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EASE OF DOING BUSINESS (EODB), CORRUPTION PERCEPTIONS INDEX (CPI) AND FOREIGN DIRECT INVESTMENT (FDI) IN ASEAN

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ABSTRACT

The background of this study is the instability of foreign investment in Southeast Asia due to declining corporate revenues and the Covid-19 pandemic, which has caused economic uncertainty and delayed investments by multinational companies. This study aims to examine the influence of the Ease of Doing Business (EoDB) and the Corruption Perception Index (CPI) on Foreign Direct Investment (FDI) in ASEAN. The research employs Structural Equation Modeling using Partial Least Square (SEM-PLS 4) software. The population in this study includes all countries in the Southeast Asian region, with a total sampling or census approach. The results indicate that the Ease of Doing Business does not affect Foreign Direct Investment. This is largely due to the low EoDB index scores in most ASEAN countries. In contrast, the Corruption Perception Index has a positive and significant effect on Foreign Direct Investment, suggesting that foreign investors have greater confidence to invest and feel that their substantial funds will be safer. The implications of this study suggest that ASEAN governments must enhance the investment climate by implementing regulatory reforms that promote the Ease of Doing Business and reduce corruption levels. These efforts are expected to improve regional competitiveness and attract more foreign investment, ultimately accelerating economic growth and infrastructure development in the region.

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1 Introduction

Southeast Asia, with its abundant mineral and biological resources and strategic location along major global trade routes, is emerging as a significant economic powerhouse, poised to become a key epicenter of global economic growth (Firdaus et al., 2023). The region is increasingly becoming a preferred destination for investors from major economies, including the United States, China, Japan, and the European Union. With regional economic growth consistently outperforming the global average, ASEAN is well-positioned to sustain its competitiveness in the global economy (Musyarof & Qomari, 2023).

Promoting economic growth requires a substantial increase in investment, particularly in productive sectors (Surya et al., 2021). Attracting foreign investors is a critical strategy for accelerating infrastructure development and driving economic progress (REHMAN et al., 2022). As developing economies, most Southeast Asian countries face significant capital needs to support their growth in various sectors. Foreign direct investment (FDI) serves as a vital source of capital and is recognized as a fundamental component of balance of payments and international investment position statistics (OECD, 2021). The development of FDI in ASEAN during the 2016–2020 period highlights the region's fluctuating investment trends, reflecting both challenges and opportunities in maintaining sustainable economic growth:

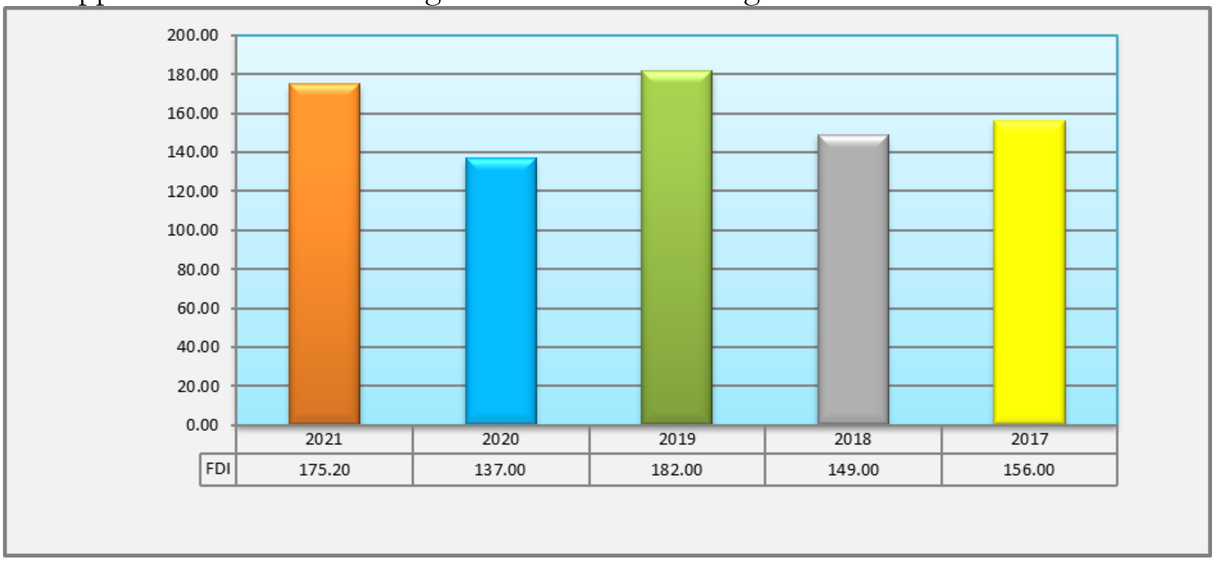

Figure 1. Foreign Direct Investment in Asean Period 2016-2020
Source: UNCTAD (2021)

The graph illustrates that FDI in ASEAN has experienced fluctuations. While there was a significant increase in 2019, it sharply declined in 2020. This decline can be attributed to reduced corporate income, exacerbated by the economic uncertainty caused by the COVID-19 pandemic, which delayed investments by multinational companies (Irawan & Alamsyah, 2021). Investment plays a crucial role in driving economic growth (Erdoğan et al., 2020; Nguyen & Darsono, 2022). The downturn in foreign investment has slowed economic growth across the ASEAN region, reduced employment opportunities, and decreased the production of goods and services.

Furthermore, FDI is heavily concentrated in a few countries, including Singapore, Thailand, Vietnam, Malaysia, and Indonesia. This uneven distribution creates significant disparities in the economic development of ASEAN member states (Ishikawa, 2021; Mohsin et al., 2021). Such disparities are also reflected in the substantial gap in GDP per capita between ASEAN countries, as illustrated in Figure 2 below:

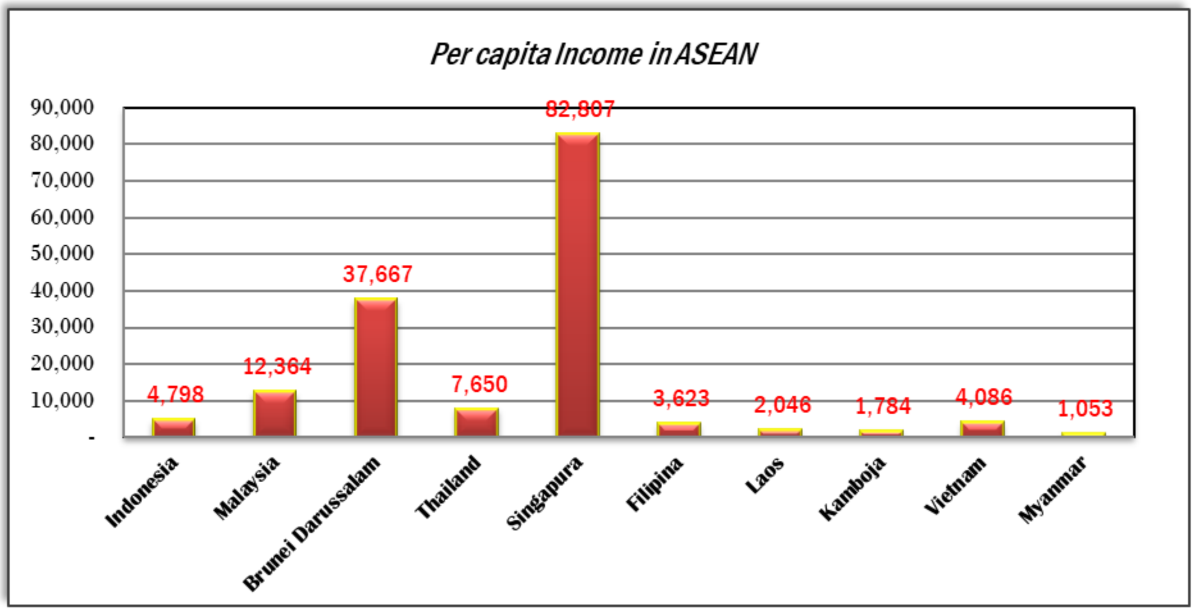

Figure 2. Per capita Income in ASEAN

Source: www.asean.org (2023)

Based on the figure above, it is evident that some countries in ASEAN have per capita incomes exceeding USD 82,000, while others, such as Myanmar and Cambodia, remain below USD 2,000. This significant disparity highlights the need for supportive measures to attract investment, including better business regulations and robust protection of property rights (Martua & Ginting, 2023). The concept of investment facilitation is often represented by the Ease of Doing Business (EoDB) index. The EoDB is a globally recognized measure that evaluates the regulatory environment and bureaucratic efficiency in facilitating business activities and protecting investments. For investors, a favorable EoDB score is a critical factor as it reflects a country's capacity to provide a conducive investment climate.

The ease of investing directly influences investors' ability to expand their businesses, which in turn drives increased foreign direct investment (FDI)(Contractor et al., 2020). A substantial inflow of foreign capital can have transformative effects on a country, including technological advancements, enhanced production of goods and services, job creation (Rong et al., 2020), and improved access to export markets (Alfaro & Chauvin, 2020; Edo et al., 2020). However, existing research on the relationship between the Ease of Doing Business (EoDB) and FDI has produced mixed results, highlighting the need for further investigation. Some studies indicate a positive impact of EoDB on FDI, showing that improved regulatory environments and streamlined bureaucratic processes attract more foreign investment (Bin Nurdin et al., 2023; Corcoran & Gillanders, 2015; Hafilah & Ahmad, 2022; Mundakkad, 2021). Conversely, other studies, such as that conducted by Iksan and Konishi (2023), suggest that EoDB has no significant effect on FDI, implying that other factors may play a more critical role in influencing investment decisions (Iksan & Konishi, 2023).

In addition to regulatory conditions, foreign investors also consider factors such as political stability and their confidence in the local government. One key determinant of investor confidence is the level of corruption within a country, as it directly affects the security and effective utilization of invested funds (Afif, 2022). Corruption levels are typically measured by international independent institutions through the Corruption Perception Index (CPI). The CPI compiles data on how business leaders and experts perceive corruption within a given country, offering an important benchmark for evaluating investment risk. In the ASEAN region, corruption remains a critical and pervasive issue. Numerous corruption scandals involving ASEAN leaders have not only undermined investor trust but have also weakened economic performance. Corruption can be categorized as a severe problem due to its far-reaching consequences, which impact various aspects of national and individual life, including politics, the economy, social stability, and the overall welfare of communities. This multi-dimensional effect highlights the urgency for ASEAN countries to address corruption as part of their efforts to create a more attractive and secure investment climate.

An unfavorable Corruption Perception Index (CPI) score can significantly hinder the flow of Foreign Direct Investment (FDI) into a country. This flow of investment is critical for driving economic growth, yet corruption complicates bureaucratic processes, leads to inefficient allocation of investment funds, and reduces the overall effectiveness of investments. These inefficiencies ultimately result in higher production costs, further discouraging foreign investors. Existing research provides mixed findings regarding the impact of CPI on FDI. tudies by Christianingrum (2023), Zakiyyah et al. (2024), Fazira and Cahyadin (2018), and Romadhona (2016) indicate that CPI significantly influences FDI, suggesting that lower corruption levels enhance investor confidence and attract foreign capital (Christianingrum, 2023; Fazira & Cahyadin, 2018; Romadhona, 2016; Zakiyyah et al., 2024). Conversely, research by Adiyudawansyah and Santoso (2012) found no significant relationship between CPI and FDI, highlighting a need for further investigation (Adiyudawansyah & Santoso, 2012). Given these inconsistencies, examining the effect of CPI on FDI remains an important research topic. Such studies are necessary to strengthen and reconcile the findings of previous research while contributing to theoretical frameworks that explain the relationship between corruption and foreign investment.

The relationship between Foreign Direct Investment (FDI), Ease of Doing Business (EoDB), and the Corruption Perception Index (CPI) has been extensively studied, yet conflicting evidence and research gaps persist, particularly in the context of Southeast Asia. Studies have often highlighted the positive role of EoDB in attracting FDI, emphasizing the importance of streamlined regulations and legal certainty. However, other research suggests that EoDB may not significantly impact FDI, with factors such as political stability or market size playing a more decisive role. This inconsistency calls for further investigation, particularly in ASEAN, where most countries, except Singapore, exhibit relatively low EoDB scores. On the other hand, CPI is widely recognized as a key determinant of FDI, as it reflects corruption levels and investor confidence. High corruption levels are known to create inefficiencies, increase transaction costs, and undermine investment effectiveness. While many studies confirm a strong negative relationship between corruption and FDI, others report no significant effect, underscoring the need for additional research to reconcile these findings.

This study aims to address these gaps by focusing on ASEAN's diverse economic and institutional landscape. Employing a total sampling approach, it ensures comprehensive representation and applies advanced Structural Equation Modeling (SEM) with Partial Least Squares (PLS) to provide robust insights into the relationships between EoDB, CPI, and FDI. By examining the dual impact of EoDB and CPI on FDI, this research emphasizes the role of corruption in shaping investment trends. The findings are expected to contribute to a deeper understanding of the institutional and regulatory factors influencing FDI inflows in ASEAN, offering valuable insights for academic discourse and practical recommendations for policymakers seeking to improve investment climates and attract foreign capital.

2 Literature Review

Ease of Doing Bussines (EoDB)

The Ease of Doing Business is an index created by the World Bank (Garcia & Hinayon, 2018). he higher a country's ranking indicates that the country has a better ease of doing business. Countries with a good ease of business are arguably more investor-friendly (Kalkan, 2019). The easier it is for investors to invest, the more excellent the opportunity for the country to develop potential sectors such as the economy, tourism, and others (Kumar & Kumar, 2020).

The World Bank-conducted EoDB assesses a nation's ease of doing business by measuring 12 aspects related to its regulatory framework for domestic companies. Among them include starting a business, overseeing buildings, securing licenses, securing electricity, registering real estate, securing credit, protecting minority investors, filing taxes, engaging in international trade, honoring contracts, resolving insolvency, regulations pertaining to hiring employees, and entering into contracts with the government (Depren & Depren, 2021).

The relationship between EoDB and FDI can be explained by Stigler's Theory of Economic Regulation, which states that the regulations that apply in a country can attract investors to invest because they can provide legal certainty for the funds they will invest (Stigler, 2021). The state is reflected as a machine and power that can be both a potential and a threat to industry. With its power, it can prohibit, force, and take advantages that can help or damage the industry.

Corruption Perceptions Index (CPI)

The Corruption Perception Index describes the level of corruption in a country (You, 2018). The data is collected from the perceptions of businesses and experts about the government's performance in relation to corruption-free service delivery. Transparency International (T.I.), regarded as one of the reliable independent organizations for gauging a nation's corrupt activities, releases this corruption perception index data every year. The CPI score ranges from 1-100; the closer to 100, the better, meaning that a country's corruption level is low. And vice versa, if it is close to 0, then a country's corruption level is high (Sihombing, 2018).

Several factors determine the entry of FDI in a country, including political stability, security, and the level of corruption in the destination country of investment (Moustafa, 2021). Theoretically, the CPI can act as a "Grabbing Hand" (Murphy et al., 1993). A grabbing hand is described as a hand that can help/hinder the inflow of FDI in a country. This corruption can increase investment costs and reduce the interest of foreign investors. Corruption is considered a high transaction cost in the economy.

Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) Most developing countries experience a deficit in the trade balance due to the greater quantity of imports than exports (Todaro & Smith, 2020). The most important course of action is to draw in foreign investment, which is heavily dependent on a nation's continuing political and socioeconomic transformations. Foreign investment is essential at the macro and micro levels because it drives the economy and shapes the country's prospects and individual companies (Abdullaevich, 2023).

Developing nations employ foreign direct investment (FDI) to finance growth to close the gap with industrialized nations on a regional and global scale. In general, the flow of investment from abroad in the form of FDI will affect national productivity. Investments made by multinational companies have broad economic, political, and social effects on the world economy (Alden & Phelps, 2024). This is due to the transfer of technology, management, and expertise brought about by the investor country. This increase in productivity will increase output, both domestically consumed and exported.

Table 1. Relevant of Publication

Year	Author (s)	Title	Key Findings
2022	Nairobi and Fadeli Yusuf Afif	Daya Saing dan Foreign Direct Investment	This demonstrates the ability of state authority to positively influence direct foreign investment as well as the Corruption Perception Index, which indicates that reducing levels of corruption will boost the amount of foreign direct investment that comes in.
2023	Muhammad Nurhidayat Bin Nurdin, Muhammad Hamzah and Eleonora Sofilda	Is the World Bank Ease of Doing Business Ratings a Determinant of FDI in a Country? Analyzing the Effects of EODB Indicators of FDI according to Countries' Income Levels	The EoDB factor has a significant influence on FDI inflows. However, each country group is affected by different EoDB indicators.
2023	Ratna Christianingrum	Corruption and Foreign Direct Investment: Institutional Improvement	This study demonstrates how the corruption perception index (CPI) strongly and negatively impacts FDI in Indonesia
2020	Contractor, F. J., Dangol, R., Nuruzzaman, N., & Raghunath, S	How do country regulations and business environment impact foreign direct investment (FDI)	The finding have impications not just for host country policies towards inward FDI, but also for multinational company strategits in choosing which of the 189 nations to

		inflows?	invest in
2022	Endah Noor Hafilah and Masduki Ahmad	The Effect of Ease of Doing Business, Market Size and Political Stability on Foreign Direct Investment in Southeast Asia	These results imply that if the ease of doing business, market size and political stability are conducive, the flow of FDI will increase. Therefore, it is necessary to improve a conducive investment climate to encourage increased FDI inflows.
2023	Iksan, M., & Konishi, T	The Determining Factors of Foreign Direct Investment (FDI) Inflows: Empirical Studies from the Southeast Asian Countries	It is possible to discover foreign direct investment through economic variables rather than political ones. This analysis shows that FDI inflow and the political institution factor represented by the veto player have a negative relationship.
2024	Zakiyyah, N. A. A., Lubis, F. R. A., & Ainy, R. N	The Effect of Macroeconomic, Institutional And Corruption Variables On FDI In Asean Countries	GDP, Trade Openness, Government Effectiveness, and Corruption The perception index significantly increases foreign direct investment (FDI) in ASEAN nations, and the inflation variable significantly decreases FDI. At the same time, political stability and the lack of terrorism or violence have little effect on FDI flows in ASEAN nations.
2022	Shaari, M. S., Esquivias, M. A., Ridzuan, A. R., Fadzilah Zainal, N., & Sugiharti, L.	The impacts of corruption and environmental degradation on foreign direct investment: new evidence from the ASEAN+3 countries	Decreasing corruption can positively impact FDI inflows in the long run. However, the results support that increasing environmental degradation has spurred FDI in the region
2016	Romadhona	Pengaruh Inflasi, Produk Domestik Bruto, Corruption Perception Index, Dan Indeks Harga Saham Terhadap Foreign Direct Investment Di Indonesia Periode (2005-2014)	This is partly because GDP, stock price index, or inflation do not much impact FDI. However, the corruption perception index yields diverse results that significantly impact foreign direct investment.
2021	Mundakkad, P	Ease of doing business and foreign direct investment inflows: Evidence from emerging economies	Ease of doing business improves the FDI inflows to the country and whether improvement of DBR effects FDI inflows to the country

Based on the theory and previous research above, the relationship between EoDB, CPI, and FDI can be described as follows:

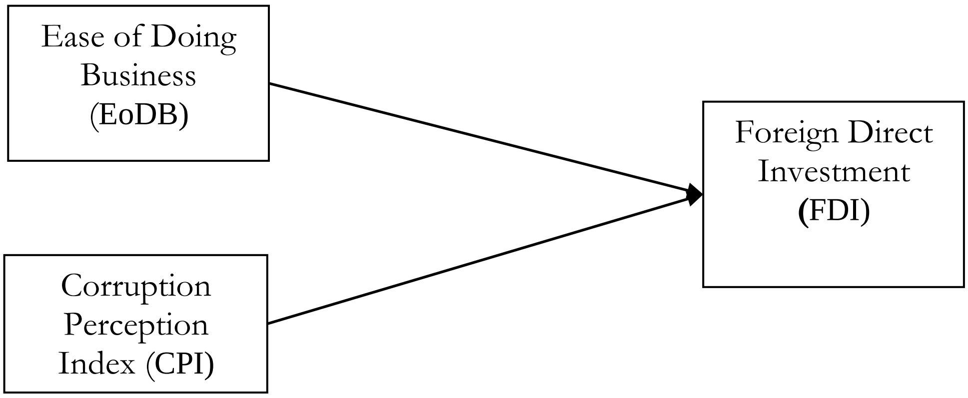

Figure 3. Research Framework

Hypoteses

Based on the research framework above, the hypothesis in this study is as follows:

Effect of Ease of Doing Business on Foreign Direct Investment

H_o : Ease of doing business does not affect foreign direct investment.

H_1 : Ease of doing bussines affect foreign direct investment

Effect of Corruption Perception Index on Foreign Direct Investment

H_o : Corruption Perception Index does not affect terhadap foreign direct investment

H_2 : Corruption Perception Index affect foreign direct investment

3 Research Methods

The population in the study is Southeast Asian countries comprising members of ASEAN totaling ten countries. The following is the population in this study:

Table 2. Number of Countries in Southeast Asia

No.	Country
1	Indonesia
2	Malaysia
3	Singapore
4	Brunei Darussalam
5	Philippines
6	Thailand
7	Vietnam
8	Lao PDR
9	Myanmar
10	Cambodia

The sampling technique employed in this research is total sampling or census, chosen to ensure a comprehensive conclusion by including all members of the population. The study relies on secondary data, obtained online from reputable international institutions such as the World Bank, ASEAN, and Transparency International. Adopting a quantitative approach, the research applies descriptive analysis and multiple linear regression techniques, with data analysis conducted using SmartPLS 3.0 software.

This study investigates the relationship among foreign direct investment (FDI), the corruption perception index (CPI), and ease of doing business (EoDB). To facilitate a clear understanding of these variables, each is operationally defined to specify how it is measured within the study. Operational definitions are a critical component of the research, providing a framework for interpreting and quantifying the variables under investigation. The specific operational definitions of the variables are presented as follows:

Table 3. Variable Operations

Variable	Indicator
Ease of Doing Bussines (EoDB)	Ease of Doing Business Score in 10 ASEAN Countries 2016-2020
Corruption Perception Index (CPI)	Corruption Perception Index Score in 10 ASEAN Countries 2016-2020
Foreign Direct Investment (FDI)	Total FDI inflows in 10 ASEAN countries 2016-2020

The data analysis in this study utilizes SmartPLS software, employing the structural equation modeling (SEM) technique known as Partial Least Squares (PLS) (Ghozali & Latan, 2015). This method facilitates simultaneous testing of both structural and measurement models, as outlined by Ghozali and Latan (2015). he variables in this study are categorized into two groups: exogenous latent variables (independent), which include Ease of Doing Business (EoDB) and the Corruption Perception Index (CPI), and one endogenous latent variable (dependent), namely Foreign Direct Investment (FDI). The evaluation of the PLS model is conducted through two components: the Structural Model (Inner Model), which assesses the relationships between latent variables, and the Measurement Model (Outer Model), which evaluates the validity and reliability of the indicators representing these variables.

4 Results and Discussion

This section will present the statistical calculations conducted by the research team.

4.1. Result

Collinearity Statistic (VIF)

The variance inflation factor (VIF) value is computed to perform the multicollinearity test for formative constructs. The test's results may mean no multicollinearity symptoms if the VIF number is less than 5. The study's VIF value is displayed in Table 4 below:

Table 4. Variance Inflation Factor (VIF)

	VIF
EoDB	1.000
CPI	1.000

FDI	1.000

Source: Processing Results SmartPLS 4.0 (2023)

Based on the table above, it can be seen that the VIF value is <5. The VIF value of EoDB, CPI, and FDI is 1,000 <5, so there are no symptoms of multicollinearity.

Measurement Model Test

The measurement of the inner model evaluates the extent to which exogenous (independent) variables influence endogenous (dependent) variables. The Adjusted R-Square value is a key metric used to explain the proportion of variance in the dependent variable accounted for by the independent variables, indicating the overall strength and significance of the model. The findings from the inner model evaluation are as follows:

Table 5. R-Square Value

	R-Square	R-Square Adjusted
FDI	0.579	0.562

Source: Processing Results SmartPLS 4.0 (2023)

Based on the computation results, the Adjusted R-Square value for Foreign Direct Investment (FDI) is 56.20% (0.562), which falls within the category of a moderately strong relationship. This indicates that 56.20% of the variance in FDI can be explained by the exogenous variables included in the model, such as Ease of Doing Business (EoDB) and Corruption Perception Index (CPI). The remaining 43.80% of the variance is attributed to other factors not included in this analysis.

The following figure provides a visual representation of the interaction between the exogenous and endogenous variables in this study.

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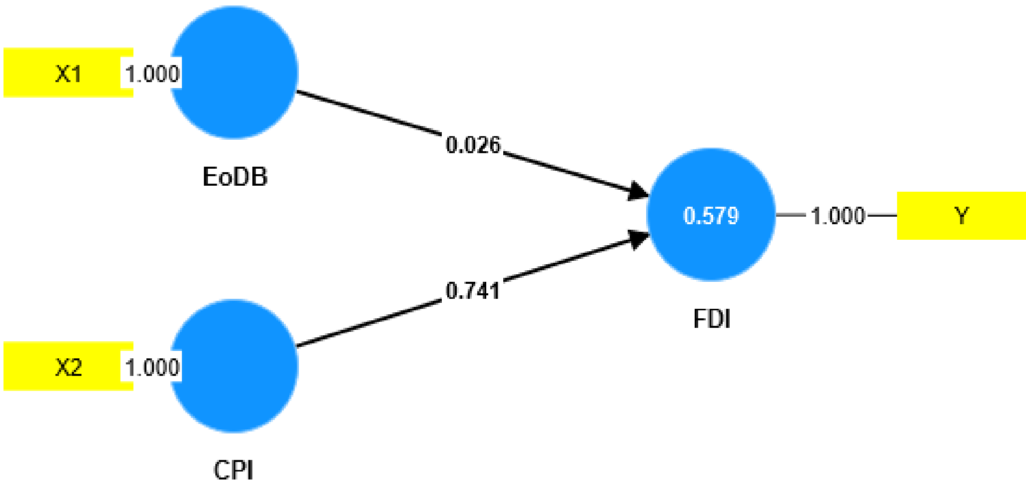


Figure 6. Model PLS

Source: Processing Results SmartPLS 4.0 (2023)

Based on the figure above, it can be concluded that there is a significant relationship between the two exogenous variables and the endogenous variable, aligning with the hypotheses proposed and the theoretical framework underpinning this study. This indicates that the model supports the expected interactions between the variables, as suggested by the theoretical and empirical foundations guiding the research.

Descriptive Statistics

Descriptive Ease of Doing Bussines (EoDB)

Based on the data presented in **Table 6** on the Ease of Doing Business (EoDB) scores in ASEAN countries, there is significant variation in business environment performance across the region over the 2016–2020 period. Singapore consistently ranks the highest, maintaining scores above **85**, reflecting its strong stability, competitiveness, and a business-friendly regulatory environment. Malaysia and Thailand also demonstrate robust performance, with steady improvements over the years, achieving scores of **81.50** and **80.10**, respectively, by 2020.

Indonesia shows notable progress during this period, improving its EoDB score significantly from **58.12** in 2016 to **69.60** in 2020. This upward trend highlights substantial advancements in business environment reforms, likely aimed at attracting foreign investment and enhancing competitiveness. Vietnam follows a similar positive trajectory, with its score increasing from **62.10** in 2016 to **69.80** in 2020.

In contrast, some countries, including **Lao PDR, Myanmar, and Cambodia**, record significantly lower scores compared to the regional average, indicating challenges in creating a conducive business environment. Cambodia consistently scores the lowest among ASEAN countries, maintaining an average score of around **53**, with a decline to **50.80** in 2020. Myanmar's performance remains modest, with an average score of approximately **44**, although it shows slight improvements over the five-year period.

Table 6. Descriptive Ease of Doing Bussines (EoDB)

No	Nama Negara	EoDB				
		2016	2017	2018	2019	2020
1	Indonesia	58,12	61,52	66,54	67,96	69,60
2	Malaysia	79,13	78,11	78,03	80,60	81,50
3	Singapore	87,34	85,05	84,97	85,24	86,20
4	Brunei Darussalam	62,93	66,51	70,18	72,03	70,10
5	Philippines	60,07	60,40	56,32	57,68	62,80
6	Thailand	71,42	72,53	77,39	78,45	80,10
7	Vietnam	62,10	63,83	66,77	68,36	69,80
8	Lao PDR	53,77	53,29	51,15	51,26	50,80
9	Myanmar	45,27	44,56	44,21	44,72	46,80
10	Cambodia	55,22	54,79	54,39	54,80	53,80
	Average	**63,54**	**64,06**	**65,00**	**66,11**	**67,15**

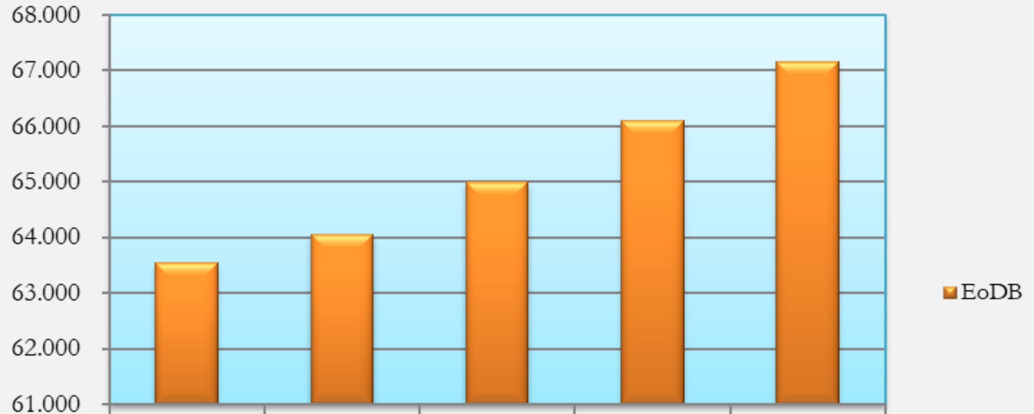
Source: World Bank (2023)

Overall, the average EoDB score for ASEAN countries demonstrates a gradual increase, rising from **63.54** in 2016 to **67.15** in 2020. This upward trend suggests regional efforts to improve business regulations and competitiveness, though disparities persist among member states.

These findings underscore a significant disparity in the ease of doing business among ASEAN countries. Lower-performing nations, such as Cambodia, Lao PDR, and Myanmar, must prioritize substantial reforms to enhance their business environments and attract more investment opportunities. Meanwhile, high-performing countries like Singapore, Malaysia, and Thailand should focus on consolidating their strengths and further establishing themselves as leading regional business hubs.

The data reveals that the average Ease of Doing Business (EoDB) score in the Southeast Asian region over the past five years is **65.17**, indicating moderate progress across the region. Singapore consistently holds the top position with the highest EoDB scores, reaffirming its status as a global leader in competitiveness and ease of doing business.

The following graph illustrates the trends and development of EoDB scores in ASEAN countries from 2016 to 2020, highlighting the progress and challenges faced by individual member states:



	2016	2017	2018	2019	2020
EoDB	63.540	64.060	65.000	66.110	67.150

Figure 7. Trends Ease of Doing Bussines (EoDB)

The trend of the Ease of Doing Business (EoDB) index has consistently shown growth over the last five years, as illustrated in the graph. This upward trajectory reflects ongoing improvements in policy and administrative reforms aimed at enhancing the ease of doing business across the region. The steady increase in the EoDB index indicates a positive shift in the business climate within Southeast Asia, suggesting that ASEAN countries are progressively creating more favorable conditions for entrepreneurs and investors. This trend underscores the region's commitment to fostering a competitive and efficient business environment.

Descriptive Corruption Perception Index (CPI)

Based on the table 7, the average Corruption Perception Index (CPI) for the Southeast Asian region over the past five years is 41.60, reflecting moderate perceptions of corruption across the region. Singapore consistently holds the top position with a CPI score of 85, showcasing its effective governance and anti-corruption measures. In contrast, Cambodia remains at the bottom with consistently low scores, averaging around 21, highlighting significant challenges in tackling corruption.

Tabel 7. Corruption Perception Index (CPI)

No	Nama Negara	CPI				
		2016	2017	2018	2019	2020
1	Indonesia	37,0	37,0	38,0	40,0	37,0
2	Malaysia	49,0	47,0	47,0	53,0	51,0
3	Singapore	84,0	84,0	85,0	85,0	85,0
4	Brunei Darussalam	58,0	62,0	63,0	60,0	60,0
5	Philippines	35,0	34,0	36,0	34,0	34,0
6	Thailand	35,0	37,0	36,0	36,0	36,0
7	Vietnam	33,0	35,0	33,0	37,0	36,0
8	Lao PDR	30,0	29,0	29,0	29,0	29,0
9	Myanmar	28,0	30,0	29,0	29,0	28,0
10	Cambodia	21,0	21,0	20,0	20,0	21,0
	Average	**41,0**	**41,6**	**41,6**	**42,3**	**41,7**

Source: Transparancy International (2023)

Malaysia and Brunei Darussalam also demonstrate relatively strong performance in the region, with Malaysia achieving its highest CPI score of **53** in 2019 and Brunei Darussalam maintaining scores around **60** during the observed period. Meanwhile, countries like the Philippines, Vietnam, Lao PDR, and Myanmar display lower-than-average CPI scores, indicating ongoing struggles with corruption and governance issues.

Based on the graph above, the Corruption Perception Index (CPI) in the Southeast Asian region shows fluctuations over the observed period. The CPI remained stagnant in 2017 and 2018, with no significant improvements, reflecting a lack of progress in combating corruption during that time. Despite a slight increase in 2019, the CPI index experienced a notable decline in 2020 amid the COVID-19 pandemic, highlighting the challenges faced by governments in maintaining public trust and addressing corruption effectively during crises.

The consistently low CPI scores in many ASEAN countries serve as a warning for the region. These scores emphasize the urgent need for stronger policies and reforms to close loopholes that allow corruption to persist. Enhanced governance, transparency, and accountability are critical to improving the CPI and fostering trust in public institutions across Southeast Asia.

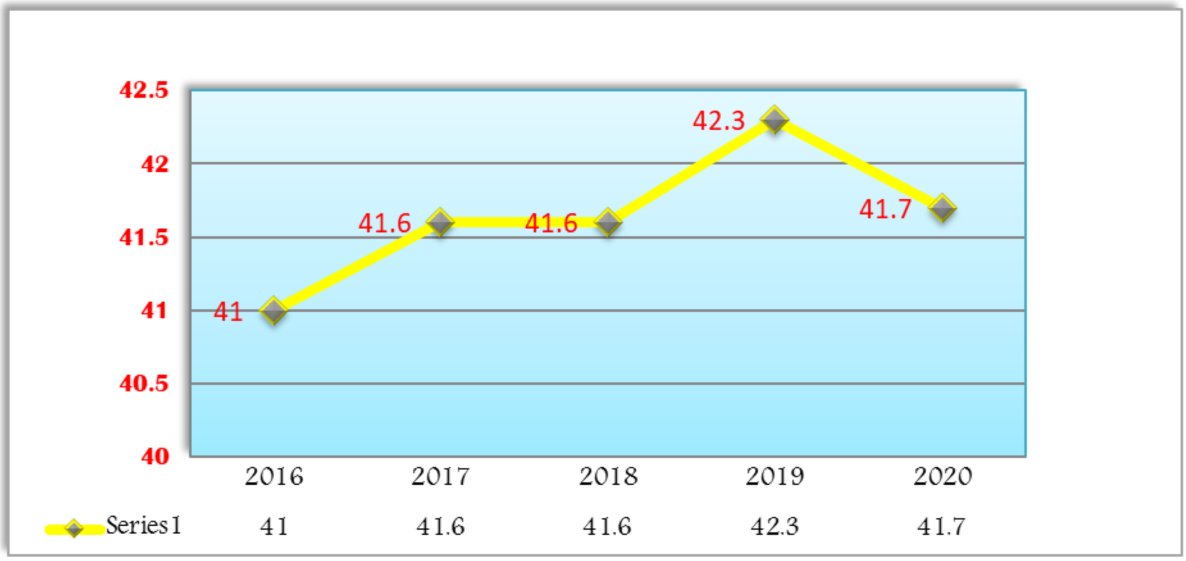


Figure 8. Trends Corruption Perception Index (CPI)

Descriptive Foreign Direct Investment (FDI)

Based on the table above, the average Foreign Direct Investment (FDI) inflows in the Southeast Asian region over the past five years are **13.7** billion USD. Singapore consistently leads the region with the highest FDI inflows, peaking at **92.1 billion USD** in 2019, which underscores its position as a global financial and business hub. Vietnam also shows steady growth in FDI, with inflows increasing from **12.6 billion USD** in 2016 to **15.8 billion USD** in 2020, reflecting its rising attractiveness as a manufacturing and investment destination.

Tabel 8. Foreign Direct Investment (FDI)

No	Nama Negara	FDI				
		2016	2017	2018	2019	2020
1	Indonesia	3,9	23,1	22,0	23,9	18,6
2	Malaysia	11,3	9,4	8,1	7,7	3,5
3	Singapore	77,5	62,0	77,6	92,1	90,6
4	Brunei Darussalam	-0,2	0,5	0,5	0,4	0,6
5	Philippines	8,3	10,0	9,8	7,6	6,5
6	Thailand	3,1	9,1	13,2	6,3	-4,8
7	Vietnam	12,6	14,1	15,5	16,1	15,8
8	Lao PDR	1,1	1,7	1,3	0,6	1,0
9	Myanmar	3,0	4,3	3,6	2,5	1,9
10	Cambodia	2,3	2,7	3,1	3,7	3,6
	Average	**12,3**	**13,7**	**15,5**	**16,1**	**13,7**

Source: ASEAN Secretariat (2023)

Indonesia has demonstrated considerable fluctuations but remains one of the key FDI recipients, with inflows reaching a high of 23.9 billion USD in 2019 before dropping to 18.6 billion USD in 2020. Malaysia, on the other hand, has seen a decline in FDI over the years, with inflows falling from 11.3 billion USD in 2016 to 3.5 billion USD in 2020, reflecting challenges in maintaining its competitive edge.

In contrast, countries such as Brunei Darussalam, Lao PDR, and Myanmar consistently receive lower FDI inflows, with minimal growth over the observed period. Thailand experienced a sharp decline in 2020, recording a negative FDI value of -4.8 billion USD, possibly due to economic uncertainties during the COVID-19 pandemic.

The following graph illustrates the trends in FDI inflows across ASEAN from 2016 to 2020, highlighting the variations and developments in investment patterns within the region.

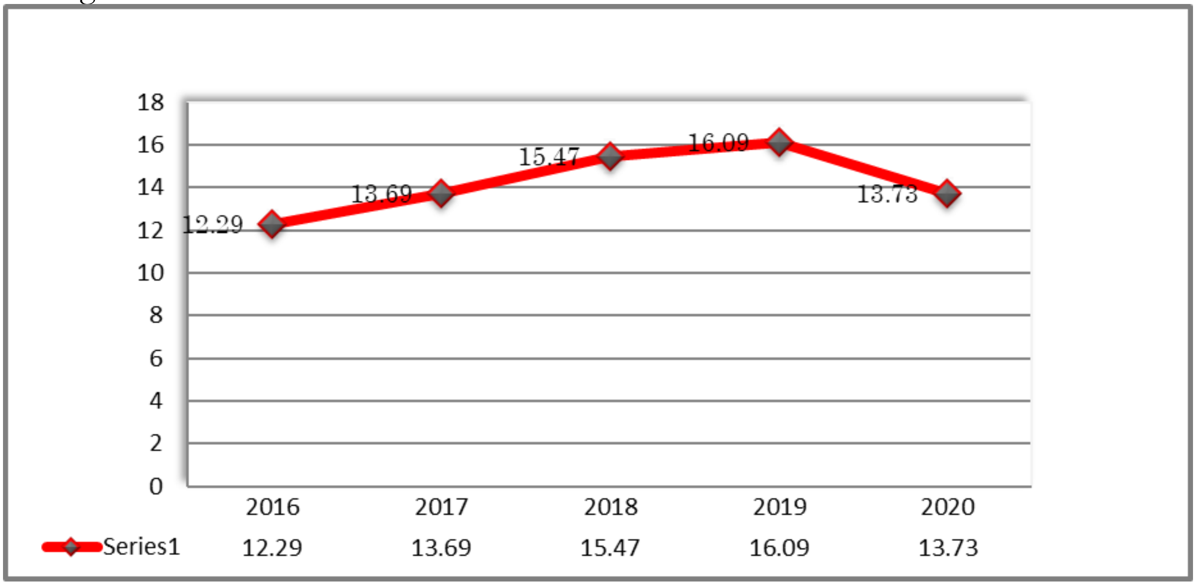


Figure 9. Foreign Direct Investment (FDI)

The graph above illustrates a noticeable decline in Foreign Direct Investment (FDI) inflows in 2020, following a positive trend observed from 2016 to 2019. The sharp downturn in 2020 is primarily attributed to the impacts of the COVID-19 pandemic, which created significant economic uncertainty and prompted investors to exercise caution, reducing their investment activities across the Southeast Asian region. Despite steady growth in the preceding years, the pandemic's disruption underscores the vulnerability of FDI inflows to global crises and highlights the need for ASEAN countries to implement strategies that enhance economic resilience and investor confidence during challenging times.

Hypothesis Test

The t-test was employed for hypothesis testing in this study to assess the impact of exogenous variables on endogenous variables within the path analysis framework. The hypothesis testing process is guided by the **t-statistics** value and the **P-value** derived from the Path Coefficient. A hypothesis is considered accepted if the **P-value** is less than **0.05** or the **t-statistics** value exceeds the critical value of **2.01174**.

The following section presents the results of hypothesis testing, which were obtained through the evaluation of the inner model. These results provide insights into the strength and significance of the relationships between the variables examined in this study. The details of the hypothesis testing outcomes are outlined below:

Table 9. Path Coefficient

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
EoDB-> FDI	0.026	0.036	0.133	0.196	0.845
CPI -> FDI	0.741	0.741	0.186	3.988	0.000

Source: Processing Results SmartPLS 4.0 (2023)

Table 9 route coefficient indicates that the researchers' partial test calculation of each variable's significant value and degree of direct influence is as follows:

Effect of Ease of Doing Bussines on Foreign Direct Investment

The path coefficient analysis reveals that the original sample value for the effect of Ease of Doing Business (EoDB) on Foreign Direct Investment (FDI) is 0.026, with a standard deviation of 0.133 and a P-value of 0.845, which exceeds the significance threshold of 0.05. Furthermore, the t-statistics value of 0.196 is far below the critical value of 2.01174, indicating that the relationship is not statistically significant. As a result, the hypothesis (H1: Ease of Doing Business affects Foreign Direct Investment) is rejected. These findings imply that Ease of Doing Business does not have a measurable or significant impact on Foreign Direct Investment within the scope of this study.

Effect of Corruption Perception Index on Foreign Direct Investment

The path coefficient analysis reveals that the original sample value for the effect of the Corruption Perception Index (CPI) on Foreign Direct Investment (FDI) is 0.741, with a standard deviation of 0.186 and a P-value of 0.000, which is significantly below the threshold of 0.05. Additionally, the t-statistics value of 3.988 exceeds the critical value of 2.01174, confirming a statistically significant relationship. As a result, the hypothesis (H2: The Corruption Perception Index affects Foreign Direct Investment) is accepted. These findings indicate that the Corruption Perception Index has a positive and strong impact on Foreign Direct Investment. This suggests that lower levels of perceived corruption substantially enhance a country's attractiveness to foreign investors, highlighting the importance of good governance and transparency in fostering foreign investment.

The hypothesis test results indicate that while Ease of Doing Business (EoDB) does not significantly affect Foreign Direct Investment (FDI), the Corruption Perception Index (CPI) exerts a positive and significant influence on FDI. This highlights the importance of combating corruption as a critical factor for improving investment attractiveness in ASEAN countries.

4.2. Discussion

4.2.1. Effect Ease of Doing Bussines on Foreign Direct Investment

The findings of this study indicate that Ease of Doing Business (EoDB) does not have a significant impact on Foreign Direct Investment (FDI). This outcome is closely tied to the generally low EoDB index values of Southeast Asian countries, which range between 41-42, with the exception of Singapore, which consistently achieves an EoDB score above 80. The low EoDB scores reflect challenges such as insufficient business licensing frameworks and inadequate investment facilitation measures across the region. These shortcomings hinder the region's ability to attract substantial foreign investment. Consequently, it is imperative for governments in Southeast Asia to implement comprehensive regulatory reforms to enhance competitiveness, simplify business procedures, and create a more conducive investment climate.

The findings of this study challenge **Stigler's Theory of Economic Regulation**, which suggests that effective regulations can attract investors by providing legal certainty and protecting their investments (Stigler, 2021). In the context of this study, the regulation in question refers to policies promoting ease of doing business. However, the results suggest that, despite the theoretical advantages of regulatory improvements, the practical implementation of such measures in Southeast Asia has not yet translated into increased FDI.

Moreover, these findings are inconsistent with several prior studies, such as those by (Bin Nurdin et al., 2023; Contractor et al., 2020; Corcoran & Gillanders, 2015; Hafilah & Ahmad, 2022; Mundakkad, 2021), which concluded that EoDB positively influences FDI. These studies argue that improved business environments encourage foreign investors to enter markets by reducing bureaucratic barriers and fostering efficiency. In contrast, this study aligns with research conducted by **Iksan and Konishi (2023)**, which found that EoDB has an insignificant effect on FDI. This alignment may reflect region-specific conditions in Southeast Asia, where structural challenges, such as bureaucratic inefficiencies, corruption, and inconsistent regulatory enforcement, diminish the potential benefits of improved business procedures. Overall, while regulatory reforms promoting ease of doing business remain an important long-term goal, this study suggests that such measures alone are insufficient to attract significant FDI without addressing other critical barriers to investment.

4.2.2. Effect Corruption Perception Index on Foreign Direct Investment

The findings of this study reveal that the Corruption Perception Index (CPI) positively and significantly impacts Foreign Direct Investment (FDI). This suggests that an increase in the CPI, indicating a reduction in corruption levels, enhances foreign investors' confidence. When corruption decreases, foreign investors perceive a safer investment environment where their substantial financial commitments are less likely to be jeopardized. Furthermore, a reduction in corruption positively influences FDI inflows over the long term (Shaari et al., 2022).

The CPI plays a crucial role in shaping the perceptions of potential investors or foreign companies regarding a country's legal certainty, bureaucratic efficiency, and investment governance. These factors are essential considerations for investors deciding whether to invest in a country. A high CPI index, reflecting lower levels of corruption, strengthens investors' willingness to enter a market, as it provides greater assurance of transparency and a conducive business environment.

The results of this study are consistent with Institutional Fitness Theory (Wilhelms, 1998), which posits that legal and administrative fairness, along with transparency, are critical determinants of foreign investment. Countries with strong ruleof-law frameworks and low corruption levels are better positioned to attract FDI. Additionally, the findings align with Grabbing Hand Theory (Murphy et al., 1993), which describes corruption as a "grabbing hand" that can either hinder or facilitate FDI inflows. A low level of corruption, reflected in a high CPI, ensures better investment conditions, thereby encouraging foreign investors to allocate resources to such markets.

These findings are also consistent with previous research conducted by (Brada et al., 2019; Moustafa, 2021; Patel et al., 2023; Romadhona, 2016; Zakiyyah et al., 2024), all of which demonstrated that CPI significantly influences FDI. This indicates that countries with higher CPI scores, as reflected in this study, can significantly enhance their attractiveness to foreign investors and increase the inflow of foreign direct investment.

Overall, this study underscores the critical importance of reducing corruption and improving governance to foster an environment conducive to foreign investment. Such improvements not only bolster investor confidence but also pave the way for sustainable economic growth through increased FDI inflows.

5 Conclusion

This study concludes that the impact of Ease of Doing Business (EoDB) and Corruption Perception Index (CPI) on Foreign Direct Investment (FDI) in ASEAN varies significantly. Ease of Doing Business (EoDB) does not have a significant effect on FDI. This is largely attributed to the low EoDB index scores of most Southeast Asian countries, which range between 41 and 42, with the exception of Singapore, which consistently achieves an EoDB score above 80. The region"s inability to significantly improve its EoDB rankings reflects persistent challenges in creating a conducive business environment, including bureaucratic inefficiencies and inadequate investment facilitation.

In contrast, the Corruption Perception Index (CPI) has a positive and significant effect on FDI. A higher CPI, indicating lower corruption levels, increases foreign investors' confidence and reassures them that their substantial investments will be secure. This finding highlights the importance of reducing corruption to attract more substantial and sustainable FDI inflows.

Governments in Southeast Asian countries must take proactive measures to create a more favorable business climate. This includes implementing regulatory reforms aimed at improving EoDB rankings and fostering an environment that is transparent, efficient, and welcoming to foreign investors. Issuing investor-friendly regulations and addressing structural barriers to business operations will enhance investor confidence and spur the flow of foreign funds into the region. By focusing on improving both the EoDB index and reducing corruption, Southeast Asian countries can strengthen their position as attractive destinations for foreign direct investment, promoting economic growth and regional competitiveness.

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