CORRUPTION AND ITS EFFECT ON FOREIGN DIRECT INVESTMENT

IN ASIA PASIFIC+15 COUNTRIES

THESIS

Prepared and submitted to fulfillment of the requirements to achieve the Bachelor Degree of Economics in the Department of Economics

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LETTER OF STATEMENT

I would like to state that my thesis with title **"Corruption and it effect on Foreign Direct Investment in ASIA PASIFIC+15 Countries"** is worked by myself and there is no part or all of the posts that contain the phrase, idea, or opinion from another source without giving acknowledgment to the original author. As the parts are sourced from other people's work have included the source in accordance with the norms, ethics and rules of scientific writing. If they find a plagiarism in this thesis, I am willing to accept the sanction of revocation of academic degrees that I have gained.

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بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيْمِ

In the name of Allah, the Most Gracious, the Most Merciful

There is no deity except Him, the ever living, the sustainer of [all] existence. Neither drowsiness overtakes Him nor sleep. To Him belongs whatever is in the heavens and whatever is on the earth. Who is it that can intercede with Him except by His permission? He knows what is [presently] before them and what will be after them, and they encompass not a thing of His knowledge except for what He wills. His Kursi extends over the heavens and the earth, and their preservation tires Him not. And He is the Most High, the Most Great. (QS. Al-Bagarah : 255)

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CORRUPTION AND ITS EFFECT ON FOREIGN DIRECT INVESTMENT IN ASIA PASIFIC+ 15 COUNTRIES

Thesis by: **Muhammad Riva**
Thesis Advisor by: **Dr. Hefrizal Handra, M.Soc. Sc**

ABSTRACT

The purpose of this research is to see the effect of corruption on Foreign Direct Investment in fifteen ASIA PASIFIC Countries. Corruption in this research measured by Corruption Perception Index (CPI) as well as Foreign Direct Investment measured by FDI Inflow. This research also use another independent variable such as GDP Growth, Number of Trade, Government Expenditure, and Gross Capital Formation. The methodology which is used in this research is panel data with cross section of fifteen countries from developed and developing countries and time series data from 2006-2015. The research shows that Corruption which measured by CPI has a positive relationship with FDI.

Keywords: Corruption, Foreign Direct Investment, GDP Growth, Number of Trade, Goverment Expenditure and Gross Capital Formation, Panel Data

This thesis has been presented in the thesis examination and successfully passed the thesis examination on October 13th, 2016.

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CHAPTER I

INTRODUCTION

1.1 Research Background

In recent years, globalization of the world economy has been created a significant increase on Foreign Direct Investment (FDI). There are so many Developed and especially developing countries who are more to be open to international Trade and Business Operation. It has been noticed that the expansion of international companies and the economic partnership between countries in terms of billateral or regional partnership has created the rise of FDI in this last decade.

These activities has many a positive effect on economic growth and economic development for the countries where they invest. Actually FDI has a significant effect on the economic growth of the host countries because FDI can stimulates domestic formation, business expansion, and Capital formation. FDI has also a benefit to enchance financial and technology transfers, boosting export and decreasing unemployment to the host countries. Because of that, FDI has an important role in increasing economic growth and productivity in the country (Smailbegovic,2015).

The Positive effect of FDI is usually associated with the environment of host countries as well as its absorption capacity. But the effects of FDI is not the same for all countries. The success actually depends on the level and development of the social and economic development in the country and the ability of government and domestic companies in bringing and exploiting the benefit of FDI in the best way.

In order to become an attractive place for the location of FDI is not easy, Foreign Investor has so many consideration in investing their money on the host country, some of them

are used to see the past experience to review whether their investation was a good case or a bad case, whether they got profit or loss, but some of them use the information and trends about the economic, securities, social in the host country whether the condition is stable or not stable. The investor has also see the problems in the countries such as securities, political stability, Public Administration for establishing companies and one of the biggest economic problems that slowing down the FDI and economic development is corruption.

Now we are living in globalization which make the fast moving world that influencing all of us. We are getting used to the the idea that the intergration of economics without any burden exchange of culture and societies. People are free to come and choose the way in developing their business based on their interest and that is why the movement of FDI has been significant increase in this last decade but unfortunately, there are many of culture and societies suffering from corruption. Corruption becomes the main problem of economics in this modern era. Corruption becomes a concern for all countries to fight the corruption with their effort, especially in several nations such as in Indonesia, Myanmar, India, Malaysia, Laos and any other nations in Asia Pasific Countries.

Corruption is an illegal payment from private ownership to public agents or government for privates interest or benefits. The practical of corruption has been common in the process of the establishment of International Company or the investment process itself, this trends makes so many researcher study how corruption affect into Foreign Direct Investment. There are many literature that said that corruption makes the change of governments administration, such as reducing inefficiency and minimizing time cost. Corruption has also make the government administration turn into more efficient with several sort of bribes, Corruption is still has a big impact to the society through ineffective programs, ineffective distribution of employment, ineffective distribution of productivity, income and so on (Ohlson, 2007).

Corruption has becomes the main issue of any economic development. Corruption is deadly problem which attacking the entire society through reforming the mindset and the norm of societies and also influencing the development of the countries. It is the essential way that influencing the growth of the economy and the advancement of the nations. Due to the curse of the corruption, social trust has been lost badly, which led towards imbalance of income through the system, prospect of labor, productivity and education.

Corruption is defined based on the World Bank as the abuse of public officers to private benefit. Corruption is every action between actors from the Government administration and the private through collective utilities that are illegally changed into private gains, according into Transparency International, corruption is a misuse of political capability for personal benefit.

Corruption is indeed one of the main issue in long run economics and the development of society, especially in the developing countries who suffer from practical corruption such as Indonesia, Myanmar, Malaysia, Philiphines and etc. It is not influences the growth of the economy and the development of the country but also influence the government institution negatively from the executive until the parliament. It is a manifestation and goal of institutional inadequacy with negative outcomes to the growth of economy and benefit for the privaten parties.

As corruption has adversely on influences economic and social development of developing as well as developed nations, major institutions started testing the sources and solution of the corruption. World Bank had been diagnosed corruption is one of the single greatest problems in economic and development of society. It diminishes the advancement through breaking the law and regulation and reduce the government authorithy on where economic growth depends on their operation. IMF states, “Many of the reasons of corruption are

the gap of the economic condition, and so are its consequences-poor governance clearly is disturb the economic activity and welfare".

As time gone by years, Indonesia and several of the Asia Pasific 's nation has been consistently listed by Transparency International as one of the greatiest corrupt county in the global era. Corruption dated become very endemic inside the nations which it influences everyone from the village level until the center of power in Big Cities.

Massive corruption has been stated as one of the main reason for Indonesia's and other countries in ASIA PASIFIC+15 had suffered from economic stagnation that occurred after the survive from Economic Crisis that happened in Asia. The questions to be answered on this research are: Why corruption is so endemic in ASIA PASIFIC+15 Countries? What factors (economic, political, socio-cultural) cause corruption so common inside theASIA PASIFIC+15? What are the consequences of corruption, especially for the economic activities?

Different perspective of corruption appear in various perceptions in society and sectors. Several cultures accepted corruption a higher extent while in other cultures noticed as a strong criminal offense. Corruption is found all over the Globe, in both Rich and developing countries, whether it is a large or a small country. An actual bribe itself also differs from culture and sector, count on the environment, following to fit into that specific environment.

Public corruption decrease the productivity of as country´s government through actions which are against the law, whereas private corruption exploits private-own companies and individuals through organized crimes (Mauro, 1997). Furthermore, corruption has been noticed in several cases as nepotism and bribery.

Usually these perspectives of corruption emerge in the private sector, but can also be

detect in the goverment institution. Nepotism involves favoritism to partner together with close friends. Nepotism is took as poor recruitment and shortcuts in the selection procedures (Rose-Ackerman, 1999). Fraud is another type in corruption that exists in both Goverment administrations and also Companies, which is acknowledged as internal corruption.

This is often executed in the firms by own employees. The greatest common corruption-instrument is bribery. Bribery is an offer money in exchange for benefits and this may be encountered in situations of securing private contracts.

Some of scholars has explained that preferably divide corruption into Grand corruption? and Petty corruption?. Grand corruption is usually seen in higher level of a government and involve important decisions or lot of money (Rose-Ackerman, 1999). Transfers of large amounts of money occur continuously. When companies are making investments. Petty corruption is indicated for bribes in smaller businesses and does often consist of smaller money value.

However, this is so important in understanding that the influence of petty corruption can be as large as grand corruption since the small bribes accumulates over time. Meanwhile, in developed countries the corruption also exist in the different form of corruption. In developed country like the U.S, bribery is not the biggest pattern of corruption.

For example When former New Orleans mayor who named as Ray Nagin was lived in the jail for a case of Corruption during his time as major was not because of bribery but it cause of money laundering, falsifying tax returns, and other similar actions. The same is common for other U.S. public officials or provate sector people who are arrested because corruption whether it’s abuse of capability as goverment, harassment, money laundering, or favoritism, it's still corruption. The truth is, the U.S has its portion of corruption scale, neither is it the least.

1.2 Research Problem

According to the explanation above, corruption becomes a root Issue in the economic activities because corruption uses a public power for a personal interest.

Corruption influencing in the culture and norms and the society. This phenomenon also influencing the economic development which is the Foreign Direct Investment which become a key to boost the economic development in Asia Pasific Countries, from these explanations, the author will simply the question are

a. What are the effect of corruption on Foreign Direct Investment in Asia Pasific+15 Countries ?
b. Is there a negative or a positive relationship between corruption and Foreign Direct Investment in Asia Pasific+15 Countries?
c. How to fight corruption in developed and developing countries in Asia Pasific Countries?
d. What are the factors of Corruption in Asia Pasific Countries?

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1.3 Research Objectives

Based on the explanation from the research problem, the author want to know about the influence of corruption into income Foreign Direct Investment, basically the purpose and the Goals of this research are:

a. To analyze the factors of corruption in Asia Pasific+15 Countries.

b. To analyze the factors of Foreign Direct Investment in Asia Pasific+15 Countries.

c. To analyze the Corruption Perception Index in Asia Pasific+15 Countries.

d. Based on the result of the study, the Indonesia Goverment can formulate the policy to decrease corruption in order to decrease income inequality in indonesia.

1.4 Research Advantage

a. As the partial fulfillment of the requirements of the Bachelor degree in economics.

b. For writer, improving my ability in writing report and doing research, especially in corruption effects on Foreign Direct Investment in Asia Pasific+15 Countries

c. For the reader is expected to add understanding regarding the economic analysis about the contex of the effect of corruption on Income Foreign Direct Investement

d. For researcher in the field of economics and finance is expected this study can be a reference for next research.

e. For government will be recommended to take better policy about how to fight the corruption and how can reach a better Foreign Direct Investment.

1.5. The Scope of Discussion

a. This study focuses only on the effects of practical corruption Foreign in the region of ASIA PASIFIC + 15 Countries because based on research data obtained from Transparency International and World Bank Data, the country's overall region in ASIA PASIFIC + 15 from 2006-2015 has an variative value of corruption perception index from countries who have value above 5 point and countries who have value below 5 point because in this studies will compare the effects of corruption on FDI inflow and compare the effort of eradication of corruption from developed countries and developing countries.

b. The data which used in this research are secondary data obtained from World Development Indicator of World Bank and Transparency International.

c. The data of Corruption Perception Index Data, Foreign Direct Investment inflow, GDP Growth, Number of Trade, Goverment Expenditure, Gross Capital formation, is the yearly data from 2006-2015 from 15 Countries in Asia Pasific Region.

1.6. The Organization of This Study

The Organization writing of this research is as follows:

Chapter I : Introduction

This chapter describes background of this research, problem formulation, purpose and benefits of this research, scope of research, as well as writing system.

CHAPTER II: Literature Review:

This chapter discusses about the definition of dependence and independence variable, the theory of the dependent and indpendence variable, the correlation between the dependence variable and independence variale and concepts that can be used as reference material in the discussion, as well as previous research which into the literature of this study.

CHAPTER III: Research Methodology

This chapter describes the data types, data sources and methodology analysis used in the studies and the statistical explanation.

CHAPTER IV: Analysis of Development of Research Variables

This chapter describes the development of the corruption perception index, foreign direct investment inflow, growth of gross domestic product, number of trade, government expenditure, and gross domestic prodict in the ASIA PASIFIC + 15 countries.

CHAPTER V: Results and Discussion

This chapter uses regression analysis and show the result estimation and discussion as well the policy implications of the research for the government.

CHAPTER VI: Closing

This chapter describes the conclusions that can be drawn from the results of the research conducted as well as explain suggestions for government and the research in the future.

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CHAPTER VI

CLOSING

6.1 Conclusion

This research analyse the effect of corruption on foreign direct investment in ASIA PASIFIC+15 Countries by using Corruption Perception Index is used in the model and has a positive correlation with the Foreign Direct Investment Inflow. This research uses another variable which is GDP Growth, number of Trade, Government Expenditure and Gross Capital

Formation. This research has a time series data from 2006-2015 and analyse the fifteen countries in Asia Pasific from Developed Countries to Developing Countries. So the conclusion of this research is :

a) From the result of the estimation. Corruption which measured by CPI has a positive correlation with Foreign Direct Investment which measured by FDI inflow. The value of the coefficient correllation is 0,195250. This result prove the hyphothesis that Corruption which measured by CPI has a positive correlation with Foreign Direct Investment inflow. This findings means the more clean the countries from practical of corruption will increase the Foreign Direct Investment inflow and vice versa. If the countries has a high practical of corruption, the Foreign Direct Investment will be decrease and will be less attractive for the foreign investor to invest in the countries. This result also prove the theory of Corruption become *Sand the Wheels* in the process of Foreign Direct Investment inflow in the countries.

b) Eventhough the result shows that Corruption become *Sand the Wheels* in attracting Foreign Direct Investment. The more analysis shows that there is a five countries which have a negative relation between Corruption Perception Index and Foreign Direct Investment Inflow. These are Singapore, Malaysia, Thailand, Japan, South Korea and New Zealand. This findings shows that there is a paradox where its supposed to be the Corruption Perception Index has a positive relation with Foreign Direct Investment Inflows in ASIA PASIFIC+15 Countries but there is a negative correlation between Corruption Perception Index with Foreign Direct Investment in these six countries. This result means the higher practical of corruption in the countries will attract more Foreign Direct Investment to the countries. This result also shows that Corruption becomes *Grease The Wheels* in economic activity.

c) There is also a Independent factors that affecting Foreign Direct Investment in ASIA PASIFIC+15 Countries during 2006-2015 such as GDP Growth, Number of Trade, Government Expenditure and Gross Capital Formation. From the result of analysis using panel data shows that Gross Capital Formation has a highest coefficient in affecting Foreign Direct Investment because every the increase of Gross Capital Formation for 1 billion US$ will increase the Foreign Direct Investment for 1,0625 US$ with the value of probability is 0.0000. The highest second variables is Trade with every increase of Trade for 1 billions will increase foreign direct investment for 0,969493 with the value of Probability is 0.0019. GDP Growth also have a positive and significant correlation with Foreign Direct Investment with every increase for 1% of GDP Growth will increase Foreign Direct Investment for 0,044400 US$ with the value of probability is 0.0017.

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6.2 Sugestion

A. From the result of the estimation in this research shows that the Countries in ASIA PASIFIC+15 still have a high risk of Practical Corruption that affect negatively into Foreign Direct Investment. The Government in should have a system and decisions that can eradicating the practical corruption as the Foreign Direct Investment will be increase as the result. The Government should increase the Corruption Perspective Index every year as a progress of decreasing practical corruption to attract and ensure the foreign

investor to invest their money in the countries. In order to increase the Corruption Perception Index in the countries, the government should build a system the administration of process that transparant to decrease the practical corruption, the government also should strengthen the Independent Institution who fighting againts corruption in each country. The Government also should strengthen the law in eradicating corruption to give a big effect for the corruptor. The Governement should build the education of anticorruption because education has a significant role in shaping the behaviour of the citizens so it will decrease the practical of corruption in the future. The government should also build the system that will easier the process of foreign investment in the countries.

B. The other factor which important in affecting Foreign Direct Investment is Gross Capital Formation and Number of Trade. The Government should make the easier process of investing and keep the political stability for the investor to create a good environment for investment in the country. The Government should increase the number of Trade by build more partnership across countries in each country to increase the economic activity and attracting the investor as the growing of the economic activity. The result of these two efforts above will create a higher GDP Growth that will convice the foreign investor to invest their money as the larger size of economy will attract more investor to invest their money.

C. The sugestion for the next research is analyse the effect of the Foreign Direct Investment into Inequality in the countries because the result of the Foreign Direct Investment in the countries is to increase the economy activity, create an employment for people that will increase the productivity and increasing the income of people. It can give an indication how corruption affecting in decreasing the gap between the rich and the needy people.

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APPENDIX 1

Pooled Least Square Test

Dependent Variable: FDI?
Method: Pooled Least Squares
Date: 08/16/17 Time: 19:57
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	-0.131021	0.037921	-3.455108	0.0007

LNTRD?	1.273806	0.129891	9.806718	0.0000
GDP?	0.095310	0.027610	3.452019	0.0007
LNGE?	-0.049638	0.134252	-0.369737	0.7121
LNGCF?	0.627934	0.274197	2.290081	0.0235
C	-6.678462	1.013392	-6.590207	0.0000

R-squared	0.566125	Mean dependent var	0.746282
Adjusted R-squared	0.551060	S.D. dependent var	1.383425
S.E. of regression	0.926936	Akaike info criterion	2.725313
Sum squared resid	123.7262	Schwarz criterion	2.845738
Log likelihood	-198.3985	Hannan-Quinn criter.	2.774238
F-statistic	37.57860	Durbin-Watson stat	1.345583
Prob(F-statistic)	0.000000		

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APPENDIX 2

Fixed Effect Model Test

Dependent Variable: FDI?
Method: Pooled Least Squares
Date: 08/16/17 Time: 19:58
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	0.407962	0.236029	1.728443	0.0863

LNTRD?	0.484315	0.668490	0.724492	0.4701
GDP?	0.045125	0.030373	1.485682	0.1398
LNGE?	-1.336082	0.846124	-1.579063	0.1168
LNGCF?	1.384141	0.393491	3.517589	0.0006
C	-4.500462	4.251218	-1.058629	0.2917
Fixed Effects (Cross)				
_INA--C	3.231135			
_CAM--C	1.306642			
_SIN--C	-0.978712			
_MAL--C	-0.236950			
_THA--C	0.524885			
_PHI--C	0.189426			
_VIE--C	0.038013			
_LAO--C	1.123787			
_BRU--C	0.555070			
_IND--C	-0.356742			
_PKN--C	0.921573			
_JPN--C	-2.531615			
_KOR--C	-1.508888			
_CHN--C	0.075839			
_NZL--C	-2.353464			

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.717593	Mean dependent var	0.746282
Adjusted R-squared	0.676318	S.D. dependent var	1.383425
S.E. of regression	0.787073	Akaike info criterion	2.482574
Sum squared resid	80.53286	Schwarz criterion	2.883992
Log likelihood	-166.1930	Hannan-Quinn criter.	2.645657
F-statistic	17.38569	Durbin-Watson stat	1.931490
Prob(F-statistic)	0.000000		

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APPENDIX 3

Random Effect Model Test

Dependent Variable: FDI?
Method: Pooled EGLS (Cross-section random effects)
Date: 08/16/17 Time: 20:00
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	-0.105229	0.065254	-1.612597	0.1090

LNTRD?	1.127642	0.234101	4.816904	0.0000
GDP?	0.064936	0.027499	2.361373	0.0195
LNGE?	-0.214721	0.241975	-0.887368	0.3764
LNGCF?	1.144756	0.329361	3.475684	0.0007
C	-7.262381	1.624965	-4.469255	0.0000
Random Effects (Cross)				
_INA—C	0.426306			
_CAM—C	0.547339			
_SIN—C	0.554549			
_MAL—C	-0.350059			
_THA—C	-0.311944			
_PHI—C	-0.222731			
_VIE—C	-0.212294			
_LAO—C	0.215787			
_BRU—C	0.431505			
_IND—C	-0.180874			
_PKN—C	0.598551			
_JPN—C	-0.552332			
_KOR—C	-0.889594			
_CHN—C	-0.028027			
_NZL—C	-0.026184			

Effects Specification	S.D.	Rho
Cross-section random	0.505595	0.2921
Idiosyncratic random	0.787073	0.7079

Weighted Statistics			
R-squared	0.292673	Mean dependent var	0.329606
Adjusted R-squared	0.268113	S.D. dependent var	0.941483
S.E. of regression	0.805442	Sum squared resid	93.41821
F-statistic	11.91669	Durbin-Watson stat	1.747473
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.549333	Mean dependent var	0.746282
Sum squared resid	128.5146	Durbin-Watson stat	1.270251

APPENDIX 4

Chow Test

Redundant Fixed Effects Tests
Pool: OLAHAN
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	4.980338	(14,130)	0.0000
Cross-section Chi-square	64.410846	14	0.0000

Cross-section fixed effects test equation:
Dependent Variable: FDI?
Method: Panel Least Squares
Date: 08/16/17 Time: 19:59
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	-0.131021	0.037921	-3.455108	0.0007
LNTRD?	1.273806	0.129891	9.806718	0.0000
GDP?	0.095310	0.027610	3.452019	0.0007
LNGE?	-0.049638	0.134252	-0.369737	0.7121
LNGCF?	0.627934	0.274197	2.290081	0.0235
C	-6.678462	1.013392	-6.590207	0.0000

R-squared	0.566125	Mean dependent var	0.746282
Adjusted R-squared	0.551060	S.D. dependent var	1.383425
S.E. of regression	0.926936	Akaike info criterion	2.725313
Sum squared resid	123.7262	Schwarz criterion	2.845738
Log likelihood	-198.3985	Hannan-Quinn criter.	2.774238
F-statistic	37.57860	Durbin-Watson stat	1.345583
Prob(F-statistic)	0.000000		

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APPENDIX 5

Hausman Test

Correlated Random Effects - Hausman Test
Pool: OLAHAN
Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	11.800139	5	0.0376

Cross-section random effects test comparisons:

Variable	Fixed	Random	Var(Diff.)	Prob.
CPI?	0.407962	-0.105229	0.051451	0.0237
LNTRD?	0.484315	1.127642	0.392075	0.3042
GDP?	0.045125	0.064936	0.000166	0.1245
LNGE?	-1.336082	-0.214721	0.657373	0.1666
LNGCF?	1.384141	1.144756	0.046357	0.2662

Cross-section random effects test equation:
Dependent Variable: FDI?
Method: Panel Least Squares
Date: 08/16/17 Time: 20:01
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4.500462	4.251218	-1.058629	0.2917
CPI?	0.407962	0.236029	1.728443	0.0863
LNTRD?	0.484315	0.668490	0.724492	0.4701
GDP?	0.045125	0.030373	1.485682	0.1398
LNGE?	-1.336082	0.846124	-1.579063	0.1168
LNGCF?	1.384141	0.393491	3.517589	0.0006

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.717593	Mean dependent var	0.746282
Adjusted R-squared	0.676318	S.D. dependent var	1.383425
S.E. of regression	0.787073	Akaike info criterion	2.482574
Sum squared resid	80.53286	Schwarz criterion	2.883992
Log likelihood	-166.1930	Hannan-Quinn criter.	2.645657
F-statistic	17.38569	Durbin-Watson stat	1.931490
Prob(F-statistic)	0.000000		

APPENDIX 6

Cross Test

Dependent Variable: FDI?
Method: Pooled EGLS (Cross-section weights)
Date: 08/16/17 Time: 20:14
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	0.195250	0.110896	1.760657	0.0806
LNTRD?	0.969493	0.288679	3.358375	0.0010
GDP?	0.044400	0.015445	2.874777	0.0047
LNGE?	-0.253702	0.355989	-0.712669	0.4773
LNGCF?	1.026599	0.184032	5.578384	0.0000
C	-7.338094	1.829685	-4.010579	0.0001
Fixed Effects (Cross)				
_INA--C	1.045816			
_CAM--C	1.447655			
_SIN--C	-0.390482			
_MAL--C	-0.438773			
_THA--C	-0.038349			
_PHI--C	0.166201			
_VIE--C	0.337326			
_LAO--C	1.003553			
_BRU--C	0.167654			
_IND--C	0.085516			
_PKN--C	1.090112			
_JPN--C	-1.842787			
_KOR--C	-1.378692			
_CHN--C	0.334322			
_NZL--C	-1.589072			

Effects Specification
Cross-section fixed (dummy variables)

Weighted Statistics			
R-squared	0.852874	Mean dependent var	1.963496
Adjusted R-squared	0.831370	S.D. dependent var	2.347535
S.E. of regression	0.733505	Sum squared resid	69.94381
F-statistic	39.66283	Durbin-Watson stat	1.799042
Prob(F-statistic)	0.000000		

Unweighted Statistics			
R-squared	0.710196	Mean dependent var	0.746282
Sum squared resid	82.64216	Durbin-Watson stat	1.922428

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APPENDIX 7

Fixed Effect Method Test with Cross Section Weight

Dependent Variable: FDI?
Method: Pooled EGLS (Cross-section weights)
Date: 08/16/17 Time: 20:14
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15
Total pool (balanced) observations: 150

Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	0.195250	0.110896	1.760657	0.0806
LNTRD?	0.969493	0.288679	3.358375	0.0010
GDP?	0.044400	0.015445	2.874777	0.0047
LNGE?	-0.253702	0.355989	-0.712669	0.4773
LNGCF?	1.026599	0.184032	5.578384	0.0000
C	-7.338094	1.829685	-4.010579	0.0001
Fixed Effects (Cross)				
_INA—C	1.045816			
_CAM—C	1.447655			
_SIN—C	-0.390482			
_MAL—C	-0.438773			
_THA—C	-0.038349			
_PHI—C	0.166201			
_VIE—C	0.337326			
_LAO—C	1.003553			
_BRU—C	0.167654			
_IND—C	0.085516			
_PKN—C	1.090112			
_JPN—C	-1.842787			
_KOR—C	-1.378692			
_CHN—C	0.334322			
_NZL—C	-1.589072			

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.852874	Mean dependent var	1.963496
Adjusted R-squared	0.831370	S.D. dependent var	2.347535
S.E. of regression	0.733505	Sum squared resid	69.94381
F-statistic	39.66283	Durbin-Watson stat	1.799042
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.710196	Mean dependent var	0.746282
Sum squared resid	82.64216	Durbin-Watson stat	1.922428

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APPENDIX 8

Fixed Effect Method Test with Panel corrected standard error

Dependent Variable: FDI?
Method: Pooled EGLS (Cross-section weights)
Date: 08/16/17 Time: 20:15
Sample: 2006 2015
Included observations: 10
Cross-sections included: 15

Total pool (balanced) observations: 150
Linear estimation after one-step weighting matrix
Cross-section SUR (PCSE) standard errors & covariance (d.f. corrected)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
CPI?	0.195250	0.093294	2.092852	0.0383
LNTRD?	0.969493	0.306485	3.163264	0.0019
GDP?	0.044400	0.013832	3.209916	0.0017
LNGE?	-0.253702	0.304180	-0.834053	0.4058
LNGCF?	1.026599	0.190523	5.388314	0.0000
C	-7.338094	1.875122	-3.913395	0.0001
Fixed Effects (Cross)				
_INA--C	1.045816			
_CAM--C	1.447655			
_SIN--C	-0.390482			
_MAL--C	-0.438773			
_THA--C	-0.038349			
_PHI--C	0.166201			
_VIE--C	0.337326			
_LAO--C	1.003553			
_BRU--C	0.167654			
_IND--C	0.085516			
_PKN--C	1.090112			
_JPN--C	-1.842787			
_KOR--C	-1.378692			
_CHN--C	0.334322			
_NZL--C	-1.589072			

Effects Specification

Cross-section fixed (dummy variables)

Weighted Statistics

R-squared	0.852874	Mean dependent var	1.963496
Adjusted R-squared	0.831370	S.D. dependent var	2.347535
S.E. of regression	0.733505	Sum squared resid	69.94381
F-statistic	39.66283	Durbin-Watson stat	1.799042
Prob(F-statistic)	0.000000		

Unweighted Statistics

R-squared	0.710196	Mean dependent var	0.746282
Sum squared resid	82.64216	Durbin-Watson stat	1.922428

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APPENDIX 9

RAW DATA 2006-2015

Country	Year	LNFDI	CPI	LNTRD	GDP	LNGE	LNGCF
INA	2006	0,29857	2,4	4,03701	5,50095	2,1549	3,06703

INA	2007	0,47188	2,3	4,00422	6,34502	2,1218	3,06703
INA	2008	0,60230	2,6	4,07049	6,01370	2,1311	3,32562
INA	2009	-0,10101	2,8	3,81797	4,62887	2,2606	3,43350
INA	2010	0,70565	2,8	3,84377	6,22385	2,1979	3,49286
INA	2011	0,83420	3,0	3,91561	6,16978	2,2037	3,49603
INA	2012	0,83715	3,2	3,90375	6,03005	2,2245	3,55739
INA	2013	0,93662	3,2	3,88439	5,55726	2,2532	3,52138
INA	2014	1,03672	3.4	3,87286	5,00666	2,2434	3,54386
INA	2015	0,83140	3,4	3,73465	4,87625	2,2777	3,53147
CAM	2006	1,89347	2,1	4,97407	10,77108	1,2414	2,57492
CAM	2007	2,30647	2,0	4,92919	10,21257	1,7459	2,76465
CAM	2008	2,06365	1,8	4,89275	6,69157	1,7289	2,92406
CAM	2009	1,59202	2,0	4,65527	0,08669	1,8185	3,06151
CAM	2010	1,87787	2,4	4,73271	5,96307	1,8476	2,85460
CAM	2011	1,82458	2,1	4,73252	7,06956	1,7950	2,83895
CAM	2012	2,32869	2,2	4,79360	7,31334	1,7559	2,91952
CAM	2013	2,16401	2,0	4,85344	7,42790	1,7106	2,98172
CAM	2014	2,33343	2,1	4,86005	7,07152	1,6992	3,09083
CAM	2015	2,24322	2,1	4,85096	7,03608	1,6860	3,11142
SIN	2006	3,21818	9,4	6,06469	8,86019	2,3320	3,58412
SIN	2007	3,27794	9,3	5,98832	9,11152	2,2525	3,50489
SIN	2008	1,84799	9,2	6,09041	1,78762	2,3560	3,41884
SIN	2009	2,51612	9,2	5,88868	-0,60338	2,3310	3,32468
SIN	2010	3,14826	9,3	5,92276	15,24037	2,3211	3,34066
SIN	2011	2,88122	9,2	5,93910	6,22441	2,2656	3,30075
SIN	2012	2,96775	8,7	5,91609	3,87146	2,2167	3,39718
SIN	2013	3,06257	8,6	5,90253	5,00119	2,3066	3,41724

SIN	2014	3,17849	8,4	5,89247	3,57226	2,3016	3,35475
SIN	2015	3,16871	8,5	5,79892	1,93263	2,3640	3,28727
MAL	2006	1,55333	5	5,31112	5,58484	2,4130	3,35702
MAL	2007	1,54476	5,1	5,25992	9,42766	2,4481	3,22211
MAL	2008	1,18808	5,1	5,17427	3,31959	2,4428	3,06611
MAL	2009	-2,87011	4,5	5,09104	-2,52582	2,5687	2,88120
MAL	2010	1,45128	4,4	5,06224	6,98095	2,5322	3,15215
MAL	2011	1,62421	4,3	5,04302	5,29379	2,5855	3,14365
MAL	2012	1,03994	4,9	4,99614	5,47438	2,6277	3,24838
MAL	2013	1,25113	5,0	4,96089	4,69291	2,6185	3,25602
MAL	2014	1,14460	5,2	4,92949	6,01216	2,5893	3,21953
MAL	2015	1,30835	5,0	4,89899	4,96878	2,5753	3,22235
THA	2006	1,39159	3.6	4,89848	4,96791	2,6029	3,29626
THA	2007	1,18893	3,3	4,86655	5,43509	2,6338	3,23852
THA	2008	1,07781	3,5	4,94477	1,72566	2,6632	3,34025
THA	2009	0,82237	3,4	4,78138	-0,69073	2,7713	3,02705
THA	2010	1,46399	3,5	4,84615	7,51359	2,7601	3,23304
THA	2011	-0,40483	3,4	4,93932	0,83995	2,7814	3,28808
THA	2012	1,17697	3,7	4,93086	7,24296	2,7944	3,33306
THA	2013	1,33223	3,5	4,89293	2,73247	2,7972	3,31215
THA	2014	0,20205	3,8	4,88329	0,91451	2,8325	3,17611
THA	2015	0,81323	3,8	4,84091	2,94123	2,8510	3,10223
PHI	2006	0,79541	2,5	4,55325	5,24295	2,2171	3,20603
PHI	2007	0,66995	2,5	4,46152	6,61666	2,2284	3,09034
PHI	2008	-0,26231	2,3	4,33444	4,15275	2,1784	2,95948
PHI	2009	0,20416	2,4	4,18342	1,14833	2,2885	2,80889
PHI	2010	-0,62307	2,1	4,26857	7,63226	2,2744	3,02240

PHI	2011	-0,11039	2,6	4,21505	3,65975	2,2723	3,01877
PHI	2012	0,25129	3,4	4,17283	6,68381	2,3835	2,90162
PHI	2013	0,31835	3,6	4,09842	7,06403	2,3833	2,99653
PHI	2014	0,70152	3,8	4,11857	6,14529	2,3571	3,02302
PHI	2015	0,65550	3,5	4,13820	6,06654	2,3913	3,05467
VIE	2006	1,28536	2,6	4,92952	6,97795	1,7145	3,54202
VIE	2007	2,15810	2,7	5,04087	7,12950	1,7272	3,67797
VIE	2008	2,26830	2,7	5,03901	5,66177	1,7541	3,59712
VIE	2009	1,96974	2,7	4,91493	5,39789	1,7905	3,61530
VIE	2010	1,93161	2,9	5,02530	6,42323	1,7768	3,57497
VIE	2011	1,70143	3,1	5,09322	6,24030	1,7795	3,39284
VIE	2012	1,68088	3,1	5,05340	5,24736	1,8174	3,30480
VIE	2013	1,64826	3,1	5,10651	5,42188	1,8350	3,28375
VIE	2014	1,59752	3,1	5,13305	5,98365	1,8458	3,28962
VIE	2015	1,80933	3,1	5,18608	6,67928	1,8565	3,32059
LAO	2006	1,69097	2,6	4,45807	8,61926	2,1218	3,58139
LAO	2007	2,03613	1,9	4,41227	7,59682	2,1350	3,52570
LAO	2008	1,43125	2,0	4,33373	7,82490	2,2436	3,46983
LAO	2009	1,69782	2,0	4,26229	7,50177	2,3737	3,41067
LAO	2010	1,36392	2,1	4,30699	8,52690	2,2551	3,21906
LAO	2011	1,29209	2,5	4,38916	8,03865	2,2853	3,27529
LAO	2012	1,06072	2,1	4,41962	8,02628	2,3764	3,36728
LAO	2013	1,27334	2,6	4,43189	8,02475	2,6132	3,30743
LAO	2014	1,92903	2,5	4,44829	7,61351	2,5014	3,27508
LAO	2015	2,01478	2,5	4,31429	7,27092	2,4878	3,33803
BRU	2006	-0,26687	5,5	4,57410	4,39771	3,1189	2,34539
BRU	2007	0,74362	5,5	4,56174	0,15458	2,8415	2,56377

BRU	2008	0,43417	5,5	4,66262	-1,93971	3,1479	2,61506
BRU	2009	1,10978	5,5	4,68741	-1,76453	3,0979	2,86542
BRU	2010	1,25477	5,5	4,55778	2,59896	2,9300	3,16512
BRU	2011	1,31666	5,2	4,60052	3,74531	2,9145	3,25895
BRU	2012	1,51304	6,0	4,66001	0,91284	3,0039	3,49293
BRU	2013	1,45553	5,8	4,70896	-2,12602	3,0628	3,67860
BRU	2014	1,19891	5,7	4,59739	-2,34974	3,2212	3,31063
BRU	2015	0,29253	5,6	4,44143	-0,56681	3,3580	3,56234
IDN	2006	0,77763	3,3	3,84142	9,26396	2,3078	3,68236
IDN	2007	0,74211	3,5	3,83208	9,80136	2,3040	3,74894
IDN	2008	1,29662	3,4	3,98459	3,89095	2,3646	3,64365
IDN	2009	0,98862	3,4	3,84539	8,47978	2,4500	3,70514
IDN	2010	0,50306	3,4	3,90578	10,2599	2,4098	3,70577
IDN	2011	0,69417	3,1	4,01861	6,63836	2,4055	3,67858
IDN	2012	0,27226	3,6	4,02166	5,45638	2,3687	3,64668
IDN	2013	0,41625	4	3,98609	6,38610	2,3317	3,52704
IDN	2014	0,52990	3,8	3,89204	7,50522	2,3452	3,54290
IDN	2015	0,73430	3,8	3,74237	8,01005	2,3337	3,49359
PKN	2006	1,13557	2,4	3,57463	6,17754	2,3453	2,96175
PKN	2007	1,29973	2,4	3,49621	4,83281	2,2899	2,93316
PKN	2008	1,16232	2,5	3,57221	1,70140	2,2772	2,95521
PKN	2009	0,32959	2,4	3,46797	2,83165	2,3532	2,86502
PKN	2010	0,13081	2.3	3,49252	1,60669	2,3337	2,76029
PKN	2011	-0,47670	2,5	3,49468	2,74840	2,2754	2,64763
PKN	2012	-0,96017	2,7	3,49059	3,50703	2,3503	2,71310
PKN	2013	-0,55076	2,8	3,50656	4,39645	2,3982	2,70520
PKN	2014	-0,26914	2,9	3,43079	4,67470	2,3761	2,68343

PKN	2015	-1,01835	3	3,31797	4,71245	2,3936	2,73949
JPN	2006	0,87418	7,6	3,41219	1,41998	2,8877	3,20877
JPN	2007	-2,93921	7,5	3,49934	1,65428	2,8873	3,19799
JPN	2008	-0,73591	7,3	3,53802	-1,09347	2,9101	3,20062
JPN	2009	-0,71582	7,7	3,19829	-5,41711	2,9773	3,05981
JPN	2010	-1,45365	7,8	3,35386	4,19228	2,9702	3,05858
JPN	2011	-2,03606	8	3,41422	-0,11546	3,0051	3,09574
JPN	2012	-4,28192	7,4	3,42217	1,49502	3,0083	3,12035
JPN	2013	-4,73102	7,4	3,53069	2,00048	3,0040	3,14376
JPN	2014	-1,57727	7,6	3,62590	0,33566	3,0030	3,17317
JPN	2015	-0,89803	7,5	3,57219	1,21943	2,9884	3,17420
KOR	2006	-0,09925	5,1	4,29798	5,17615	2,6261	3,48739
KOR	2007	-0,24049	5,1	4,34695	5,46339	2,6339	3,48368
KOR	2008	0,10999	5,6	4,60450	2,82922	2,6841	3,49777
KOR	2009	0,00028	5,5	4,50438	0,70750	2,7193	3,34869
KOR	2010	-0,14186	5,4	4,56073	6,49679	2,6722	3,46645
KOR	2011	-0,20733	5,4	4,70048	3,68168	2,6800	3,49525
KOR	2012	-0,25287	5,6	4,69944	2,29239	2,6969	3,43402
KOR	2013	-0,02241	5,5	4,63250	2,89620	2,7083	3,37081
KOR	2014	-0,41994	6,1	4,55700	3,34144	2,7161	3,37679
KOR	2015	-1,21468	5,6	4,42738	2,79023	2,7087	3,36446
CHN	2006	1,50598	3,3	4,18386	12,71947	2,6354	3,71194
CHN	2007	1,48130	3,5	4,13779	14,23138	2,6015	3,72480
CHN	2008	1,31653	3,5	4,04230	9,65428	2,5791	3,76737
CHN	2009	0,94185	3,6	3,79564	9,39981	2,5800	3,83818
CHN	2010	1,38497	3,6	3,88955	10,63614	2,5508	3,86309
CHN	2011	1,30793	3,5	3,92394	9,53644	2,5787	3,86463

CHN	2012	1,03593	3,6	3,87344	7,85626	2,5976	3,85512
CHN	2013	1,10797	3,9	3,84085	7,75763	2,6054	3,85836
CHN	2014	0,93906	3,6	3,82104	7,29766	2,5892	3,85031
CHN	2015	0,78461	3,7	3,70037	6,90020	2,6372	3,81553
NZL	2006	0,95924	9,6	4,08710	2,80413	2,9039	3,16738
NZL	2007	1,14973	9,4	4,06682	2,88742	2,9070	3,20893
NZL	2008	0,66513	9,3	4,16413	-1,11951	2,9773	3,12141
NZL	2009	-3,14252	9,3	4,01027	-0,30434	2,9779	2,97847
NZL	2010	-1,63309	9,3	4,06433	1,52740	2,9729	2,99985
NZL	2011	-0,20060	9,5	4,08059	2,27007	2,9662	3,01766
NZL	2012	0,820929	9,5	4,04353	2,24596	2,9571	3,04081
NZL	2013	-3,310734	9,1	4,02709	2,44975	2,9247	3,09293
NZL	2014	0,495989	9,1	4,00916	3,40453	2,9278	3,11730
NZL	2015	-2,564051	8,8	4,00760	2,43191	2,9257	3,12712

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