption, exchange rates, political stability, and economic growth wield a significant influence on foreign investment in APT countries. The outcomes of the short-term ECM estimation can be expressed in the model equation as follows:

$$\Delta(FDI) = 0.1551 - 0.0118\Delta(CPI) - 0.0001\,\Delta(ER) + 0.0078\,\Delta(PSI) + 0.3079\,\Delta(GR) - 0.5341\,(ECT(-1))$$

Based on our estimation results, it was determined that corruption does indeed exert an influence on foreign investment in APT countries. However, this effect is not deemed significant in either the short or long term. In this study, the CPI issued by Transparency International serves as the measurement for corruption. A higher CPI value indicates a cleaner track record regarding corrupt practices within a country. Conversely, a lower CPI value implies a higher incidence of corruption. Specifically, our findings reveal that in the short term, corruption exerts a negative effect. This means that even a 1% increase in the CPI value, signifying an improvement in a country's anti-corruption efforts, results in a reduction in foreign investment. It is important to note, however, that this effect is not statistically significant. These results suggest that corruption does not immediately deter FDI inflows. This could be attributed to various factors influencing an investor's choice of host nation, such as preferences for cost-effective labor, access to natural resources including labor, or a substantial consumer base (Ridzuan, 2019).

Furthermore, it is conceivable that in the short run, corporations may effectively navigate the practice in these host nations and sustain profitability. However, over the long term, a positive correlation with corruption becomes apparent. Specifically, in the long term, a 1% increase in the CPI rate—indicating a cleaner environment with reduced corrupt practices—results in a 0.0232% increase in FDI. This suggests that a lower CPI score is associated with higher levels of domestic investment. It underscores the notion that corruption can serve as a facilitator for investment, bypassing bureaucratic administrative hurdles. While this remains a significant consideration, it's important to acknowledge that corruption can be leveraged to bolster FDI.

The findings of this study are consistent with Bayar and Alakbarov's (2016) research conducted across 23 developing countries, employing the Westerlund-Durbin-Hausman cointegration test. Their results similarly indicate that corruption and the rule of law do not exert a statistically significant impact on the attractiveness of FDI. Additionally, Godinez and Garita's (2016) study underscores that while corruption does influence the appeal of FDI in Guatemala, in instances of high corruption levels, companies still derive benefits, sustaining the interest of foreign investors. Further research also reveals that successful implementation of structural reforms, coupled with rigorous law enforcement, can mitigate the adverse effects of corruption, ultimately fostering an environment conducive to attracting foreign investors (Alemu, 2012; Quazi, 2014).

The study's results reveal that the exchange rate exerts a negative, albeit non-significant, influence in both the short and long term. The strengthening of a country's domestic currency against the United States Dollar (USD) is considered a positive macroeconomic indicator. Specifically, the study demonstrates that when the exchange rate of APT countries strengthens against the USD, foreign investment experiences a

marginal increase of 0.0001% in both the short and long term. Conversely, a weakening of exchange rates in APT countries does not lead to a corresponding increase in FDI. This aligns with the findings of Bilawal et al. (2014), who observed that foreign companies tend to invest in countries with stronger exchange rates relative to other nations. Countries with weaker currencies generally face greater challenges in attracting investment due to heightened risks. In essence, a country with a robust currency value tends to be the source of FDI, whereas a country with a weaker currency is more likely to be the recipient or destination of FDI. This significant positive impact of the exchange rate on FDI is also corroborated by the research of Murwani (2007) and Hoque et al. (2018).

Liu & Deseatnicov (2016) posit that the exchange rate exhibits a negative response to outward FDI. Specifically, in the short term, the impact of the exchange rate on outward FDI is both significant and negative. Contrarily, Bilawal et al. (2014) discovered a significant and positive correlation between the exchange rate and FDI through regression analysis. Additionally, Kodongo & Ojah (2013) established a unidirectional causality from the real exchange rate to FDI. While the disparity in interest rates proved statistically insignificant, it displayed a positive relationship with FDI in times of currency depreciation. Solomon & Ruiz (2012) demonstrated that inflation and trade openness do not exert a significant effect on FDI. Conversely, GDP growth in the host country leads to a decrease in FDI, whereas GDP growth in the US significantly boosts FDI. Moreover, exchange rates were found to have a detrimental impact on FDI. Ultimately, the uncertainty surrounding the exchange rate's permanent component proves detrimental to FDI, while the uncertainty related to the exchange rate's transient component does not.

The results indicate that political stability has a substantial impact on FDI over the long term. An uptick in the Political Stability Index (PSI) signifies an improvement in domestic political stability. Conversely, a declining PSI value implies a less conducive political environment. In the long term, a 1% increase in the PSI is associated with a 0.0961% rise in foreign investment in APT countries. The significance of political stability in driving foreign investment lies in the assurance and security it provides to investors. It establishes a robust legal framework encompassing property rights, investment regulations, and government-honored contracts. This legal security fosters confidence among foreign investors, knowing their rights and agreements will be safeguarded. Governments characterized by stability are more likely to uphold consistent and investment-friendly economic policies. They tend to enact regulations that are both predictable and favorable for foreign investors. Conversely, abrupt policy or regulatory shifts can undermine foreign investment.

Political stability is a cornerstone of foreign investor confidence. When investors have faith in a stable political environment, they're more inclined to commit to long-term investments, secure in the knowledge that major disruptions are unlikely. Nations boasting high political stability tend to draw in a greater influx of foreign capital, encompassing direct investments, investment portfolios, and foreign loans. This surge in capital can fortify the nation's economy, laying the foundation for sustained economic expansion. Furthermore, robust political stability often correlates with favorable credit ratings assigned by rating agencies. This, in turn, leads to reduced borrowing costs for both governments and domestic enterprises, ultimately fostering a more conducive climate for foreign investment. Consequently, political stability emerges as a pivotal factor shaping foreign investors' decisions to allocate resources within a country. Nations characterized by strong political stability hold greater appeal for foreign investors due to the assurance of security, legal reliability, and prospects for enduring economic advancement.

Minor political disturbances in ASEAN countries don't seem to sway foreign investors' interest in APT nations. The positive correlation with political stability implies that heightened stability correlates with improved economic growth. A political landscape marked by stability, democratic governance, and secure conditions is likely to incentivize investments, leading to job creation and, subsequently, bolstering economic progress. These findings align with Omoteso & Mobolaji (2014) and Shabbir et al. (2016), though they diverge from those of Adefeso (2018).

Indonesia emerges as a more favored destination for foreign investment compared to other ASEAN nations, notably Vietnam, Malaysia, and Singapore. Clear-cut investment directives serve as a key competitive edge for a country's investment climate, much like in Myanmar, where it expressly states that foreign investors have access to all business sectors except for distribution. Indonesia has also delineated its investment guidelines, specifying sectors open to foreign participation. Among ASEAN counterparts, Vietnam and

Myanmar emerge as Indonesia's primary rivals in attracting investments, particularly from seven ASEAN partner countries: the United States, Japan, Korea, China, Australia, New Zealand, and India. These results harmonize with Rani & Batool's (2016) study, which noted a negative link between economic development and political instability but identified a positive correlation between FDI and economic growth in Pakistan.

The findings of this study reveal a substantial influence of economic growth on foreign investment in APT countries, both in the short and long term. Specifically, in the long term, a 1% increase in economic growth corresponds to a notable 0.8168% surge in foreign investment within APT nations. Moreover, the reciprocal effect of foreign investment on economic growth in APT countries is significant over both short and long periods. In practical terms, this means that heightened economic growth leads to a substantial 5.1944% increase in foreign investment in the long term and a 5.8024% surge in the short term. FDI not only injects capital into developmental endeavors but also serves as a reliable and stable source of financial resources. FDI is intrinsically tied to the output of foreign enterprises and is indicative of a country's market size, typically measured by its GDP. The study's findings affirm a positive correlation between economic growth and FDI, underscoring that as a nation's economy expands, so does its FDI. This symbiotic relationship is driven by domestically producible goods and services, contributing to heightened economic growth. As a result, APT countries are perceived as capable, economically competitive, and holding the trust of investors, particularly in the context of investing in Indonesia.

FDI serves as a pivotal source of capital for both developed and developing nations. It not only fosters investment growth but also constitutes a more stable form of capital compared to other foreign investment flows. FDI is characterized by a long-term perspective on market dynamics and growth potential, and notably, it does not incur government debt for the host country, rendering it less susceptible to fluctuations in adverse situations. FDI flows have witnessed widespread global expansion, and according to the study by Nguyen et al. (2021), nearly all countries and territories worldwide attract varying amounts of FDI, which vary in terms of both quality and quantity. The positive impact of foreign investment extends not only to the home country but also significantly benefits the host country. During both developmental and developed stages, the attractiveness of FDI inflows to countries is contingent on four primary groups of factors: economic indicators (GDP or GNP, GDP per capita, GDP growth rate, purchasing power of currency, ratio of raw material exports to GDP, manufacturing imports/GDP, export-import ratio, among others), social factors (literacy rates, school enrollment ratios, availability of technical and professional personnel, modernization perspectives, labor movement strength, degree of urbanization), political considerations (frequency of government change by type and period, incidence of armed conflict, administrative efficiency level, degree of active nationalism, colonial affiliations), and policies (corporate taxation, tax incentive legislation, attitudes toward joint ventures, local content requirements, restrictions on foreign personnel). FDI inflows are driven not solely by a country's demand, but also by the host country's urgent requirement, particularly in contexts where investment capital is scarce, as often observed in developing nations. To attract FDI inflows, in the initial phase, developing countries leverage their advantages such as abundant natural resources, cost-effective labor, access to new markets, and untapped development potential, often in environments with limited competition, supplemented by preferential tax policies, among other factors.

The study conducted by Nguyen et al. (2021) highlights the positive impact of foreign investment on the host country. It underscores that FDI inflows are not solely driven by the country's demand but also stem from the host's pressing need, particularly in contexts marked by a scarcity of investment capital, a scenario frequently encountered in developing nations. FDI serves as a vehicle for the transfer of both tangible and intangible assets, including technology, innovative product designs, and managerial expertise (Lechman & Kaur, 2015). It's worth noting, however, that the findings of this study run counter to those of Alaya (2012), who posited that exports and domestic investment play pivotal roles in determining economic growth. Instead, this study reveals a significant negative effect of FDI inflows on economic growth in Morocco, Turkey, and Tunisia.

5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATIONS

ASEAN presents a wealth of business and investment opportunities, making it an attractive arena for growth. The appealing lifestyle within the ASEAN community contributes to its economic vitality. This study suggests that while corruption does exert an influence on foreign investment in APT countries, its impact is not statistically significant in both the short and long terms. Similarly, fluctuating exchange rates do not appear

to significantly affect foreign investment. The strengthening of a nation's domestic currency relative to the United States Dollar serves as a positive indicator of its macroeconomic health. Foreign investors often seek out countries with weaker currency exchange rates as investment destinations. The study reveals that foreign investment increased when the exchange rates of APT countries strengthened against the US Dollar.

Indonesia emerges as a leading destination for foreign investment within ASEAN, surpassing other countries like Vietnam, Malaysia, and Singapore. Clear investment guidelines, as exemplified by Myanmar, which explicitly permit foreign investors in all business sectors, enhance a country's investment competitiveness. Indonesia has similarly clarified its investment regulations, specifying which sectors are open to foreign participation. Economic growth significantly impacts foreign investment in APT countries, both in the short and long term. In the long term, a 1% increase in economic growth translates to an additional 0.8168% in foreign investment for APT nations. FDI inflows are influenced not only by a country's demand but also by the urgent requirements of the host country, particularly in the context of limited investment capital. Political stability also wields a substantial influence on foreign investment. Countries exhibiting high political stability tend to be more appealing to foreign investors due to the assurance of security, legal predictability, and opportunities for sustainable economic growth.

The study underscores the importance of political stability and favorable policies in bolstering foreign investor confidence. Governments should work towards upholding political stability by avoiding abrupt regime shifts or political conflicts that could disrupt foreign investment. This may involve engaging in dialogues with diverse political groups and seeking peaceful resolutions to conflicts. It is imperative to ensure the proper functioning of the legal system, guaranteeing that foreign investors' property rights and contracts will be safeguarded. This can be achieved through the development of a robust and independent legal framework, coupled with a commitment to preventing political interference in the judicial process. Consistency and predictability in economic policies are paramount. Drastic alterations in economic policy or regulation can engender unwelcome uncertainty for foreign investors. When changes are deemed necessary, they should be implemented with judicious planning and effective communication with stakeholders. Given that economic growth significantly impacts FDI, it is crucial for the country to maintain a stable and consistent economic policy. Extensive shifts in economic policy can introduce uncertainty for foreign investors, underscoring the necessity for stability in this regard. Governments should prioritize policies that foster economic growth, as this will serve as a magnet for increased foreign investment in the long term.

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