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Importance of Political Elements to Attract FDI for ASEAN and Korean Economy

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Abstract

Purpose – Recent empirical studies have shown that FDI is expected to be strongly associated with democratic governance, political stability, and sound macroeconomic conditions of the host country. We attempt to take it a step further to see if governments implement a major change in institutional characteristics, will the institutional reform toward better governance have a substantive effect in enhancing FDI inflows. This paper thus aims to analyze the importance of good governance as an important factor in the attractiveness of FDI inflows in ASEAN+3 (Korea, China, Japan) countries.

Design/methodology – To determine the effects of good governance on FDI inflows across ASEAN+3 countries recorded between 1996-2018, the Worldwide Governance Indicators (WGI) are used to investigate the impact of good governance on FDI inflows. The model has been estimated by using fixed effects to show the robustness of the results.

Findings – Our main findings can be summarized as follows: Political Stability, Rule of Law, and Voice and Accountability have a statistically significant impact on the inflow of FDI in the ASEAN+3 Countries, especially for Korean economy. Moreover, GDP growth continue to exert their positive influence. However, Regulatory Quality, Government Effectiveness and Control of Corruption, though equally important, are insignificant to attract FDI inflows. The key finding is that good governance has a significant impact on inward FDI in the ASEAN+3 countries.

Originality/value – Existing studies focus on the impact of political factors on FDI across countries. This paper instead attempts to investigate which type of good governance is the most important in promoting FDI inflows across ASEAN+3 countries, which is essential for multinationals to consider when choosing a foreign site as a possible FDI destination.

Keywords: ASEAN+3 Countries, Foreign Direct Investment, Good Governance, Korean Economy
JEL Classifications: D12, F14, O53

1. Introduction

Over the past few decades, Foreign Direct Investment (FDI) has played an important role as a key driver in economic development as well as the most important driving force of globalization. It contributes to economic development through raising capital accumulation, increasing the transfer of technology, enhancing productivity, creating employment opportunities, and fostering macroeconomic stability.

ASEAN, the third-largest economy in Asia presents a compelling investment destination for many investors (Kirk, Ractham and Abrahams, 2016). FDI inflows and exports have long

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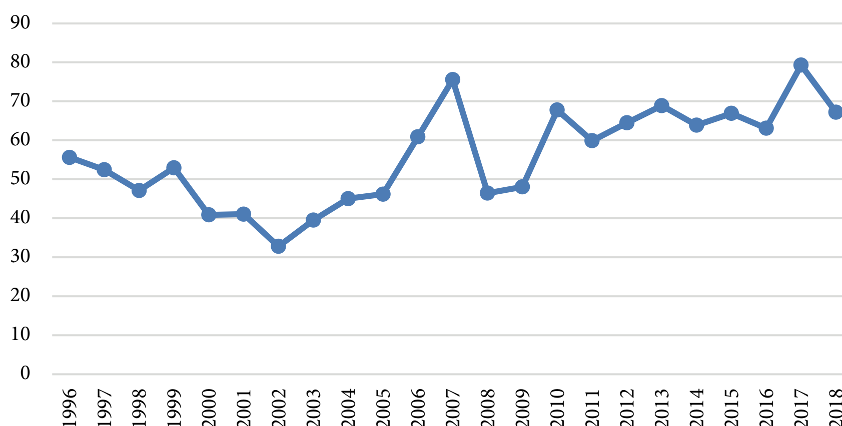
since been important contributors to ASEAN's economy, which, over the past few years, has seen an inflow of FDI reaching US$137 billion in 2017. Similarly, the ASEAN+3 (Korea, China, Japan) countries established in the 1990s has become one of the most dynamic markets in the world and is the key to regional economic growth (Kirk, Abrahams and Ractham, 2016). This region has developed into mechanisms of great significance in strengthening and deepening regional cooperation, particularly in economic, social, and political areas.

Although there were challenges resulting from uncertainties in the global economy, in 2017 for example, the total trade between ASEAN+3 countries amounted to US$ 813.5 billion, which accounted for 31.6% of ASEAN's total trade. In addition, the total foreign direct investment (FDI) flows from Korea, China, and Japan countries into ASEAN reached US$ 29.9 billion, accounting for 21.8 % of the total FDI inflow to ASEAN as shown in Fig. 1 below.

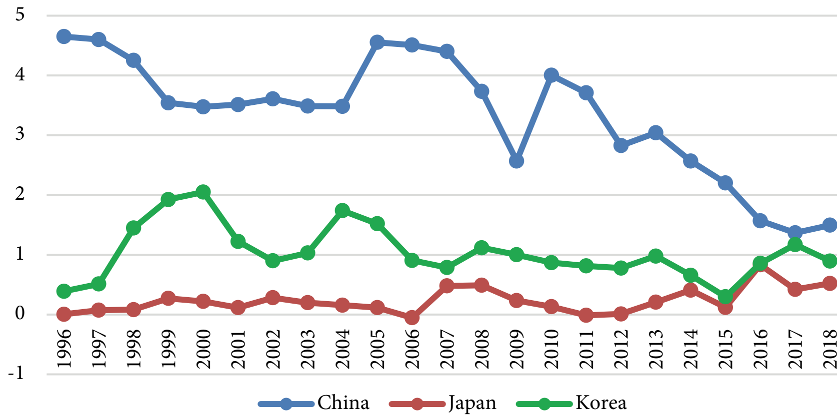
Fig. 1. FDI as % of GDP in ASEAN+3 Countries (1996-2018)



Source: Word Bank (2019).

In recent years, good governance has emerged as a key factor in the globalization process and international capital movement (Angkinand and Chiu, 2011). Moreover, countries with high comparative advantages, locational attractions with immobile natural resources, and benefits of internalizing cross-border intermediate product markets are more likely to attract MNCs to engage in the FDI (Dunning and Lundan, 2008; Suh Jae-Hyun, 2020). In addition, countries with a risk-free environment and a good quality institution can facilitate investment by reducing the transactions, manufacturing, and production costs, which can, in turn, increase the profitability and ultimately, influence international investors to engage in cross-border transactions (North, 1990). Further, the quality of good institutions can help attract FDI through good governance, which represents an important factor in the attractiveness of foreign investment (North et al., 2008). Thus, governments that seek to attract FDI can create more favorable conditions for multinational enterprises through the improvement of political institutions and economic policies that can help stimulate FDI inflows (White et al., 2015).

Fig. 2. FDI as % of GDP in Korea, China, and Japan (1996-2018)



Source: Word Bank (2019).

Previous literature has shown that, for instance, FDI is expected to be strongly associated with democratic governance, political stability, and sound macroeconomic conditions of the host country (Bitzenis and Žugić, 2016). We attempt to take it a step further and ask if governments implement a major change in institutional characteristics (Sayruamyat and Nadee, 2020), will the institutional reform toward better governance have a substantive effect in enhancing FDI inflows? The next and more important question is which type of good governance is the most important in promoting FDI inflows? We studied these questions based on a sample of 13 AESAN+3 countries from 1996–2018 and found that the improvement of the political and institutional environments can attract more inward FDIs in ASEAN+3 countries.

This paper is organized as follows: Section 2 begins with a brief literature review on the relationship between good governance and FDI inflows; Section 3 presents the state of governance in ASEAN+3 countries; Section 4 discusses the methodology and describes the data used; Lastly, empirical results are presented in Section 5; and the conclusion is presented in Section 6.

2. Literature Review

In this section, the conceptual and theoretical frameworks of this research is outlined followed by the empirical studies that focus on the relationship between governance and FDI.

2.1. The Concept of Good Governance

In recent years, the concept of "good governance" has been widely used to explain the process of decision-making; the process by which decisions are either implemented or not (Kaufman et al., 1999), and the process that when implemented in its totality, leads to sustainable development and change (Aminuzzaman, 2006). Governance can be defined as a system of government focusing on effective and accountable institutions and the relationship between government and society (Halfani et al., 1994; McCarney et al.,1996; Tim et al., 2013).

The emergence of social media as boundary objects in crisis response: a collective action perspective. Similarly, governance is also a process by which the decisions stakeholders are implemented, interest is articulated, and decision-makers are held accountable.

According to the United Nation Development Bank, good governance is defined as a framework of public management based on a fair and efficient system of justice, the rule of law, and involvement in the process of governing and being governed (UNDP, 1997). It can be seen as the authority exercised to manage a country's economic, political, and administrative affairs to foster social cohesion and integration and improve the well-being of citizens (UNDP, 1998). In addition, good governance can help eradicate poverty, create employment, and enhance living conditions with sustainable environmental standards (UNDP, 1997). According to UNDP, good governance can be measured by the following nine core characteristics: participation, consensus orientation, accountability, rule of law, effectiveness and efficiency, transparency, responsiveness, equity, and strategic vision (Mehta, 2000).

Similarly, the World Bank defined good governance as the process by which governments are selected and replaced, the capacity of a government to effectively formulate and implement policies, and the respect of citizens and the state for their institutions that govern interactions among them (Kaufman et al., 1999). Further, good governance can help foster and establish strong institutions to support sustained economic and social development in a country. In this paper, we focus on the effect of policymakers' decisions on improving domestic institutional environments in terms of attracting FDI inflows. Following the work of Kaufmann et al. (1999/2009) in particular, we categorize the institutional effects of good governance into six types: voice and accountability, political stability, government efficiency, regulatory quality, rule of law, and control of corruption. The primary reason for the focus on these types of good governance is due to most emerging market countries in Southeast Asia usually experience increasing but somewhat volatile, trade and capital mobility while having less mature political systems, greater instability, and generally a weaker legal and administrative system, which would be more susceptible to political influences on a macroeconomic level.

2.2. Linkages between Good Governance and FDI Inflows

Recently, many researchers identified the concept of good governance as an important factor for the attractiveness of foreign investments. A number of determinants are identified in the empirical literature that affects inward FDIs. Additionally, several studies have investigated various institutional aspects of governance such as democracy, corruption, and rule of law (Bailey, 2018; Blonigen, 2005; Vijayakumar et al., 2010; Wei and Scheleifer, 2002) while others have focused on only one of the institutional factors that affect FDI inflows (Ahlquist, 2006; Jensen, 2003). This section presents an overview of the latter, focusing on the relationship of the impact of good governance on FDI inflows.

Theoretically various types of institutions tend to affect and being associated with the health of national economy. Efficient institutions such as a more transparent democratic government will signal market agents (both domestic and foreign investors) about future economic fundamentals, and can thereby shape market expectations on the inflows of foreign investment. Likewise, contract enforcement and protection of private property rights as well as stable political environment that provide stable investment environment are necessary to improve market efficiency in transaction since they are likely to lower transaction costs and barriers to foreign investors. In other words, as Angkinand and Chiu (2011) have suggested, institutions that heavily corresponding with bad economic fundamentals will tend to destabilize market expectations and increase market uncertainty, therefore reducing the

incentives for foreign trade. Moreover, it is the role of government to encourage FDI inflows into the sectors that are in line with the country's overall economic structural adjustments in order to enhance national competitiveness and reduce social and economic inequality (Teeramungcalanon and Chiu, 2020).

Many studies have empirically shown that political and institutional factors are necessary determinants of FDI movements in developing countries. For example, a study on 52 countries from 1985–2002 found that low corruption, a developed banking sector, access to information, and efficient bureaucracy were essential factors for FDI inflows (Bénassy-Quéré et al., 2007). Similarly, political instability, corruption, and non-transparent institutional factors affected the FDI inflows of multinational companies and their subsidiaries negatively (Wang and Swain, 1995). Another study showed that corruption and bad governance lead to an increase in administrative costs and therefore, reduced FDI inflows (Morisset, 2002). Meanwhile, for the Middle Eastern and North African countries from 2002–2007, a better quality of governance would have had a positive impact on FDI inflows (Samimi and Ariani, 2010), whereas for African countries, a good infrastructure, less corruption, political stability, and a reliable legal system had a positive impact on FDI inflows (Asiedu, 2006).Moreover, empirical studies employed the six good governance indicators that were developed by Kaufmann et al. (1999) to investigate the impact of good governance on FDI inflows through voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption.

From a study of 50 African countries, political stability, control of corruption, and regulatory quality were found to have a significant impact on FDI inflows (Gangi and Abdrazak, 2012), whereas low regulatory law and political stability enhanced FDI inflows of 45 developing countries in Africa, Asia, and Latin America (Bissoon, 2011). A study of 103 countries between 2001–2007 revealed that good governance indicators showed mixed results in both effect and significance (Spatafora and Luca, 2012), which is in line with the result from a study of 124 countries between 1996–2009 (Gordon et al., 2012). From 1995–1997, voice and accountability, government effectiveness, regulation, and control of corruption had significant positive effects on 115 developing and developed countries (Globerman and Shapiro, 2003). Additionally, a study of 15 Asian countries from 1996 to 2007 revealed that political stability, rule of law, government effectiveness, control of corruption, and absence of violence were the primary factors affecting FDI inflows (Mengistu and Adhikary, 2011). Similarly, political stability and regulatory quality had a positive impact on FDI inflows, while corruption, absence of governance effectiveness and rule of law had a negative influence (Shah and Samdani, 2015). This is in line with the study of 122 developing countries from 2002 to 2017 that revealed that governance effectiveness and regulatory quality were essential factors in attracting FDI inflows (Ross, 2019). In addition, political stability had a significant positive effect in the case of developing countries (Baek and Qian, 2011; Zheng, 2011), while in the case of emerging countries, control of corruption has had a positive and significant effect on inward FDI (Mathur and Singh, 2013). Therefore, governance indicators were found to have a positive and significant effect on the inward FDI (Ali et al., 2010; Globerman and Shapiro, 2003; Hur et al., 2011; Muhammad et al., 2011; Wernick et al., 2009). Based on the above literature, two hypotheses are derived as follows:

H1: Institutional structures of good governance have a significant impact on FDI inflows, ceteris paribus.

H2: The magnitude of the effect of each type of good governance is statistically and significantly different from the other, ceteris paribus.

3. State of Governance in ASEAN+3 Countries

Table 1 shows the results of calculations of the governance situation in ASEAN+3 countries for the period 1996–2018; we computed the average value of the indicators for each country assuming that the maximum value of the indicator is 2.5 (strong governance), and the lowest value is -2.5 (weak governance). The results of the calculation show that, the governance situation in the ASEAN+3 countries for the period 1996–2018 was poor with the exception of a few countries as governance indicators for the majority of the countries fell below the zero level. The exceptions include Korea, Brunei, Malaysia, Singapore, and Japan. Among the six governance indicators, the worst performance was in the VAA indicators with negative values for 10 countries. This implies that poor governance results in the lack of democracy, lack of freedom of expression, association, and free media.

Fig. 3 shows the comparison of governance indicators between ASEAN and Korea, China, and Japan during the period of 1996-2018 (Teeramungcalanon, 2020). It can be seen Korea and Japan showed positive values for all the governance indicators, which reflect good governance, while ASEAN show negative values for the governance indicators. Among the ASEAN countries, Indonesia, Cambodia, Lao PRD, and Myanmar showed negative values for all the governance indicators, which reflect very poor governance.

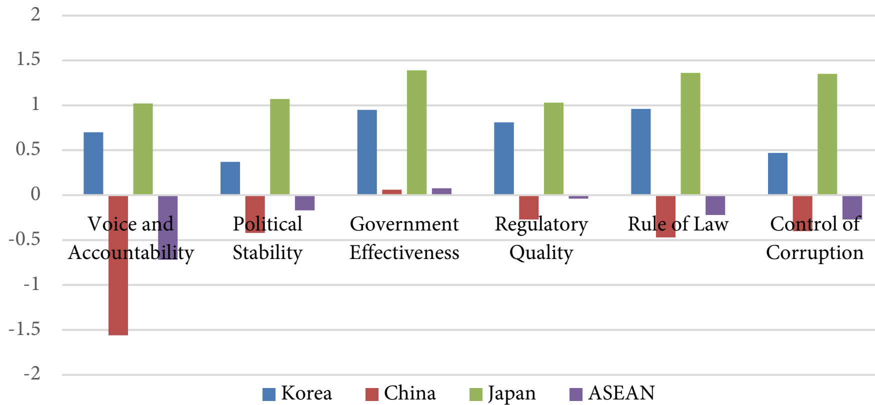
In the case of Korea, the rule of law is well established, as Korea has puts efforts to strengthen the rule of law as one of the pillars of its foreign policy such as international rule-making that responds to issues the global economy face. The legal and regulatory systems of Korea are fair and balanced, subsidies, tax credits, and other incentives are offered to attract foreign investment. However, in terms of managing political stability and control of corruption, Korea still has room to improve. Japan has a low level of corruption with a close relationship among companies, politicians, and government agencies that foster an inwardly cooperative business climate. Korea, on the other hand, has been suffering from political instability and corruption which hinders the inflows of FDI in recent years.

Table 1. Governance Indicators in ASEAN+3 Countries (1996–2018)

Country	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption	Average
Brunei	-0.77	1.19	0.90	0.99	0.56	0.51	0.56
Indonesia	-0.19	-1.16	-0.30	-0.33	-0.62	-0.76	-0.56
Cambodia	-0.93	-0.45	-0.84	-0.41	-1.12	-1.13	-0.81
Lao PRD	-1.60	-0.07	-0.76	-1.06	-0.97	-1.02	-0.91
Myanmar	-1.79	-1.20	-1.34	-1.80	-1.44	-1.29	-1.47
Malaysia	-0.39	0.22	0.99	0.60	0.45	0.24	0.35
Philippines	0.10	-1.18	-0.04	-0.04	-0.36	-0.55	-0.35
Singapore	-0.05	1.22	2.15	2.00	1.58	2.17	1.51
Thailand	-0.26	-0.54	0.28	0.23	0.10	-0.31	-0.08
Vietnam	-1.39	0.27	-0.27	-0.60	-0.42	-0.56	-0.49
Korea	0.70	0.37	0.95	0.81	0.96	0.47	0.71
China	-1.56	-0.42	0.06	-0.27	-0.47	-0.40	-0.51
Japan	1.02	1.07	1.39	1.03	1.36	1.35	1.20

Source: Authors' calculation using WGI data.

Fig. 3. Governance Indicators between ASEAN and Korea, China, and Japan (1996-2018)



Source: Authors' calculation using WGI data.

4. Research Design

To determine the effects of good governance on FDI inflows, the governance indicators are employed based on the World Bank Worldwide Governance Indicators developed by Kaufmann et al. (1999). Experts using an unobserved components model base this dataset on a wide variety of across-country surveys and polls. In accordance with the previous studies (Cornia, 2015; Mihaylova, 2015), the model also includes several control variables that are expected to have an impact on FDI (Table 2). The empirical analysis is based on a panel of 13 countries over the period 1996–2018. The following equation is estimated to investigate the impact of good governance on FDI:

$$FDI_{it} = \propto + \beta GOV_{it} + \beta CV_{it} + \varepsilon_{it}, \quad (1)$$

According to the equation, the dependent variable FDI_{it} is measured by annual inflows of FDI (millions USD at current price) for region *i* in the period *t*. GOV_{it} is a vector of good governance indicators in the host country, and CV_{it} is a vector of control variables. The fixed-effects (FE) model is applied to check for the robustness of the results.

Foreign Direct Investment (FDI): When multinationals enter a foreign market, either by acquiring a firm or broadening the existing business activities in the host country, it is called foreign direct investment. This study will use FDI inflows as the dependent variable of 13 ASEAN+3 countries to gauge the influence of good governance on inward FDIs.

The following six worldwide governance indicators represent different aspects of institutional quality in a country. The empirical analysis will use two sets of data: the first dataset is derived from the estimate of governance (ranging from approximately -2.5 [weak] to 2.5 [strong] governance performance), and the second dataset is derived from the percentile rank among all countries ranging from 0 (lowest) to 100 (highest) rank.

Voice and Accountability (VAA): This factor measures the ability of a country's citizens to participate in selecting their government as well as the freedom of expression, association, and free media (Kaufmann et al., 2009). Through accountability, the public can have

increased access to information regarding the government's performance and the opportunity to raise their voice (Albritton and Bureekul, 2009). Accountability also enables the state and its institutions (the public sector) to work toward developing effective strategies through strong monitoring mechanisms (Cheema and Rondinelli, 2007). In this context, studies have shown that voice and accountability can have a positive effect on FDI (Blanton and Blanton, 2007; Doces, 2010; Zheng, 2011), while others have shown that voice and accountability has a negative effect on FDI (Guerin and Manzocchi, 2009; Jadhav, 2012). Therefore, FDI can be affected by voice and accountability through inclusion or exclusion of public opinion on investments, which in turn can allow or deter foreign investment (Gani, 2007).

Political Stability (POL): This measures perceptions of the likelihood of political instability (Kaufmann et al., 2008). Studies have shown that political stability is a significant factor that influences an investor's decision to establish their business (Martinez-Zarzoso, 2011) and also has a positive, significant impact on the inflow of FDI (Baek and Qian, 2011; Busse et al., 2011; Wang, 2009). In addition, political instability or unexpected changes to the government or country's institutions can affect FDI inflows and economic growth (Schneider and Frey, 1985; Tuman and Emmert, 2004). Therefore, multinationals would prefer countries with steady policies that ensure the continuity of policies and support international investments and businesses.

Government Effectiveness (GOV): This reflects perceptions regarding the quality of public services, civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (Kaufmann et al., 2008). The quality of a government's regulatory effectiveness and practices have an impact on FDI inflows (Rammal and Zurbruegg, 2006) because its effectiveness plays a major role in attracting foreign firms into the host country (Rodrick, 2008). In addition, effective government infrastructure and favorable conditions for domestic and foreign investors are important determinants in FDI inflows. Moreover, as a stable government guarantees the continuation of policies, a positive relationship between government effectiveness and FDI inflows is expected.

Regulatory Quality (RQ): This reflects perceptions regarding the ability of the government to formulate and implement policies and regulations that permit and promote private sector development (Kaufmann et al., 2008). Further, a country's quality of a regulation system depends on the level to which regulations are made and society accepts them (Lee and Tan, 2006). Hence, it is the responsibility of the government to create legislation to regulate the economy, frame the competitive environment and factor endowment, and establish a regulatory environment by which business is conducted (Henisz, 2000; Rugman and Verbeke, 2000). To boost economic development by attracting foreign investments, a government must ensure that the economy is operated by employing strong regulations and policies (Rodrik, 1999). If the regulatory quality is high, a positive influence on overseas investment is expected as multinationals seek locations where the regime is market-friendly.

Rule of Law (ROL): This factor reflects perceptions regarding the extent to which agents have confidence in and abide by the rules of society and in particular, the quality of contract enforcement, property rights, the police, and the courts as well as the likelihood of crime and violence (Kaufmann et al., 2008). Moreover, government officials and institutions that respect and obey the legal frameworks are the most effective way of promoting the rule of law (Shivute, 2008), and a country with a strong rule of law protection plays a positive role in attracting FDI (Lee and Mansfield, 1996; Jadhav, 2012; Nunenkamp and Spatz, 2004). Therefore, countries with poor property rights protection and weak legal institutions will attract fewer investors to invest at risk and vice versa.

Controls of Corruption (COC): This reflects perceptions regarding the extent to which public power is exercised for private gain. This includes both petty and grand forms of corruption as well as the "capture" of the state by elites and private interests (Kaufmann et al., 2008). Countries that manage to decrease the level of corruption and improve the rule of law and property protection can help attract more FDI inflows (Vittal, 2001); otherwise, corruption can lower the confidence and trust people have in the economic system, politics, institutions, and their leaders (Rohwer, 2009). In this context, studies have shown that corruption affects inward FDI (Al-Sadig, 2009; Goodspeed et al., 2011; Gordon et al., 2012) and can lead to a decrease in the profitability of investment and an increase in the uncertainty of the host country. Likewise, it can also lead to an increase in investment (Teksoz, 2006). Therefore, corruption is an important measure of governance as it has an important influence on investments. In addition to the good governance variables, this model also includes several controlled variables that are likely to have an impact on FDI inflows (Angkinand and Chiu, 2011; Chiu and Willet, 2019).

Trade Openness (TRADE): The degree to which a country is open to the outside world is one of the most important stimulants to attract FDI. This variable uses the ratio of Trade to GDP as an indicator of the degree of openness. Previous studies have shown a positive effect of trade liberalization on FDI because the openness of the host countries can help demonstrate the ease with which the goods can be imported and exported (Govil, 2013; Ranjan and Agrawal, 2011; Shah and Samdani, 2015).

GDP Growth (GDP): Such growth can reflect the growing market of the host country and is considered the most crucial factor in attracting MNCs (Kok and Ersoy, 2009). Additionally, a high GDP growth rate not only indicates the effectiveness of government institutions and the stability of economic policy but also shows how well-off consumers are in a country (Globerman and Shapiro, 2003).

Inflation Rate (INF): This variable uses the Consumer Price Index (CPI) as the annual inflation rate. However, an increase in inflation may decrease the purchasing power of the poor more than that of the rich. Nevertheless, it can also lead to an increase in investment that results in higher employment creation thus improving income distribution (Kai and Hamori, 2009).

Table 2. Variable Definitions

Variables	Variable Definition	Source
FDI	Foreign Direct Investment, Net Inflows % of GDP	World Bank
VAA	Voice and Accountability Index	WGI
POL	Political Stability and Absence of Violence Index	WGI
GOV	Government Effectiveness Index	WGI
RQ	Regulator Quality Index	WGI
ROL	Rule of Law Index	WGI
COC	Control of Corruption Index	WGI
TRADE	Trade openness	World Bank
GDP	Market Size	World Bank
INF	Consumer Price Index	World Bank

To reduce the problem of reverse causality, all of the independent variables are lagged by one year which at the same time deals with the problem of a crisis forcing a change in capital controls. Of course, there is the potential for our approach to suffer from omitted variable bias and deeper endogeneity problems (Achen 1986; Maddala 1983; Timpone 2001). One way to deal with endogeneity problems with a dichotomous dependent variable and endogenous explanatory variables is to use two stage probit least squares (2SPLS). However, as pointed out by Timpone 2001, even if we obtain a consistent estimator via this two-stage approach, the standard errors remain inaccurate and their correction is extremely difficult in practice.

Thus, the full model to investigate the effects of good governance on FDI in the ASEAN + 3 countries can be expressed as follows:

$$FDI_{it-1} = \propto + \beta_1 VAA_{it-1} + \beta_2 POL_{it-1} + \beta_3 GOV_{it-1} + \beta_4 RQ_{it-1} + \beta_5 ROL_{it-1} + \beta_6 COC_{it-1} + \beta_7 TRADE_{it-1} + \beta_8 GDP_{it-1} + \beta_9 INF_{it-1} + \varepsilon_{it-1}, \quad (2)$$

5. Empirical Results

This section presents the descriptive statistics for all variables followed by the empirical results of the effects of good governance on FDI inflows across the ASEAN+3 countries over the period 1996–2018.

5.1. Descriptive Statistics

The descriptive statistics shown in table 3 reveals that FDI as % of GDP vary from country to country with a sample range of -2.76% (minimum) and 28.02% (maximum).

Moreover, the six good governance indicators also vary largely from country to country with a huge range. For instance, government effectiveness and regulatory quality vary from a minimum of -1.62 and -2.34 respectively to a maximum of 2.44 and 2.26 respectively, while voice and accountability vary from a minimum of -2.23 to a maximum of 1.11. Similarly, control of corruption also varies from a minimum of -1.67 to a maximum of 2.33. This indicates that Singapore that can manage to decrease the level corruption can attract more FDI inflows, while country like Myanmar with low level of control of corruption tend to attracts less FDI inflows. Political stability that ensure the continuity of policies and support international investments and businesses also vary from a minimum of -2.09 to a maximum of 1.59. However, the rule of law index shows a minimum average fluctuation among the six components of good governance that varies from a minimum of -1.74 to a maximum of 1.84.

In addition, the controlled variables also exhibit a wide variation in the sample period. GDP growth rate which is a crucial factor in attracting investors shows a minimum growth rate of -13.13 to a maximum growth rate of 14.53 with a average fluctuation of 4.88. This implies that most of the countries such as Singapore have achieved a high growth rate, while some countries have experienced low performance and even negative GDP growth. Trade openness which is one of the important stimulants to attract FDI is found to be 107.73% on average, with a wide range of 0.17% (minimum) and 437.3% (maximum). Similarly, the inflation rate also varies from -2.31% in some countries to about 125.27% in other countries. The above indicators indicate that ASEAN+3 countries have a wide range with regard to the quality of governance, the macro-economic policy measure, and the ability to attract FDI. Therefore, countries with good governance and steady economic policy can help to attract international investment and business.

Table 3. Descriptive Statistics

Variables	Observation	Mean	Std. Dev.	Minimum	Maximum
FDI	299	4.30	5.064	-2.76	28.02
VAA	299	-0.55	0.887	-2.23	1.11
POL	299	-0.05	0.908	-2.09	1.59
GOV	299	0.24	0.972	-1.62	2.44
RQ	299	0.09	0.986	-2.34	2.26
ROL	299	-0.03	0.932	-1.74	1.84
COC	299	-0.10	0.993	-1.67	2.33
TRADE	299	107.73	87.667	0.17	437.33
GDP	299	4.88	3.631	-13.13	14.53
INF	299	5.46	11.414	-2.31	125.27

Source: Authors' calculation using WGI and World Bank data.

5.2. Regression Results

The empirical results of the effects of good governance on FDI inflows across the ASEAN+3 countries over the period 1996–2018 by using the FE model is presented in Table 4. The dataset is derived from the estimate of governance (ranges from approximately -2.5 [weak] to 2.5 [strong] governance performance).

The empirical results reveal that political stability and rule of law have a positive and statistically significant relationship with FDI inflows at the 1% level of significance, while voice and accountability have a negative and statistically significant relationship with FDI inflows at the 1% level of significance. Meanwhile, government effectiveness, regulatory quality, and control of corruption do not have a significant relationship with FDI inflows. The result is robust with regard to the addition of other controlled variables, which implies that political stability and rule of law are key elements of good governance that are crucial in stimulating FDI inflow in the ASEAN+3 countries.

It is worth noting that political stability has a positive influence on inward FDI for ASEAN+3 countries, demonstrating that they have steady policies that ensure the continuity of policies and support international investment and business, which in turn attracts more foreign investors to the host country. The result is in line with the previous studies of Baek and Qian (2011), Busse et al. (2011) and Wang (2009) pointed out that political stability has a great influence on investors' decisions in establishing their businesses in a host country. Hence, host countries should maintain a level of political stability that will foster confidence among foreign investors.

Moreover, rule of law is also an important component of good governance infrastructure that plays a positive role in facilitating FDI inflows to a host economy. This reveals that countries with an effective and transparent legal system not only increases domestic investment but also attracts foreign investors for long-term investment. In addition, institutionalizing an effective rule of law is also significantly influential in protecting intellectual property and individual rights thereby promoting innovation and invention. The result is in line with the findings of Jadhav (2012) and Nunenkamp and Spatz (2004) who pointed out that a country's strong rule of law protection played a positive role in attracting FDI.

Alternatively, voice and accountability has a negative effect on FDI inflows. In the early stage of a country's development, the freedom of expression of citizens might influence the government's decision-making in foreign investment policy. As people have more access to

information regarding the government's performance and opportunity to raise their voice, this eventually has an impact on the FDI inflows. The result is in line with the finding of Guerin and Manzocchi (2009) and Jadhav (2012), which showed that voice and accountability have a negative effect on FDI. This implies that voice and accountability affect FDI by the inclusion of public opinion on investments, which, in turn, deters foreign investment (Gani, 2007).

Table 4. Impact of Good Governance on FDI Inflows-Fixed Effects (Estimate)

	(1)	(2)	(3)	(4)
VAA	-2.2694***	-1.6614**	-1.6602**	-1.5536**
	(-2.96)	(-2.21)	(-2.20)	(-2.01)
POL	1.5268***	1.8267***	1.8165***	1.8662***
	(3.18)	(3.90)	(3.85)	(3.91)
GOV	-0.3324	-0.9269	-0.9219	-0.9798
	(-0.39)	(-1.11)	(-1.11)	(-1.17)
RQ	0.8855	0.9272	0.9060	0.8845
	(1.08)	(1.17)	(1.13)	(1.10)
ROL	3.7666***	2.0541*	2.0487*	1.8829*
	(3.29)	(1.76)	(1.75)	(1.57)
COC	0.1034	0.1239	0.1430	0.0693
	(0.09)	(0.12)	(0.13)	(0.06)
GDP		0.0001***	0.0001***	0.0001***
		(4.57)	(4.56)	(4.59)
INF			-0.0024	-0.0026
			(-0.20)	(-0.21)
TRADE				0.0045
				(0.67)
Observations	299	299	299	299
R-Squared Within	0.1600	0.2185	0.2186	0.2198

Note: **p*<0.1, ***p*<0.05, ****p*<0.001.
Source: Authors' calculation using WGI and World Bank data.

Beside the good governance indicators, GDP growth rate is another important variable that exerts a significant positive impact on FDI inflows implying that the economic growth of ASEAN+3 countries shows a signal of economic stability and favorable investment climate with a high degree of market demand that is more attractive to foreign investors. This result is in line with the study by Globerman and Shapiro (2003) that shows that a country with a stable GDP growth rate not only indicates the stability of economic policy and the effectiveness of the government institutions but also shows how well off the consumers are in a country. Furthermore, other variables such as inflation rate and trade openness are not statistically significant with respect to FDI inflows in the ASEAN+3 countries.

Table 5 presents the results of good governance on FDI inflow using the second dataset derived from the percentile rank of governance (ranges from 0 [lowest] to 100 [highest] rank). This dataset is used to check for the robustness of the results. The empirical results reveal that among the governance indicators and political stability are positively influential on FDI

inflows, implying that the ASEAN+3 countries have strong political stability that helps boost foreign investors' confidence in investing in the host country. However, voice and accountability have a negative and statistically significant relationship with FDI inflows. Similarly, the result is robust with the addition of other controlled variables, which implies that political stability and rule of law are the key elements of "good governance" that are crucial in stimulating FDI inflow in the ASEAN+3 countries, whereas voice and accountability seem to lower the inward flow of FDI.

Table 5. Robustness Check on the Impact of Good Governance on FDI Inflows-Fixed Effects (Rank)

	(1)	(2)	(3)	(4)
VAA	-0.9855*** (-3.81)	-0.0692*** (-2.71)	-0.0663*** (-2.56)	-0.0672*** (-2.59)
POL	0.0807*** (4.92)	0.0821*** (5.21)	0.0828*** (5.24)	0.0817*** (5.13)
GOV	0.0085 (0.30)	-0.0025 (-0.09)	-0.0056 (-0.20)	-0.0065 (-0.23)
RQ	0.0247 (0.75)	0.0230 (0.73)	0.0205 (0.65)	0.0019 (0.56)
ROL	-0.0388* (-0.93)	-0.0013* (-0.03)	-0.0029* (-0.07)	-0.0019 (-0.05)
COC	0.0427 (1.44)	0.0366 (1.28)	0.0361 (1.26)	0.0380 (1.32)
GDP		0.0001*** (4.90)	0.0001*** (4.95)	0.0001*** (4.93)
INF			0.0049 (0.76)	0.0050 (0.77)
TRADE				-0.0081 (-0.64)
Observations	299	299	299	299
R-Squared Within	0.1446	0.2124	0.2140	0.2151

Note: *p<0.1, **p<0.05, ***p<0.001.
Source: Authors' calculation using WGI and World Bank data.

In addition, macroeconomics indicators such as GDP growth also show significant effects on FDI inflows. In using the two datasets, the findings reveal that political stability, voice and accountability, and rule of law, are the three important determinants of FDI inflows. The above findings lend strong support for the significance of good governance to FDI inflows in the ASEAN+3 countries. Therefore, the ASEAN+3 countries that are deficient in political stability and rule of law may attract less FDI.

6. Conclusion Remarks

Many researchers have explored the impact of good governance as an important factor in the attractiveness of foreign investment in developing countries. This paper thus aimed to

analyze the impact of good governance on FDI inflows across the ASEAN+3 countries over the period of 1996–2018. The model has been estimated by using fixed effects to show the robustness of the results. The findings reveal that political stability, rule of law, and voice and accountability are the three crucial factors that have a significant impact on FDI inflows of the ASEAN+3 countries. This implies that these countries have a stable political atmosphere that helps foster confidence in foreign firms and has a strong rule of law protection that plays a positive role in attracting FDI. For the future research, a game theoretical framework could be considered in better understanding the interactions between governments and economic developments.

In conclusion, good governance is one of the crucial factors that multinationals consider when choosing a foreign site as a possible FDI destination, especially in the ASEAN+3 countries. Therefore, countries that strive to attract foreign capital should pay attention not only to enhancing good governance environments, effective rule of law, and the stability of economic policies to attract overseas investors but also to improve and maintain various aspects of good governance to maximize economic welfare in the long run.

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