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ẢNH HƯỞNG CỦA THUẾ THU NHẬP DOANH NGHIỆP LÊN VỐN ĐẦU TƯ NƯỚC NGOÀI (FDI) TẠI CÁC QUỐC GIA ASEAN

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Tóm tắt

Đầu tư trực tiếp nước ngoài (FDI) đóng vai trò quan trọng trong tình hình kinh tế- xã hội của những quốc gia đang phát triển và trong số những yếu tố có ảnh hưởng tới dòng vốn đầu tư nước ngoài thì các chính sách thuế có vai trò đặc biệt quan trọng. Nghiên cứu này đánh giá mối quan hệ giữa một thành phần quan trọng trong các chính sách thuế- thuế thu nhập doanh nghiệp và sự thu hút FDI. Các tác giả sử dụng dữ liệu bảng thường niên được thu thập từ 9 quốc gia trong tổ chức ASEAN trong khoảng thời gian từ năm 2000 đến 2023 và phân tích hồi quy để đánh giá các hệ số. Kết quả thực nghiệm cho thấy rằng thuế thu nhập doanh nghiệp có tác động tiêu cực và có ý nghĩa thống kê lên nguồn FDI. Ngoài ra các yếu tố kinh tế khác như tăng trưởng GDP, độ mở thương mại, tỷ lệ lạm phát, thất nghiệp và tỷ giá hối đoái có ảnh hưởng đến sự thu hút FDI.

Từ khoá: các nước ASEAN, thuế thu nhập doanh nghiệp, FDI

IMPACT OF CORPORATE TAX RATE ON FOREIGN DIRECT INVESTMENT (FDI) OF ASEAN COUNTRIES

Abstract

Foreign direct investment (FDI) plays an important role in the socio-economic landscape of developing countries, and amongst the factors that affect FDI inflow, tax policies are especially crucial. The paper aims to examine the relationship between an important component of tax policies-corporate income tax rate, and the attraction of FDI. The authors used annual panel data collected from nine ASEAN countries from 2000 to 2023 and linear regression analysis to assess the coefficients. Empirical results show that corporate income tax rates have a negative and statistically significant effect on FDI inflows. It was also found that other economic factors,

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such as GDP growth, economic openness, market size, and exchange rates play an important role in attracting FDI.
Keywords: ASEAN countries, corporate income tax rate, FDI

1. Introduction

Foreign Direct Investment (FDI) is an important factor in the growth of every economy, especially developing countries like the Association of Southeast Asian Nations (ASEAN). To attract this kind of investment, their governments often use a variety of instruments, one of which is the corporate income tax rate. While there are theoretical and empirical proofs that generally suggest that a higher corporate tax rate is a constraint to FDI, as it reduces after-tax returns (Öz-Yalaman, 2019; Abdioğlu et al., 2016), the magnitude and nuances of this effect, considering ASEAN contexts and interactions with other macroeconomic factors, remain meaningful topics of research.

This research aims to investigate and measure the impact of corporate income tax rates on FDI inflows of nine ASEAN countries (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam), through analyzing panel data for the period from 2000 to 2023. The research also aims to find out how other macroeconomic factors interact with the corporate income tax rate to influence FDI attraction in these countries.

The variables include FDI inflows as the dependent variable, the corporate income tax rate as the primary independent variable, and control variables (Gross Domestic Product (GDP) growth rate, inflation rate, trade openness, unemployment rate, and exchange rate). The research methodology is quantitative, using panel data. After evaluating three models (Pooled OLS, Random Effects, and Fixed Effects) using the Breusch-Pagan LM and Hausman tests, the Fixed Effects Model (FEM) was selected. The research team also performed Diagnostic tests (multicollinearity, heteroskedasticity, autocorrelation) and used Driscoll-Kraay standard errors to ensure the robustness of the estimation results.

The research report is organized into Abstract, Introduction, Theoretical Framework and Literature Review, Methodology, Results and Discussions, Conclusion and Recommendations, and References.

2. Theoretical framework and literature review

2.1 Theoretical framework

2.1.1 Foreign Direct Investments (FDI)

According to UNCTAD definition, Foreign Direct Investment (FDI) is an investment that reflects a long-term interest and ownership by a foreign direct investor, who resides in one economy, in a business that is located in another economy (foreign affiliate). FDI inflows include money paid to a foreign direct investor who is a resident in the reporting country by its foreign affiliate overseas or money given to a foreign direct investor's foreign affiliate overseas, which is resident in the reporting country. FDI flows are presented on a net basis, meaning that debits are subtracted from credits; as a result, in instances of disinvestment or reverse investment, the net FDI value can be negative. FDI is important for developing countries and ASEAN. According to Borensztein et al. (1998), FDI can promote economic growth by

introducing advanced technologies and enhancing human capital, especially when the host country has a sufficient level of education.

2.1.2 Corporate income tax (CIT)

Corporate Income Tax (CIT), is the tax on income, frequently imposed on the profits of the firm with some adjustment to calculate the accurate tax bases. This system makes tax administration simple by defining profits more clearly and reducing subjectivity (OECD, 2021). Taxation is established based on the profits of the firm, which are defined as total revenues earned less allowable expenses incurred during the course of business operations (IMF, 2016). CIT plays an important role for government income and equity realized through the contribution of profitable firms to public treasuries (Tørsløv et. al., 2020). However, a firm's effective tax rate and financing choices can be affected by how deductible expenses are treated

2.1.3 Corporate Income Tax Rates

Corporate Income Tax rates are the percentages of tax imposed on a corporation's profits. These corporate income tax rates run significantly between countries, from in single digits to rates higher than 30% in some jurisdictions (OECD, 2021). Furthermore, the rates vary by some aspects of national fiscal policies, where a few countries employ a low corporate rate to lure in foreign investment or economic development. High tax rates are customarily regarded favorable to government revenues or for wealth redistribution (IMF, 2016). Some other countries have also instituted a tiered or progressive system with rates that rise in correspondence with the volume of profits. Usually, in the political arena, the corporate income tax rate is highly debated: Those who criticize a tax argue that its reduction activates business; those in favor argue that the increased rate of taxes should support government services (OECD, 2021).

2.2 Literature review

The relationship between FDI and corporate tax rate has been examined in a number of prior studies.

Abdioğlu, Biniş, and Arslan (2016) analysed the correlation between taxation and FDI in OECD member countries from 2003 to 2013 by using fixed-effects panel regression and the GMM method. Their empirical results showed that FDI is attracted by the lower tax rate. It is also found that GDP growth positively affects FDI. Amongst the examined variables, the study acknowledges that population unemployment along with inflation, does not have a significant influence on FDI levels.

Becker et al., (2010) measure the influence of corporate taxation on the quality and quantity of FDI using a regression model. Unlike most studies, this paper takes into consideration the tax rate differentials between different firms with data collected from multinational companies in 22 European nations from 2000 to 2006. For quantity, the authors found that the semi-elasticity of the capital stock to corporate tax rate changes is around −2, indicating a negative relationship. About the quantity, corporate taxation significantly reduces profitability as a tax rate differential by 1 percentage point decreases the companies' profitability by 1.1 percent. Average wage rates earned by the subsidiaries' employees are also negatively affected by tax increases.

Baccini et al., (2014) made an empirical analysis of the question of whether corporate tax cuts help attract more FDI in regions of Russia between 1995 and 2008. In their paper, many weaknesses of previous findings, such as ignoring regional differences in tax rates, unobservable heterogeneity when grouping many countries together, and failure to isolate the impact of tax from other variables were addressed. By implementing two quasi-experimental methods: a DID-estimation-based parametric identification strategy and an SCM-based nonparametric identification strategy. The result indicated that those regions that indiscriminate tax cuts on direct investment profit attract on average more FDI than status quo regions. Meanwhile, regions that reduce tax on profit from government-approved projects do not attract significantly more FDI than status quo regions.

In their paper, Silajdzic, S., Mehic, E., (2022) used a panel gravity model with Ordinary Least Squares (OLS) econometric framework to investigate the impact of corporate income tax on FDI in the context of less advanced transition economies of SEE- Southeast European countries. According to the obtained results, FDI would be reduced by about 2.2% when there is a 1% increase in the corporate tax rate.

About the correlation between FDI and taxation within the Southeast Asian region, specifically, we have a few papers. Svetalekth, T. and Geroche, J.B., (2014) studied the corporate income tax rate and FDI in ASEAN countries during the period from 2011 to 2013. By using a simple regression method, they found that there is a significant negative relationship between Corporate Tax Rate and Foreign Direct Investment (FDI) total net inflow in ASEAN at the given 3-year sample. Yi, C.F., Idris, S., and Lily, J., (2020) focused on ASEAN countries within the period from 1980 to 2018. However, the authors examined the influence of consumption tax and exchange rate on FDI inflow. Chi, N.T.K. and Hang, N.M., (2019) used the multiple regression model to analyse the process for attracting foreign direct investments in six developing countries in ASEAN (Cambodia, Indonesia, Malaysia, Philippines, Thailand, and Vietnam) from 2000 to 2017. Nonetheless, their focus was on tax policy as a whole, which includes indirect and direct taxes, and the empirical results indicated that taxes positively affect FDI. Additionally, the study provides some tax policy implications for attracting FDI to these countries.

Although there has been prior research on the relationship between taxation and FDI inflow, only a few findings focused exclusively on developing and specifically ASEAN member nations. Among the studies conducted in these countries, many had a limited time frame and did not include many nations. Thus, our research aims to fulfill this gap by examining recent data across a broader scope and produce a result that is representative of the current FDI situation and tax policies within the region.

3. Methods

3.1 Model specification

In this research, we based our empirical model on the previous findings of Abdioğlu et al. (2016). Nonetheless, we will adjust this model accordingly to fit our scope and timeframe of our paper, as well as include more variables for a more in-depth result.

The model is specified below:

$$FDI_{c,t}=\beta_0+\beta_1 Inc\_taxi_{c,t}+\beta_2 GDP\_Grw_{c,t}+\beta_3 Inflation_{c,t}+\beta_4 Trade\_Openess_{c,t}+\beta_5 Exc\_Rate_{c,t}+\beta_6 Unemployment_{c,t}+\varepsilon_{c,t}$$

In which:

β0: constant

FDI: Foreign direct investment

Inc_tax: Corporate income tax rate

GDP_Grw: Gross domestic production (GDP) growth rate

Inflation: Inflation rate

Trade_Openness: Trade openness

Exc_Rate: Exchange rate

Unemployment: Unemployment rate

t = [2000;2023]

c = [1;9]: 9 ASEAN countries examined, including: Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Philippines, Singapore, Thailand, and Vietnam

In the model, we test our hypothesis for the period from 2000 to 2023. At year t, the dependent variable (FDI) is the foreign direct investment inflows to a country, measured as a percentage of GDP. Our main independent variable is the corporate income tax rate in each nation recorded at time t. Additional variables that have an effect on FDI inflows are GDP growth rate, inflation, unemployment rate, exchange rate, and trade openness of the economy.

3.2 The variables

Foreign direct investment - FDI

Foreign direct investment is an investment by foreign investors directly to foreign affiliates.

Corporate income tax rate

This variable is the percentage at which corporations are taxed on their profits by the government.

GDP growth

World Bank defines GDP growth as the annual periodic change growth of GDP at market prices based on constant local currency. The larger the market size in the host country, the greater the opportunity for foreign direct investment inflow, as a large market is required for efficient utilization of resources and exploitation of economies of scale (Chakrabarti, 2001). ABDiOĞLU et al. (2016), Nguyen et al. (2021), and Anwar (2023) have examined the positive link between GDP growth and FDI.

Inflation

This variable is measured by the consumer price index, which reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals (World Bank definition). FoEh and

Suryani (2020) indicated that inflation has a negative impact on FDI. When a country faces a high level of inflation, investors will lose interest in investing their capital due to the rise in investment costs, and conversely, when the rate is low, investors' interest will increase. Demirhan and Masca (2008) and Agudze (2021) also find a negative relationship between inflation and FDI.

Trade openness

Trade openness is calculated as the sum of imports and exports of goods and services measured as a share of GDP (World Bank definition). Jaiblai and Shenai (2019) and Nguyen et al. (2021) find a positive impact of trade openness on FDI.

Unemployment rate

The unemployment rate is the share of the labor force without work but available for and seeking employment (World Bank definition). According to Nguyen (2022), the unemployment rate has a positive correlation with FDI in South Asia, along with the reflection of the transformation in the labor structure in these economies. On the other hand, Botrić and Škuflić (2006) explain their conclusion of a negative relationship between the unemployment rate and FDI by the traditional argument - unemployment will be reduced by more investment.

Exchange rate

The exchange rate is the price of one currency in terms of another, and this indicator is measured in terms of national currency per US dollar (OECD definition). According to FoEh and Suryani (2020), the higher the value of a country's currency, the greater impact it has on increasing the value of investment.

All the variables' names, units of measurement, and sources of the data are listed in the **Table 1** below.

Table 1: Variables source and description

Variable	Name	Unit of measurement	Data source
Foreign trade investment (FDI)	fdi	USD	World Bank
Corporate income tax rate	inc_tax	%	World Bank
GDP growth	gdp_grw	Annual %	World Bank
Inflation rate	inflation	Annual %	World Bank
Trade openness rate	trade_openness	% of GDP	World Bank
Unemployment rate	unemployment	% of labor force	World Bank
Exchange rate	exc_rate	Real effective exchange rate index	World Bank

Source: *Authors' summary*

3.3 Research methodology

3.3.1 Data sample

The dataset in this study comprises data from nine ASEAN countries, including Brunei Darussalam, Indonesia, Cambodia, Laos, Malaysia, the Philippines, Singapore, Thailand, and Vietnam, covering the period from 2000 to 2023. Due to data unavailability, Myanmar was excluded from the analysis. Nevertheless, with the inclusion of 9 out of 10 ASEAN member states, the dataset remains sufficiently representative of the ASEAN region as a whole.

The table below represents the statistical description and sources of the included variables:

Table 2: Statistical description and sources of variables

Variable	Source	Obs	Mean	Std. Dev.	Min	Max
fdi	World Bank	216	1.19e+10	2.39e+10	-4.55e+09	1.75e+11
inc_tax	World Bank	216	24.91435	5.188837	17	35
gdp_grw	World Bank	216	4.76789	3.360677	-9.51829	14.51975
inflation	World Bank	216	3.804686	4.551609	-2.31497	31.23013
trade_opennes	World Bank	216	134.202	89.30049	32.97218	437.3267
unemployment	World Bank	216	3.157463	2.116265	0.12	11.189
exc_rate	World Bank	216	4915.433	6774.3	1.249567	23787.32

Source: *Authors' summary*

In statistics, the correlation between variables in a model plays a critical role in determining the accuracy of the estimations. Therefore, the authors present a correlation matrix to provide a preliminary assessment of the interrelationships among the variables included in the model. The correlation matrix is presented in **Table 3** below:

Table 3: Correlation matrix

	fdi	inc_tax	gdp_grw	inflation	trade_openness	unemployment	exc_rate
fdi	1.0000						
inc_tax	-0.4218	1.0000					
gdp_grw	-0.0151	0.0532	1.0000				
inflation	-0.0929	0.1931	0.2050	1.0000			
trade_openness	0.6066	-0.4669	0.0521	-0.1885	1.0000		
unemploym	0.0770	0.1376	-0.3318	-0.1574	0.0354	1.0000	

ent							
exc_rate	-0.1105	-0.0030	0.2470	0.3966	-0.2505	-0.2267	1.0000

Source: *Calculation of authors on STATA software*

From the correlation matrix, the absolute values of all correlation coefficients are below 0.8, indicating the absence of strong correlations among the variables in the model. Moreover, no coefficient equals 1.0000 or -1.0000, suggesting that the model does not suffer from perfect multicollinearity.

3.3.2 Research methodology

Qualitative method

In the qualitative research approach, the authors employed the methods of literature synthesis and analysis to collect and evaluate various sources, including scholarly articles, research papers, and reports related to the topic, along with other qualitative data. Additionally, the comparative method was utilized to standardize qualitative data from different sources in order to identify similarities and differences among previous studies, thereby constructing the theoretical framework and formulating the research hypotheses.

Quantitative method

In the quantitative research approach, the authors employed descriptive statistical methods to calculate and present measures such as mean values, standard errors, minimum and maximum values, thereby providing a preliminary assessment of the collected sample. Furthermore, to achieve the objective of evaluating the impact of corporate income tax and foreign direct investment, the authors applied linear regression analysis to estimate the regression coefficients.

The dataset utilized in this study is structured as panel data; consequently, the authors apply three static panel data models for estimation: Pooled OLS, Random Effects Model (REM), and Fixed Effects Model (FEM). The Pooled OLS model presumes that cross-sectional or temporal effects do not influence the estimation (Wooldridge, 2016). Conversely, both the FEM and REM models are employed to account for unobserved factors that could impact the regression model. In order to choose the best model for estimating the parameters, the authors choose to use the Breusch-Pagan Lagrangian test and the Hausman test.

Firstly, to choose between the Pooled OLS and REM models, the author employs the Breusch-Pagan Lagrangian Multiplier test (Stata command: xttest0). The results of the test are presented in **Table 4**.

Table 4: Breusch-Pagan Lagrangian (LM) test

Null hypothesis: No unobserved heterogeneity

Model	Chi-square	p-value
Random effects	54.84	0.0000***

*Note: *** is statistically significant at 1% level*

Source: *Calculation of authors on STATA software*

With a p-value of 0.0000 (less than 0.01), the null hypothesis is rejected, indicating that unobserved random factors affect the model. Consequently, the Random Effects Model (REM) is chosen.

Secondly, the Hausman test is launched to evaluate the better-fitted model between Fixed Effects Model (FEM) and Random Effects Model (REM). The results of the test are exhibited in the following table:

Table 5: Hausman test

Null hypothesis: Difference in coefficients not systematic

Model	Chi-square	p-value
Fixed effects	60.18	0.0000***

*Note: *** is statistically significant at 1% level*

Source: *Calculation of authors on STATA software*

With p-value equal 0.0000 (less than 0.01), the null hypothesis is rejected, indicating that the difference in coefficients is systematic. Therefore, the Fixed Effects Model (FEM) is chosen.

Following the model selection, the authors perform additional diagnostic tests to identify potential model errors, including multicollinearity, heteroscedasticity, autocorrelation, and cross-sectional correlation. Multicollinearity, a common issue in quantitative models where explanatory variables are highly correlated, is assessed using the Variance Inflation Factor (VIF) with a threshold of 10. The VIF in this study is 1.32, which is below the threshold (**Table 6**), leading to the conclusion that multicollinearity is not a significant concern in the model.

Table 6: Variance Inflation Factor test

Variable	**VIF**	**1/VIF**
trade_openness	1.45	0.689311
inc_tax	1.43	0.699560
exc_rate	1.36	0.733792
inflation	1.27	0.789944
gdp_grw	1.23	0.811951
unemployment	1.21	0.828853

Mean VIF	**1.32**

Source: *Calculation of authors on STATA software*

Heteroscedasticity is a prevalent issue in statistical estimation that contravenes the Gauss-Markov theorem regarding Ordinary Least Squares (OLS) estimation. In addition to heteroscedasticity, the model is also affected by other deficiencies, serial correlation. The results of the Wald test for heteroscedasticity, and the Woolridge test for serial correlation are shown on **Table 7** and **8**:

Table 7: Modified Wald test for fixed effects regression model

Null hypothesis: The error terms have constant variance across all observations

Model	Chi-square	p-value
Fixed effects	2278.34	0.0000***

*Note: *** is statistically significant at 1% level*

Source: *Calculation of authors on STATA software*

The p-value of this test is 0.0000, reflecting that the null hypothesis is rejected, which means that the model suffers from heteroscedasticity.

Table 8: Wooldridge test for autocorrelation in panel data

Null hypothesis: No first order autocorrelation

F-statistic	p-value
501.488	0.0000***

*Note: *** is statistically significant at 1% level*

Source: *Calculation of authors on STATA software*

This test has a p-value of 0.0000, which indicates that the null hypothesis is rejected, meaning that the model suffers from the first-order autocorrelation.

In conclusion, the model suffered from heteroscedasticity and first-order autocorrelation. Therefore, to correct those mistakes, authors use the Discroll-Kraay standard errors.

4. Results and discussions

The **Table 9** shows the results of estimation of the Fixed Effects Model (FEM) using the Discoll-Kraay standard errors:

Table 9: Estimated results of Fixed Effects Model with Driscoll-Kraay standard errors

Dependent variable: fdi

Variables	Coefficient	t-statistic
inc_tax	-1.01e+09**	-3.20
gdp_grw	5.13e+08*	1.90
inflation	4.11e+08**	2.74
trade_openness	-3.11e+08***	-4.62
unemployment	-2.96e+09*	-2.11
exc_rate	530739.1	1.17
_cons	8.16e+10***	5.53
Within R-squared		0.2764

*Notes: ***, **, * is statistically significant at 1%, 5%, 10% respectively*

Source: *Calculation of authors on STATA software*

The coefficient of inc_tax is negative and statistically significant at the 5% level, with a coefficient is -1.01e+09. This indicates that if 1 unit corporate income tax rate is higher, FDI inflows will decrease 1.01e+09 units. This result is consistent with prior studies, such as Abdioğlu *et al.* (2016), who argue that higher tax burdens reduce the after-tax profitability of investments, thereby diminishing a country's attractiveness to foreign investors. The significant deterrent effect of tax burdens aligns with empirical findings across emerging markets where fiscal competitiveness plays a pivotal role in attracting international capital (Abdioğlu *et al.*, 2016; Lesmana & Soetjipto, 2023).

Secondly, the coefficient for gdp_grw is positive, as expected, suggesting that higher economic growth promotes FDI inflows. The coefficient, valued at 5.13e+08, is statistically significant at the 10% level. This result suggests that economic growth serves as an indicator of market potential, which may be sufficient to attract foreign direct investment even in the absence of complementary factors such as political stability or well-developed infrastructure (Becker *et al.*, 2012).

Thirdly, the inflation variable shows a positive and statistically significant effect on FDI with a coefficient equals 4.11e+08. While conventional wisdom often suggests that inflation undermines macroeconomic stability and discourages investment, moderate inflation might be interpreted as a sign of dynamic economic activity, particularly in emerging markets (Nguyen, 2022). Thus, a plausible explanation could be that inflation in this context does not reflect instability but rather growing demand and expanding economic opportunities.

Next, the trade_openness variable exhibits a strong negative and significant relationship with FDI, with the coefficient is -3.11e+08, and the p-value is 0.002. This finding is somewhat counterintuitive, as previous literature often posits that greater trade openness facilitates FDI through larger market access and integrated supply chains (Lesmana & Soetjipto, 2023). One plausible explanation is that excessive openness without adequate domestic protections or incentives could expose local industries to competition that discourages foreign investors seeking strategic advantages (Nguyen & Tran, 2024).

Moreover, the coefficient for unemployment is negative and statistically significant at a significance level of 10%. The direction of coefficient aligns with expectations — higher unemployment typically signals economic distress, thus deterring FDI — the lack of significance suggests that foreign investors might weigh other factors more heavily than labor market conditions when making investment decisions, especially if unemployment does not severely impact labor costs or skills availability (Chowdhury & Mavrotas, 2006).

Lastly, exc_rate has a positive but statistically insignificant effect on FDI with a p-value equal 0.274 - far higher than the significance level of 10%. This result aligns with the ambiguous findings in the literature, where exchange rate movements can either attract or deter FDI depending on the nature of investment (market-seeking vs. export-oriented) and the volatility of the currency (Froot & Stein, 1991).

5. Conclusion and reccomendations

This paper aims to examine the relationship between corporate income tax rates and the attraction of FDI in 9 developing ASEAN countries, and with empirical evidence and data, we have found the answer to our research question. Specifically, the main finding is that income tax negatively and significantly affects FDI inflows. In addition, amongst our remaining examined variables, GDP growth and Inflation rate have a strong positive impact, while trade openness and unemployment are inversely proportional to inflows of foreign investment. Overall, the research results align with most of the previous studies concerning the direction of the impact of corporate tax rate on levels of FDI. The only variable with a positive but negligible influence on investment levels is the exchange rate, which is also consistent with the ambiguity of previous findings in this topic. Upcoming papers can explore the interactions between other tax policies, such as tax exemptions, tax holidays, and other incentives, and include other factors such as political stability, infrastructure development, and governance quality to provide a more comprehensive understanding of FDI determinants in the region.

Although all countries around the world have their own qualities and characteristics, tax incentives and especially corporate tax rates has a relevant factor for attracting investors from abroad. From the results of this paper, the authors would like to present some recommendations for governments in ASEAN countries:

Firstly, to increase investment levels and be more competitive in the international market, government authorities should consider tax policies as a key factor and adjust accordingly. This is especially important in developing countries that would benefit greatly from FDI. Tax rate for corporations should be kept at a competitive and low level, while still sufficient for the country to operate and fund public affairs. According to OECD (2017), overly aggressive tax

competition can lead to a "race to the bottom" that undermines public services, ultimately reducing a country's attractiveness for long-term FDI.

Secondly, it is also worth considering that other variables examined also have a significant relationship with FDI. Thus, focusing on tax policies alone will not be sustainable, and maintaining a well-rounded economy with trade openness, macroeconomic stability, and favorable labor conditions is equally critical. From our results, the negative impact of trade openness on FDI suggests a need for more targeted trade policies to protect and promote key domestic industries, allowing foreign investors to operate in a more stable and undisrupted economy.

Thirdly, while the impact of exchange rate is limited, maintaining a relatively stable currency may still help reduce risks, making the countries appealing to a wider range of investors.

Fourthly, although our research found out that the correlation between inflation and FDI is positive, this link most likely reflects the preference of investors for high-growth economies rather than the inflation itself. This is because aggregate demand exceeds aggregate supply when an economy develops rapidly, leading to price increases and inflation. Nonetheless, excessive inflation reduces value of future returns, increases uncertainty in forecasting demand since price changes no longer reflect demand. Therefore, to attract investors, authorities should create a favorable economic landscape, while the central banks should continue to maintain predictable and moderate inflation through sound monetary policy.

Finally, the negative correlation between unemployment and FDI reflects a demand for an available and competent labour force. To improve the quality and make their workforce more attractive to investors, education and vocational training in rapidly expanding fields such as technology and green energy should be promoted more. Moreover, governments of ASEAN countries should consider connecting people in rural areas with job opportunities to reduce the labour surplus and allow the countries to utilize their abundance of human resources**.**

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