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DETERMINANTS OF FDI IN DEVELOPING ASIAN COUNTRIES

Abstract: *Foreign direct investment - investments aimed at the long-term control of the investor over the business operations of the recipient company in another country. This paper studies the determinants of FDI in developing Asian countries. According to the results trade openness, tax burden and GDP per capita have statistical significance to FDI inflow to Asian Countries.*

Key words: *determinants, FDI, Asian countries, investment, trade openness, GDP per capita.*
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Introduction

The expansion of regional integration Agreements into various forms, ranging from free trade zones to economic unions, has demonstrated a further deepening of regional economic integration between countries since the 1990s, as well as a significant increase in global FDI flows (UNCTAD, 2003) of USD 442 billion between 1990 and 2002. (Di Mauro, 2000). This, in turn, has increased interest in the impact of economic integration on FDI inflows, as several studies show that foreign investments play an important role in the prosperity of emerging economies by disseminating R&D, technology, knowledge, and skills (Hejazi, et al., 1999). With the disintegration of the Soviet Union, post-communist countries, like other emerging economies, recognized early on the potential benefits of FDI and sought to expand economically through the Commonwealth of Independent States (CIS), the Customs Union (CU), and the common market, gradually understanding the value of transparency, business aspects, economic and political prosperity, and the f According to the OECD (2013), FDI is defined as cross-border contributions in one economy by a resident business into a company in another country with the goal of acquiring permanent value from the company resident in a different economy.

It is well established that all FDI inflows, regardless of form, lead to higher economic growth in host economies and contribute to long-term economic development (Masron, et al., 2012).

FDI and its benefits to host countries address issues such as resource scarcity and a lack of access to modern technology that developed countries face, making FDI outcomes far more relevant than those of developed countries (Rehman, et al., 2011). FDI frequently solves these problems. FDI will benefit developing countries directly through capital inflows, tax revenues, and job creation, while also indirectly benefiting local companies and workers and providing

access to foreign markets through the sharing of foreign investors' technologies and know-how. As a result, the participation of competing foreign companies in an increasingly competitive market forces the remaining domestic companies to become more productive, improving domestic competitiveness and, ultimately, the developing country's own economic growth rate (Reiter & Steensma, 2010). Finally, it is possible to state that FDI is an important factor in a country's development, particularly development.

Statement of the Problem

One of the challenges for Asian countries, particularly developed ones, is attracting FDI in order to achieve economic growth. Because of low labor costs, some Asian countries, such as China, India, and Vietnam, have an advantage over other countries. However, other countries, particularly landlocked countries, face challenges in attracting FDI. As a result, identifying significant variables of FDI inflows to Asian countries has always been a challenge.

Literature Review

There are, however, numerous FDI interpretations that are more popular and used by various sources, such as the International Monetary Fund (IMF), the Organization for Economic Cooperation and Development (OECD), and the United Nations Conference on Trade and Development (UNCTAD) (UNCTAD). While these are the most well-known and widely used sources.

According to the IMF and OECD definitions, foreign direct investment is the acquisition of a permanent interest in a business that is resident in a different economy by a citizen individual of a particular economy (foreign investor). The 'long-term relationship' ensures that the direct investment firm has a long-term connection with the direct investment business and has a significant impact on its operation.

However, most used (as defined by the UN in its 1990 World Investment Report) the concept of foreign direct investment: "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affidavit, etc.) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise,

Garibaldi et al. (2001) examined the determinants of foreign capital during 26 transitions from 1990 to 1999 and concluded that the major influencing factors for FDI inflows in these economies are market size, fiscal deficit, inflation and a system of exchange rates (FDI), risk analysis, economic reform, and trade reforms.

As a result, it is critical that the analysis distinguishes between vertical FDI (efficiency and the pursuit of natural resources) and horizontal (market) expenditure.

Intra-regional duty elimination may disincentivize intra-regional (market-seeking) FDIs because regional trade and services are less expensive than manufacturing facilities. This condition, on the other hand, may stimulate intra-regional FDI vertical (resource-seeking) activities by increasing the cost of multinational companies establishing regional manufacturing plants.

Ranjan and Agrawal (2011) classified FDI inflow determinants in Brazil, Russia, India, and China, known collectively as the BRIC countries, using a random effect model on a panel set of data consisting of an annual frequency dataset from 1975 to 2009. For the study, data from the World Bank Indicator (WDI Data Bank) 2010 were gathered.

In terms of globalization, the Ranjan and Agrawal (2011) study aims to investigate major factors influencing capital flows into BRIC countries and to provide analytical studies and results that are far more comprehensive and universal, utilizing large tables over time. Based on previous literature and available data sets for the timeframe chosen, Ranjan and Agrawal (2011) carefully selected the independent variables GDP (currently US$), CPI inflation, labour costs, exchange transparency, the infrastructure index, population, and the development of total capital projected to assess FDI inflows. In a paper titled "Foreign Direct Investment Determinant in Ten African Countries: A Panel Data Analysis," Akinlo et al. (2013) used the pooled Ordinary Least Squares (OLS) and Fixed Effects (FE) model calculation to identify the FDI influx determinants in ten main FDI beneficiary countries in Africa. Thus, the panel variables included Nigeria, Mozambique, South Africa, Ghana, Morocco, Egypt, Congo, Sudan, and Equatorial Guinea, while the time variable ranged from 1995 to 2011. For all variables, data from UNCTAD statistics were obtained. According to Azam and Lukman (2010), Ranjan and Agrawal (2011), Akinlo et al (2013), and Amal et al. (2013), agreements such as market share, connectivity, domestic investments, transparency, and economic growth are considered to be enabling for FDI inflows in developing countries (2010). Market share and development attract foreign investments in some South Asian (Pakistan and India) and BRIC countries, while domestic investment facilitates FDI movements into South Asian and African countries.

Among the economic determinants of FDI, the growing importance of such properties is probably the most significant shift in the world economy's liberalization and globalization.

Furthermore, this new configuration places a greater emphasis on agglomeration economies resulting from economic clustering, access to infrastructure, access to regional markets, and competitive pricing for resources and facilities.

The challenge for developing countries is to develop an independent, well-calibrated combination factor that determines FDI position and matches its determinants with corporate strategies.

Policies aimed at improving national production structures and fostering technical transfer are critical because they promote the ability to create value.

The impact on FDI is determined by the type of investment statements made by Jordan (2004). Investments aimed at the market can have a positive effect on FDI by limiting trade (and therefore reducing the openness). The theory is that foreign companies that want to service local markets want to establish subsidiaries in the host country because their goods are becoming difficult to import into the region.

Research methodology
Research Hypothesis

After determining the research objectives and research questions we would like to test several hypotheses for my research. To check thesehypothesis, we would like to develop multiple regression and check the relationship between dependent and independent variables.

H1: trade openness positively impacts on FDI inflows

H2: GDP per capita positively impacts on FDI inflows

H3: Inflation rate negatively impacts on FDI inflows

H4: Tax burden negatively impacts on FDI inflows

H5: Shadow economy level negatively impacts on FDI inflows

Trade openness

The level of market opening to the Gross Domestic Product is determined by the market ratio (imports plus exports). It is expected to have a significant positive or negligible impact on investment, depending on the intent of the FDI. If the goal of the FDI is to export and manufacture locally, this is acceptable. Wong (2005) and Pain (1993) find greater inflows of investment into countries where the market is more open due to the absence of stringent tax barriers, tariffs, or export monopolies in their research.

The rate of inflation

The inflation rate reflects economic stability, internal conflict, and governments' and central banks' ability to balance the government's budget. High inflation typically reduces real local currency investor benefits (Buckley et al., 2007), and Wong (2005) and Adison (2003) have confirmed that higher inflation rates drive economic instability and deter inward FDI. In comparison, low inflation represents domestic macroeconomic stability and attracts more FDI.

The tax burden

Taxation is defined by Ahiawodzi and Tsorhe (2013) as a method of implementing and collecting government revenue from private agents in the economy in order to fund government expenditure. Due to data limitations, the viewpoint of tax policy in this research paper is from the narrow perspective of corporate income tax. Scholars such as De Mooij and Ederveen (2001) have used a variety of tax policies in their research on taxation and FDI.

GDP per capita

Most studies have found that market size is a major determinant of FDI and have used it in tax policy and FDI projections (Bellak and Leibrecht 2009). In order to track this, we included GDP per capita as a proxy for market size in our model. Furthermore, in his FDI analysis, Billington (1999) used GDP as a proxy for market size on this basis. The actual effective exchange rate is another obvious candidate for a potential control variable (REER).

Level of the shadow economy

Faced with this threat to their tax revenues, governments have gradually shifted the tax burden from capital to labor, ignoring the fact that, in most cases, these policies are both regressive and counter-productive in terms of job growth. As a result, shifting the tax burden away from capital and toward labor and consumption would attract FDI and drive it into shadow economy activities. These are the perspectives of those who have focused on the negative aspects of FDI. Those who see the bright side of FDI argue that it has a positive effect on economic development and government tax revenues in a variety of ways, eventually reducing the shadow economy.

Regression model for the research is as follows:

$$FDI = \beta_0 + \beta_1 TO + \beta_2 TO + \beta_3 INFL + \beta_4 TB + \beta_5 SE + \theta_i + \delta_t + \varepsilon_{it}$$

STATA will then evaluate the data for both the independent and dependent variables, and the researcher will pay close attention to the three measures known as descriptive, correlation, and regression analysis. The descriptive analysis will show how the data is distributed, the correlation analysis will show the relationship between the variables, and the regression analysis will show how the independent variables as a group affect the dependent variable foreign direct investment, net inflows (percent of GDP).

Brief descriptive statistics are those that collect a data set that is either a representation of the entire population or a survey. The main goal is to include a description of the samples as well as the steps taken during the analysis. When combined with a variety of graphical analyses, descriptive statistics are an important component of all quantitative data analysis.

FDI	**Obs**	**Mean**	**Stv.Dev**	**Min**	**Max**
SE	638	4.343293	7.114172	-37.5476	57.51875
GDP per capita	600	25.4105	13.75022	8.19	71.5
Tax burden	632	7974.413	12289.75	138.4289	68714.3
Inflation	449	12.90943	4.958843	3.860246	28.70997
Trade open	627	0.9839502	0.8518438	0.1601388	4.4262

Figure 1. Descriptive statistics

	FDI	SE	GDP per capita	Trade open	Tax burden	Inflation
FDI	1.0000					
Shadow economy	-0.1540	1.0000				
GDP per capita	0.2210	-0.4645	1.0000			
Trade openness	0.2013	0.0074	0.0894	1.0000		
Tax revenue % of GDP	0.6248	-0.1912	0.3878	0.2365	1.0000	
Rate of inflation	-0.0614	0.0434	-0.2721	-0.0789	-0.1612	1.0000

Figure 2. Correlation matrix

Variable	VIF	1/VIF
SE	1.33	0.08139
GDP per capita	5.12	0.094568
Trade open	1.81	0.094100
Tax bur	1.22	0.223682
Inflation	1.45	0.568808

Figure 3. VIF test

VARIABLES	FDI
Shadow economy	-0.027
	(0.075)
GDP per capita	0.000*
	(0.000)
Tax burden	0.260**
	(0.108)
Trade openness	4.862***
	(1.008)
Inflation	-0.007
	(0.016)
Constant	-4.448***
	(1.491)
Observations	302
Number of Country ID	22
R-squared	0.46
Notes_Titles Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1	

Figure 4. Regression results using random effect

Discussions and conclusion

According to the results of all tests such as descriptive statistics, correlation matrix, VIF test it is clear the model is good and variables are chosen relying on the literature review, apart from this shadow economy level is also included, because there is an impact of it to FDI inflows. From the results of R-squared it can be said that model explains variables of FDI inflow. But according to the results of regression some variables are statistically insignificant, however that does not mean they do not impact on FDI inflow in Asian countries.

In order to avoid the multicollinearity issue 5 different models have been developed. According to the results of correlation matrix and VIF test results only WGIs are positively correlated. Relying on the results of VIF WGIs have the value higher than 5 that show multicollinearity. To decrease the impact of this issue 4 WGIs are estimated as independent variables separately.

Tax burden has also statistical significance to FDI inflow of Asian countries. That means if the country's tax burden increases, FDI level also increases. Countries are currently competing to attract investors. Governments have implemented several policy tools to invest in their own countries as much as possible. The main target of these specific measures is the foreign investors, because the inflow of FDIs to the host country has proved empirical that their economic performance has positive repercussions. It is certainly challenging to encourage foreign investors to invest in the host country. These investors decide whether or not to invest in some kind of thing, including the host country's tax rate. Although the role of tax remains the subject of debate among scholars, this tax system still plays a key role in attracting foreign investors.

Taxation policy plays a weak role in generating FDI inflows, according to the results. The most important attraction for foreign investors is the institutional aspect. While many countries are building a rather radical tax policy by constantly cutting tax rates, which in turn leads to tax competition in the region, institutional reform is driving investment flows into the countries. As a result of the institutional reform, foreign investment follows since the country is more exposed to international trade.

H1 is accepted, because trade openness and FDI inflow have positive relationship and trade openness is statistically significant.

H2 is accepted, because there is a positive relationship between GDP per capita and FDI inflow. However, the significance is not very high and it is regression results table, it tends to be zero.

H3 is accepted only in the regression model 1. According to Xaypanya, et al., (2015) there is a negative relationship.

H4 is rejected, because there is a positive relationship between FDI inflow and tax burden. It can be explained in the way that higher tax burden means that tax system and overall economy of the country is in good condition therefore FDI inflow is higher in those countries.

H5 is rejected. Shadow economy level has no statistical significance with FDI inflow.

H6 is rejected, some of them have negative relationship, while others are not statistically significant.

Aim and objectives of this research were to estimate the significant determinants of FDI inflows to Asian countries from 1991 to 2017. At the beginning of the research several hypotheses have been developed. As mentioned above panel data has been developed using the different sources to run regression analysis and to accept or reject initial research hypotheses. After running the regression, some hypotheses were rejected while others accepted.

Pandemic related to COVID-19 also impacted on the FDI inflow in Asia. For example: In Indonesia during the COVID-19 pandemic, FDI restrictions were not tightened. The Indonesian Government, on the other hand, has issued tax relief and licensing packages for investors. For example, Indonesia has loosened tax rules relating to the exemption from income tax. Thailand has not tightened FDI restrictions. In fact, in the case of medical equipment, "smart agriculture" technologies, and R&D the Thai Investment Board (TIB) has provided a number of opportunities to promote FDI. FDI companies that receive BOI benefits are not subject to the limits of foreign ownership of the FBA.

Asian countries should reduce FDI limitations. To provide for all types of enterprise, whether foreign or domestic, open, transparent and dependable terms including: facility of business, access to imports, a relatively flexible labor market, and intellectual property rights protection.

Asian countries are expected to increase aid to the developing countries' effective FDI promotion. Special and expensive expertise on the part of IPAs is required to target large investors pro-actively in particular sectors and pay professional staff on internationally competitive payments which are covered by external donors. In addition, developing countries need assistance in learning how IPAs can be used effectively to market multinational investors to their countries.

In reality, a common investment policy reform approach in Asia has been avoided by investor reforms in order to concentrate reform efforts only on procedures affecting foreign firms. The notion implicit in this prejudice is that local investors are a dominant government sector, while the government needs to "compete" against incoming investors.

Indeed, all capital is footholders, irrespectives of their nationality and in an increasingly interconnected

environment and with the drive to trade liberalization on both the economic and the financial accounts in many countries. With the pendulum of preferences for foreign investors it must be understood that developed countries are in their interests to offer "most favored foreigners" treatment to all investors.

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