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Impact of Corruption on FDI Inflows in Indonesia

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A B S T R A C T

The inflows of Foreign Direct Investment (FDI) to a country depend on many factors of the crucial factors is the corruption index, which represents a pivotal aspect in Global Investment Competitiveness (GIC). This research analyzes the impact of the corruption perception index on FDI inflows to Indonesia. Other variables affecting FDI are Gross Domestic Product (GDP), inflation rate, and population. Vector Error Correction Model (VECM) is used to estimate the time series sample between 1995 and 2019. Following the time series procedure, several tests are conducted on the dataset before applying VECM: unit-root, optimum lag, and cointegration. The main finding shows that the higher the corruption index, the higher the FDI Inflows, implicating that low corruption attracts more FDI inflows to Indonesia. Other findings are that an increase in GDP attracts more FDI, an increase in inflation rate reduces FDI inflows, and an increase in population increases FDI inflows. The policy implication of the findings is related to an effort in attracting more FDI inflows requires a substantial endeavor in combating corruption and increasing the Corruption Perception Index of Indonesia from time to time.

Keywords: *Corruption perception index, foreign direct investment, Inflation rate.*
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INTRODUCTION

Economic growth cannot be divorced from large-scale economic activities. In practice, an increase in production capacity is accompanied by an increase in investment, later boosting a country's productivity (Mankiw, 2003). Foreign Direct Investment (FDI) is essential for long-term sustainable economic growth. For a country, FDI is an alternative source of development financing that is less risky than foreign loans. Furthermore, FDI is thought to ensure the continuity of development compared to the flow of portfolio capital. FDI can help with the technological transfer, managerial qualities, and future research management in this area. The Global Investment Competitiveness Survey (world bank group, 2020) informs global investors' perspectives and conduct in responding to the investment climate in developing nations. The poll included 2400 multinational business professionals from ten emerging nations. According to the study findings, the five most essential factors in investor decision-making are political stability, excellent macroeconomic conditions, legal clarity, labor skills, and low tax collection. Large industries require a high level of legal certainty. Political stability is the starting step for establishing security and public order for national development to smoothly.

In comparison to corruption, the construction of political stability maintained the inflation rate, and fiscal balance was the most essential factor in generating economic growth (Abed & Davoodi, 2000). Henisz (2000), on the other hand, discovers that political stability does not affect the strategies and decisions of multinational corporations in 122 nations. Demirhan & Masca (2008)conducted a similar study, reviewing the determinants of FDI in developing countries, and found that economic stability, as measured by inflation, had a positive and significant impact on FDI. According to the 2018 ASEAN Business Outlook Survey (ABOS), Indonesia is the best investment destination after Singapore, Malaysia, and Vietnam. Furthermore, Indonesia is the world's fourth most populous country (approximately 265.5 million people), presenting itself as a provider of numerous employees as well as copious natural resources. These two factors alone are enough to make Indonesia one of the best places to invest. Furthermore, one of the key draws for investment is the demographic structure of a young age and many middle-income citizens (approximately 223.6 million). In addition, the Indonesian government has identified many priority investment sectors, including infrastructure, agricultural, maritime, tourism, manufacturing, Special Economic Zones, and the digital economy (Investment Coordinating Board, 2020). The huge population level can attract international investment (Quazi, 2014).

According to Bank Indonesia, Indonesia's GDP per capita in 2018 was only US$ 3,840, a figure that remains significantly behind industrialized countries' GDP per capita of US$ 47,970. Although still far from the developed country category, Indonesia can nevertheless be regarded to have good GDP growth of -2.07 percent in 2020, compared to Thailand's -6.10 percent, the Philippines' -9.60 percent, and Malaysia's -5.60 percent in pandemic conditions (Bank Indonesia, 2020). In the second quarter of 2020, FDI realization was Rp 97.6 trillion, a 6.96 percent decrease. Total foreign realization in the first half of 2020 was IDR 195.6 trillion, down 8.1 percent from IDR 212.8 trillion in the first half of 2019 (Investment Coordinating Board, 2020). Although the function of PMA in the economy is critical, Indonesia remains a country with overlapping rules and cumbersome bureaucracy. This is confirmed by a poll conducted by Global Investment Competitiveness (GIC), which ranks Indonesia as one of Southeast Asia's most restrictive countries. Obtaining

permissions, technology prices, political concerns, and regulatory uncertainty are the key issues impeding the entry of FDI into Indonesia. The same FDI determinants problem was also used as material for previous research by Zangina & Hassan (2020), who discovered a long-term asymmetry association between corruption and FDI inflows. Corruption has a negative and negligible connection with FDI inflows, meaning that reducing corruption has no long-term impact on FDI inflows.

On the other hand, several studies have found a considerable impact of corruption and GDP on FDI (Abdul et al., 2018 ; Zhao et al., 2003). Low levels of corruption can help Asian countries attract more FDI (Canare, 2017 ; Jalil et al., 2016). Even in Islamic countries, corruption is controlled through the hisbah system and the flow of FDI (Ketkar et al., 2005)

To fight corruption, effective actions in implementing policies to improve the quality of institutions should be done (Kasasbeh et al., 2018). Other research materials that can be utilized as references about the implications of foreign investment corruption satisfy the positives and negatives. According to Houston (2007) research, corruption can promote economic growth when a country has common laws and regulations. This was discovered when corruption was more effective in hastening decision-making and government rules restricted corporate licensing. This study adds to the ongoing discussion about the influence of corruption on FDI in Indonesia. Two noteworthy contributions have been made. First, in measuring the impact of corruption on FDI inflows, this study used the most recent vector error correction model (VECM) method. Oktiani (2017) previously conducted a study on corruption and FDI in Indonesia, however she used ANOVA testing. Second, the observational data period in this study is more recent and up to date than in previous studies, with the observation period in this study ranging from 1995 to 2019, which is both longer and more up to date than in previous studies. Longer observation periods and more recent econometric methodologies will bring insights and results to the existing literature.

According to the KBBI, corruption is the misappropriation and misuse of governmental funds (businesses, for example) for personal gain or the benefit of others. According to Luu et al., (2018) research on FDI in 131 countries from 2003 to 2015, the association between corruption and Greenfield FDI and cross-border M&A is very inconsistent. While corruption has a big impact and slows the speed of FDI M&A, it also increases greenfield FDI in some circumstances. Corruption is also noted as having a negative and considerable impact on the likelihood of individual enterprises and multinational corporations receiving foreign investment on a large scale (Barassi & Zhou, 2012). According to Canare (2017), there is a considerable association between corruption and FDI in the Asia Pacific. The lower a country's level of corruption, the greater the amount of FDI that enters the country. Zhao et al., (2003)conducted a similar analysis and discovered a negative and substantial association between corruption and FDI. Other research materials that can be utilized as references about the implications of foreign investment corruption satisfy the positives and negatives. According to Houston (2007)research, corruption can promote economic growth when a country has common laws and regulations. This was discovered when corruption was more effective in hastening decision-making and government rules restricted corporate licensing. Meanwhile, Wei (2000) discovered evidence of corruption that resembles taxes and can lower incoming foreign capital receipts in his study of the bilateral connection of foreign investment from 12 home nations to 45 host countries. The total worth of a country's goods and

services is commonly defined as its GDP. According to Callen (2008), GDP is critical information on the size and operation of a country's economy. Many studies have included GDP growth as an indicator in assessing a country's economic situation. GDP is a measuring instrument for determining whether a country's average population is in good or terrible shape (Callen, 2008). It is used as a key for investors to identify the purchasing power of that country's people. In the same way that Lunn (1983) discovered a significant association between GDP and FDI, Schneider & Frey (1985) discovered a significant relationship between GDP and FDI.

Price stability is one of the most important factors in macroeconomic stability. Inflation is directly linked to monetary policy and impacts the macro economy. According to Karbasi et al., (2005), lowering the domestic inflation rate can boost economic growth and FDI. High inflation can have a negative impact on investors since it requires more energy, money, and time to stabilize rising prices (Schneider & Frey, 1985). According to Azam (2010)'s research on the determinants of foreign direct investment (FDI) in Armenia, Kyrgyzstan, and Turkmenistan, inflation strongly associated with FDI in Armenia and Turkmenistan but not in Kyrgyzstan. Demirhan & Masca (2008) did a similar study, which reviewed the determinants of FDI in developing countries, demonstrating that economic stability, as reflected by inflation, has favorable and significant results for FDI. In contrast to the findings of Alshamsi et al., (2015), who claim that inflation does not influence FDI when GDP per capita has a positive and substantial association with FDI.

The host country's population is one of the most important potential factors of FDI. However, empirical research on FDI inflows appears to be underutilized. Surprisingly, economists have debated the significance of population in economic growth for a long time. According to Aziz & Makkawi (2012) research on the relationship between population size and FDI inflows in numerous Asian nations, population is positively and significantly associated to FDI. The huge population level can attract international investment (Quazi, 2014). Multinational corporations may consider the country's population a factor in their decision to invest in a country because certain elements cannot be overlooked, such as a large population with high consumption, which will undoubtedly effect high demand. Because of their vast populations, China and India are examples of countries with future economic power. Because population expansion and economic growth are positively associated, they both encourage foreign investment (Aziz & Makkawi, 2012). This is backed up by economic power in the shape of a huge number of workers and a growth in the skills of trustworthy workers, allowing China and India to overtake the United States as the largest industrial country (Winters & Yusuf, 2007).

METHODOLOGY

An exploratory quantitative technique is used in this study. This analysis relies on secondary data acquired from the World Development Indicators and Transparency International. This analysis uses data from 1995 to 2019, taking into account availability and the most recent data. There are two types of operational variables used: dependent and independent variables. The dependent variable is direct foreign investment. Meanwhile, the independent variables were corruption, GDP, inflation, and population.
Before arriving at VECM, time-sequence econometric analysis is performed in various stages. The first task is to run a unit root test to ensure that the data is good. The optimal lag is determined in the

second stage. Meanwhile, cointegration testing is the third stage. When linear cointegration between variables is observed after cointegration testing, VECM implementation can only be carried out at the fourth step. The Vector Error Correction Model (VECM) method is used to investigate the short-term behavior of the relationship between the variables under consideration . It can be used to see convergence or divergence towards a long-term relationship (A□□a et al., 2011). Following VECM, Granger Causality testing was performed to determine the causal direction of variables, Impulse □esponse Function (I□F) to determine shock from one variable to another, and Variance Decomposition (VD) to determine the variance of the primary variable and other variables.

The following equation was used to evaluate the effect of the major FDI (or FDI) factors in Indonesia from 1995 to 2019:

$$FDI_t = \beta_0 + \beta_1 Corr_t + \beta_2 GDP_t + \beta_3 Inf_t + \beta_4 MS_t + e_t$$

FDI is Indonesia's foreign direct investment expressed in percent (□) of gross domestic product. Corr is the Corruption Index expressed in percent (□). GDP is Gross Domestic Product, which is calculated from real Gross Domestic Product growth and expressed in percent (%). Inf is the Inflation Rate (%). MS is Market Size, which is calculated from Indonesia's population growth in percent (□) e is disturbance variable

RESULT AND DISCUSSION

This study employs the vector error correction model (VECM) method to examine the short and long-term effects of corruption, GDP, inflation, and market size variables on foreign direct investment. As mentioned in the study technique, the first stage is a unit root test, commonly known as a data stationarity test using the augmented dickey-fuller (ADF) approach. The results of the ADF testing at the level I(0) and the first difference I(1) levels are shown in Table 1. Table 1 demonstrates that all variables are not non-stationary at the level (due to the alpha value of 5□). Meanwhile, the variables FDI, C□□□, GDP, I□F, and MS are stationary at the first difference level. (1). As a result, it was discovered that all observable variables, namely I, were integrated at the same level (1).

Table 1.
Data Stationarity Test

Variabel	level	1st Difference
	ADF Prob	ADF Prob
FDI	0,3329	0,0014**
CORR	0,7414	0.0005**
GDP	0.0882	0,0001**
INF	0.2620	0,0001**
MS	0.9822	0.0303**

*Significant at 10% level
** Significant at 5% level
*** Significant at 1% level

Sources : Eviews9, data processed, 2021.

Following the determination of the stationarity level, the optimal lag test is performed, which must be employed in the model. The criteria for likelihood ratio (LR), final prediction error (FPE), Akaike information criterion (AIC), Schwarz information criterion (SC), and Hannah-quin criterion are used to determine optimal lag testing (HQ). Table 2 displays the variables. As can be observed, all test conditions offer the same optimal reference latency, namely lag 1. As a result, lag 1 will be used in the VECM model estimation.

Table 2.
Optimal Lag Test Result

Lag	LogL	LR	FPE	AIC	SC	HQ
0	-201.5863	NA	20.62251	17.21553	17.46096	17.28064
1	-107.3363	141.3750*	0.067843*	11.44470*	12.91726*	11.83537*

Sources : Eviews9, data processed, 2021.

The following step is to test the characteristic polynomial's root to determine the stability of the variable estimation to be performed. Figure 1 indicate that the inverse roots of distinctive polynomial points are on the circle, indicating that the estimated variable is stable on the unit circle

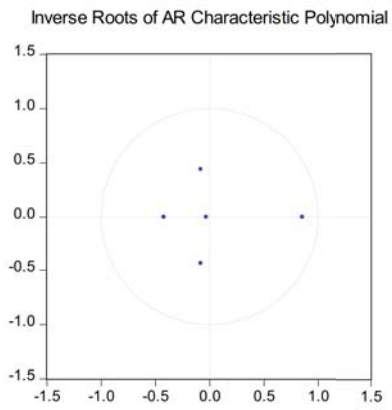

Figure 1.
Polynomial Stationary Stability Test

Sources : Eviews9, data processed, 2021

Tables □ and 4 exhibit cointegration test results with lag 1 for the variables FDI, GDP, I□F, and MS. Table □ displays the trace statistics, while Table 5 displays the highest Eigen rank value. The following is the null hypothesis for this cointegration test:

H0□ There is no equation for cointegration.

The cointegration trace statistic p-value results show that the p-value is near zero or written with the number 0.000 until the cointegration equation is at most (at most) 4 equations (see the last row of Table □). The cointegration p-value is less than □ 5□ (or compared to the statistical trace value with a critical value of 5□). For example, in the cointegration equation, the trace statistic value is 8.5□12, greater than the crucial threshold of 5□ (□8415). Based on the data in Table □, it can be inferred

that linear cointegration is possible for the variables FDI, Corr, GDP, Inf, and MS until the number of cointegration equations reaches a maximum of four equations. An investigation was carried out utilizing the rank test Eigenvalue to support this finding, as shown in the table below.

Table 3.
Cointegration Test (trace)

Unrestricted Cointegration Rank Test (Trace)				
Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob. **
None *	0.898350	123.2232	69.81889	0.0000
At most 1 *	0.792322	72.92649	47.85613	0.0001
At most 2 *	0.526784	38.34758	29.79707	0.0041
At most 3 *	0.455063	21.88711	15.49471	0.0047
At most 4 *	0.321441	8.531228	3.841466	0.0035

Sources : Eviews9, data processed, 2021.

The results of verifying the cointegration hypothesis using the maximum Eigenvalue statistic are shown in Table 4. The cointegration hypothesis trace, like the hypothesis used in the cointegration test, can be stated as follows:

Ho : there is no cointegration equation,
H1 : There is a cointegration equation,

Table 4.
Cointegration Test (Maximum Eigen value)

Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
Hypothesized No. of CE(s)	Eigenvalue	Max – Eigen Statistic	0.05 Critical Value	Prob. **
None *	0.898350	50.29675	33.87687	0.0003
At most 1 *	0.792322	34.57890	27.58434	0.0054
At most 2	0.526784	16.46048	21.13162	0.1991
At most 3	0.455-63	13.35588	14.2660	0.0692
At most 4 *	0.321441	8.531228	3.841466	0.0035

Sources : Eviews9, data processed, 2021.

The test findings in Table 4 shows that the Eigenvalue probability values are 0.0054, 0.1991, 0.0□92, and 0.00□5 in that order. It can be observed that there is the possibility of one linear cointegration equation. This is indicated by a p value of at most 1, which is bigger than □5□. The same issue can be seen in the cointegration test for equation 4 (At most 4), with a p-value greater than 5□. Based on these data, it can be concluded that the feasible linear cointegration equations involving FDI, Corr, GDP, Inf, and MS variables can be as few as one and as many as four. As a result, the VECM approach can compute short-term and long-term estimates for the four variables.

Furthermore, causality testing is performed to determine the causal direction between variables. The goal is to determine whether there is a reciprocal causal relationship between the variables analyzed, which allows for the treatment of variables to be exogenous and endogenous and to assure the possibility of applying VECM to the data used. The Granger causality test findings in Table 5 illustrate that the variables utilized might

be exogenous or endogenous. This test employs a level of □ 5□ and 10□. If the F-statistic is more than the F-table or the probability value is less than, the Granger causality H0 can be re□ected, indicating a causal direction from the first variable to the second variable.

Table 5
Granger Causality Test

Null Hypothesis:	Obs	F-Statistic	Prob.
CORR does not Granger Cause FDI	24	0.61758	0.4407
FDI does not Granger Cause CORR		1.10899	0.3043
GDP does not Granger Cause FDI	24	4.71168	0.0416
FDI does not Granger Cause GDP		0.20359	0.6565
INF does not Granger Cause FDI	24	5.22909	0.0327
FDI does not Granger Cause INF		0.08214	0.7772
MS does not Granger Cause FDI	24	1.04172	0.3190
FDI does not Granger Cause MS		1.32523	0.2626
GDP does not Granger Cause CORR	24	6.45073	0.0191
CORR does not Granger Cause GDP		0.01816	0.8941
INF does not Granger Cause CORR	24	3.43046	0.0781
CORR does not Granger Cause INF		0.34004	0.5660
MS does not Granger Cause CORR	24	0.11370	0.7393
CORR does not Granger Cause MS		9.01727	0.0068
INF does not Granger Cause GDP	24	1.00322	0.3279
GDP does not Granger Cause INF		0.54985	0.4666
MS does not Granger Cause GDP	24	1.37367	0.2543
GDP does not Granger Cause MS		0.00212	0.9637
MS does not Granger Cause INF	24	3.11675	0.0920
INF does not Granger Cause MS		0.00048	0.9827

Sources : Eviews9, data processed, 2021.

Table 5 shows that the probability of a causal association between corruption and FDI is larger than 5□. The causal direction from FDI to corruption demonstrates the same outcome. This implies no causal effect of corruption on FDI, nor is there a causal effect of FDI on corruption.

Furthermore, the variable GDP to FDI is statistically recognized to show one-way causality, with a probability of 0.041□, less than □ 0.05. This can be read as a one-way causal influence from GDP to FDI, but not the other way around.

Furthermore, a one-way causality pattern was discovered between the I□F variable and FDI, the GDP variable and the Corruption variable, and the Corruption variable and the population, as evidenced by the lower probability value of □ 5 percent.

Following the completion of the various rounds of testing outlined above, it is possible to conclude that there is a linear cointegration between the observed variables and that there are several pathways of causality. Thus, the test procedure can be extended to include testing the Vector Error Correction Model (VECM) to determine the significance of a variable to other variables by comparing the t-statistical value to the t-table value of 0.9□0. If the t-statistical value is greater than the t-table value, the independent variable is said to have a substantial effect on the dependent variable.

Table □ shows the long-term link between FDI, corruption, GDP, inflation,

and population. □ag 1 is selected based on the previous optimum lag test results. According to the long-term test results in Table □, the corruption variable (Corr) has a positive and substantial effect on FDI changes. The greater the perception of corruption, the greater the percentage rise in FDI entering Indonesia. To put it another way, the lower the amount of corruption (a higher corruption perception index indicates a lower level of corruption), the larger the percentage rise in FDI entering Indonesia. This finding is consistent with the findings of Canare (2017). However, the analytical methods used were different, and □alil et al., (201□), who both found significant results between corruption and FDI inflows, which were attributed to poor government control and the practice of bribery.

Table 6.
Factors Affecting Changes in FDI in the LongTerm

Variabel	Coefficient	T Statistik	Description
CORR (-1)	0,922963	3,19652	Significant
GDP (-1)	1,695089	2,68893	Significant
INF (-1)	-1,269670	-6,11673	Significant
MS (-1)	54,76766	2,21546	Significant
C	-1,807759		

Sources : Eviews9, data processed, 2021.

The findings for the GDP variable reveal that the preceding period's GDP has a positive and significant impact on the increase in FDI into Indonesia (third row of Table □). In certain ways, the growth in GDP will hasten the flow of FDI into Indonesia. These findings are comparable to those of □guyen et al., (2021), who examined ASEA□ countries from 2002 to 2019. The inflation rate has a major detrimental impact on boosting FDI flows to Indonesia (third row of Table □). In other words, rising inflation will dampen changes in FDI to Indonesia. This finding is consistent with the FDI theory and with the empirical findings of □hao et al., (200□), who used panel data regression to examine 40 countries from 1991 to 1997 (7 years). The same result was observed (Aziz & Makkawi, 2012) about population variables (final row of Table □). It was discovered that population had a favorable effect on changes in FDI to Indonesia. Changes in FDI flows to Indonesia will increase as the population grows. This conclusion suggests that the people might be viewed as a market or source of labor for foreign investment entering Indonesia. This result is consistent with the idea of foreign investment, which contends that FDI into a country has two primary goals: seeking markets and hunting for raw materials or labor (Dunning, 2009). This finding is consistent with empirical research findings by Bown (2008) and Aziz & Makkawi (2012), although these two studies used distinct nation observation sub□ects and analytical approaches.

In general, the long-term VECM estimate equation looks like this:

$$FDI_t = -1{,}807759 + 0{,}922963 Corr_t + 1{,}695089 GDP_t - 1{,}269670 Inf_t + 54{,}76766 MS_t + e_t$$

Table 7 also displays the short-term VECM estimation findings. The results demonstrate that no variables substantially affect the short term. When the coefficient sign is considered, the negative or positive sign of each variable corresponds to the short-term findings. The error correction coefficient is positive and insignificant,

implying that the short-term equilibrium is divergent and inconsequential, resulting in a stable long-term equilibrium.

Table 7.
Factors Affecting Changes in FDI in the Short Term

Variable	Coefficient	T Statistik	Description
CointEq1	0,003266	0,04158	Not Significant
D(FDI(-1),2)	-0,409445	-1,32747	Significant
D(CORR(-1),2)	0,094553	0,54335	Not Significant
D(GDP(-1),2)	0,103262	0,34497	Not Significant
D(INF(-1),2)	-0,020507	-0,18453	Not Significant
D(MS(-1),2)	38,25386	0,77187	Not Significant
C	0,047057	0,12787	Not Significant

Sources : Eviews9, data processed, 2021.

The Impulse □esponse Function is estimated next in the time series analysis (I□F). The I□F results indicate how a variable responds to changes in the variable's standard deviation and other variables. Figure 2 depicts the I□F results graphically.

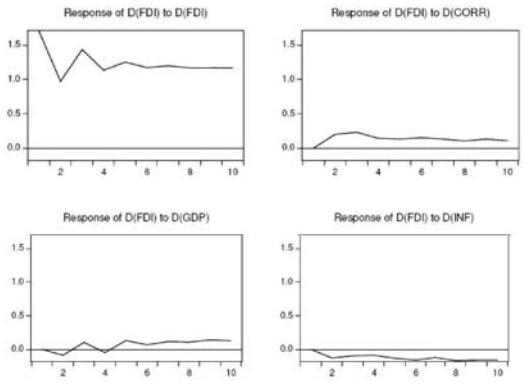

Figure 2.
Impulse Response Function

Sources : Eviews9, data processed, 2021.

According to the IRF findings, the inflation variable had a negative impact on foreign investment. From the second through the tenth period, there was a decreasing response. Meanwhile, the Corruption variable (C□□□) moved quite slowly compared to the GDP (GDP) variable, which increased at the equilibrium point in periods -4 to 10.□n the other hand, the population responds fairly well, with a large increase in the FDI variable. The growth happened from the beginning to the end of the era. Meanwhile, the analysis of variation decomposition, also known as the analysis of forecast error decomposition variance (FEDC), illustrates the effect of each variable on the independent variable, FDI. Table 10 displays the variance decomposition results.

Table 8.
Variance Decomposition : variable FDI

Variance Decomposition of D(FDI):

Period	S.E.	D(FDI)	D(CORR)	D(GDP)	D(INF)	D(MS)
1	1.702413	100.0000	0.000000	0.000000	0.000000	0.000000
2	1.982490	97.67910	1.021694	0.195241	0.408633	0.695329
3	2.473556	96.50947	1.539078	0.299784	0.405846	1.245817
4	2.745099	95.49027	1.515161	0.271688	0.427276	2.295610
5	3.048559	94.33256	1.416409	0.401454	0.529660	3.319916
6	3.301633	93.11480	1.423062	0.382952	0.685378	4.393810
7	3.546828	92.10092	1.372120	0.437225	0.705470	5.384263
8	3.771593	91.06645	1.286286	0.470098	0.815704	6.361463
9	3.987758	90.06772	1.256225	0.545369	0.888399	7.242284
10	4.193050	89.22309	1.202372	0.582996	0.946523	8.045015

Sources : Eviews9, data processed, 2021.

The analysis for the level of FDI from the shocks provided by each variable, including itself, it shown in Table 8. Table 7 shows that in the short term, in quarter □, shocks to themselves cause 9□.50 percent fluctuations in FDI levels, shocks to corruption cause 1.53 percent fluctuations in FDI. Shocks to GDP cause 0.□ percent fluctuations in FDI, shocks to FDI to inflation cause 0.4 percent fluctuation in FDI rate, and shock to population cause 1.24 percent fluctuation in FDI rate.

In the long run, however, shocks to itself resulted in lower volatility in FDI levels, but shocks to other variables led in increasing variations in FDI levels. In general, changes in the FDI level caused by shocks to the variables of corruption, GDP, and inflation are extremely minor.

CONCLUSION

According to extant literature, foreign investment significantly influences improving economic growth in emerging countries. As a result, this study is pro□ected to make a novel contribution to the literature on foreign investment and corruption through two key contributions: the use of the most recent VECM approach and the most recent period of analysis.

Despite the limits in evaluating corruption, two ma□or conclusions can be drawn from this study. Based on an examination of the relationship between corruption and foreign investment in Indonesia, the first finding reveals that corruption has a long-term impact. This is also related to Indonesia's corruption index, which is improving. The higher the CPI (Corruption Perception Index), the greater the foreign investment inflow. The policy implications of this first conclusion are related to the government's efforts to promote credibility by reducing corrupt behaviors, which can be accomplished by optimizing the usage of one-stop online-based applications for government transactions. The second finding concerns the effect of GDP, inflation, and demographic variables on foreign investment, which reveals a significant effect over time. Indonesia's burgeoning population and rising national income can entice global investment. In this circumstance, the image of the economy and the government's investment-friendly policies can serve as an entry point for foreign investment in Indonesia.

It is critical to do research on the determinants of foreign investment and corruption and the push and pull factors for the home and host countries to contribute to the literature in the future. □ther factors, such as political stability, the quality of the existing bureaucracy, and the regional investment profile, may be considered in future study on foreign investment.

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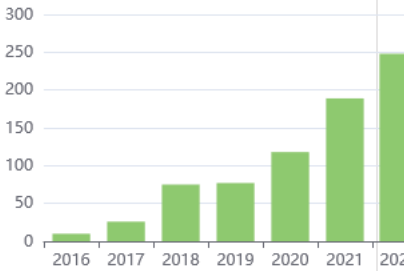

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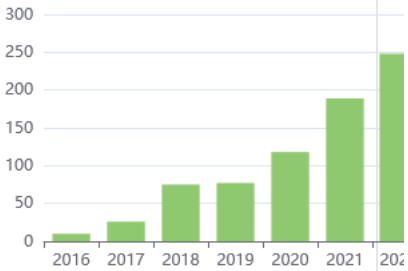

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