



The Impact of Tax Incentives and IFRS Adoption on Foreign Direct Investment in ASEAN Countries

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This study analyzes the effect of the tax incentive (proxied by tax rate and tax holiday) and IFRS adoption on the Foreign Direct Investment (FDI) in ASEAN countries by using panel data regression. This study is conducted in 9 ASEAN countries, with the timeframe of study being from 2006 to 2015. To produce a more reliable result, the study also utilised several control variables: market size, openness to trade, construction, unemployment rate, and public debt. Based on a random effect model, there are three important results. First, tax rate makes a negative impact on FDI inflows. Second, tax holiday has no statistically significant impact on FDI inflows. Third, IFRS adoption has a positive impact on the FDI inflows. The government's policy in determining the tax incentive and the decision in IFRS adoption provide an institutional advantage, which have added value to support an investor's decision to transfer FDI to the country.

Key words: *tax incentive, tax holiday, tax rate, IFRS adoption, FDI, ASEAN countries.*



Introduction

Foreign Direct Investment (FDI) is considered to be the major source of external financing for developing countries (UNCTAD, 2003, 35). FDI is a long-term capital inflow and is relatively vulnerable to economic volatility and is desirable to help drive sustainable growth in sustainable investments in emerging countries (Soekro and Widodo, 2015). On the other hand, FDI generates positive spill over, such as the technology and knowledge transfers for the host country, which lead to growing productivity of capital and labour (Hunady and Orviska, 2014). Based on the sustainable flow of FDI, which is the important part of a country's long-term development strategy, ASEAN countries agreed to include investment as one element of a single market and an international product base that is one of the four pillars of the ASEAN Economic Community.

To attract FDI, each country develops different policy, depending on the characteristics of the country. These countries are racing to improve the ease and protection of investment and liberalization as an effort to promote their territory as an attractive area to be targeted by FDI. According to the United Nations Conference on Trade and Development (UNCTAD, 2003, 142), one of the main categories of attracting foreign investment is tax incentives (such as reduced tax rates and tax holidays). In the ASEAN region, countries are applying diverse tax rates in attracting investors. Previous research, Djankov et al. (2009) and Klemm and Parys (2009) revealed that reduced tax rate makes a negative impact on FDI, on the other hand Wheeler and Mody (2012) and Hunady and Orviska (2014) revealed that reduced tax rate does not make a significant impact on FDI. Hunady and Orviska (2014) stated that if the tax rate does not significantly affect the investor's decision to make an investment, then this investment will be ineffective. While the portion of taxes that becomes the country's revenue decreases, foreign investment that enters into the country also does not grow. This is a trade-off that should not be experienced by the government.

In addition to tax rates, several countries in the ASEAN region through their fiscal policy provide tax holiday for exemption and reduction of corporate income tax. Based on previous research, Klemm and Parys (2009) state that tax holidays give a positive impact on FDI, on the other hand Wells et al. (2001) and Irawan (2013) revealed that tax holidays do not give a significant impact on FDI. In accordance with Hunady and Orviska's statement, if the tax incentive (tax holiday) does not significantly affect the investor's decision to make an investment, this is certainly a trade-off that should not be experienced by the government.



In addition to considering the effect of tax burden as a component affecting FDI, investors also pay attention to the quality of financial statements generated by companies in a country. One of the factors affecting the quality of financial statements is the accounting standard applicable in each country (Barth et al., 2007). With the growth in international trade and the development of international capital markets, there is a need internationally to raise the level of accounting practice and at the same time to obtain greater harmonization of financial statements (Aljifri and Khasharmeh, 2006). IFRS as an international standard has been implemented by a number of countries in the world with different adoption levels. According to the IFRS website, there are 142 countries that have permitted and required the adoption of IFRS until 2016

The impact of IFRS adoption on FDI inflows has been researched by several previous studies, both at company level and country level. These studies also show mixed results. Marquez-Ramos (2011), Erin, et al. (2018) and Gordon et al. (2012) found a positive relationship between the decision of the state to adopt IFRS and FDI inflows, while Lasmin (2012) and Nnadi and Soobaroyen (2015) found a negative relationship between IFRS and FDI adoption. Based on the description, many benefits provided by FDI for countries in the ASEAN region including emerging countries development (Abdul Hadi et al., 2018). Therefore, it is necessary to conduct research in support of economic development in the ASEAN region by examining the government's policy measures in the ASEAN region in terms of tax incentives represented by reduced tax rates and tax holidays in attracting foreign investors in investing in the ASEAN region. In this research, we want to capture the change of effective tax rate in the ASEAN region and the existence of Minister of Finance Regulation No. 130/PMK.011/2011 applied tax holiday in Indonesia as well as the change of tax holiday duration in the ASEAN region. In addition to this, the study measures the influence of IFRS adoption when foreign investors consider investment in the ASEAN region.

Literature Review

Foreign Direct Investment (FDI) is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country) (Moosa, 2002). The United Nations 2003 World Investment Report (UNCTAD, 2003, 249) defines FDI as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise), in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate, enterprise or foreign affiliate). The term "long term" is used in this definition in order to



distinguish FDI from portfolio investment, the latter characterized by being short-term in nature and involving a high turnover of securities.

The O-L-I theory is an eclectic approach that explains the existence of FDI in a country (Dunning, 1998). The O-L-I theory is called the eclectic approach because it explains why a company chooses FDI among other alternative alternatives. First, ownership advantage describes the competitive advantage of a company that encourages the company to engage in production outside its home country. Second, location advantage explains that a country's specific advantage creates an attraction for an enterprise outside the country to enter the host country. Third, internalization advantage describes actions to avoid disadvantages or capitalization of natural resources caused by the market price system and government policy system.

The O-L-I paradigm can be deduced as the motivation for multinational companies to choose the location of investment, namely resource seeking, market seeking, efficiency seeking and strategic asset seeking (Soekro and Widodo, 2015; Essien, et.al 2016). Resource seeking explains that investment seeks more efficient production factors in other countries compared to using more expensive domestic production factors. Market seeking explains that the company chooses a country as its investment destination because it is pursuing the market potential that exists in the country. Efficiency seeking explains that a company chooses a country as an investment destination because it wants to improve its efficiency by taking advantage of economies of scale and diversifying its assets. Lastly, strategic asset seeking explains why the company chooses to invest in a country because it wants to gain access to a technology contained in the host country that is not owned by the company.

UNCTAD (2000) defines tax incentives as any form of incentive that reduces the corporate tax burden in order to encourage these firms to invest in a particular project or sector. According to Holland and Vann (1998) tax incentives are divided into five types: tax holiday, reduced tax rates, investments allowances and tax credit, timing differences, and administrative discretion. Prasetyo (2008) explains that tax incentives are granted with the objectives of: regional investment (developing regions), sectoral investment, quality improvement (export-oriented industries in a bonded zone), and technology transfer.

The International Accounting Standards Committee (IASC) issued an accounting standard called International Accounting Standards (IAS) between 1973 and 2001. On April 1, 2001, the International Accounting Standards Board (IASB) took over the responsibility of formulating international accounting standards from IASC, now known as International Financial Reporting Standards (IFRSs). IFRS has been implemented by a number of

countries in the world, with varying adoption rates. IFRS adoption can be accomplished at five levels: full adoption, adapted, piecemeal, referenced, or not adoption at all (Panggabean, 2007; Fuyume, 2017). IFRS is compiled based on the principle-based standards. The advantage of principle-based standards over rule-based standards is that companies can implement accounting standards according to their specific characteristics, so that the resulting financial reporting will better reflect the company's economic value.

Djankov et al. (2009) examined the effect of statutory tax rate and effective tax rate on foreign direct investment (FDI) by using regression analysis. This research was conducted in 85 countries with the object of research in 2004. In this research focus on corporate tax rate and also use variable of value added tax (VAT) and other tax compliance cost as other independent variable. The results of this study indicate that the amount of tax rate both statutory tax rate and effective tax has a negative effect on FDI inflows.

Hunady and Orviska (2014) examined the effect of effective tax rates and other determinants on FDI in the EU region. The study used panel data regression in determining the determinant that has a significant influence on FDI. The study was conducted on 26 EU members in 2004-2011. The conclusion obtained by the effective tax rate has no significant effect on FDI. Significant determinants are labour cost, firing cost, openness of the economy, market size, crisis, and public debt.

Wells et al. (2001) conducted a study of the effects before and after the tax holiday abolition of 1984 in Indonesia by using regression analysis. The results of the study indicate that there is no significant change in FDI, after the existence of Law No. 7 of 1983 enacted on 1 January 1984 which abolished the tax holiday.

Klemm and Parys (2010) conducted a study to investigate whether tax incentives could be used as tools for tax competition, and to evaluate how effective tax incentives are in attracting foreign investment. They used spatial econometrics techniques for panel data to answer the first question. They deployed dynamic panel data econometrics to answer the further question. They used a dataset of tax incentives in over 40 Latin American, Caribbean and African countries. The data were obtained during the period 1985 to 2004. This study found that tax incentives were not used to attract foreign direct investment. However, it also found that lower corporate tax rates and longer tax holidays were effective to attract foreign direct investments in the Latin American and Caribbean countries but in Africa, had little effect.

Irawan (2013) conducted a study on tax incentives regarding two issues: whether the tax incentives are effective in attracting foreign direct investment in ASEAN countries and



effective tax incentives in attracting investment from the perspective of home countries, in this case Japan, South Korea, and the United States. This study uses tax incentive data from six ASEAN countries, namely: Indonesia, Malaysia, Philippines, Singapore, Thailand, and Vietnam for the period 2000-2010 using a random effect method. The finding of this study is that lower corporate tax rates attract foreign investment. From the perspective of home countries, different results are produced. For Japanese investors, low tax rates and duration of tax holiday increase their investment in host countries. For Korean investors, tax rates and tax holidays have no significant impact on FDI. For US investors, the tax rate negatively affects FDI and the insignificant tax holiday effect on FDI.

Gordon et al. (2012) tested the argument about IFRS adoption by a country and its consequent result in increased FDI inflows. The study was conducted in 124 countries during the period 1996-2009 using panel data regression. The conclusion is that IFRS adoption has a positive effect on FDI inflows of developing countries and has no significant effect on FDI inflows of developed countries.

Nnadi and Soobaroyen (2015) conducted research on the impact of IFRS adoption on FDI in African countries using panel data regression. The study was conducted in 34 countries in Africa during a period of 20 years. The conclusions are that IFRS adoption has a negative impact on FDI for African countries. Foreign investors focus more on operating costs within the IFRS regulatory environment and institutional structures, such as: the rule of law, the legal system, and the level of corruption over IFRS adoption.

In harmony with O-L-I theory, the tax aspects undertaken by a country affect the availability of a location advantage for foreign investors who want to invest. In a previous study, Djankov et al. (2009) concluded that effective tax rates negatively affect FDI in some developing countries in Latin America, the Middle East, and Africa. Similarly, Klemm and Parys' (2009) studies found that tax rates have a negative effect on FDI in African countries. Governments in developing countries tend to provide tax incentives in the form of reduced tax rates to attract investors in investing. This is due to several things, such as: lack of infrastructure, require more sophisticated technology from outside countries, and provide added value for the economy in the region of the country. On the investor side, with the tax reduction will provide a higher rate of return for those with reduced tax burden. Based on the description, the first hypothesis of this research is:

H1: Reduced tax rate is negatively significant on FDI inflows

One of the tax incentives offered is a tax holiday that attracts investors in investing in the



form of exemption and tax deduction of corporate tax. In a previous study, Klemm and Parys (2009) stated that tax holiday has a positive influence on FDI which means, the longer the tax holiday, the higher the increased FDI in a country. Governments in developing countries in ASEAN tend to extend the length of tax holiday according to the needs of each country. There are countries that provide long tax holidays based on industries that carry their technology, certain zones or areas that are considered underdeveloped, as well as in certain industries that bring strategic value to the country's economy. For the government, the tax holiday gives hope to improve certain industries and regions that provide added value for the economy of a country. For investors, tax holiday provides convenience for foreign investors because it is not necessary to calculate taxes for the beginning of operation for a certain period and further due to the impact on the increase of investment return. Based on the description, the hypotheses in this research are:

H2: Tax holiday is positively significant on FDI inflows

The decreasing inter-state boundaries seen through the growth in international trade and the development of international capital markets and the need for greater international accounting practices. Aljifri and Khasharmeh (2006) state that the development of financial accounting standards in the world increasingly leads to a single standard capable of crossing state borders and capable of producing comparable financial information, so that financial statements can be relied upon. In line with the O-L-I theory, the quality level of financial statements embodied in the adoption of IFRS conducted by a country may influence the decision on the availability of a location advantage for foreign investors wishing to invest. It is expected that by implementing IFRS can improve transparency and financial comparability and as a result, can increase FDI and international trade

H3: IFRS adoption is positively significant on FDI inflows

Methods

This study applies panel data regression method with random effect on the ASEAN region, excepting Myanmar and Timor Leste. Observations were conducted covering the period of 2006 to 2015. The test were conducted on the both hypotheses both partially and simultaneously. To ensure the best result, the regression model must pass a classical assumption test. The reason for this step is to obtain an appropriate and efficient model. Next, the interpretation of the results is deployed on independent variables that statistically has a significant impact on the dependent variable. The operational definition in a research is related to the variables used in this study. Moreover, this study involves several variables,

they are:

- **Dependent Variable**

The dependent variable in this research is foreign direct investment. FDI is measured in the form of FDI inflows to a country in billions of dollars (USD). Data source is obtained from World Bank database.

- **Independent variable**

- a. **Tax Rate**

The tax rate in this study uses the effective tax rate. The effective tax rate describes the actual tax rate that the firm must pay against the profits generated by the company. Data source is obtained from World Bank database.

- b. **Tax holiday**

Tax holiday variables describe tax exemptions granted to newly built corporations or pioneer industry by a country within a certain period (Holland and Van, 1998). Tax Holiday is measured by the average duration of tax holiday provided under the law. Data source is obtained from Earnst and Young and Price Water House.

- c. **Adoption of IFRS**

IFRS adoption was measured by dummy variables based on research by Marbun and Martani (2016). A score of “2” is awarded, if a country meets one of the following conditions: (1) a country which has fully adopted IFRS, (2) a country requires the use of IFRS for all listed companies in its country; (3) a country with accounting standards local government that has substantially been in compliance with IFRS. A score of “1” is awarded if a country meets one of the following conditions: (1) the country in which IFRS is permitted to be used voluntarily as an accounting reporting standard for a company in its country; (2) a country requires the use of IFRS as an accounting standard for a particular industry, (3) a country which in the preparation of local accounting standards refers to IFRS so that some parts of its local standards are adopted from IFRS. A score of “3” is awarded, if a country does not permit the use of IFRS as the standard of financial statement. Data is obtained from Price Waterhouse Cooper and Deloitte Touche Tohmatsu.

- **Control Variable**

- a. Market size is measured by gross domestic product in billions of dollars USD. Data is obtained from World Bank database.

- b. Openness to trade is measured by the percentage of total of exports and imports is divided by gross domestic product. Data is obtained from World Bank database.

- c. Dealing with construction permits is measured by the number of days used in

administering the permit. Data is obtained from World Bank database.

d. Unemployment is measured by percentage total of unemployment is divided by total of labour force. Data is obtained from World Bank database.

e. Public debt is measured by percentage changes of public debt is divided by gross domestic product. Data is obtained from World Bank database.

Hypothesis Model

$$\text{LnFDI}_{i,t} = \alpha_{i,t} + \beta_1 \text{TARR}_{i,t} + \beta_2 \text{HOL}_{i,t} + \beta_3 \text{ADOPT}_{i,t} + \text{Ln}\beta_4 \text{SIZE}_{i,t} + \text{Ln}\beta_5 \text{OPEN}_{i,t} + \text{Ln}\beta_6 \text{CONST}_{i,t} + \beta_7 \text{UNEMP}_{i,t} + \beta_8 \Delta \text{DEBT}_{i,t} + \varepsilon_{i,t}$$

Description:

LnFDI : Natural logarithm of foreign direct investment

TARR : Effective tax rate

HOL : Tax holiday

ADOPT : Adoption of IFRS

LnSIZE : Natural logarithm of size market

LnOPEN : Natural logarithm of openness

LnCONST : Natural logarithm of dealing with construction permits

UNEMP : Rate of unemployment

Δ DEBT : Changes of public debt

Findings and Arguments

Table 1 below presents a summary of the descriptive statistical values of each dependent variable, independent variable, and control variable over the research sample.

Table 1: DESCRIPTIVE STATISTIC

Variabel	Obs.	Mean	Median	Maximum	Minimum	Std. Dev.
Y (FDI)	90	10,623,335	5,689,364	73,986,661	87,839	16,123,456
X1 (TARR)	90	31.75	31.80	49.10	8.70	9.23
X2 (HOL)	90	6.80	6.00	15.00	0	3.65
X3 (ADOPT)	90	1	1	2	0	0.54
X4 (SIZE)	90	214,528,895	183,092,970	917,869,910	3,452,882	225,400,497
X5 (OPEN)	90	139.79	123.66	441.60	41.87	94.42
X6 (CONST)	90	193.93	147	714	35	174.46
X7	90	3.24	2.264	13.10	0.08	2.77



(UNEMPL)						
X8 (Δ DEBT)	90	(0.21)	(0.0065)	11.57	(13.51)	3.91

Based on table 1, the mean and median values show a positive direction of USD 10,623,335,388,72 and 5,689,364,993. For the minimum FDI value of USD 87,839,128.31 by Brunei Darussalam in 2006 and the maximum FDI value of 73,986,661,931.26 by Singapore in 2014. Based on this description, this indicates that foreign direct investment inflows in the ASEAN region continue to increase every year.

For the effective tax rate, the maximum value for the nine sample countries is 49.10% by the Philippines in 2007 and the minimum value of 8.70% by Brunei Darussalam by 2015. While on average, the mean value is 31.75%. From year to year, both the mean, median, maximum, and minimum values have a downward trend. This further supports the indication in the previous statement that the company better manage its tax burden and government commitment in the ASEAN region in supporting efficiency in attracting investors.

For the tax holiday, a maximum value of 15 years by Singapore in 2006 and a minimum value of 0 years by Indonesia is evident. From year to year, the value of tax holiday experienced an increasing trend. This indicates that each country provides tax holiday incentives with increasing duration to attract foreign investors (Dinu, 2015).

In terms of IFRS adoption in dummy form, a maximum score of "2" has been achieved by seven countries and a score of 1 by two countries (Thailand and Vietnam) until 2015. Mean and median scores indicate a score of "1" which means countries in the ASEAN Region are permitted to use IFRS in presenting their financial statements. The increasing trend of IFRS adoption shows that countries in the ASEAN region are beginning to adopt and implement IFRS in their country's financial standards.

To estimate a regression model with panel data, a research can employ Ordinary Least Square (OLS), Fixed Effect Model (FEM), or Random Effect Model (REM). To choose the appropriate model, this study refers to econometrics expert and statistical test. The regression model is chosen by considering Nachrowi and Usman (2006) and Gujarati (2012) formula, while a suitable statistical test model by consideration of the following: Chow test, Breusch & Pagan Lagrange Multiplier test and Hausmann test. Based on the test, it was decided to use a random effect model as the most appropriate model.

The fit of the chosen model can be seen through the coefficient of determination from R-

Squared values. Baseline R-Squared values is equal to 0.8470. This means that independent variables and control variables for baseline model are able to explain 84.70% variance of the dependent variable. It is concluded that independent variables used in the model are able to adequately explain the dependent variable. All independent variables simultaneously have a significant effect on the dependent variable as seen on the probability of F-statistic value in baseline model which is equal to 0.0000. ($\alpha=0.05$)

A pair t-test was conducted to determine the significance of independent variable partially to the dependent variable. This is presented in Table 2 below.

Table 2: T- Test Result

Variable	Coefficient	Two-Tailed Prob.	One-Tailed Prob.	α	Remarks
TARR	-0,0167726	0,086	0,043	0,05	significant
HOL	-0,0599882	0,143	0,0715	0,05	not significant
ADOPT	0,4148122	0,013	0,0065	0,05	significant
SIZE	6,07E-06	0,000	0,000	0,05	significant
OPEN	-39,73666	0,000	0,000	0,05	Significant
CONST	-0,131224	0,343	0,1715	0,05	not significant
UNEMPL	0,1345226	0,371	0,1855	0,05	not significant
Δ DEBT	-0,041131	0,045	0,0225	0,05	significant

The test results show that for the first hypothesis, results in tax rates have a negative and significant effect on foreign direct investment. The results of this test are not in line with the results of research Hunady and Orviska (2014) who state that tax rates do not give a significant effect on foreign direct investment. According to the authors, the tax rates in the Hunady and Orviska studies have no effect because the research was conducted on 26 EU countries that are known to be developed countries. This conclusion can be drawn from the average effective tax rate in 26 countries in the European region of 42%, while the average effective tax rate in the ASEAN region is 29%. It can be concluded that the tax rate does not significantly affect the developed regions of developed countries in either infrastructure or technology.

On the other hand, the test results are in line with the research of Djankov et al. (2009), Klemm and Parys (2009) and Irawan (2013) who sate that tax rates negatively affect foreign direct investment. Research conducted by the three researchers was conducted in developing countries from the Latin American region, Middle East, Africa region, as well as developing



Asian countries. According to the authors, every country in every developing region undertakes tax competition in attracting investment to its country in order to support its development and economic improvement. The decline in tax rates can be caused by several things such as: inadequate infrastructure and technology, so that the presence of foreign investment into the country will accelerate the development and improvement of a country's economy.

This result is also in accordance with the O-L-I theory that the motivation of FDI investors cannot be separated from the reason to get a high return. Based on this theory, the tax rate in a country becomes one of the considerations of investors in investing in the country in terms of location advantage. Incentives provided by countries in the ASEAN region by implementing a low effective tax rate policy to target their FDI areas can be said to be an effective option.

The decline in tax rates undertaken by countries in the ASEAN region needs to be studied also by policymakers. The existence of differences in tax rates between countries in the ASEAN region can lead to harmful tax competition between countries that could undermine the tax base. This competition can certainly hinder the investment that goes to the ASEAN region. Therefore, an ideal step is needed in maintaining neutrality in taxation in the ASEAN region by harmonizing taxes of both direct and indirect taxes. In the end, all countries in the ASEAN region can achieve the same "level playing field".

Test results on the tax holiday show that the second hypothesis is rejected which results in a tax holiday having no significant effect on foreign direct investment. The results of this test are in line with Wells et al. (2001) and Irawan (2013) who state that tax holiday has no effect on foreign direct investment.

According to Wells et al. (2001), there is no difference in internal rate of return for investors by imposing 45% tax rate with tax holiday for five years with the imposition of 35% tax rate without tax holiday in 1984 in Indonesia. Wells et al. (2001) also added that investments coming into Indonesia during that period would continue, although there is no tax holiday. This is also the case in Thailand, where the rate of return is so high that it generates incentive for foreign investors come (Halvorsen, 1995).

Tax incentives in the form of tax holiday can be ineffective if a home country applies tax credit methods in a tax treaty between the host country and home country. Application of the tax credit method by a home country can cancel the tax holiday provided by the host country because the home country will provide tax credit to the investor as long as there are taxes



actually paid in the host country.

Regarding the above tax credit problem, the government can use tax sparing in supporting the performance of tax incentives, especially tax holidays provided by a host country. In the presence of tax sparing clauses in the tax treaty, the home country must provide tax credits on taxes that are not actually paid in the host country for obtaining tax incentive facilities in the host country. Countries in the ASEAN region should also seek potential investor countries that add value to the domestic economy and make tax sparing clauses in the tax treaty provisions (Al Shubiri, 2016). In addition, the government should project the tax expenditure of this policy by juxtaposing the "subsidy cost" or tax receipts lost with benefits that can be obtained from the tax holiday policy. The existence of such analysis can calculate the duration of tax holiday which will give the largest net benefit for countries in the ASEAN region.

The results of IFRS adoption testing show that the third hypothesis investigation resulted in the finding that IFRS adoption has a positive and significant influence on foreign direct investment. The results of this test are in line with Marquez-Ramoz (2011) and Gordon et al. (2012) stating that IFRS adoption has a positive effect on foreign direct investment. Both research sets were conducted in developing countries (according to World Bank and UNCTAD). This supports the need for the assurance of a quality financial report presented by companies in a country with respect to an investors' decision to invest in the country. Quality reports can be achieved if there is a harmonization process in adjusting the local accounting standards of a country to IFRS international standards. Implementation of the harmonization process facilitates investors in the comparison and improvement of the transparency of financial statements and appropriate invest decisions appropriately in a country.

In the Asean Statistical Yearbook 2015, the investor countries that investd in foreign direct investment in ASEAN region are Australia, Canada, New Zealand, EU-28 and South Korea. These countries have full adoption of IFRS. The existence of standard uniformity between host country and home country will make it easier for investors to access the same public information and will improve the comparability of financial statements through provision of quality information on international capital markets.

In addition, IFRS is based on the principle of detailed disclosure of relevant and timely information on estimates made with professional judgment. The quality of disclosure is a key element of transparency developed by IFRS (Daske and Gebhardt, 2006). There is good transparency providing a strong link between the reported financial reporting information and firm value. The uniformity of accounting standards can also lower the company's costs in



processing financial information using local standards to process information in accordance with international standards when reporting to foreign investors. On the other hand, investors can lower the cost of accessing information in a country due to uniform standards. So, both the company and investors can save costs on processing and accessing a company's information.

The positive impact of IFRS adoption on foreign direct investment in ASEAN region can be addressed by a country's accounting standard board. The Accounting Standards Board can provide education to companies, public accountants in the form of seminars, workshops, and public hearings about the benefits of IFRS. To disseminate local accounting standards that have adopted IFRS on a large scale, local accounting standards for each country should be made public goods. This needs to be done, so that everyone can access the rules of local accounting standards for free in understanding the content of these accounting standards

Conclusion

The results of this study indicate that tax rate has a negative effect on FDI inflows. This is an input to the government in the ASEAN Region in that the determination of effective tax rates are low enough to significantly increase FDI inflows. However, it is necessary to harmonize tax rules to prevent harmful tax competition between countries in the ASEAN region. Tax holiday has no significant effect on FDI inflows. This shows that the tax holiday is not a consideration for investors in investing in the ASEAN region as well as it being an unfavourable trade-off for the government in terms of the erosion of tax revenues. Therefore, countries in the ASEAN region should look for a potential home country that adds value to the host country and makes tax sparing clauses in their tax treaty provisions. This would be intended to give investors confidence that the tax exemption in a host country can be enjoyed because the host country provides tax credits on taxes that are not actually paid. In addition, the government also needs to do cost benefit analysis to calculate the duration of holidays that will provide the largest net benefit for countries in the ASEAN region.

The results of this study also indicate that IFRS adoption in the ASEAN region has a positive effect on foreign direct investment inflows. The results support that the harmonization of local standards toward IFRS standards will increase the value of foreign direct investment. The uniformity of accounting standards will make it easier for investors to compare information and gain transparency over adequate disclosure, thereby decreasing the cost of accessing information in a country. On the other hand, companies can improve the efficiency of the financial information process beyond standard uniformity. Therefore, the Accounting Standards board can educate companies, public accountants in the form of seminars,



workshops, and public hearings about the benefits of IFRS. Additionally, the government can fund local accounting standards that have adopted IFRS into public goods, so that everyone can access local accounting standards for free.

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