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The Effect of Tax Incentives and Ease of Doing Business on Foreign Direct Investment in ASEAN Member Countries

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Abstract

Investment, particularly from overseas, emerges as a pivotal driver of economic expansion in Indonesia. Despite grappling with the challenges posed by the Covid-19 pandemic, foreign direct investment (FDI) inflows to Indonesia surged by 5.5% from the preceding year, reaching Rp 111.1 trillion or USD 7.92 billion in 2020. This study endeavors to scrutinize and uncover empirical evidence regarding the influence of tax incentives and the ease of conducting business on FDI flows. The study's sample encompasses ASEAN member nations, excluding Myanmar and Brunei Darussalam, spanning the period from 2010 to 2018. Tax rates, tax holiday incentives, and the Ease of Doing Business (EoDB) index serve as the independent variables in this analysis. Employing cross-border panel data, the study seeks to discern the determinants of FDI. Findings indicate that tax rates and tax holiday incentives exhibit a significant negative impact on FDI flows, while the ease of doing business exerts a notable positive influence. Governmental policies in formulating tax incentives and fostering favorable business environments endow institutional advantages, thereby bolstering investors' inclination to channel FDI into the country.

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INTRODUCTION

The majority of ASEAN members are developing countries that need funding sources to develop the country and accelerate its economic growth. One of the factors to accelerate economic growth is foreign direct investment or commonly referred to as foreign direct investment (FDI) (Hunady & Orviska, 2014). Various studies on the effect of foreign direct investment on economic growth have been conducted before. Hansen et al., (2006) Proving that there is a positive influence between direct investment and economic growth, while Kawai (1994) Providing different evidence is that direct investment negatively affects economic growth.

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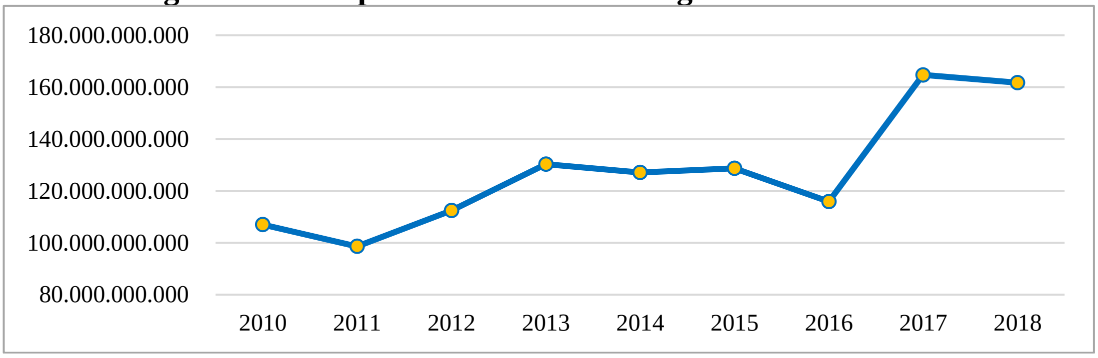
Although many foreign direct investment flows in ASEAN member countries, the upward trend is fluctuating and not very significant as shown in Figure 1. Figure 1 shows the inconsistency of the upward trend of foreign direct investment flows in ASEAN member countries for the period 2010-2018.

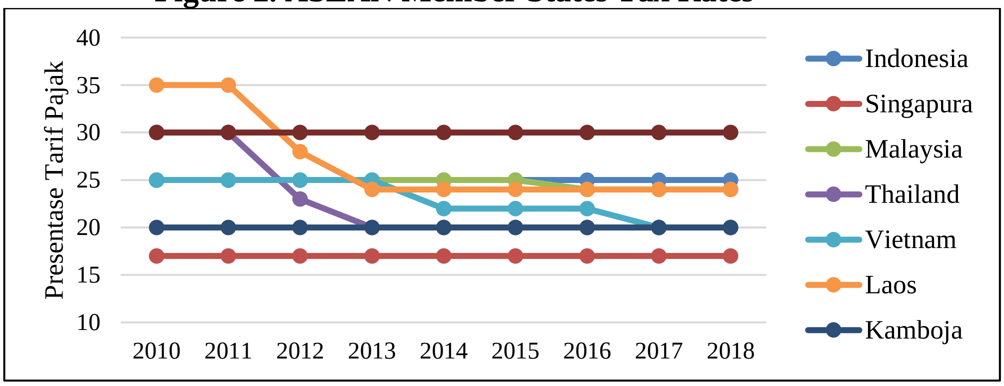
Figure 1. Development of ASEAN Foreign Direct Investment



Source: World Bank, processed by author, 2020.

FDI inflows are influenced by various macroeconomic, fiscal, and non-fiscal factors. Each ASEAN member country issues various investment incentive policies to attract foreign direct investment flows to its country. Investment incentives that are the focus of this study are tax incentives and ease of doing business in each country.

Figure 2. ASEAN Member States Tax Rates



Source : PwC *Tax Summarize* and EY *Corporate Tax Guide*

Figure 2 shows the phenomenon of tax rate variation which is one of the tax incentives in ASEAN member countries. The reduction in tax rates in several ASEAN member countries in 2011-2013, as shown in Figure 2 which is in line with the trend of increasing FDI flows in the same year in Figure 1 is one indication that the decrease in tax rates affects FDI inflows in ASEAN member countries. Different things happened in 2013-2014, there was a phenomenon of decreasing tax rates, but followed by a decrease in FDI flows. The inconsistency of the relationship between the two factors is one of the problems that need to be re-examined.

In addition to tax rates, popular fiscal incentives provided by developing countries are incentives *Tax Holiday* (tax exemption). Theories and opinions on the effect of tax policy on FDI are numerous, but empirical evidence from research studies is limited, especially for developing countries. Andersen et al., (2017) explained that policymakers in developing countries often experience dilemmas when drafting tax incentive policies to attract FDI. According to Genschel (2002), a country with a low tax rate on the one hand will attract foreign investment, but on the other hand will reduce the country's tax revenues giving rise to *Trade Off*.

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In addition to tax rates and *Tax Holiday*, this study focuses on the ease of doing business in ASEAN member countries. Klapper et al., (2006) Explaining the initial process of company formation or the entry of a company into the market is an indirect cost that can reduce the number of company formation. In addition, a conducive investment climate can increase foreign direct investment inflows (Jayasuriya, 2011; Sekkat & Veganzones-Varoudakis, 2007).

Research on the role of taxes and tax incentives to attract FDI has been done before. Aprian &; Irawan, (2019) and Wells et al., (2001) found that *Tax Holiday* as one of the tax incentives has no significant effect on FDI. Different results are obtained Klemm &; Parys (2009) which indicates that the incentive *Tax Holiday* and tax rates affect FDI, but not by incentives *Investment allowance*. On the other hand, Jayasuriya (2011) found that EoDB's high rating attracts foreign direct investment (FDI). Research Pertiwi et al., (2020) on the effect of country risk on investments moderated by variables *ease of doing business* concluded that the EoDB rating variable had no significant effect in moderating political risks to FDI in Indonesia, Malaysia, and Vietnam. In the study, it was also mentioned that the variable of ease of doing business (*ease of doing business*) would be more appropriate as an independent variable than a moderation variable.

Research on the effect of tax incentives and ease of doing business on FDI has been partially conducted by previous researchers, but there have not been many studies that combine the variables of tax incentives and ease of doing business on FDI. In fact, based on the existing phenomenon, these two variables are widely used as alternatives by policymakers in ASEAN countries to attract FDI. The authors also follow up on suggestions from the study Pertiwi et al., (2020) To make the ease of doing business an independent variable, not a moderation variable. Given the importance of FDI for developing countries, especially ASEAN member countries, some phenomena and problems that occur over policies to increase FDI, the author feels the need to conduct research on the effect of tax incentives and ease of doing business on foreign direct investment in ASEAN member countries.

LITERATURE REVIEW

Eclectic Theory

The Eclectic Theory or OLI theory explains why multinational companies choose one of several countries to be the location for investment and why some countries are more successful in attracting foreign investment (Dunning, 1998). According to OLI theory, multinationals are interested in investing when they meet specific ownership elements (*ownership-specific*), specific location (*location-specific*), and specific internalization (*internalization-specific*). This research specifically uses the second element of OLI theory, namely location advantage. Dunning, (1998) This location advantage is divided into three groups, including the structure of FDI policy, economic determinants, and incentives offered by a country to investors.

Furthermore, there are 4 (four) motivations for multinational companies to choose an investment location, namely *resource seeking, market seeking, efficiency seeking and strategic asset seeking* (Dunning in Faeth, 2009).

Foreign Direct Investment

Foreign direct investment or *Foreign Direct Investment* (FDI) is the process by which a resident or enterprise of a country (source country) acquires ownership of assets with the aim of controlling production, distribution, and other activities in the country. *Country host* (Mossa, 2002). Mossa (2002) Declared FDI occurs when a company in one country establishes business operations in another country by establishing a new affiliate, acquiring a local company or forming a joint venture with a company in *Country host*.

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Tax Incentives

Tax rates and *Tax Holiday* including fiscal investment incentives as they relate to the state budget. Holland & Vann, (1998) Grouping tax incentives into several categories, namely *tax holiday, investment allowances and tax credits, timing differences, reduced tax rates,* and *Free Economic Zones*. The tax incentives used in this study are *tax holiday. Tax holiday* is an income tax exemption for new companies within a certain period of time (Holland & Vann, 1998).

Ease of Doing Business

Ease of doing business (*ease of doing business*) is a comparison of ease of doing business regulations in 190 countries with 10 indicators conducted by IFC/World Bank (BKPM, 2017). Ease of doing business (*ease of doing business*) using 10 (ten) indicators, namely starting a business, building permits, connecting electricity, property registration, access to credit, protection for minority investors, tax payments, cross-border trade, contract enforcement, and settlement of bankruptcy cases (World Bank, 2020). The survey results are expressed in scores *distance to frontier* (DTF) for further ranking. Score *distance to frontier* represents the best performance (*Best Performance*) observations of all indicators surveyed by the World Bank with a score range of 1-100 (World Bank, 2020).

Previous Research

Previous research on the role of taxation in attracting FDI was conducted by Klemm & Parys (2009), Aprian &; Irawan (2019); Irawan (2013); Muthitacharoen (2019) which results in the conclusion that taxation (tax rates) have a negative and significant impact on FDI. Different results were found in the study Hunady & Orviska (2014) with a sample of 26 member states of the European Union (EU). The study concluded that there was no significant effect between *statutory corporate tax rates* against FDI.

Research on the effect of tax incentives (*Tax Holiday*) against foreign direct investment (FDI) made by Klemm & Parys (2009) which results in the conclusion of a significant effect *Tax Holiday* against FDI. In line with the results of the study, the study Irawan (2013) indicates that the variable is partially *Tax Holiday* (tax incentives) have a significant positive relationship to FDI for the majority of investors, but not significant for investors from Korea. Different results were found by Aprian &; Irawan (2019). Aprian &; Irawan (2019) using 9 (nine) ASEAN member states with the period 2006-2015. Variable proxies *Tax Holiday* From the study is the average duration of incentive provision *Tax Holiday* in each country of the study sample. The results showed that *Tax Holiday* has no influence on foreign direct investment flows.

Qualitative research on the effect of tax incentives on foreign direct investment (FDI) was conducted by Zuo (2009) and Princess (2017). The results of both studies stated that tax incentives did not have a significant effect on foreign direct investment (FDI). Further Princess (2017) Explain that there are factors other than tax incentives that investors consider in making investment decisions.

Research on the ease of doing business (*ease of doing business*) against FDI currents has also been done before. Corcoran & Gillanders (2015) Conducting research with the title "*Foreign direct investment and the ease of doing business*". The results show that on average it is true that the ranking of the EoDB indicator will attract more foreign direct investment with the most influential indicator being cross-border trade. Other research conducted by Akame et al., (2016) with the title "*The Impact of Business Climate on Foreign Direct Investment in the CEMAC Region*". The results showed that *ease of doing business* (EoDB) in aggregate has a significant positive effect on FDI flows. Unlike the previous research, the study Pertiwi et al., (2020) concluded that the ease of doing business (EoDB) variable could not moderate the independent

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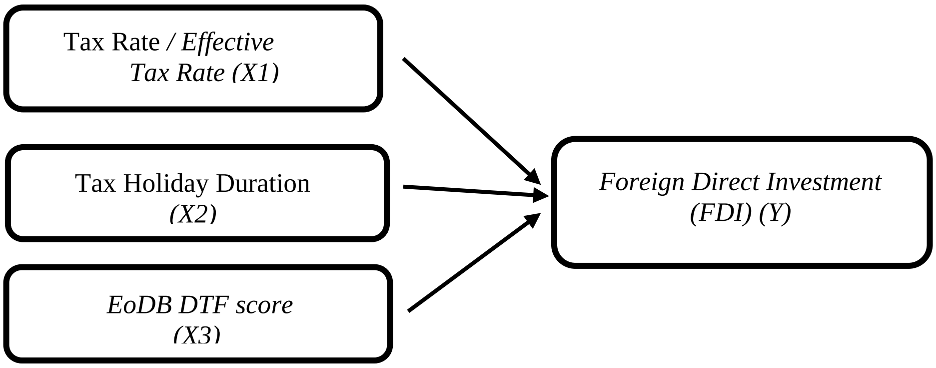
variable and FDI variable in the study. Further Pertiwi et al., (2020) explaining the ease of doing business (EoDB) variable would be more appropriate to be an independent variable than a moderation variable.

Research Framework
Based on the literature review and description that has been put forward earlier, the model The thinking of this study based on variables is reflected in Figure 3.

Figure 3 Thinking Framework



Source : Processed Author (2020)

Hypothesis
The research hypothesis proposed is as follows:

Ha1: The tax rate (X1) has a significant negative effect on foreign direct investment inflows (*Foreign Direct Investment*).

Ha2: *Tax holiday* (X2) has a significant positive effect on foreign direct investment inflows (*Foreign Direct Investment*).

Ha3: Ease of doing business (X3) has a significant positive effect on foreign direct investment inflows (*Foreign Direct Investment*).

METHOD

Types of Research

This study used quantitative type. Quantitative research according to Syahrum &; Salim, (2012) Defined as a type of empirical research by collecting data in the form of numbers. This research also uses the scientific method, namely steps in processing scientific knowledge by combining rational and empirical ways of thinking with a connecting bridge in the form of hypotheses (Syahrum &; Salim, 2012).

Data Types and Sources

The data used in this study are secondary data, namely data obtained from certain media or intermediaries from other parties. The data used in this study was sourced from www.data.worldbank.org sites, *www.doingbusiness.org*, and annual report sites of accounting services firms (The Big Four), such as PwC, EY, KPMG, and Deloitte. The data usage period is 2010-2018.

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Population and Research Sample

The population of this study is all ASEAN member countries, while the sample of this study is limited to 8 (eight) ASEAN member countries. The eight countries are Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Laos, and Cambodia. Brunei Darussalam was excluded from the study sample due to incomplete tax holiday incentive data, while Myanmar was excluded due to the unavailability of tax rate data before 2013. Therefore, this study used 72 data consisting of 8 countries and 9 year periods (2010-2018).

Operational Definition of Research Variables

This study used one dependent variable and three independent variables. The dependent variable in this study is foreign direct *investment*, while the independent variables of this study are tax rates, *tax holidays*, and ease of doing business. The explanation of each variable is as follows:

Dependent Variable (Foreign Direct Investment)

The measurement of the value of foreign direct investment (FDI) uses unit million USD data which is then converted into LnFDI for testing purposes. The proxy of the dependent variable in this study is in accordance with the study Aprian &; Irawan (2019) and Irawan (2013).

Independent Variables (Tax Rate, *Tax Holiday,* and Ease of Doing Business)

This study used three independent variables, namely tax rates, *Tax Holiday*, and ease of doing business. The tax rate is proxied by the tax burden / profit generated x 100% (corporate tax rate). Use of variable proxy tax rates according to research Aprian &; Irawan (2019); Irawan (2013); Muthitacharoen (2019).

Independent variables *Tax Holiday* Proxied with the longest duration of incentive provision *Tax Holiday* according to research Klemm &; Parys (2009). The last independent variable is the ease of doing business. The variable ease of doing business is proxied by a score *distance to frontier* (DTF) *ease of doing business* (EoDB) per country. The use of DTF scores as a proxy for ease of doing business according to research Luh &; Dianawati, (2018), Hossain et al., (2018)and Akame et al., (2016).

Based on the dependent variable and the three independent variables above, a research model was formulated using the following equation*:*

$$\boxed{\mathbf{LnFDIi,t = \alpha i,t + \beta 1TARRi,t + \beta 2TAXHOi,t + \beta 3EODBi,t +}}$$

Remarks : LnFDIi,t = Natural logarithm of FDI inflows from all countries to each ASEAN member country i in year t; αi,t = Constant; TARRi,t = Corporate tax rate; TAXHOi,t = Longest duration of tax holiday facility; EODBi,t = DTF EODB score of ASEAN member countries; εi,t = Error rate or standard.

RESULTS AND DISCUSSION

Descriptive Statistics

Descriptive statistics were conducted to provide information on each variable used in this study, namely foreign direct investment, tax rates, *tax holiday*, and ease of doing business. The descriptive statistics are then analyzed to find out and provide a description of the character of each research variable that shows the average number (*Mean*), mode, median, and deviation stance. The characteristics of each variable in descriptive statistics are shown in Table 1.

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Table 1. Descriptive Statistic

Variabel	Obs.	Mean	Std. Dev.	Min	Max
FDI *)	72	15.921	21.886	278	97.766
TARR	72	23,63	4,42	17	35
TAXHO	72	9,04	4,29	0	20
EODB	72	65,44	12,85	44,30	89,50

Source : SPSS Output by Author (2020)

Model Selection Test and Classical Assumption Test

This study used panel data, which is a combination of *Cross section* and *Time Series*. In panel data regression testing, several tests are first carried out to find out the best model for panel data regression testing. The results of testing the best panel data regression model of this study are: *Random Effect Model (REM)* with *Generalized Least Square (GLS) method.*

Testing of classical assumptions is carried out to ensure whether the test model used meets the criteria *Best Linear Unbiased Estimate (BLUE)* So that the research model is not biased. After normality tests, multicollinearity tests, and heteroscedasticity tests, the results showed normal distributed residual data, each independent variable was free from symptoms of multicollinearity, and no symptoms of heteroscedasticity occurred in this study.

Multiple Regression Analysis

Test Coefficient of Determination (R2)

The results of the coefficient of determination test obtained an adjusted R2 result of 0.307051. The adjusted R2 value of 0.307051 shows that the independent variable is able to explain the variation in the value of the dependent variable (*foreign direct investment*) by 30.7%, while the remaining 69.3% is explained by other factors outside the variables of this study.

Simultaneous Significance Test (Statistical Test F)

The prob (*F- statistic*) value of 0.000004 which is smaller than the significance level α = 0.05, indicates that all independent variables have a simultaneous influence on the dependent variable or foreign direct investment (FDI) flows (Ha accepted).

Individual Parameter Significance Test (t Test)

The statistical test t is performed to determine how far the influence of one independent variable is partially in explaining the variation of the dependent variable. Decision making criteria, namely (1) If *the probability* value is greater than the significance level value (α = 0.05); then H0 is rejected and Ha is accepted; (2) If *the probability value* is less than the significance level value (α = 0.05); then Ha is rejected and H0 is accepted.

Hypothesis accepted

Variabel	Koefisien	Two-Tailed Prob	One-Tailed Prob	α	Keterangan
TARR	-0.052927	0,0248	0,0124	0,05	Hipotesis diterima
TAXHO	-0.040917	0,0715	0,0358	0,05	Hipotesis ditolak
EODB	0.086912	0,0001	0,00005	0,05	Hipotesis diterima

Source : Processed Research Data (2020)

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The *probability* value used in drawing conclusions is *one-tailed prob* because the hypothesis in this study has determined the direction of influence (positive or negative) on the dependent variable. The explanation of the partial t test results based on table 2 is as follows: (1) The calculation result of the partial t test on the tax rate is obtained *one-tailed prob* of 0.0124 < (α = 0.05) and the value of the coefficient is negative, then Ha1 is accepted. Ha1 accepted means the tax rate has a significant negative effect on foreign direct investment (FDI). (2) The calculation of the partial t-test for tax *holiday* obtained *a one-tailed prob* of 0.0358 < (α = 0.05) and a negative coefficient value. Although *the one-tailed prob* showed effect, because the direction of influence was different from the research hypothesis, Ha2 was rejected. (3) The calculation of the partial t-test on the ease of doing business obtained *a one-tailed prob* of 0.00005 < (α = 0.05) and a positive coefficient value, then Ha3 is accepted. Ha1 accepted means that the ease of doing business has a significant positive effect on foreign direct investment (FDI).

Based on the results of regression testing on the hypotheses proposed in the study, the following research model was obtained:

LnFDI = 18.62311 – 0.052927 TARR – 0.040917 TAXHO + 0.086912 EODB + ε

Effect of Tax Rate on Foreign Direct Investment (FDI)

Tax rates have a significant negative effect on foreign direct investment. This can be seen from the *one-tailed prob value* of 0.0124 which is smaller than the significance level of α = 0.05. A negative value on the coefficient indicates the direction of influence of the independent variable tax rate on the variable foreign direct investment (FDI). Thus, the first hypothesis is accepted (Ha1 is accepted).

The test results are in line with the OLI theory developed by Dunning, (1998) which mentions that people or companies who want to invest (investors) consider three factors, one of which is location advantage (*Location Advantage*). Location advantages offered *Country host* various. The policy of reducing corporate income tax rates is one of the advantages of location that is widely offered *Country host*. Taxes are a cost to the company. When the tax rate is lowered, it will lower the company's costs and increase the company's efficiency. The efficiency of the company is one that investors consider, as explained Deep Dunning Faeth, (2009). Increase in company profits due to company efficiency is an attractive offer for investors because it can obtain higher benefits or returns on funds invested into *Country host*.

Test results are not in line with research Hunady & Orviska, (2014) which states that tax rates do not significantly affect foreign direct investment (FDI) flows and there are more important factors in the determinants of FDI, such as *labour costs*, *GDP per capita, public debt*, and *Openness of the Economy*. In the author's opinion, the difference in test results is due to differences in the use of research objects. Hunady & Orviska, (2014) Using Object 26 *EU Member States* which is known to be a developed country, while the author's research uses the object of the majority of developing countries. The tax rate does not significantly affect foreign direct investment (FDI) if the object of research is a developed country that has complete infrastructure and technology. In addition, developed countries also tend to be countries of origin of investment, not countries of investment destination (*Country host*).

Test results are in line with research Aprian &; Irawan, (2019); Irawan, (2013); Klemm &; Parys, (2009); and Muthitacharoen, (2019) which states that tax rates have a significant negative influence on foreign direct investment (FDI) flows. According to the author, the similarity of test results is due to the similarity of research objects, the majority of which are developing countries. Irawan (2013), Muthitacharoen (2019), and Irawan and Aprian (2019) concluded that tax rates have a significant negative effect on foreign direct investment (FDI) in Southeast Asian countries. Using other developing countries, namely Latin America, the Middle East, and the African region,

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Klemm & Parys, (2009) There is a significant negative effect of tax rates on foreign direct investment.

According to the authors, developing countries are *host countries* and need funds to develop their country's infrastructure and technology, so each country will offer investment incentives to attract investors. One popular investment incentive offered by developing countries is low tax rates. Reducing tax rates is one of the incentives and offers from *host countries* to increase the superiority of their locations. Therefore, developing countries in one region tend to compete to lower their tax rates to attract investors.

Differences in tax rates between ASEAN member countries can give rise to *Harmfull Tax Competition*, namely unfair competition between ASEAN member countries to reduce tax rates which results in eroding the tax base. OECD, (1998) mentions that tax competition (*tax competition*) distort trade and investment patterns and erode the tax base, thus undermining the fairness of the tax structure. Therefore, calibration and harmonization between ASEAN member governments are needed to be able to maintain tax rates in a safe corridor and not erode the tax base.

Effect of *Tax Holiday* on Foreign Direct Investment (FDI)

The second hypothesis tested in this study is the effect of *tax holiday* tax incentives on foreign direct investment (FDI). The results show *that the tax holiday* has a significant negative effect on foreign direct investment (FDI). This is shown from the value of *one tailed prob* of 0.0358 which is smaller than the significance value of $\alpha = 0.05$ and the coefficient is negative. The test results reject or fail to accept the author's initial hypothesis that tax *holidays* have a significant positive effect on foreign direct investment (FDI).

The test results are not in line with the theoretical basis and some previous studies that mention the longer the duration *Tax Holiday*, the greater the flow of foreign direct investment (FDI) into a country (positive influence). Previous research, Aprian &; Irawan, (2019); Irawan, (2013)and Wells et al., (2001) which states the absence of significant influence *Tax Holiday* against foreign direct investment flows or *Foreign Direct Investment* (FDI). Incentive *Tax Holiday* Deemed not to be a consideration of investors in investing into *Country host*. According to the author, differences in research test results occur due to differences in variable operationalization. The author uses the operationalization of the variable longest duration of incentive provision *Tax Holiday*While Aprian &; Irawan, (2019); Irawan, (2013)and Wells et al., (2001) Using variable operationalization in the form of the average duration of incentive provision *Tax Holiday*.

Further, according to the results of surveys and research UNCTAD, (2000), not only the duration of the tax exemption (*Tax Holiday*) that affect the flow of FDI, but the time when tax exemptions are commenced (*Tax Holiday*) including the year the investment license granted also affects investor interest in investing. Investors will be more interested in taking advantage of incentives *Tax Holiday* When the tax exemption period is calculated from the company first making a cumulative profit due to the present value (*present value*) from lower tax payments. When drafting *Tax Holiday* A country uses the first year of operation as a reference for the initial grant *Tax Holiday*, for companies that have very large initial costs to experience losses for the first few years of establishment, will not be interested in providing these incentives. Especially when the loss cannot be compensated by the company after the period *Tax Holiday* end. Princess, (2017) explained that there are other factors beyond tax incentives that can attract foreign direct investment (FDI) flows, such as ease of licensing, size of domestic market, international market access, infrastructure, social and security conditions, and availability of human resources.

According to the author, industrial sectors that are entitled to *tax holiday* incentives, clear and easy licensing to get *tax holiday* incentives, socialization of *tax holiday* incentives to potential investors, and the beginning of the tax *holiday* period are things that need to be reviewed and

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redesigned by policymakers. Low investment costs can be a distinct advantage for *host countries* as investment destination countries because investors tend to seek efficiency (*efficiency seeking*). These things are intended to increase and maximize the impact of *tax holiday* incentives on FDI, so that the provision of tax incentives to attract investment becomes a *viable trade off* with tax revenue.

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The Effect of Ease of Doing Business on Foreign Direct Investment (FDI)

The ease of doing business has a significant positive effect on foreign direct investment (FDI). This is shown from the value of *one tailed prob* of 0.00005 which is smaller than the significance level $\alpha = 0.05$ and the coefficient is positive. Thus, the test results can receive Ha3 which states that the ease of doing business has a significant positive effect on foreign direct investment (FDI).

The test results are in accordance with the O-L-I theory about the factors that investors consider in investing. One of the factors mentioned in the theory is location advantage *(advantage location*). Investors will look for potential locations and a good investment climate. Simplification of regulations in the business world (ease of doing business) is one way to create a good investment climate. This is because convenience in the business world will encourage the creation of new companies and increase the efficiency of company operations.

In line with the theory of O-L-I, ease of doing business will reduce administrative costs and legal costs of investment so as to attract investors to invest in a location or country. As is known, when investors invest or form new companies in a location, of course there are certain regulations or regulations related to investments made by policy makers. Regulations and regulations issued by the government of a country vary according to the conditions of the country. However, simple and easy regulations will attract investors to invest more because it will be more efficient for the company's operational activities. Therefore, each government of a country continues to try to improve *the doing business score* by simplifying the regulation of the licensing process.

Variable test results of ease of doing business (*ease of doing business*) on this study in line with research Corcoran &; Gillanders, (2015) and Jayasuriya, (2011) which states that *ease of doing business* influential in attracting foreign direct investment (FDI). According to the author, the suitability of the test results with previous research is due to the location of the ease of doing business (*ease of doing business*) as an independent variable, not a moderation variable like research Pertiwi et al., (2020). Conclusion of the study Pertiwi et al., (2020) states that ease of doing business (*ease of doing business*) has no influence when moderating political and FDI risks. Furthermore, the study provides suggestions for making it easier to do business (*ease of doing business*) as an independent variable.

Ease of doing business which is the result of a survey from the World Bank of various countries in the world began to become a priority in various countries, especially ASEAN member countries which were the research sample. This is evidenced by various regulations or policies on simplifying licensing made by the governments of ASEAN member countries so as to increase the *distance to frontier* (DTF) score and *ease of doing business ranking of* ASEAN member countries.

The independent variable of ease of doing business in this study uses distance to frontier (DTF) score measurement *of ease of doing business* survey. The aggregate DTF score is the average score of 10 (ten) ease *of doing business* indicators surveyed by the World Bank. In other words, this study operationalizes the ease of doing business in general, not specific to each indicator. Further research is expected to deepen research on the ease of doing business in more detail and specific to each or several indicators of ease of doing business from the World Bank, so as to better know the indicators that have the most influence on foreign direct investment.

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CONCLUSION

The study concluded that tax rates have a significant negative effect on foreign direct investment flows. Reducing the corporate income tax rate will increase the efficiency of investors in taking profits (*efficiency seeking*). The policy of reducing tax rates by governments in ASEAN member countries is a viable *trade off*, because investment into the country will be followed by the transfer of capital, technology, and assets which are expected to provide a *multiplier effect for the* host country' s economy.

The next conclusion is that the *tax holiday* has a significant negative effect on foreign direct investment flows. The results of this test rejected the authors' initial hypothesis and differed from some previous studies due to differences in proxy variables, objects and time periods. The *tax holiday* scheme, clear and easy licensing to get *tax holiday* incentives, and socialization of *tax holiday* incentives to potential investors are important things that must be considered in making *tax holiday policy designs*.

The final conclusion is that the ease of doing business has a significant positive effect on foreign direct investment flows. Simplification of business regulations is one way to create a good investment climate. In addition, the ease of doing business can make company activities more efficient. ASEAN member countries tend to improve their DTF EoDB scores and EoDB ratings to attract investors and increase foreign direct investment (FDI) capital.

Limitations

There are some limitations to this study. First, this study only used a sample of 8 (eight) ASEAN member countries for the 2010-2018 period. Different objects and research will result in different research. Second, the variable tax incentive is proxied by the tax rate and the duration of the tax *holiday*. Meanwhile, there are several other types of tax incentives outside the *tax holiday* that can be used as variable operationalization. This causes this study has not been able to explain other types of tax incentives outside the study. Third, the independent variable of ease of doing business is measured by proxy DTF score on an aggregated basis. This study did not use other proxies, such as the DTF EoDB score for each indicator. This causes this study has not been able to explain in depth each indicator in the ease of doing business.

Suggestion

Suggestions from this study, namely: (1) For policy makers, the need for calibration and harmonization between ASEAN member state governments to be able to maintain tax rates in a safe corridor and not erode the tax base. Especially for local tax and investment authorities, they can review the scheme and design of *tax holiday* incentives. (2) For future research, it is recommended to use more detailed proxies, such as the DTF score of each EoDB indicator and use other proxies of tax incentives, other than *tax holidays*.

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