การศึกษาเชิงประจักษ์ของปัจจัยสถาบันที่ส่งผลกระทบกับการลงทุนทางตรงจากต่างประเทศใน 6 ประเทศสมาชิกอาเซียน

The Empirical Study of Institutional Factors Affecting the Foreign Direct Investment (FDI) in 6 ASEAN Countries

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บทคัดย่อ

การศึกษาเชิงประจักษ์นี้เป็นการศึกษาปัจจัยเชิงสถาบัน (Institutional Factors) ที่ส่งผลกระทบกับการลงทุนทางตรงจากต่างประเทศ (Foreign Direct Investment – FDI) ใน 6 ประเทศสมาชิกอาเซียนคือ อินโดนีเซีย มาเลเซีย ฟิลิปปินส์ สิงคโปร์ ไทย และเวียดนาม ในช่วงปี 1990-2016 โดยที่ผู้วิจัยมุ่งศึกษาในกรอบของสถาบันทางสังคม (Social Institutions) และสถาบันทางเศรษฐกิจ (Economic Institutions) เป็นหลัก งานวิจัยนี้เป็นงานวิจัยแบบผสมผสมผสาน (Mixed Methods Research) เชิงคุณภาพและเชิงปริมาณ โดยใช้สถิติการวิเคราะห์การถดถอยพหุคูณ (Multiple Regression Analysis) เพื่อวิเคราะห์ปัจจัยที่ส่งผลต่อการลงทุนทางตรงจากต่างประเทศในองค์รวม ผลการศึกษาพบว่าสถาบันทางสังคมส่งผลกระทบอย่างมีนัยสำคัญต่อ การลงทุนทางจากต่างประเทศในกรณีของประเทศมาเลเซีย ฟิลิปปินส์ สิงคโปร์ และเวียดนาม ในขณะที่สถาบันทางเศรษฐกิจส่งผลกระทบวงกว้างต่อการลงทุนทางตรงจากต่างประเทศในเกือบทุกประเทศสมาชิกอาเซียน โดยเฉพาะอย่างยิ่งการวิเคราะห์ผ่านตัวแปร ประสิทธิภาพของรัฐบาล (Government Effectiveness) และ การควบคุมการทุจริต (Control of Corruption) อย่างไรก็ดี การเคลื่อนย้ายเงินทุนทางตรงจากต่างประเทศมายังประเทศสมาชิกอาเซียนยังสามารถอธิบายได้ด้วยปัจจัยเศรษฐกิจแบบดั้งเดิม เช่น อัตราการเจริญเติบโตทางเศรษฐกิจ (GDP Growth) รายได้ประชาชาติต่อหัว (GDP per Capita) และจำนวนแรงงาน (Labor Forces) ในตลาด ผลการศึกษานี้ให้ข้อคิดเห็นว่าการไหลเข้าของการลงทุนจากต่างประเทศสู่ประเทศสมาชิกอาเซียนส่วนใหญ่มิได้ถูกกำหนดเพียงประสิทธิภาพของสถาบันทางเศรษฐกิจ (Economic Institutional Quality) เพียงอย่างเดียว ทว่า ยังถูกกำหนดโดยความเข้มแข็งสถาบันทางสังคม (Robust Social Institutions) หรือต้นทุนทางสังคม (Social Capital Endowment) ที่ดีอีกด้วย ผลการศึกษานี้สอดคล้องกับงานวิจัยหลายชิ้นในอดีตที่บ่งชี้ถึงบทบาทสำคัญของสถาบันทางสังคมที่ส่งผลเชิงบวกต่อเศรษฐกิจและการไหลของการค้า งานวิจัยนี้สรุปโดยให้ข้อเสนอแนะว่า การปรับปรุงประสิทธิภาพของปัจจัยเชิงสถาบันในกลุ่มประเทศสมาชิกอาเซียนมีความสำคัญต่อการพยุงระดับของการลงทุนทางตรงจากต่างประเทศตลอดจนการไหลของการค้าที่เกี่ยวข้อง นอกจากนี้ ปัจจัยแวดล้อมเชิงสถาบันที่ดียังส่งผลต่อบรรยากาศทางธุรกิจเชิงบวกความไว้เนื้อเชื่อใจทางสังคมและศักยภาพในการแข่งขันที่เพิ่มขึ้นของประเทศในภาพรวมอีกด้วย

คำสำคัญ: การลงทุนทางตรง อาเซียน สถาบันทางสังคม สถาบันทางเศรษฐกิจ

Abstract

This empirical study is a country-based analysis aiming to investigate how institutional factors (primary economic and social determinants) affect the FDI inflows in six ASEAN countries, namely Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam during 1990-2016. It uses a mixed method research employing a pool-data multiple regression technique to analyze the significant determinants of FDI at country level from a holistic approach. The findings found that, on one hand, social institutions affected inward FDI in several countries such as Malaysia, Singapore, the Philippines, and Vietnam. On the other, economic institutions had a significant correlation to the flows of FDI in most countries, particularly through the proxies of Government Effectiveness and Control of Corruption. However, conventional socio-economic factors, such as GDP Growth, GDP per Capita and Labor Forces could still explain the movements of FDI in some countries. This paper contended the flows of FDI, in most ASEAN countries, are not only motivated by economic institutional quality, but also robust social institutions (or rich social capital endowment) in a society. The results are consistent with previous scholarly works advocating a crucial role of institutions in determining positive economic outcomes and trade flows. This paper is concluded by suggesting that an improvement of institutional quality among ASEAN countries is vital to sustain the current flows of FDI and related trade attractiveness. Good institutional environments would also lead to a friendlier business environment, strengthens a trustworthy society and increases national competitiveness as a whole.

Keywords: FDI, ASEAN, Social Institutions, Economic Institutions

Introduction

The study of determinants affecting the Foreign Direct Investment (FDI) in a modern day has gained increasing interests from economists and public administrators especially after the successful transformation of ASEAN into a single market or ASEAN Economic Community (AEC). This is because FDI becomes core engine for economic growth for most ASEAN nations; therefore, an in-depth analysis of FDI determinants is indispensable. Nevertheless, previous studies and research tend to pay attention to the investigation of socio-economic and human capital determinants in particular including GDP growth, GDP per capita, labor forces, population growth, gross enrollment and literacy rate. This is because these factors were believed as prerequisite to attract a large-scale FDI and cross-border trade. To date, it is undeniable numerous forms of institutional factors are performing a greater role to shape up the pattern of FDI and becoming more widespread in the social sciences in many ways (Hodgson, 2006). Institutional factors under this investigation emphasizes two main disciplines, which are economic institutions and social institutions. Economic institutions include Government Effectiveness, Regulatory Quality, Control of Corruption, and Rule of Law. Social institutions primarily comprise of Social Trust and Civic Cooperation. In recent cross-country studies, these institutions could affect economic performance, competitiveness and investment by constructing a prospect for growth and good atmosphere for business.

Economic institutional factors were assumed to reduce transaction costs, safeguard investors and ease business considerations (Williamson, 1979; North, 1990; 1992 and 1995; Lee, 2009; Bonnal & Yaya, 2015). They inhibited as indirect costs for business (Masron & Nor, 2012). Effective economic institutions would then promote long-term business confidence and reduce uncertainty. The study of Buracom (2014) confirmed there was a significant relationship between FDI inflows and institutional quality among ASEAN countries. He contended an improvement of institutional performance in most ASEAN countries was necessary to achieve the goal of ASEAN market integration. On the other hand, it was anticipated much economic backward in certain economies was caused by the absence of good social institutions (or social capital endowment). This is because social institutions were regarded as catalysts to sustain progressiveness by creating incentives for growth and wellbeing of a nation (Acemonglu & Robinson, 2012). Correspondingly, vigorous social institutions were able to foster economic development, cooperation, and investment in a country (Knack & Keefer, 1997; Whiteley, 2000; Misztal, 2001; Lee, Jeong & Chae, 2011; Engbers & Rubin, 2018).

This paper investigates the extent to which economic and social institutions determine the patterns of FDI inflows in six ASEAN countries, namely Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam during the period of 1990-2016. Notwithstanding the significance of these countries vis-à-vis FDI flows, relatively little research has attempted to ascertain such patterns, thereby resulting in the need for robust theoretical analysis. These justifications emerged to this examination with the following objectives:

Objectives of the Research

- To study how economic and social institutions affect the FDI inflows in six ASEAN countries.
- To propose policy guideline and provide implications to enhance ASEAN's FDI attraction and economic performance.

Literature Reviews

Eclectic Theory

Eclectic theory (or the OLI paradigm) investigates the impetuses of FDI and rationale expansions of Multinational Enterprises (MNEs). Dunning (2000) posited the stream of FDI was driven by three main configurations: Ownership, Location and Internationalization advantages. (1) Ownership advantage: this hypothesized the MNEs upheld specific advantages to overcome cost of business operations overseas like accession to patent, entrepreneurial skills, and capital investment. Such superiority could outweigh the operating cost in the home country causing the expansion of MNEs. (2) Location advantage: this signified the cost of production in the host countries was relatively competitive such as labor, raw material and related costs. (3) Internationalization advantages: this referred to the advantages of MNEs via controlling and administering procedures through licensing and relevant business arrangements. All permitted the MNEs to have the superior gains, which could lead and attract a massive relocation of MNEs and FDI across the countries (Masron & Yusop, 2012).

Endogenous Growth Theory

Endogenous growth theory advocates the essence of human capital investment that paves the way toward long-term growth and wealth of a nation. This theory assumed economic growth of any economy would depend on human capital development particularly education, R&D and technological development. All of these could generate positive externalities to the overall economic activities by (1) Spill-over effects; and (2) Learning-by-doing effects. A great number of scholarly works Romer (1994), Borensztein, Gregorio & lee (1998), Yussof & Ismail (2002) and Li & Liu (2005) supported this theory. Their findings indicated a correlation between human capital factors and economic progress especially in case of Malaysia, Thailand, and Indonesia, where the cheap labor costs go hand in hand with human capital development. To this end, foreign investors would tend to invest in a country where the level of human capital endowment is reasonably high.

New Institutional Theory

New institutional theory (or Neo-institutional theory) pays specific attention to the sociological view of institutions that affect political, economic and social behaviors of the societal members. In public policy, new institutional theory can be divided into three main disciplines: political institutions, economic institutions, and social institutions.

1. Political Institutions

Political institutions shape up political process by means of production of legislation, regulation, and related governing systems of the state. It involves large scales of formal institutions such as constitutions, prudential laws, civil liberty, political rights and stability. Political institutions are claimed as a main source to produce economic institutions with ability to determine their quality through legal system and enforcement (Frances, 2004). Their performance could affect trade and investment as well (Sehneider & Frey, 1985). The analysis of political institutions could be evaluated via the proxies of political regime, stability and democracy indices. In policy study, the investigation into political institutions are conducted separately from other institutional disciplinary due to different layers of analysis and data collection.

2. Social institutions

Social institutions is a joining orchestra among moral obligations, norms, social value, and societal network – known as soft or informal institutions (Putnam, 1993). It could be called “Social Capital.” It expresses the sociological view toward the formation of healthy society, and highlights the significance of networks of relationships, informal norms that manipulate individual behavior, collective cooperation among humankind. Accordingly, rich endowment of social capital or good social institutions are crucial components to drive a society to grow. Concept of social capital has gained supports from prominent scholars such as Putnam (1995) and Fukuyama (1996). Putman (1993 & 1995) mentioned various social problems in the United States in the past decades were caused by the absence of social capitals in a society. Fukuyama (1996 & 2001) contended social capital was existence of informal values or norms sharing among societal members permitting greater cooperation. Recent studies argued social capital had an impact on economic growth as strong as human capitals (Whiteley, 2000). Under this condition, low social capital might reduce economic growth and cause higher transaction cost of business; therefore, an increasing social capital endowment may have linked to a variety of positive economic outcomes (Leeves, 2014).

- Functions of Social Institutions

Social institutions serves as a foundation for growth and performs various functions. (1) Social Capital is *"Societal Glue"* activating social harmony via positive mobilization of civic engagement and cooperation such as voluntary associations, trade unions, political parties, or group of interests. (2) Social Capital is *"Societal Networks"* constructing specific engagements based on mutual cooperation with ability to boost responsive institutions in a society. This paves the way toward friendly atmosphere for cooperation and knitting trustworthiness. (3) Social Capital is *"Social Values"* fostering virtue among citizens and individuals leading to a more reliable society, smooth business operations and social contracts.

3. Economic Institutions

Economic institutions is an effort to integrate a theory of institutions into economics by advocating the crucial roles of institutions in economic affairs (North, 1995). It was claimed government effectiveness, regulatory quality, control corruption, and rule of law could promote long-term business prospect and safeguard investors. Economic institutions determine types of activities that are allowed, prohibited, or even disrupted; thus, individuals and firms could not avoid the effects of these institutions. It was posited a country would be economically prosperous if these institutional forces are reliable and driven by effective mechanisms. All may provide incentives to an economy with a potential to shape the pattern of growth, stagnation or decline of productivity outputs (North, 1991).

- Functions of Economic Institutions

Economic Institutions is supposed to be a part of an economy and cannot be separated from the market system especially under the assumptions of "Transaction Cost" and "Production Cost." Transaction cost included costs associated to contract enforcement, market access, economic exchanges, documentations costs, and related fees imposed by the government when buying or selling goods or service from one territory to others. Economic institutions could stabilize these costs via effective monitoring of economic activities and administration. Without sound institutions, transaction cost would be uncertain and business confidences might be at risk. This is an interplay between transaction costs and institutions (Williamson, 1979). Production cost cover labor, raw materials, consumable manufacturing supplies and general overhead costs when manufacturing goods or providing services. With these costs, North (1995) argued institutions could raise unnecessary production costs by disrupting the economic supply chain. This contains the bureaucratic red tape or lengthy delays of business procedures. These undesirable effects might increase production costs and decline long-term competitiveness of an economy.

Table 1 Summary of Key Previous Studies Regarding the FDI Determinants

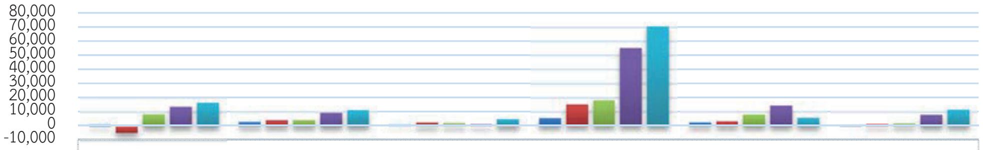
Scholars	FDI Determinant	Year
Williamson	Economic Institutions	1979
North	Economic Institutions	1990, 1992 and 1995
Buracom	Economic Institutions	2014
Acemonglu and Robinson	Social Institutions (or Social Capital)	2012
Whiteley	Social Institutions (or Social Capital)	2012
Putnam	Social Institutions (or Social Capital)	1993 and 1995
Fukuyama	Social Institutions (or Social Capital)	1996
Knack and Keefer	Social Institutions (or Social Capital)	1997
Zak and Knack	Social Institutions (or Social Capital)	2001
Dunning	OLI Paradigm	2000
Romer	Human Capitals	
Borensztein, Gregorio and Lee	Human Capitals	1998
Yussof and Ismail	Human Capitals	2002
Li and Liu	Human Capitals	2005

FDI in ASEAN Countries

FDI inflows to ASEAN region have increased over time reflecting a strong market potential and growth. This included an expansion of Intra-ASEAN investment, which rose to a record high of $24 billion in 2016 (ASEAN Secretariat, 2017). ASEAN was considered an attractive economic region with potential to induce further FDI from all countries under the optimistic transformation of AEC 2015 to a more integrative AEC 2025 (The Economist, 2013). AEC became huge opportunities for investors to expand their business presence from local to the international ones with less complication (Tantrakul, 2013). This includes attractive policy measures and incentives to accommodate greater international business and foreign investment especially in case of Thailand (Tepprasit, 2014). At country level, FDI becomes key driver for economic prosperity and development; this included employment opportunity and knowledge transfers. Yue (1999), Athukorala & Tien (2012) and Kishor & Singh (2015) provided concrete evidences claiming FDI could stimulate economic progress and massive employment in a wide range of ASEAN countries with ability to resolve the limitation of small market. See table 2 for full details:

Table 2 : FDI Inflows to 6 ASEAN Countries (1990-2015)

Unit: Million USD



	Indonesia	Malaysia	Phillipines	Singapore	Thailand	Vietnam
1990	1,092	2,611	550	5,574.70	2,575	180
2000	-4,550	3,787.60	2,240	15,515.30	3,410.10	1,412
2005	8,336.30	4,065.30	1,854	18,090.30	7,975.10	1,954
2010	13,770.60	9,060	1,298.10	55,075.80	14,555	8,000
2015	16,641.50	11,121.50	4,936.80	70,759.50	5,699.70	11,800

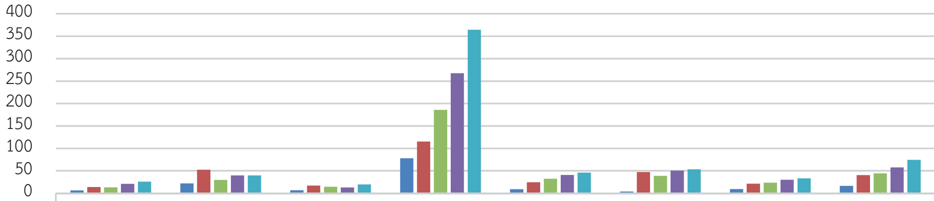
1990 2000 2005 2010 2015

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics), modified by author

Table 3 clarified FDI inward stock as a percentage of gross domestic product from 1990-2015. This category indicated a significant portion of FDI per GDP size in each ASEAN country. It was observed an average FDI inward stock in ASEAN region constantly risen throughout the record; this underlined the significance of FDI that contributed to the overall economic activities in most countries. The average was 16.4% (1990), increased to 44.6% (2005), 57.6% (2010) and 74.2% (2015). More importantly, the share of FDI inward stock in across the region was higher than the global average of 33.5%. This paper then argued most ASEAN countries had close connection with FDI for a long time, and this tendency would likely remain unchanged in near the future. See full details below.

Table 3 FDI Inward Stock as a Percentage of GDP (1990-2015)

Unit: Percent



	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam	World Avg.	*ASEAN Avg.
1990	6.3	22.2	6.7	78.3	9.3	3.8	9.6	16.4
2000	14	52.4	17	115.4	24.5	47.2	21.4	40.5
2005	13.3	30	14.5	186	32.4	38.9	23.8	44.6
2010	21.3	39.8	13	267.6	40.8	50.5	30.4	57.6
2015	25.8	39.7	20	364.5	45.9	53.7	33.5	74.4

1990 2000 2005 2010 2015

Source: UNCTAD, FDI/MNE database (www.unctad.org/fdistatistics)

Note: *ASEAN average was the average of the entire 10 ASEAN countries

Social Institutions (or Social Capital) in ASEAN Countries

Social institutions or social capital in ASEAN countries might take root as intangible assets, relatively in abstract forms, and characterize underneath the social structure. Social institutions affect individuals and business through an influence of values, networks of relationship, and norms. All indirectly determine certain action of individuals and business considerations. In ASEAN region – highly regarded as a contextual society with great diversity – social capital endowment or good social institutions matters for individuals and business to be more collaborative and participative that could lead to a smooth mutual interaction after all. In cross-country studies, social institutions can be comprehended through the analysis of Social Trust (or Generalized Trust) and Civic Cooperation. They are frequently used proxies to evaluate capacity of social institutions in relation to economic performance and social phenomena. However, it should be noted the data set of these proxies are inconsistent with missing observations at country level because the examination into this matter conducted by World Value Survey (WVS) began as late as in 1995 only in the Philippines; while the rests started in 2000. Therefore, the prediction power of these might be likely dropped.

1. Social Institutions through "Social Trust or Generalized Trust"

Social capital scholars underlined there are different types of trust and not all of them significantly contribute to the construction of societal civic cooperation (Uslaner, 2002). Trust in the strangers (or the people you do not know personally) would result in a more civic cooperation and virtues in a society. This is precisely called "Generalized Trust", which is built on expectation of the goodwill of unknown people. On the other hand, trust based on individual or network of relationship may not positively emerge to the solid foundation of good civic community. This is entitled "Particularized Trust", which is likely to grow among people who share similar demographic values or socio-economic backgrounds. This type of trust tends to create an expectation of goodwill only within their group (Suebvises, 2018).

In this connection, the central focus of this study would rely on the Generalized Trust, which is suitable proxy to analyze the strength of social institutions in ASEAN region and is consistent with the prior social capital studies of Lee & Glasure (2007), Hongxin & Seung (2011) and Ahmad & Hall (2017). Social trust in this paper is an assessment of respondents to the question "Most people can be trust?" after deleting do not know answer; all based on the total score of 100. However, there were missing observations during 1990-1999 and data inconsistency in several countries. This is because the limitation of survey coverage conducted by World Value Survey (WVS) at country level. In this matter, the researcher decided to mitigate this undesirable cause by applying weight average where appropriate.

Table 4 Social Trust Index Ranking (2000-2014)

Unit: the total score is 100

Country	2000-2004	2005-2009	2010-2014	ASEAN Rank**
Indonesia	38.2/100	37.5/100	-	3
Malaysia	-	8.8/100	8.5/100	4
Philippine	8.3/100	-	-	n.a.
Singapore	21.1/100	29.4*/100	37.7/100	5
Thailand	-	41.3/100	32.1/100	2
Vietnam	32.4/100	50.9/100	-	1

Source: World Value Survey (2000-2014), modified by author

Note: *This score is the weight average between 2000-2004 and 2010-2014. **ASEAN Rank is the author's calculation based on the period of 2005-2009 and excluded Philippine due to unavailable data.

The findings implied Thailand and Vietnam were high trust society as the overall scores were comparatively higher than other countries. Malaysia and Singapore showed low scores indicating poor institutions socially. At this point, this paper argued doing business and investment considerations in ASEAN should be more careful as the degree of social trust in most countries is apparently low; this could result in greater requirements of formal contracts and legal binding of business stakeholders.

2. Social Institutions through "Civic Cooperation"

Civic cooperation or citizen participation in any decision-making process that affects their lives and wellbeing is an imperative for stable democracy. Therefore, civil participation in economic and social affairs should be actively promoted. These are the reasons why civic cooperation becomes more important in a modern society (Roberts, 2004). In this paper, civic cooperation was measured by the strength of norms of civic cooperation obtained from respondents who answer the question whether each of the following behaviors "can always be justified, never be justified or something in between." They consist of (1) Claiming government benefits which you are not entitled to; (2) Avoiding a fare on public transport; and (3) Cheating on taxes if you have the chance. The values from these categories were combined and summed as a new scale called Civic Cooperation. The calculation is a sum of raw score of 1 (never justifiable) to 10 (always justifiable), then weighted average based on a 55-point maximum points. However, it should be aware there were missing observations during 1990-1999 and data inconsistency causing the prediction power to likely drop.

Table 5 Civic Cooperation Index Ranking (2000-2014)

Unit: the total score is 55

Country	2000-2004	2005-2009	2010-2014	ASEAN Rank**
Indonesia	15.72/55	16.44/55	-	1
Malaysia	-	13.12/55	15.09/55	5
Philippine	13.63/55	12.57/55	-	6
Singapore	15.69/55	15.25*/55	14.82/55	3
Thailand	-	13.76/55	15.77/55	4
Vietnam	16.81/55	15.64/55	-	2

Source: World Value Survey (2000-2014), modified by author

Note: *This score is the weight average between 2000-2004 and 2010-2014. **ASEAN Rank is the author's calculation based on the period of 2005-2009.

This paper contended ASEAN countries have poor social institutional quality, and the adverse impact of this might lower social harmony and business interests as a whole. Low level of social institutions, both social trust and civic cooperation, would negatively result in other economic and social wellbeing such as income per capita, education, or even happiness. In this matter, it was mentioned that social institutions in ASEAN were poorer than Western Europe or North America with having stronger social capital endowments; all these would allow them to be more developed economically and institutionally (Lee et al., 2011). Hence, the promotion of civic cooperation and civil engagements should be enriched to enhance social foundations. Education system and good nurture at young age may be then helpful, including cultivation of good social values, sense of belonging and social responsibility.

Economic Institutions in ASEAN Countries

In ASEAN, economic institutions varies depending on specific country's conditions since ASEAN is a group of economies comprising of diverse economic structure, uneven development, income gap, and administrative system. Therefore, the analysis of economic institutional performance in ASEAN region should be undertaken at country level in order to gain more insight of uniqueness. Economic institutions could be examined through the assessment of the "Governance Indicators," which include Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption. These reflect capability of the government to effectively formulate and implement sound policies respecting citizens and institutions that govern economic and social interactions (The World Bank, 2018). Nevertheless, it should be aware that timespan for data collection conducted by Worldwide Governance Indicators (WGI) was fairly recent. This is because the investigation into this matter began as late as in 1996; therefore, this data set dated from such period. In this category, the values displayed range from -2.5 to +2.5; the higher score corresponded the greater performance of each governance indicator. See full details below.

Table 6 Government Effectiveness (1996-2015)

Country	1996	2000	2005	2010	2015	Average score	ASEAN rank
Indonesia	-0.4	-0.3	-0.4	-0.2	-0.2	-0.3	6
Malaysia	0.7	1.1	1.1	1.1	1.0	0.86	2
Philippines	-0.2	-0.1	-0.1	0.0	0.1	-0.06	4
Singapore	2.1	2.2	2.0	2.3	2.3	2.18	1
Thailand	0.3	0.2	0.4	0.2	0.4	0.3	3
Vietnam	-0.5	-0.4	-0.2	-0.3	-0.26	-0.26	5

Source: Worldwide Governance Indicators (1996-2015), modified by author

Note: Average score and ASEAN rank is the author's calculation

Table 7 Regulatory Quality (1996-2015)

Country	1996	2000	2005	2010	2015	Average score	ASEAN rank
Indonesia	0.2	-0.2	-0.5	-0.4	-0.2	0.22	4
Malaysia	0.7	0.5	0.6	0.6	0.8	0.64	2
Philippines	0.3	0.2	-0.1	-0.2	0.0	0.04	5
Singapore	2.2	2.1	1.8	1.8	2.3	2.04	1
Thailand	0.2	0.5	0.5	0.2	0.3	0.34	3
Vietnam	-0.5	-0.7	-0.6	-0.6	-0.5	-0.58	6

Source: Worldwide Governance Indicators (1996-2015), modified by author

Note: Average score and ASEAN rank is the author's calculation

Table 8 Rule of Law (1996-2015)

Country	1996	2000	2005	2010	2015	Average score	ASEAN rank
Indonesia	-0.37	-0.75	-0.82	-0.64	-0.41	-0.59	6
Malaysia	0.61	0.31	0.57	0.53	0.57	0.51	2
Philippines	-0.01	-0.44	-0.36	-0.58	-0.35	-0.34	4
Singapore	1.28	1.27	1.76	1.68	1.88	1.57	1
Thailand	0.54	0.55	0.09	-0.20	-0.11	0.17	3
Vietnam	-0.40	-0.34	-0.24	-0.53	-0.27	-0.35	5

Source: Worldwide Governance Indicators (1996-2015), modified by author

Note: Average score and ASEAN rank is the author's calculation

Table 9 Control of Corruption (1996-2015)

Country	1996	2000	2005	2010	2015	Average score	ASEAN rank
Indonesia	-0.6	-0.9	-0.9	-0.7	-0.5	-0.72	6
Malaysia	0.5	0.4	0.3	0.1	0.3	0.32	2
Philippines	-0.2	-0.5	-0.6	-0.8	-0.4	-0.5	4
Singapore	2.2	2.3	2.2	2.2	2.1	2.2	1
Thailand	-0.2	-0.1	-0.1	-0.3	-0.4	-0.22	3
Vietnam	-0.4	-0.6	-0.8	-0.6	-0.4	-0.56	5

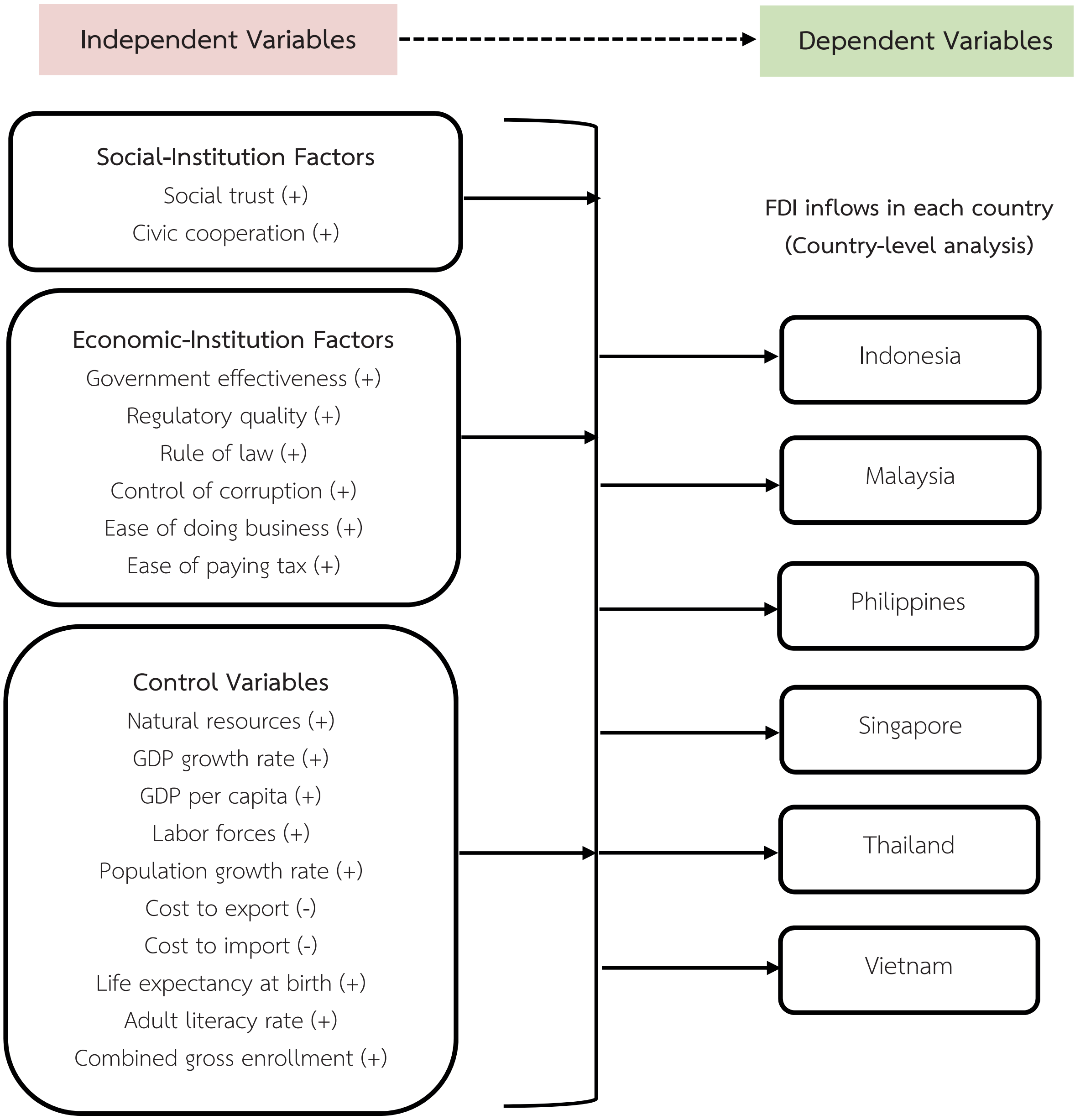
Source: Worldwide Governance Indicators (1996-2015), modified by author

Note: Average score and ASEAN rank is the author's calculation

This paper argued economic institutional performance in ASEAN countries differed due to diverse socio-economic development, income per capita and social structures. At country level, majority of ASEAN countries (except Singapore). Poor performance of good governances would then result in the decline of business confidence, break investment and capital flows for the years to come. It is advised that the overhaul institutional quality alongside with transparency and accountability ranging from policy initiatives to the front-line implementers is necessary to sustain growth and ensure confidence of investors. The improvements of institutional performance would promote greater environments for business and enhance competeiveness not only at country level, but also at the entire region.

Diagram of the Conceptual Framework

To obtain the rich of data analysis, this study specified set of independent variables into three main categories including (1) Social Institutional Factors, (2) Economic Institutional Factors, and (3) Control Variables. Control variables, mainly comprised of traditional socio-economic and human capital factors, were constructed in order to avoid possibility of bias on the research outcomes, as they would have an effect to the FDI inflows (dependent variable) in the analysis. The conceptual framework for multiple regression analysis then becomes:



Methodology and Model Specifications

This study employed a *"Pooled-data Multiple Regression Technique"* to analyze data. Variables were regressed to fit with the specific multiple regression equation in each country; that is there are six separated equations in total. The primary reason to run the multiple regression analysis one by one (or at country level) is due largely to vast diversity among units of analysis ranging from socio-economic background, income gap, institutional performance, and capacity of the governments to carry out different sets of FDI policies. All do not permit the researcher to analyze the data set at once, but should be done separately. See Appendix for full details the measurement of variables and data sources.

Table 10 Multiple Regression Equation in Each Country

Y1	FDI inflows in Indonesia	Y1 = a + b1X1 + b2X2 + b3X3 … + bnXn
Y2	FDI inflows in Malaysia	Y2 = a + b1X1 + b2X2 + b3X3 … + bnXn
Y3	FDI inflows in Philippines	Y3 = a + b1X1 + b2X2 + b3X3 … + bnXn
Y4	FDI inflows in Singapore	Y4 = a + b1X1 + b2X2 + b3X3 … + bnXn
Y5	FDI inflows in Thailand	Y5 = a + b1X1 + b2X2 + b3X3 … + bnXn
Y6	FDI inflows in Vietnam	Y6 = a + b1X1 + b2X2 + b3X3 … + bnXn

Table 11 Signs and Symbols

X1	Government Effectiveness	GOVEFF
X2	Regulatory Quality	REGQ
X3	Rule of Law	RULELAW
X4	Control of Corruption	CONCOR
X5	Ease of Doing Business	DOBUS
X6	Ease of Paying Tax	PAYTAX
X7	Social Trust	TRUST
X8	Civic Cooperation	CIVIC
X9	Natural Resources	RESOUR
X10	GDP Growth	GDPGRW
X11	GDP per Capita	GDPCAPTA
X12	Labor Forces	LAFORCE
X13	Population Growth	POPGRW
X14	Cost to Import	COSTIM
X15	Cost to Export	COSTEX
X16	Life Expectancy at Birth	LIFEEXPEC
X17	Adult Literacy Rate	LITER
X18	Combined Gross Enrollment	ENROLL

Empirical Results of Regression on FDI inflows in ASEAN Countries

Table 12 Dependent Variable: FDI inflows at country level

Dependent Variable: FDI inflows at country level						
Variables	Indonesia	Malaysia	Philippines	Singapore	Thailand	Vietnam
GOVEFF	.970 (-.038)	.072** (1.970)	.148 (-1.545)	.086** (1.847)	.084** (1.862)	
REGQ	.032* (-2.418)			.981 (.025)		.214 (1.306)
RULELAW		.012* (-2..940)			.429 (.814)	.175 (-1.434)
CORRUP	.033* (3.631)	.994 (-2.940)		.092** (1.810)	.591 (.551)	.832 (.217)
DOBUS	.936 (-.082)	.239 (-1.239)	.001* (4.384)	.346 (-.976)	.674 (.430)	.117 (1.680)
PAYTAX	.892 (-.139)	.738 (-.342)	.116 (1.694)	.023* (2.551)	.004* (-3.427)	.499 (-.696)
TRUST		.026* (2.538)		.070** (1.960)	.573 (.577)	.021* (2.622)
CIVIC			.007* (-3.211)	.074** (1.934)		
RESOUR					.021* (-2.607)	
GDPGRW		.002* (3.972)				
GDPCAPTA		.000* (6.933)		.000* (7.784)		.000* (7.166)
LAFORCE			.002 (3.885)		.001* (4.162)	
POPGRW	.072** (-1.969)					
COSTIM	.001* (4.209)					
COSTEX	.033* (-2.403)					
LIFEEXPEC						
LITER	.026 (2.536)	.003* (3.632)	.002* (-3.830)		.056** (2.081)	
ENROLL	.001* (4.628)	.046* (-2.227)				
Constant	-207522.59 (-7.249)	-35182.634 (-.701)	133748.684 (4.099)	-2000676.879 (-2.658)	-262058.92 (-2.222)	114614.631 (1.190)
Obs.	27	27	27	27	27	27
Adjusted R2	**.906**	**.918**	**.877**	**.928**	**.498**	**.913**
F	18.818	21.779	14.225	28.749	3.149	22.058
Durbin-Watson	2.563	2.834	2.396	2.440	2.748	1.349

Note: T-statistics are in parentheses. * Significance at the 0.05 level, ** Significance at the 0.1 level

Discussions of the Results

The results found that social institutional (or social capital) determinants affected the FDI inflow in several ASEAN countries. That is, on one hand, Social Trust affected inward FDI in Malaysia, Singapore, and Vietnam. On the other, Civic Cooperation had an effect to the flows of FDI only in Philippines and Singapore. These findings underlined the significance of social institutional performance in determining constructive flows of FDI to many ASEAN countries. The result of this supported the previous studies of Dakhi & Clereq (2004), Baliamoune-Lutz (2011) and Ahmad & Hall (2017) indicating a relationship among trust, economic pay off, development and innovation in an economy. At this point, an improvement of social institutions ranging from good education system to a constructive civil participation in a larger scale would be necessary to strengthen social foundation, and stimulate economic growth because education was assumed an important vehicle to social capital. (Iyer, Kitson & Toh, 2010)

This study also found economic institutions have a significant impact to FDI inflows in almost every ASEAN country (except Vietnam). In case of Vietnam, it could be explained that the determinants of FDI might likely associate to other factors beyond the scope of this study such as industrial transition, liberalization of trade, investment regime, and financial market development. This is because these factors found to be correlated to the FDI inflows of the country (Anwar & Nguyen 2010; Prema-chandra &Tran, 2012). In other countries, the results illustrated Government Effectiveness had a positive effect to FDI inflows especially in Malaysia, Singapore and Thailand; Control of Corruption showed a robust association to the FDI inflows in Indonesia and Singapore. These empirical evidences supported the previous studies of Knack & Keefer (1997), Narayan & Pritchett (1999), Zak & Knack (2001), Jadhav (2012) and Buracom (2014) in that economic institutions are vital to promote growth and FDI with positive spillover-effects to other economic activities.

This study contended an enhancement of institutional quality is crucial to attract the flows of FDI and business interests. Institutional quality not only affected inward FDI to ASEAN region, but it was proven that good quality of institutions positively resulted in influx FDI to new EU member Central and Eastern European countries as well (Hwang, 2008). This included a critical role of local institutions that promoted the effectiveness of political ties and social organizations to the extent of poverty alleviation in the community (Zhang, Zhou & Lei, 2017). Institutional quality is then important for business and investment considerations in a large scale. To this end, this paper concluded countries with greater performance of institutions are more attractive to FDI, and institutional reform could further boost flows of FDI and business confidence in a productive manner.

Recommendations

Policy Recommendations

Even most of ASEAN countries are able to attract a massive flow of FDI from all corners of the world, they are still inflicted with poor performances of institutions. This might be because many ASEAN countries tend to put a strong emphasis on the promotion of investment policy incentives and privileges rather than focusing on the institutional development. This contrasts to the Western countries in that economic policies tend to be promoted hand in hand with good institutional quality, which supports and ascertains policy implementations. Therefore, policy initiatives to address the institutional reforms should be formulated in most ASEAN countries. The successful execution of this would thus lead to greater flows of FDI, and more integrative of ASEAN market for the years to come.

This paper advised ASEAN policy makers and business leaders should realize the significance of social capital endowment together with institutional quality. Such policies should be directed towards good practices of governance, accountability and transparency; this includes the streamlining of government bureaucracy and reduction of bureaucratic red tape. These implementations could generate a friendlier business environment and trustworthiness in a wider community – bringing more confidence, investment and relocation of foreign firms to the countries for the years to come. All of these could further reduce unnecessary transaction costs, delays, and time-consuming of business procedures paving the way to more productivity, and trustworthy in ASEAN region as a whole. This was empirically proven in cross-countries studies of Bergh and Bjornskou (2014) underlining the significant correlation between economic globalization and institutional quality by indicating that positive economic outcomes could have an association with institutional performance.

Another policy recommendation is to enhance the awareness of social institutions or social capital in a larger community scale starting from a nourishing education to cultivate good societal values, reliability, and trustworthiness to younger generations at young age so that they could grow up to be a better citizen. If ASEAN policy makers take into account of these in a holistic view, a stronger institutional quality and more sustainable AEC market integration 2025 would be achieved.

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APPENDIX

Specification of Dependent and Independent Variables, Measurement and Data Sources		
Variables	**Measurement**	**Data Source**
Dependent variables		
FDI	Foreign direct investment in logged million USD	UNCTAD (1990-2016)
Independent variables		
Social Trust	This variable captures perception of respondents who answered the question "Most people can be trusted?" after deleting"Don't know" answers. The scores ranged from 0-100.	World Value Survey (1995-2014)
Civic Cooperation	This variable captures perception of respondents who answered the question whether each of the following behaviors "can always be justified, never be justified or something in between". They are: (1) claiming government benefits which you are not entitled to; (2) avoiding a fare on public transport; and (3) cheating on taxes if you have a chance. In answering these questions, respondents might choose a number from 1 (never justifiable) to 10 (always justifiable) on each question. The values from these categories were combined and summed as a new scale called "Civic Cooperation". The score in this category was weighted average based on a 55-point maximum.	World Value Survey (1995-2014)
Government Effectiveness	This variable captures perception relating to quality of public services, civil services 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. This will be measured with the reference to a ranking unit of scores from 0-100.	Worldwide Governance Indicators (1996-2015)
Regulatory Quality	This variable captures perception relating to the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development and trustworthiness concerning business consideration. This will be measured based on the ranking unit of scores from 0-100.	Worldwide Governance Indicators (1996-2015)
Rule of Law	This variable captures perception to the extent to which agents have confidence in and abide by the rules of society; including, the quality of contract enforcement, property rights protection, the court and the likelihood of crime and violence in a society. This is measured in a ranking unit of scores from 0-100.	Worldwide Governance Indicators (1996-2015)
Control of Corruption	This variable captures perception regarding the public power, which is exercised for private gain including both petty and grand forms of corruption; as well as, capturing of the state by elites and private interests. It is measured in a ranking unit of scores from 0-100.	Worldwide Governance Indicators (1996-2015)

Specification of Dependent and Independent Variables, Measurement and Data Sources		
Variables	Measurement	Data Source
Ease of Paying Tax	This variable is an economic ranking concerning the complexity of paying taxes. This refers to the ease of paying taxes under the perception of business sector and investors. To measure this variable, the researcher reversed the scale so that the larger values would correspond the easier for paying taxes in the certain economy. Therefore, the maximum scores would depend on the total numbers of countries in the ranking scales each year. There are 180-190 economies in the ranking scale on average.	Pricewaterhouse Coopers (PwC) (2008-2016)
Ease of Doing Business	This variable is an economic ranking in terms of ease of doing business in a wide range of economies. It covers ten sub-factors for evaluations: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The researcher reversed the scale so that the higher values would correspond the easier condition for doing business in the certain country. Therefore, the maximum scores would depend on the total numbers of countries in the ranking scales each year. There are 180-190 economies in the ranking scale on average.	The World Bank (2006-2016)
Natural Resources	This variable measures the total natural resources rents. They are the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents and forest rents. It is evaluated as a percentage of GDP.	The World Bank (1990-2015)
GDP Growth Rate (annual %)	This variable is an annual percentage growth rate of GDP at market prices based on constant local currency. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.	The World Bank (1990-2016)
GDP per Capita (USD)	This GDP per capita is gross domestic product divided by midyear population. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in the current USD.	The World Bank (1990-2016)
Labor Force (total number of labors)	The labor force comprises people ages 15 and older who supply labor for the production of goods and services during a specified period. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job seekers.	The World Bank (1990-2016)
Population Growth Rate (annual %)	Annual population growth rate for year “t” is the exponential rate of growth of midyear population from year t-1 to t, expressed as a percentage. Population is based on the de facto definition of population, which counts all residents regardless of legal status or citizenship.	The World Bank (1990-2016)

Specification of Dependent and Independent Variables, Measurement and Data Sources		
Variables	**Measurement**	**Data Source**
Cost to Export (USD per container)	This variable measures all fee associated with completing the procedures to export. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport Calculated on the fees levied on a 20-foot container in USD.	The World Bank (2005-2014)
Cost to Import (USD per container)	This variable measures all fee associated with completing the procedures to import. These include costs for documents, administrative fees for customs clearance and technical control, customs broker fees, terminal handling charges and inland transport Calculated on the fees levied on a 20-foot container in USD.	The World Bank (2005-2014)
Life Expectancy at Birth (total years)	Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life.	UNDP Human Development Reports (1990-2015)
Adult Literacy Rate (total percentage of people ages 15 and above)	Adult literacy rate is the percentage of people ages 15 and above who can both read and write with understanding a short simple statement about their everyday life.	UNDP (Human Development Reports) (1990-2015)
Combined Gross Enrollment (% per population)	It is the number of students enrolled in primary, secondary and tertiary levels of education, regardless of age, as a percentage of the population.	UNDP Human Development Reports (2000-2012)