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THE ROLE OF GOVERNMENT QUALITY IN ATTRACTING FOREIGN INVESTMENT: A PANEL REGRESSION STUDY IN ASEAN COUNTRIES 2002–2023

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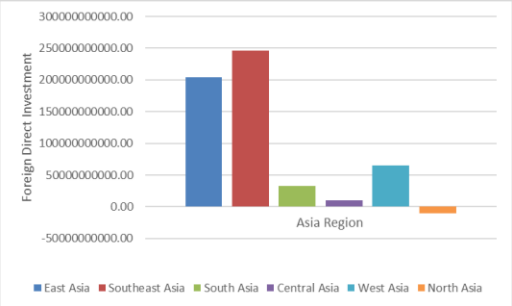
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Abstract

This study aims to analyze the influence of governance represented by the variables political stability and absence of violence (PSA), rule of law (RL), and control of corruption (CC) on foreign direct investment (FDI) in ASEAN countries in the period 2002–2023. The method used in this study is panel data regression with the Random Effect Model (REM) approach, with data sources from the Worldwide Governance Indicators (WGI) and UNCTAD. The results of the study show that simultaneously, the three governance variables have a significant effect on FDI. However, partially, only the RL and CC variables have a significant effect, while the PSA variable does not show a significant effect on FDI. This finding indicates that legal certainty and control of corruption are the main determinants in attracting foreign direct investment flows in the ASEAN region. On the other hand, political stability is not a significant determinant, which implies that foreign investors consider institutional factors more than short-term political conditions. This study makes an important contribution to the literature on the role of institutional quality in encouraging foreign investment in developing countries.

INTRODUCTION

Foreign Direct Investment (FDI) is one of the main sources of external financing that is very important for developing countries, including countries in the Southeast Asia (ASEAN) region. FDI not only provides additional capital, but also encourages technology transfer, job creation, increased productivity, and strengthens regional economic integration (Todaro & Smith, 2020). As the global market becomes more integrated, ASEAN countries are competing to create a competitive investment climate to attract FDI from all over the world. The following is data on Foreign Direct Investment (FDI) in Asia, differentiated by geographical location and culture, in 2023.



Source: Processed by researchers (2025)

Figure 1
Foreign direct investment in the Asian region

In the last two decades, FDI inflows to the Asian region have shown varying trends across sub-regions. Based on the processed data, the Southeast Asian region recorded the highest total FDI of USD 2.46 trillion, followed by East Asia at USD 2.04 trillion, and West Asia at USD 653.16 billion. South Asia and Central Asia recorded FDI of USD 324.10 billion and USD 98.56 billion, respectively. Meanwhile, North Asia experienced a negative FDI value of USD -100.45 billion, which likely reflects foreign investment outflows or disinvestment in the region. These figures confirm that Southeast Asia is one of the main FDI destinations in Asia, and are relevant for further study in the context of the influence of governance on FDI in ASEAN countries.

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Table 1
Foreign Direct Investment in ASEAN Countries in 2023

Country	Foreign direct investment, net inflows (% of GDP)
Indonesia	1.571164821
Brunei	-0.337068037
Cambodia	9.35096702
Laos	11.2425631
Malaysia	1.981110493
Myanmar	2.277151317
Philippines	2.0854108
Singapore	34.94851531
Thailand	1.265328501
Vietnamese	4.305159287
Timor Leste	-2.409023893

Source: Processed by researchers (2025)

Based on Table 1, which shows the percentage of Foreign Direct Investment (FDI) to Gross Domestic Product (GDP) in ASEAN countries in 2023, it can be seen that the country with the highest FDI value is Singapore at 34.95% of GDP. This figure shows that Singapore is the main destination for foreign investment in the ASEAN region,

reflecting a very conducive investment climate, advanced infrastructure, and a stable legal system and economic policies. In the next position, Laos (11.24%) and Cambodia (9.35%) also recorded a fairly high percentage of FDI, indicating investor interest in economic opportunities in these countries despite their smaller economic scales. Meanwhile, Indonesia (1.57%), Malaysia (1.98%), and Thailand (1.26%) showed more moderate FDI figures, which could be due to regulatory factors, political stability, or the level of regional competition. In contrast, countries with the lowest FDI, even negative values, are Timor Leste (-2.41%) and Brunei Darussalam (-0.34%), indicating an outflow of foreign investment or capital withdrawal that exceeds the amount of inward investment, possibly due to economic uncertainty, lack of attractive investment opportunities, or certain geopolitical factors.

The quality of institutions and governance has been widely recognized as an important determinant in attracting foreign direct investment. Indicators such as Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption compiled by the Worldwide Governance Indicators (WGI) are widely used to measure the level of governance effectiveness in a country (Busse & Hefeker, 2007). Political and security stability are essential to create legal certainty and protection for investors. On the other hand, political instability, weak rule of law, and high levels of corruption can be serious obstacles for foreign investors (Globerman & Shapiro, 2002).

One of the key factors influencing FDI flows is the quality of governance, which includes political stability, the rule of law, and control of corruption. Good governance will increase investor confidence, reduce investment risks, and create a transparent and fair business environment (Globerman & Shapiro, 2002; Kaufmann et al., 2011). On the other hand, political instability, weak rule of law, and high levels of corruption can be significant obstacles to attracting foreign investment (Busse & Hefeker, 2007).

In the ASEAN context, each country has varying levels of governance quality. Indicators compiled by the Worldwide Governance Indicators (WGI) such as Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption provide an overview of the effectiveness of institutions and policies in each country. While some countries such as Singapore consistently score high on governance, others still face challenges in terms of political stability and eradication of corruption.

Based on this background, this journal aims to analyze the influence of Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption on the inflow of Foreign Direct Investment (FDI) in ASEAN countries in the period 2002–2023. This research is expected to provide empirical contributions to the literature on development economics and international investment, as well as being a consideration for governments in the ASEAN region in formulating policies to improve the quality of governance to attract foreign investment sustainably.

Foreign Direct Investment (FDI) has become an important component in economic development, especially in developing countries such as the ASEAN region. The presence of FDI not only brings capital, but also technology, modern management, and opens access to international markets. However, the flow of FDI does not occur evenly because it is influenced by various factors, including institutional and political conditions in the destination country. To understand how investors

make decisions to invest their capital, the Eclectic Paradigm theory or OLI Framework developed by John Dunning is the main reference. In this approach, investor decisions are based on three main advantages, namely Ownership, Location, and Internalization. The attractiveness of the location is key in this context because it includes factors such as political stability, legal certainty, and minimal corruption. These three aspects play an important role in creating a safe and profitable investment climate. Thus, this theory explains how the quality of a country's institutions and governance are important factors in attracting FDI (Dunning, 1980).

Political stability and the absence of violence are also important determinants in cross-border investment decisions. Foreign investors pay close attention to security and public order conditions in the destination country because an unstable political situation poses a high risk to business operations and sustainability. This is in line with the Political Risk Theory, which states that political instability such as internal conflict, terrorism, and military coups can cause policy fluctuations and legal uncertainty, which ultimately reduces investor interest (Kobrin, 1979) emphasizes that the higher the political risk of a country, the greater the possibility that investors will shift their capital to more stable countries. In the ASEAN context, this is reflected in the differences in the ability of each country to attract FDI, which is largely influenced by perceptions of the level of domestic political and security stability.

In relation to the legal system, strong and reliable law enforcement is another important factor in creating a healthy investment climate. Institutional Theory put forward by North (1990) emphasizes that institutions, including the rule of law and the judicial system, play a major role in determining economic behavior, including investment. Countries with a strong Rule of Law provide legal certainty to investors that contracts will be honored, disputes can be resolved fairly, and property rights will be protected. Conversely, weaknesses in the legal system will create uncertainty and increase transaction costs, which then reduce the attractiveness of the country as a destination for FDI. Therefore, in the context of ASEAN countries, the quality of the legal system is an important indicator in attracting foreign investment.

In addition to political and legal stability, the level of corruption in a country also has a significant influence on FDI flows. Corruption can create distortions in economic decision-making and increase unofficial costs that must be borne by investors. In the framework of Good Governance Theory, controlling corruption is one of the important indicators in creating effective and efficient governance Kaufmann et al., (1999) shows that countries with high levels of corruption control tend to be more successful in attracting foreign investment because they offer transparency, policy certainty, and fairness in business processes. Therefore, in the ASEAN context, differences in the quality of governance, especially in terms of corruption control, are one of the differentiating factors in the competition to attract FDI between countries.

Previous research relevant to this study was conducted by Sari & Satrianto (2021) which examines the influence of political stability, crime, and global competitiveness on Foreign Direct Investment (FDI) in six ASEAN countries in the period 2013–2019. Using panel data regression analysis, the results of the study show that political stability has a positive and significant influence on FDI. This means that the more stable the political conditions of a country, the greater the likelihood of foreign investment. On the other hand, the

crime rate has a negative and significant effect on FDI, indicating that the higher the crime rate in a country, the lower the interest of foreign investors to invest. Meanwhile, global competitiveness has a positive but insignificant effect on FDI. This study emphasizes the importance of non-economic factors, especially those related to governance and security, in determining the direction of foreign investment flows. These findings strengthen the argument that a country's political and institutional conditions, including stability, law enforcement, and control of crime, have an important influence on attracting FDI in the ASEAN region.

Other relevant research was conducted by Pribadi (2021), which examines the influence of economic factors and the quality of domestic institutions on the inflow of Foreign Direct Investment (FDI) in the ASEAN region during the period 1999–2019. This study uses a panel data regression method with independent variables including GDP, gross fixed capital formation, trade openness, political stability, rule of law, and regulatory quality. The results of the study show that GDP, gross fixed capital formation, rule of law, and regulatory quality have a positive and significant influence on FDI. However, the political stability and trade openness variables do not have a significant effect. This finding is interesting because it shows that although political stability is an important factor in theory, in long-term practice, investors tend to apply a wait-and-see approach to political dynamics. In addition, the quality of institutions such as the rule of law and regulatory quality remain significant determinants of foreign investment inflows, supporting the argument that good governance increases investor confidence and reduces transaction costs in cross-border business activities. This study strengthens the role of institutions in attracting FDI, especially in the context of developing countries in ASEAN that are still trying to strengthen their legal systems and economic regulations.

Previous research that supports this analysis was conducted by Rahmawati & Makaliwe, (2021), which examines the effect of economic growth, corruption control, and yield on foreign investment inflows in bonds in Indonesia and emerging market countries during the period 2000–2017. Using panel data regression methods and fixed effect models, this study finds that corruption control and economic growth have a positive and significant effect on foreign investment inflows in bonds, both in general in emerging markets and specifically in Indonesia. This finding strengthens the assumption that institutional governance, especially corruption control, is an important factor in attracting foreign investment, including portfolio investment. Although the focus of this study is on foreign portfolio investment (FPI), not FDI, the corruption control variables used are derived from similar Worldwide Governance Indicators, thus contributing relevant literature to the study of institutional quality and foreign investment in developing countries, including the ASEAN region.

A parallel study was also conducted by Kartiko (2024) which investigates the relationship between government effectiveness, corruption control, and political stability using panel data from 66 countries during the period 2017–2022. This study applies the Ordinary Least Squares (OLS) regression method with independent variables including three government effectiveness proxies and one corruption control variable, as well as other control variables such as voice and accountability and rule of law. The results show that government effectiveness, especially in terms of policy adaptability and distribution efficiency, has a positive and significant

effect on political stability. In contrast, the effect of corruption control on political stability is not significant in the general model or in the classification based on the quality of a country's political products. This finding is interesting because it confirms that government effectiveness has a greater impact on political stability than simply controlling corruption, especially in countries with major political and economic challenges. This study strengthens the argument that the quality of governance plays an important role in creating political resilience, and provides practical input for policymakers in developing countries who want to improve socio-political stability through improving institutional performance.

Previous research that is also relevant was conducted by Wahid (2025) which analyzes the influence of governance and Foreign Direct Investment (FDI) on economic growth in the Asian region in the period 2013 to 2021. This study uses panel data and the Fixed Effect Model (FEM) approach, with independent variables in the form of government effectiveness, regulatory quality, rule of law, control of corruption, inflation, and FDI. The results show that government effectiveness and FDI have a positive and significant influence on economic growth, while rule of law and inflation have a significant negative influence. Meanwhile, regulatory quality and control of corruption do not show a significant influence. These findings indicate that government effectiveness and foreign investment inflows are the main determinants in supporting economic growth in Asian countries. On the other hand, weak rule of law and inflationary pressures actually hinder growth. This study strengthens the argument that institutional quality and macroeconomic stability are key to supporting sustainable economic development.

Although a number of previous studies have examined the influence of institutional factors on Foreign Direct Investment (FDI) in the ASEAN region and developing countries, there are several gaps that have not been fully filled and are the basis for this study. Research by Sari & Satrianto (2021) highlight the importance of political stability and criminality to FDI, but have not explicitly included the rule of law and control of corruption indicators as proxies for institutional governance. Meanwhile, Pribadi (2021) does include broader institutional variables, but the results show that political stability is not significant to FDI, raising further discussion on the role of political stability in a broader temporal and country context. In addition, the study Rahmawati & Makaliwe (2021) focuses more on foreign portfolio investment (FPI) than FDI, although using similar control of corruption variables. The study Kartiko (2024) does not directly examine FDI, but rather focuses more on the influence of government effectiveness on political stability, so that its relationship to foreign investment is only implicit. The study Wahid (2025) also does not specifically highlight the determinants of FDI, but rather focuses more on the influence of FDI and governance on economic growth. Therefore, this study offers a new contribution by simultaneously analyzing three main indicators of governance Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption on FDI in ten ASEAN countries over a longer period of 2002–2023. By using a comprehensive panel data approach and paying attention to institutional dynamics over the past two decades, this study is expected to provide a deeper understanding of the role of institutional factors on FDI inflows in the ever-growing ASEAN region.

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RESEARCH METHODOLOGY

This study uses a quantitative approach with a multiple linear regression analysis method based on panel data, which is a combination of time series data and cross-section data. The objects of this study are ten ASEAN member countries, namely Indonesia, Malaysia, Singapore, Thailand, the Philippines, Vietnam, Brunei Darussalam, Laos, Myanmar, Cambodia, and Timor-Leste during the period 2002 to 2023.

Data Types and Sources

The type of data used is annual secondary data, obtained from various official sources, including:

- FDI inflows data (% of GDP) are taken from UNCTAD and World Bank Data,
- Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption indicators were obtained from the World Governance Indicators (WGI) and the World Bank.

Research Variables

- • The dependent variable in this study is FDI (Foreign Direct Investment inflows) which is measured as a percentage of Gross Domestic Product (% GDP).
- Independent variables include:
    - *Political Stability and Absence of Violence/Terrorism* (PS),
    - *Rule of Law* (RL),
    - *Control of Corruption* (CC),

      all three use standard scores from WGI ranging from -2.5 (weak) to +2.5 (strong).

Analysis Model

The analysis model used in this study is multiple linear regression based on panel data, with the general form of the equation as follows:

$$FDI_{it} = \alpha + \beta_1 PSA_{it} + \beta_2 RL_{it} + \beta_3 CC_{it} + \varepsilon_{it}$$

Di mana:

- FDI_{it} = *Foreign Direct Investment (% GDP)* di negara i pada tahun t,
- PSA_{it} = *Political Stability and Absence of Violence/Terrorism,*
- RL_{it} = *Rule of Law,*
- CC_{it} = *Control of Corruption,*
- α = *intercept,*
- β_1, β_2, β_3 = koefisien regresi,
- ε_{it} = *error term*.

Analysis Techniques

Data analysis was performed using statistical software such as Excel and Stata. The analysis steps include:

1. Panel Model Selection Test: Determining the best model between the Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM) is done through the Chow test, Hausman test, and Lagrange Multiplier (LM) test.
2. Classical Assumption Test: To ensure that the residual data is normally distributed (normality), there is no multicollinearity, heteroscedasticity, and/or autocorrelation.
3. 3. Multiple Linear Regression Equation: The panel regression equation is prepared to see the relationship between independent variables and dependent variables in mathematical form.

$$FDI_{it} = \alpha + \beta_1 PSA_{it} + \beta_2 RL_{it} + \beta_3 CC_{it} + \varepsilon_{it}$$

Where:

- FDI_{it} = *Foreign Direct Investment (% GDP)* in country i in year t,
- PSA_{it} = *Political Stability and Absence of Violence/Terrorism,*

- RL_{it} = *Rule of Law,*
- CC_{it} = *Control of Corruption,*
- α = *intercept,*
- β_1, β_2, β_3 = regression coefficient,
- ε_{it} = *error term*.

4. Simultaneous and Partial Significance Test: Using the F test and t test to measure the simultaneous and partial effects of independent variables on FDI.
5. 5. Goodness of Fit Test: Through the coefficient of determination (R^2) value.

Types of Research and Approaches

This research is a quantitative research that is explanatory in nature, because it aims to explain the relationship and influence between independent variables, namely Political Stability and Absence of Violence/Terrorism, Rule of Law, and Control of Corruption, on the dependent variable, namely Foreign Direct Investment (FDI) in ASEAN countries.

RESULTS AND DISCUSSION

Research result

Panel Model Selection Test

Chow Test

Table 2
Chow Test Results

Fixed-Effects (within) regression
Prob > F = 0,0000

Source: Processed by researchers (2025)

The Chow test was conducted to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) in panel data regression analysis. Based on the results of the Chow test, a Probability value (p-value) of 0.0000 was obtained, which is smaller than the 5% significance level (α = 0.05). This indicates that the null hypothesis (H_0), which states that the Common Effect model is better, is rejected. On the other hand, the alternative hypothesis (H_1) which states that the Fixed Effect model is more appropriate is accepted. Thus, it can be concluded that the most appropriate estimation model to use in this study is the Fixed Effect Model (FEM), because it is able to capture the influence of different individuals between countries in the ASEAN data panel used (Surury, 2020).

Hausman test

Table 3
Hausman Test Results

Hausman FEM, REM
Prob > Chi2 = 0,524

Source: Processed by researchers (2025)

After the Fixed effect model is selected through the Chow Test, the next step is to conduct a Hausman Test to determine whether the best model is between the Fixed Effect Model (FEM) or the Random Effect Model (REM). Based on the results of the Hausman Test displayed, a probability value (Prob> chi^2) of 0.1200 is obtained, which is below the 5% significance level (α = 0.05). This means that the null hypothesis (H_0), which states that the Random Effect Model is not rejected. Thus, it can be concluded that the best model used in this study is the Random Effect Model (REM), because this model is better able to accommodate differences in individual effects between ASEAN countries in explaining variations in Foreign Direct Investment (FDI) (Silvia, 2023).

LM Test

Table 4
Lagrange Multiplier Test Results

Chibar (01)	1099,18
Prob > Chibar2	0,0000

Source: Processed by researchers (2025)

The Lagrange Multiplier (LM) test was conducted to determine the best model between the Common Effect Model (CEM) and the Random Effect Model (REM). Based on the output results of the LM test, the Breusch-Pagan LM test probability value was obtained at

0.0000, which means that this value is smaller than the 5% significance level (α = 0.05). Thus, the null hypothesis (H_0) which states that the appropriate model is the Common Effect Model (CEM) is rejected. Conversely, the alternative hypothesis (H_1) which states that the Random Effect Model (REM) is more appropriate is accepted. Therefore, the results of this test indicate that the Random Effect model is more appropriate to use than the Common Effect Model (Sihombing, 2022).

Based on the results of the model testing that has been carried out, the following results were obtained: The Chow Test shows that the more appropriate model to use is the Fixed Effect Model (FEM), the Hausman Test indicates that the more appropriate model is the Random Effect Model (REM), and the Lagrange Multiplier Test (LM) also supports the use of the Random Effect Model (REM) compared to the Common Effect Model (CEM). By considering the results of the three tests, the best model used in this study is the Random Effect Model (REM). The selection of REM as the best model is based on the consideration that this model not only passes the LM test, but also matches the results of the Hausman test which is the main determinant in choosing between FEM and REM, so that REM is considered the most appropriate to represent the relationship between Political Stability, Rule of Law, and Control of Corruption on Foreign Direct Investment (FDI) in ASEAN countries for the period 2002–2023.

Classical Assumption Test

Normality Test

Table 5
Skewness-Kurtosis Normality Test Results

Variable	Obs	Pr(skewness)	Pr(kurtosis)	Adj chi2(2)	Prob>chi2
FDI	240	0,0000	0,0000	62.12	0,0000*
PSA	242	0,0000	0,0003	11.63	0,0030*
RL	242	0,0000	0,9254	17.52	0,0002*
CC	242	0,0000	0,0037	42.82	0,0000*

Note: *significant at α 1%, **significant at α 5%, *** significant at α 10%
Source: Processed by researchers (2025)

Based on the results of the normality test using the Skewness and Kurtosis test (Jarque-Bera), it is known that most of the variables in this study are not normally distributed. This is indicated by the probability value (Prob > chi2) from the joint test results for the variables FDI, Political Stability and Absence of Violence/Terrorism (PSA). Rule of Law (RL), and Control of Corruption (CC) which are all less than 0.05, namely 0.0000, 0.0030, 0.0002, and 0.0000 respectively. This means that the three variables do not meet the normality assumption (Napitupulu et al., 2021).

Multicollinearity Test

Table 6
Skewness-Kurtosis Normality Test Results

Variable	VIF	1/VIF
CC	9,93	0,100693
RL	9,59	0,104287
PSA	2,03	0,491908
Mean VIF	7,18	

Source: Processed by researchers (2025)

Multicollinearity test was conducted to determine whether there is a high linear relationship between independent variables in the regression model. Based on the calculation results of the Variance Inflation Factor (VIF), it is known that the VIF value for the Control of Corruption (CC) variable is 9.93, Rule of Law (RL) is 9.59, and Political Stability and Absence of Violence/Terrorism (PSA) is 2.03, with an average VIF value of 7.18. Generally, a variable is said to experience symptoms of multicollinearity if the VIF value is > 10. Thus, it can be concluded that there is no serious multicollinearity problem in

this model because all variables have VIF values below the tolerance limit. The regression model used is considered feasible and not distorted by the relationship between independent variables that is too strong (Basuki & Yuliadi, 2014).

Because based on the results of the model selection test, it was obtained that the best model used was the Random Effect Model (REM), then classical assumption tests such as heteroscedasticity and autocorrelation were not carried out. This is because REM has assumed that errors are random, not correlated with each other, and have constant variance, so that further tests are not needed (Napitupulu et al., 2021; Surury, 2020).

Persamaan Regresi Linear Berganda

Table 7
Multiple Linear Regression Test Results

FDI	Coeficient	Std. err.	z	P[z]
PSA	-0,5855	-7,12648	-0,82	0,411
RL	8,2107	1,567221	5,24	0,000*
CC	-5.0942	1,312033	-3,88	0,000*
_cons	5,5617	1,648723	-3,37	0,001*
F-test value	28,71			0,000*
R-square	0,1234			

Note: *significant at α 1%, **significant at α 5%, *** significant at α 10%

Source: Processed by researchers (2025)

Based on the results of the regression estimation using the Random Effect Model (REM) approach, the following form of multiple linear regression equation is obtained:

$$FDI_{it} = 5{,}561653 - 0{,}5855298PSA_{it} + 8{,}210692RL_{it} - 5{,}094229CC_{it} + \varepsilon_{it}$$

- Constant (Intercept) of 5.561653

  Shows that if all independent variables, namely political stability and absence of violence (PSA), rule of law (RL), and control of corruption (CC) are in constant condition or have a value of zero, then the value of Foreign Direct Investment (FDI) is theoretically at 5.561653. In other words, this is the basic value of FDI that is not affected by the three independent variables in the model.

- The PSA variable coefficient is –0.5855298

  Shows that every one unit increase in the political stability and absence of violence (PSA) variable will cause a decrease in the FDI value of 0.5855298 units, assuming other variables remain constant. This means that the higher the level of political stability and absence of violence in a country, the theoretically FDI will decrease. However, based on the results of the previous t-test, this coefficient is not statistically significant at the 95% confidence level, so its effect on FDI is still debatable and may be influenced by other factors not included in the model.

- The coefficient of the RL variable is 8.210692

  Indicates that every one unit increase in the rule of law (RL) variable, namely compliance with the law and the quality of the legal system, will increase FDI by 8.210692 units, assuming other variables are constant. This value is positive and statistically significant, which means that legal certainty and good law enforcement are important factors and have a real influence on increasing foreign direct investment in a country. This is consistent with the theory that foreign investors are more likely to invest in countries that have a stable and reliable legal system.

- The coefficient of the CC variable is –5.094229

  Shows that every one unit increase in the control of corruption (CC) variable will actually cause a decrease in FDI by 5.094229 units, assuming other variables remain constant.

Surprisingly, this result shows that an increase in the effectiveness of corruption control is negatively correlated with FDI inflows. However, it should be noted that although this coefficient is negative, its effect is statistically significant. This result may reflect a particular phenomenon in the sample countries, where FDI remains high despite the presence of corrupt practices, or investors may find it easier to operate in an informal system.

Partial Test

Based on the results of the z test on the Random Effect regression model, it is known that the rule of law (rl) and control of corruption (cc) variables have a significant effect on Foreign Direct Investment (FDI). This is indicated by the probability value (p-value) for the rl variable of 0.000 and for cc of 0.000, both of which are smaller than the significance level of 0.05. This means that partially the rule of law and control of corruption have a significant effect on FDI in Indonesia. On the other hand, the political stability and absence of violence (psa) variable has a probability value of 0.411, which is greater than 0.05. Thus, partially psa does not have a significant effect on FDI (Sihombing, 2022).

Simultaneous Test

Based on the results of the F test indicated by the Wald chi² value of 28.71 with a probability value (Prob > chi²) of 0.0000, it can be concluded that simultaneously the variables political stability and absence of violence (psa), rule of law (rl), and control of corruption (cc) have a significant effect on Foreign Direct Investment (FDI) in Indonesia. Because the probability value is smaller than the significance level of 0.05, the overall regression model is suitable for use to explain the relationship between the independent variables and the dependent variable (Sihombing, 2022).

Coefficient of Determination (R^2)

The overall coefficient of determination (R-squared) value (overall R^2) of 0.1234 indicates that around 12.34% of the variation in the Foreign Direct Investment (FDI) variable can be explained by the variation of the three independent variables used in the model, namely political stability and absence of violence (psa), rule of law (rl), and control of corruption (cc). Meanwhile, the remaining 87.66% is explained by other factors outside the model that are not included in this study. Although the R^2 value is not too high, this is still reasonable in socio-economic studies which are usually influenced by many external factors (Surury, 2020).

DISCUSSION

The Influence of Political Stability on Foreign Direct Investment

Based on the results of the partial statistical test (z test), the Political Stability and Absence of Violence/Terrorism (PSA) variable obtained a probability value of 0.291, which is greater than the significance level of 0.05. This shows that statistically, political stability does not have a significant effect on the inflow of Foreign Direct Investment (FDI) in the ASEAN region during the study period. Although in theory political stability is considered as one of the important factors that can create a conducive investment climate and reduce political uncertainty that is detrimental to investors, the results of this study indicate that foreign investors in the ASEAN region tend to be less sensitive to political dynamics in the short term, and may consider other economic or institutional factors. This finding is in line with the results of the study Pribadi (2021), which also found that the political stability variable did not have a significant influence on FDI in ASEAN countries, indicating that foreign investors could take a wait and see attitude towards political conditions before making investment decisions.

The Influence of Legal Rules on Foreign Direct Investment

Based on the results of the partial statistical test (z test), the Rule of Law variable obtained a probability value of 0.0000, which is smaller than the significance level of 0.05. This shows that the Rule of Law has a positive and significant effect on the inflow of Foreign Direct Investment (FDI) in ASEAN countries in the period 2002–2023. Theoretically, this is in line with the institutional approach which emphasizes that legal certainty, enforcement of regulations, and protection of property rights are important foundations in attracting foreign investors, because they create a safe and predictable business climate. This finding is reinforced by the results of the study Kartiko (2024), which shows that the Rule of Law has an important role as a control variable in explaining the relationship between government effectiveness and political stability. Kartiko's research involving the involvement of the Rule of Law in his analysis model strengthens the position of this variable as an indicator of governance quality which indirectly also supports the creation of a conducive investment environment. Therefore, these results further emphasize that the existence of a strong legal system is a crucial factor in attracting FDI, especially in developing countries with institutional challenges such as ASEAN.

The Impact of Corruption Control on Foreign Direct Investment

Based on the results of the partial statistical test (z test), the Control of Corruption variable shows a probability value of 0.0000, which is smaller than the significance level of 0.05. This indicates that Control of Corruption has a positive and significant effect on Foreign Direct Investment (FDI) in ASEAN countries during the period 2002–2023. Theoretically, this result is in line with the institutional approach that emphasizes the importance of integrity and transparency in the governance system. When corruption can be controlled properly, the transaction costs and risks of uncertainty faced by investors will decrease, thereby increasing the attractiveness of foreign investment. This finding is supported by the results of the study Rahmawati & Makaliwe (2021), which states that Control of Corruption has a positive and significant influence on foreign investment inflows in bonds, both in aggregate in emerging market countries and specifically in Indonesia. Although their research focuses on foreign portfolio investment, the Control of Corruption indicator used is sourced from the same Worldwide Governance Indicators, so that in substance it remains relevant in supporting the argument that controlling corruption is one of the important determinants in attracting foreign direct investment in developing regions such as ASEAN.

CLOSING

Conclusion

Based on the results of panel regression analysis with the Random Effect Model (REM) approach, this study concludes that the quality of governance has a significant role in influencing the inflow of Foreign Direct Investment (FDI) in ASEAN countries. The results of the simultaneous test (F test) show that the three independent variables, namely Political Stability and Absence of Violence (PSA), Rule of Law (RL), and Control of Corruption (CC), together have a significant effect on FDI. However, partially, only Rule of Law and Control of Corruption are proven to have a significant effect, while political stability does not show a significant effect on FDI during the study period.

The findings show that the rule of law has a positive and significant effect on FDI, meaning that the better the legal system and legal certainty of a country, the greater the opportunity for foreign direct investment. This strengthens the argument in the institutional approach which emphasizes the importance of

law enforcement in creating a conducive investment climate. Likewise, the control of corruption variable also shows a positive and significant effect, confirming that effective efforts to eradicate corruption can increase investor confidence and reduce transaction risks in cross-border economic activities.

On the other hand, the variables political stability and absence of violence do not have a significant effect on FDI. Although theoretically political stability is one of the important foundations in attracting foreign investment, this result indicates that investors in the ASEAN region may consider other legal and institutional factors more than short-term political dynamics.

Overall, the results of this study confirm that institutional quality, especially in terms of legal certainty and control of corruption, is a crucial factor in increasing the attractiveness of ASEAN countries as destinations for foreign direct investment. This finding is in line with a number of previous studies and provides important implications for policy formulation, especially for developing countries that are strengthening their legal structures and governance in order to attract global investment flows.

Suggestion

Based on the results of the research and discussion that has been carried out, the author provides several suggestions as follows:

1. For the Governments of ASEAN Countries

   The governments in the ASEAN region are expected to pay more attention to and improve the quality of governance, especially in the political aspect, namely law enforcement, and corruption control. These three factors have been shown to have a significant relationship with the flow of foreign direct investment (FDI), so that increasing the scores on these indicators can be an effective strategy to attract more foreign investors.

2. For Foreign Investors and Economic Actors

   Foreign investors who wish to invest in the ASEAN region are advised to consider governance indicators, especially Rule of Law and Control of Corruption, as part of their investment risk analysis. Countries with better governance tend to provide a more stable and sustainable investment climate.

3. For ASEAN Regional Institutions

   ASEAN as a regional organization needs to encourage policy harmonization and strengthening of public governance across its member countries. Cooperation in transparency, legal reform, and eradication of corruption will strengthen the region's image as a competitive and stable investment destination.

4. Research Limitations

   This study has limitations in terms of variable coverage and time. Only three governance indicators are analyzed, whereas governance aspects cover a wider dimension. In addition, other macroeconomic variables that also have the potential to affect FDI have not been included in the model. The study is also limited to quantitative panel data without qualitative exploration.

5. Further Research Directions

   Further research is suggested to include more governance indicators such as government effectiveness and regulatory quality, and to expand the scope of macroeconomic variables such as infrastructure, international trade, and fiscal stability. In addition, a mixed methods approach or in-depth comparative study across ASEAN countries can provide a more

comprehensive understanding of FDI determinants.

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