

ANALYSIS TOWARDS THE IMPACT OF EATR ON FOREIGN INVESTMENT

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ABSTRAK

Penanaman modal asing memiliki posisi penting bagi pembangunan ekonomi suatu negara karena dapat mendukung percepatan pertumbuhan ekonomi negara tujuan penanaman modal. Berdasarkan hal tersebut, banyak negara berlomba mendapatkan penanaman modal asing dengan menetapkan berbagai insentif investasi, salah satunya adalah insentif pajak berupa tarif pajak yang rendah. Oleh karena itu, penelitian ini dilakukan dengan tujuan untuk menganalisis bagaimana dampak insentif pajak terhadap penanaman modal asing. Dalam mengukur efektivitas insentif pajak tersebut, umumnya dilakukan menggunakan rendahnya nilai Statutory Tax Rates. Namun demikian, penelitian ini menunjukkan bahwa ukuran yang lebih tepat digunakan adalah Effective Average Tax Rates (EATR), karena EATR dinilai mampu menjelaskan bagaimana dampak insentif pajak yang diterima oleh penanam modal. Penelitian ini menggunakan data panel 70 negara dari tahun 2017 sampai dengan tahun 2020. Data diolah dengan metode OLS, Fixed Effect dan Generalized Method of Moment (GMM). Dari hasil penelitian dapat disimpulkan bahwa Effective Average Tax Rates memiliki dampak negatif dan signifikan terhadap penanaman modal asing. Semakin tinggi nilai Effective Average Tax Rates pada suatu negara maka akan menyebabkan penanaman modal asing yang masuk ke dalam negara tersebut menjadi lebih kecil.

Kata kunci: tarif pajak rata-rata efektif; penanaman modal asing; kemudahan berusaha; regresi data panel.

ABSTRACT

Foreign investment has important role for economic development of a country due to its capabilities to support the acceleration of economic growth in the country as an investment destination. According to these statements, many countries are competing to get foreign investment by setting various investment incentives, one of that is through tax incentives in the form of low tax rates. Therefore this research was conducted with aims to analyze further in how the impact of tax incentives towards foreign investment. In assessing the effectiveness of these tax incentives, it is usually done by low value of Statutory Tax Rates. However, this research indicates that the proper measure to use by Effective Average Tax Rates (EATR) because EATR is considered effective in describing the impact of tax incentives received by investors. This research used panel data from 70 countries from 2017 to 2020. Then these data was processed through OLS, Fixed Effect and Generalized Method of Moment (GMM) methods. From these results it can be concluded that Effective Average Tax Rates have negative and significant impact on foreign investment. The higher the value of Effective Average Tax Rates in a country, the smaller the foreign investment will entering the country.

Key words: effective average tax rate; foreign investment; ease of doing business; panel data regression.

INTRODUCTION

Foreign investment has an important part in the economic development of a country because it can increase the economic

growth of investment in a country. Foreign investment can support the high economic growth of a country by increasing capital accumulation, productivity efficiency, mix-

ing technology and the introduction of new methods and procedures (Nga, 2019; Taylor, 2020). The importance of foreign capital will creates several countries are compete to provide a good business climate for investors through various instruments. The entry of foreign investment into a country could be influenced by various determining factors such as institutional factors, infrastructure factors, macroeconomic factors or even the independence factor of a country (Blonigen and Piger, 2014; Epaphra and Masawe, 2017; Xu, 2019). However based on UNCTAD, one of the government's instruments in attracting foreign investment is tax policy. Based on the World Investment Report in 2020, tax policy is one of the attractions for foreign investors to invest in a country (UNCTAD, 2020). The OECD and IMF through their report in the G20 Finance Ministers and Central Bank Governors also stated that tax is one of the important factors to be considered when deciding to invest in a country (OECD and IMF, 2017).

Tax policies are effective in influencing the investment costs and decisions, by providing economic benefits to investing countries and supporting competitiveness between countries. Tax policy is effective in affecting the amount of investment costs through the rental value of capital input and determination of the right investment time (Chang and Riew, 2019). The amount of tax will make investment costs even greater, so investors are reluctant to invest. The government will captivate the foreign investment by providing adequate economic benefits for investor companies through offering a competitive tax climate (Mohs et al., 2016). Countries in the world have introduced tax policies on a large scale and cutting-edge as a form of competition in investment (Junquera-Varela et al., 2017).

One of tax policies which adopted by many countries is to lower tax rates. Reducing tax rates can increase taxpayer compliance, expand the tax base and attract investment. The high tax rate will be burden to the company therefore there's so many of

them choosing to avoid the taxes which causing the taxpayer compliance is in low. Conversely, a low tax rate will reduce the tax burden so that companies no longer avoid taxes and taxpayer compliance will be increase (Okpeyo et al., 2019). The lost income from low tax rates can be solve by expanding the tax base, better compliance and stricter law enforcement (Akitoby, 2018) and also by attracting the investment (Ohrn, 2018).

The tax rates that apply to a country usually based on the Act which called Statutory Tax Rates (STR). In order to allure the foreign investors, there are variations in STR around the world. In addition to variations in STR, there has actually been a change in certain tax policy regimes that cannot be captured by STR. For example, between 2005 and 2009, The British Virgin Island, Guernsey, Jersey, and The Isle of Man changed the STR to 0%. However, before changing the STR to 0%, some of these countries have implemented special policies in the form of low tax rates for companies that meet certain requirements.

Meanwhile, Andorra and Maldives made changes to their corporate tax policies by switching from zero to positive tax rates (10% in Andorra from 2012 and 15% in Maldives from 2011). Prior to the rate change, they also introduced a corporate tax system which offered eligible companies lower rates. From this example, it is shows that STR cannot provide a complete picture of tax burden faced by companies in a country because it cannot capture certain rates that apply due to special policies in taxation.

Some countries impose tax regimes with lower tax rates for certain types of companies or certain types of income, such as Uzbekistan which provides incentives in the form of reducing the taxable income base for 7 years to those companies which engaged in the textile industry, Panama provides different tax rates for businesses in the fields of tourism, agriculture and plantations, in addition Poland provides incentives for research and development of robotic technology. Other countries, have progressive

tax rate structures or different regimes for small companies or large companies. For example in Indonesia, Micro, Small and Medium Enterprises (MSMEs) have a reduction facility in the form of lower tax rates compared to businesses with larger sizes. The reduction is not the same as the STR applicable in Indonesia. Based on this statement, the STR is the initial benchmark of a country's taxation, but it cannot describe the actual tax burden because it did not reflect special rates for certain industries or certain types of income, nor considering the applicable rates based on firm sized base.

Taxes will affect the investment decisions. In measuring the impact of taxes on foreign investment, many previous research have used Statutory Tax Rates as a determining variable for the entry of foreign investment (Abdioğlu et al., 2016; Chang and Riew, 2019; Skeie, 2017) and many others use STR in their research and states that taxes have a negative affect on foreign investment. Whereas based on the explanation above, the STR provides the value of the applicable tax rates in a country, but cannot describe tax incentives in the form of special rates that can apply to various types of companies with different business characteristics.

Besides STR, there are other tax-related parameters that can explain how the impact of taxes on foreign investment is the Effective Average Tax Rate (EATR). According to the research from Esteller-Moré et al. (2021), and Hanappi (2018) estimates EATR using the forward looking method by combining information on tax regulations (incentives such as deductions and allowances) with a specific set of information at the asset level and other economic assumptions (such as tax rates of returns and depreciation of the economy) and presents an alternative to capture the impact of taxes on investment.

EATR measures the impact of taxes on investment according to a comparison of the current investment value before and after tax, and divided by the current rate of return (Hanappi, 2018). This indicator used to analyze investment locations, such as when

the multinational companies are faced with several investment choices and should be decide to place capital in one of the investment locations that provide benefits.

OECD in its 2021's Corporate Tax Statistics Third Edition states that the EATR estimated by Hanappi (2018) is more capable to explain the impact of taxes on investment than the STR. The EATR provides a reasonable basis for cross-regional comparisons of how corporate taxes impact the investment decisions and provides an precise indicator of tax policy than the STR (OECD, 2021). Therefore, the research in how the taxes affecting foreign investment could be done better by EATR rather than STR. To learn further relates to the difference between STR and EATR, please kindly check the table below which present the comparison between these two which happened in several countries during 2020.

In Hanappi's framework (2018), EATR measures the impact of taxes on investment by comparing the current value of investments before and after taxes. In order to illustrate the correlation between EATR and foreign investment exists in the world, the author makes a comparison of the conditions of EATR and foreign investment from 2017 to 2020 in 4 countries, namely the United States, China, India and Indonesia.

In figure 1, EATR in the United States tends to be stable and foreign investment is falling. In China, EATR tends to be stable and foreign investment is rising. Then in India, EATR tends to fall and foreign investment rises. Meanwhile in Indonesia, EATR tends to decrease and foreign investment declines.

From the Figure 1 above, the correlation between EATR and foreign investment is ambiguous and cannot be ascertained because it has different conclusions in each condition. Based on this statement, a research question arises, such as how is the relations between taxes and foreign investment when using the EATR framework as estimated by Hanappi (2018)?.

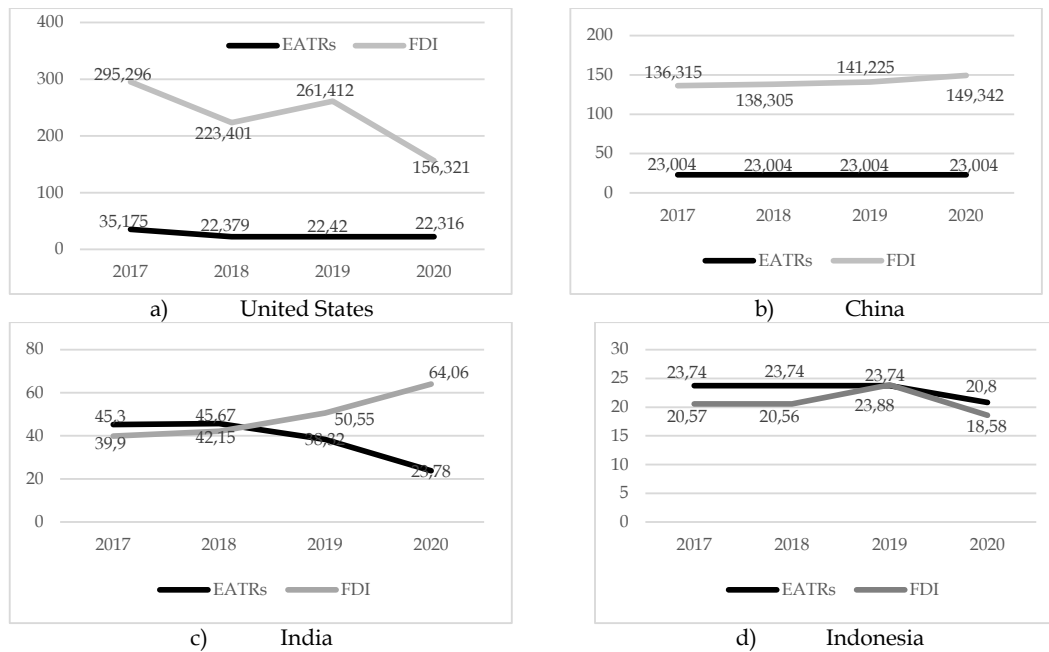


Figure 1
EATR conditions and foreign investment from 2017 until 2020 in the United States, China, India, and Indonesia

Source: OECD and World Bank (2021)

A comparative picture alone is not enough to determine the impact from EATR to the entry of foreign investment into a country. Therefore, in order to answer this questions and ascertain how the correlation between taxes and foreign investment is based on once using the EATR framework which estimated by Hanappi (2018), it is necessary to conduct empirical research.

Previous research on the impact of taxes on foreign investment has focused more on STR than EATR, whereas according to the 2021's Corporate Tax Statistics, EATR is considered better in explaining the tax incentives received by investors so as to be able to describe the actual tax burden. Therefore, in this research, the author uses the Effective Average Tax Rates (EATR) estimated by as the main explanatory variable so it can get better insight relates to the tax incentives felt by investors. This study did not estimate the impact of STR on foreign investment because it did not describe the actual tax burden faced by investors.

In addition, many previous studies on how the impact of taxes towards the foreign investment are only used 1 country or 1 group of countries as research samples. Therefore, the next novelty in this research is the use of panel data as a research sample in the form of 70 data from 2017 to 2020 so it can produce more varied and informative research data.

LITERATURE REVIEW

The theory which explains how investment will react to taxes was initiated in Jorgenson's research (2018). Based on neoclassical investment theory, the theory states that capital accumulation will occur as long as profits exceed costs. According to this theory, if the tax reduction decreases the user cost of capital, then the investment will increase. Furthermore, based on this theory, the international tax competition model are examines in how countries regulate corporate income tax rates in the context of international competition. Mohseni Maleki (2021) defines that countries with higher corporate

tax rates will receive lower foreign capital, in line with increased capital costs and vice versa, those countries which has lower corporate tax rates will get more foreign capital. As it shown as in the figure 2.

The corporate tax rate reveals the investment. The taxes variable has a significant affect on foreign investment in seven developed countries and the United States (Esteller-Moré et al., 2021). The prevailing corporate tax rate has a large and significant detrimental affect on corporate investment (Djankov et al., 2022).

Low tax rate is one of the attractions for foreign investment in a country. Low tax rates will attract foreign investment into a country (Fernandez et al., 2020; Ta et al., 2020). Taxes have a negative affect on foreign investment. The higher the tax rate, the smaller the foreign capital entering a country (Skeie, 2017). However, there are different research results which occurs lately, namely taxes did not influence the foreign investment in a country. The tax rate did not affect the foreign investment in a country (Kinda, 2018; Sujarwati and Qibthiyah, 2020). These study used STR as the main explanatory variable.

Besides STR, there is a method to explain tax rates, namely the Effective Tax Rate (ETR). Previous research analyzing the impact of ETR on Foreign Investment stated that ETR had a negative impact on Foreign Investment (Gale and Haldeman, 2021; Saleem et al., 2021; Slemrod, 2018).

The development of research relates to the impact of effective tax rates on foreign investment are continues over time. Esteller-Moré et al. (2021) divide ETR into Effective Average Tax Rates (EATR) and Effective Marginal Tax Rates (EMTR) and state that EATR has a negative influence on investment decisions in several areas of investment destination choice.

Based on Esteller-Moré et al. (2021), and Hanappi (2018) also estimates EATR and EMTR through the forward looking method, namely by entering tax and economic parameters into the equation. The estimation results of Hanappi (2018) are used as a reference for OECD in calculating the Effective Average Tax Rates in the Corporate Tax Statistics Third Edition. The OECD (2021) states that EATR is a variable that worth as the basis for comparison of investments between countries because it can describe the current rate of return and tax incentives that will be obtained by investors.

Based on the literature review, the research in how the tax impact on foreign investment uses EATR with the forward looking method of Hanappi's estimation (2018) as the main explanatory variable so that it can explain the tax incentives received by the company and describe an actual tax burden.

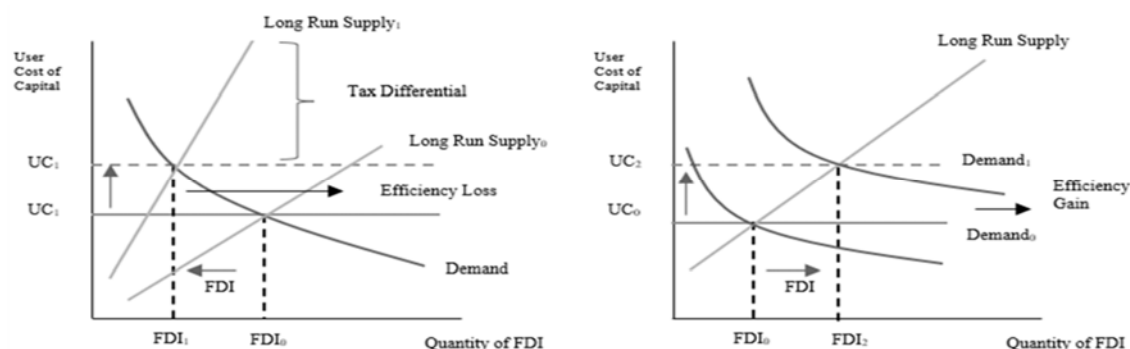


Figure 2
Tax on Foreign Investment

Source: OECD and World Bank (2021)

Seeing the EATR which estimated by Hanappi (2018) affecting the foreign investment, then ease of doing business variable will be added to the research model. Furthermore, these interaction variable between EATR and ease of doing business are made. The interaction variable used in order to see how the impact of EATR on foreign investment in countries that have ease of doing business. The estimation results are expected to show whether the ease of doing business are to strengthen the impact of EATR on foreign investment or weaken it. In previous studies, ease of doing business has a significant positive impact on the foreign investment. Research on the impact of ease of doing business on foreign investment across countries in the world was conducted by Corcoran and Gillanders (2015) in the period of 2004 to 2009 and Hossain et al. (2018) in the period 2011 to 2015, both concluded that there was a significant positive correlation between ease of doing business and foreign investment.

In terms of control variables, the authors used institutional variables (INST), Gross Domestic Product per capita (GDP), Openness (OPEN) and infrastructure quality (INFR). The institutional indicators used in this research were developed by (Bilan et al., 2019). The quality of a country's institutions has a positive and significant impact on foreign investment (Sabir et al., 2019). The institutional indicator that will be used in this research is the Control of Corruption index. Control of Corruption is the perception of the extent to which government power is exercised for personal gain, including petty and major corruption. Data were obtained from Worldwide Governance Indicators (WGI) throughout the observation period. Belgibayeva et al. (2019), Epaphra and Massawe (2017) use the control of corruption index and concluded that control of corruption has a positive affect on foreign investment.

In general, gross domestic product is the market value of all goods and services produced by a country in a certain period.

Meanwhile, GDP Per capita is obtained by dividing the value of gross domestic product at constant prices by the total population. Amponsah and Garcia-Fuentes (2017) were examined the impact of gross domestic product per capita on the entry of foreign investment in 40 Sub-Saharan Africa (SSA) countries from 1981 to 2013 and concluded that GDP Per capita had a significant positive impact on foreign investment.

In addition, a country's openness can be interpreted as the percentage value of exports and imports, compared to the total Gross Domestic Product. One of the objectives of foreign investment is to expand markets in other countries, so the host country's openness to international trade is required. The more open a country is, the greater the foreign investment that will enters the country (Dj Julius, 2017; Rajneesh, 2017). The economic openness of a country is a potential factor to attract foreign investment (Maryam and Mittal, 2020).

Furthermore, the quality of infrastructure is added to the model because it has a positive impact in attracting foreign investment. The better quality of infrastructure will improve the investment climate in a country because the cost of foreign investment will decrease so the rate of return on investment will increases (Nketiah-Amponsah and Sarpong, 2019; Wekesa et al., 2016). This research used the availability of internet networks in the sample countries. The selection of the internet as an infrastructure proxy is based on research Yin and Choi (2022) which declared that the internet is an important determinant factor of infrastructure that affects foreign investment.

Research Hypothesis

This research were analyzes in how the impact of EATR on the foreign investment. Allegedly, EATR has a negative impact to foreign investment, so the hypothesis in this research are the EATR has a negative impact on foreign investment. The higher the effective average tax rate, the smaller the foreign investment which received by a country.

The hypothesis relates to the impact of EATR to foreign investment is in accordance with the research by Egger et al. (2020) who used EATR in their research and stated that the effective tax rate has a negative affect on foreign investment in OECD countries.

RESEARCH METHOD

Research Model

The model in this research could be define as follows:

Model 1:

$$\ln FDI_{it} = \alpha_i + \beta_1 EATR_{it-1} + \beta_2 INST_{it-1} + \beta_3 \ln GDP_{it-1} + \beta_4 \ln OPEN_{it-1} + \beta_5 \ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(1)$$

Model 2:

$$\ln FDI_{it} = \alpha_i + \beta_6 EATR_{it-1} + \beta_7 EODB_{it-1} + \beta_8 (EATR * EODB)_{it-1} + \beta_9 INST_{it-1} + \beta_{10} \ln GDP_{it-1} + \beta_{11} \ln OPEN_{it-1} + \beta_{12} \ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(2)$$

Model 3:

$$\ln FDI_{it} = \alpha_i + \beta_{13} EATR_{it-1} + \beta_{14} EODB_{it-1} + \beta_{15} (EATR * EODB)_{it-1} + \beta_{16} INST_{it-1} + \beta_{17} \ln GDP_{it-1} + \beta_{18} \ln OPEN_{it-1} + \beta_{19} \ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(3)$$

Description

FDI	: Foreign direct investment
EATR	: Effective Average Tax Rates
EODB	: Ease of doing Business
(EATR * EODB)	: Interaction variable of tax rate and ease of doing business
INST	: Institutional indicators (corruption control)
GDP	: Gross Domestic Product per capita (GDP Per Capita)
OPEN	: Openness of the country, Ratio of Exports and Imports to Gross Domestic Product
INFRA	: Infrastructure Indicator (availability of secure internet network)
ε	: Error
i	: Observation Unit (Country)
t	: Observation Period (Years)
$t - 1$: 1 period before t period

In general, the model in this research is in accordance with the model by Mistura and Roulet, (2019) which examines the determinants of the entry of foreign investment in OECD and non-OECD countries through an explanatory variables in the previous period.

All explanatory variables in the research are one-year lagged variables, because the impact of the explanatory variables on foreign investment did not occur in the same period. In addition, the use of the model are also aims to avoid the problem of reverse causality. For example, EATR in 2017 did not have a direct impact to the foreign investment in the same year, but instead had an impact on the next period, namely 2018. Furthermore, foreign investment in 2018 had no impact to the EATR in 2017 or there was no reverse causality.

The newness in this study is the modification of the model by adding EATR in Hanappi's framework (2018) as the main variable, adding the interaction variable between the effective tax rate and the ease of doing business, and expanding the research sample to 70 countries. The availability of infrastructure in a country which increases every year as a control variable already represents the passage of time, so these research model actually did not use a year dummy.

Operational Research Variables

The dependent variable in this research is the value of foreign investment. The main explanatory variable in this study is the Effective Average Tax Rates which estimated by Hanappi (2018). The next independent variable is the ease of doing business of a country. Furthermore, there is an interaction variable between EATR and the ease of doing business (EODB). This variable then become a modified variable that was created to see how the impact of ease of doing business when tax policy regime is enacted that produces a certain EATR in a country.

The control variables in this research are consists of institutional indicator variables, GDP Per capita, the level of state openness and Infrastructure indicators.

Research Data

This research used panel data from 70 countries with time span of 2017 to 2020. Foreign investment data, ease of doing busi-

ness, Institutions quality, GDP per capita, openness and quality of infrastructure are obtained from the World Bank database, while EATR data was obtained from the OECD database.

Estimation Method

This research used panel data regression because it has varies between regions and times. The use of panel data allows reducing the bias of the research results. Panel data will provide complete information which is more varied and did not contain collinearity, greater level of freedom and more efficient (Gujarati, 2021). In this research, it is possible that there is unobserved heterogeneity, namely the determinants of foreign investment which cannot be observed such as advertising costs to attract investors, investment risk and so on. Unobserved heterogeneity will enter into an error and which feared that this error will correlated with the main explanatory variable. Therefore, the author will use the Fixed Effect Model in the estimation process to overcome the relation between unobserved heterogeneity and explanatory variables. Fixed Effect is a consistent and precise estimator to overcome the unobserved heterogeneity (Ullah, 2021).

In addition, this research used Instrumental-Variable Regression with Generalized Method of Moments (GMM) Estimator to handle the possibility of endogeneity and heteroscedasticity problems in the model. Endogeneity in the econometric model often occurs when the explanatory (independent) variable is correlated with the residual or better known as the error term (Ullah et al., 2021). From this research, it is suspected that EATR is endogenous. The proper estimation that suitable to use namely the model which have endogenous variables is regression with instrument variables. The use of instrument variables is one of technique used to overcome the problem of endogeneity. Furthermore, the GMM Estimator is chosen to overcome the possibility of heteroscedasticity problems in the estimation process.

ANALYSIS AND DISCUSSIONS

Descriptive Statistics

Descriptive analysis is part of explaining the basic features which exist in a data used in this study. Overall, the data used are data for the period from 2017 to 2020. An overview of the data used in the study is presented through descriptive statistics in table 1. FDI or Foreign Direct Investment that used in this research is the value of foreign direct investment in stocks of a country. The value of foreign capital could be obtained in millions of United States Dollars and then transformed into natural logarithm value to overcome the possibility of an abnormal distribution of errors. The use of value of foreign direct investment in stocks are related to literature which states that foreign direct investment in stocks is the best measurement method. Foreign investment in stock is the best measurement to assess the capital ownership (Esteller-Moré et al., 2021). Stocks are much better than flows (FDI Inflows) which sometimes depend on one or two major take overs, especially in relatively small countries (Saleem et al., 2021). Foreign investment data in this research was obtained from the World Bank database. This data was taken during 2017 until 2020. The smallest value of foreign investment in the natural logarithm is 6.7 while the largest is 16.19.

EATR or Effective Average Tax Rates could be measure the impact of taxes on investment in a country. EATR data was obtained from the OECD database throughout the research period, namely 2017 to 2020. Initially, there were 280 EATR observation units available in this research. The lowest value for EATR is 0% while the highest one is 45.67%. Several countries have 0% tax rate, including the Cayman Islands and the Turks and Caicos Islands. In order to avoid problems in estimation, EATR with a value of 0% will exclude from the estimation, so there are only left 271 EATR observation units with the highest value in the sample owned by India at 45.67% in 2018 and the lowest being 9.09% owned by Bulgaria in 2019.

Table 1
Descriptive Statistics

Variable	Number of Observations	Average	Standard Deviation	Minimum	Maximum
FDI	272	11.71	1.86	6.70	16.19
EATR	272	22.13	8.38	9.09	45.67
EODB	261	72.67	9.52	36.2	87.01
EATR * EOD	261	1651.23	493.58	648.21	3115.24
INST	272	0.68	0.94	-1.41	2.27
GDP	279	26.02	2.05	20.74	30.69
OPEN	268	0.97	0.60	0.24	3.80
INFRA	279	8.64	2.46	0.93	12.53

Source: Output Stata (2022)

Model Validation

To examine the robustness of the model and ensure that the model used is valid, so the authors conducted a robustness check through fixed effect. The endurance test model in this research was carried out by adding control variables one by one into the estimation. And the results show that the addition of control variable makes the R-Square increase, meaning the model is getting better in explaining the impact of EATR on foreign investment. When the control variables were added, the direction and magnitude of the coefficients of the main explanatory variables did not change significantly, this indicates that the model are overall robust. While at GMM, several tests were conducted in order to reveals whether the estimation were good, including the under identification test (Kleibergen-Paap rk LM statistic), Weak identification test (Cragg-Donald Wald F statistic), Stock-Yogo weak ID critical values examination and Hansen J statistics. The result tells that there are no under identification or over identification problems and the instrument variables used in these estimation were valid.

Estimation results of Model 1 (Without Interaction Variables)

Model 1

$$\ln FDI_{it} = \alpha_i + \beta_1 EATR_{it-1} + \beta_2 INST_{it-1} + \beta_3 \ln GDP_{it-1} + \beta_4 \ln OPEN_{it-1} + \beta_5 \ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(1)$$

This research aims to reveals the impact of EATR on the entry of foreign investment. This research uses panel data containing data from 70 countries during period 2017-2020. The model in this research used explanatory variables from the previous period to avoid the possibility of reverse causality problems. The use of EATR in previous period was according to prior research which stated that foreign investment was determined by factors that existed in the previous period (Mistura and Roulet, 2019). The estimation Model 1 in this research was performed by OLS, Fixed Effect and GMM.

The estimation results (table 2) by OLS indicates that statistically EATR has no affect on the entry of foreign investment. Control variables in the form of institutional quality, Gross Domestic Product and infrastructure quality shows a positive and significant impact in attracting foreign investment.

Conducted an assessment on model 1 with Fixed Effect. The Estimation through Fixed Effect can overcome the bias which caused by the unobserved heterogeneity. The estimation results from model 1 based on Fixed Effect are as follows.

Table 2
Estimation result of Model 1
(Without EATR Interaction Variables and Ease of Doing Business)

Variable	Information	OLS	Fixed Effect	GMM
EATR	Effective Average Tax Rate	0.0032935 (0.0078424)	-0.0088674* (0.0045213)	-0.1604181*** (0.0244971)
INST	Institutional Indicator	0.0901735* (0.0499547)	0.0244097*** (0.0046225)	0.2673742*** (0.0595699)
GDP	GDP Per Capita	0.9259649*** (0.0348203)	0.8493482*** (0.2043565)	0.9704089*** (0.0533809)
OPEN	State openness	1.047059*** (0.1282464)	0.8938516** (0.3941228)	
INFRA	Infrastructure Indicator	0.076407** (0.0296416)	0.0576689** (0.0247507)	
Constanta		-13.06276	-10.62105	-10.08577
R-Square		0.8324	0.8348	0.9873

Source: Output Stata (2022)

EATR, Effective Average Tax Rates have a negative and significant affect on the entry of foreign investment, meaning that an increase in 1 unit % of EATR will reduce foreign investment by 0.0088%. The negative correlation between EATR and foreign investment in the estimation results shows that an increase in EATR in a country will reduce foreign investment into that country. These estimation results are in accordance with the research from (Egger et al., 2020). EATR in a country is influenced by the tax incentives that apply to that country. The greater the tax incentives provided by the government, the smaller the EATR value and vice versa. The increase in EATR indicates the country is enforcing incentives in smaller amounts than before. The lack of tax incentives creates prospective investors feel reluctant to invest in that country.

INST, nstitutions in this research are represented the quality of a country in controlling corruption. The results showed that the institution had a positive and significant affect on the entry of foreign investment. An increase by 1 point in a country's control of corruption index will increase the foreign investment by 2.44%. The estimation results show that foreign investment is sensitive to changes in the

quality of institutions. The better the quality of the institution, which is indicated by the high quality points of the institution, the greater the incoming foreign investment. Investors will look for investment destinations that have high institutional quality so that business processes will be better. The estimation results on this variable are in line with the research results by Epaphra and Massawe (2017).

GDP, Gross Domestic Product Per Capita (GDP Per Capita) describes people's purchasing power. GDP Per Capita has a positive and significant impact on foreign investment. A 1% increase in Gross Domestic Product will increase foreign investment by 0.84%. The results of this research indicates that the higher the GDP Per Capita of a country, the higher the foreign investment entering the country. GDP Per Capita with a large number illustrates the purchasing power of the people who are quite high. Investors are interested in investing in countries which has relatively high purchasing power. The results of research on this variable are in accordance with the research results by Alshamsi et al. (2015).

OPEN, openness in a country (Openness) are calculated by making a per-centage of exports and imports of Gross Domestic

Product. The estimation results of model 1 show that openness has a positive and significant affect on the entry of foreign investment. A 1% increase in a country's openness will increase foreign investment by 0.89%. The more open a country's trade will facilitate international transactions. The ease of trade across countries will increase mobility and removes barriers in the form of tariffs and non-tariffs so that it will attract foreign investment into a country. These results are in line with the research from Rajneesh (2017).

INFR, the quality of infrastructure in this research means by the availability of a secure internet network in a country. Infrastructure has a positive and significant affect on the entry of foreign investment. A 1% increase in infrastructure quality will increase foreign investment by 0.057%. Good infrastructure will facilitate business and reduce operational costs in a country. Low operating costs will attract investment. Therefore, by improving the quality of a country's infrastructure will attract investors to invest their funds in that country. The estimation results for the infrastructure variable above are in accordance with the research by Nketiah-Amponsah and Sarpong (2019). Overall, the research results in model 1 are in accordance with the research hypothesis.

Furthermore, Instrumental-Variable Regression with GMM Estimator was carried out in model 1. Instrumental-Variable Regression was carried out to overcome the possibility of endogeneity problems in the model and GMM Estimator was chosen because it can sort of Heteroscedasticity problems. The instrument variable used in the estimation of GMM is the country's Openness and Infrastructure variable. Karimi and Taherzadeh (2016), Yoshino and Abidhadjaev (2016) stated that the openness of a country and the quality of infrastructure will affect the taxes. The following statements are the estimation result of model 1 based on Instrumental-Variable Regression with GMM Estimator.

EATR, effective Average Tax Rates have a negative and significant affect on the entry of foreign investment, meaning that an increase of 1 unit % of EATR will reduce foreign investment by 0.0088%. The higher the EATR, the lower the foreign investment in a country. The high EATR illustrates that the country has a small amount of tax incentives and the tax burden borne by the company becomes larger. Investment companies will look for investment destinations that provide large returns at low costs. The large investment burden and low tax incentives can reduce the attractiveness of a country in attracting foreign investment. The estimation results are in accordance with the research by Egger et al. (2020).

INST, institutions in this research are represented by the quality of a country in controlling corruption. The results showed that the institution had a positive and significant affect on the entry of foreign investment. An increase of 1 point in a country's control of corruption index will increase foreign investment by 26.73%. The estimation results show that the higher the quality of a country's institutions, the more foreign investment that enters the country. The quality of institutions describes how well the governance of a country is. Investors will look for investment destinations that have good institutional quality so that business processes are more efficient and have less risk. The estimation results on this variable are in line with the results of the research by Epaphra and Massawe (2017).

GDP, people's purchasing power which represented by Gross Domestic Product Per Capita (GDP Per Capita) has a positive and significant impact on foreign investment. A 1% increase in Gross Domestic Product will increase foreign investment by 0.97%. The estimation results show that the higher the GDP Per Capita of a country, the higher the foreign investment to entering the country. Investors will consider the purchasing power of the people in the country when investing. The results of research on this

variable are in accordance with the research by Alshamsi et al. (2015).

In general, the estimation of model 1 with fixed effects and GMM gives results which are in accordance with the theory and previous research in how the impact of taxes on foreign investment. The main explanatory variable in the model 1 is EATR, but the estimation results show that the dominant factor influencing the entry of foreign investment is the quality of a country's institutions because it has the greatest influence value among other variables.

Estimation Results of Model 2 (With Interaction Variable Ease of Doing Business)

Model 2

$$\ln FDI_{it} = \alpha_i + \beta_6 EATR_{it-1} + \beta_7 EODB_{it-1} + \beta_8 (EATR * EODB)_{it-1} + \beta_9 INST_{it-1} + \beta_{10} \ln GDP_{it-1} + \beta_{11} \ln OPEN_{it-1} + \beta_{12} \ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(2)$$

A moderating variable in the form of an interaction between the EATR variable and

the ease of doing business is added to model 2 with the aim of knowing whether the ease of doing business strengthens or weakens the effect of EATR on foreign investment. The interaction variable in this study was formed by multiplying the EATR value with a country's ease of doing business score. Table 3 is the estimation result of model 2 using OLS, Fixed Effect and GMM.

The estimation results of model 2 by OLS shows that EATR and institutions have no statistical affect on the entry of foreign investment. While the ease of doing business variable, the interaction variable between EATR and the ease of doing business and other control variables have a positive and significant influence in attracting foreign investment.

Furthermore, the estimation of the model with Fixed Effect is carried out. Estimation through Fixed Effect can overcome the bias caused by the unobserved heterogeneity. The estimation results of the model based on Fixed Effect could be seen as follows.

Table 3
Estimation Results of Model 2
(With EATR Interaction Variables and Ease of Doing Business)

Variable	Information	OLS	Fixed Effect	GMM
EATR	Effective Average Tax Rate	-0.0639421 0.0397963	-00536729 *** (0.0199347)	- (0.137624)
EODB	Ease of Business	0.0091429** (0.0038487)	0.0039662* (0.0022636)	0.5062835*** (0.1719145)
EODB* EATR	Interaction between EATR and Ease of Doing	0.0010875* (0.0005587)	0.0006067** (0.0002608)	0.0051028*** (0.0018047)
INST	Institution	0.0611087 (0.049529)	0.0087206 (0.1258801)	0.3516651*** (0.1270649)
GDP	GDP Per Capita	0.9613152*** (0.0367037)	0.7652107*** (0.1890815)	1.068696*** (0.1230408)
OPEN	Country openness	1.228487*** (0.1310625)	0.7891632** (0.3652568)	
INFRA	Infrastructure	0.0885007** (0.0349638)	0.0462443* (0.0259772)	
Constanta		-14.78193	-8.479854	-48.89607
R-Square		0.8338	0.8358	0.9745

Source: Output Stata (2022)

EATR, Effective Average Tax Rates have a negative and significant affect on the entry of foreign investment, meaning that an increase in 1 unit % of EATR will reduce foreign investment by 0.0536%. The high EATR explains how many incentives are received by the company so it will illustrates the amount of tax burden that would be borne by investment. Prospective investors will choose an investment location which has the greatest profit with the smallest investment costs. The large investment costs caused by the high EATR which will make investors discourage their intention to invest. The higher the EATR in a country, the lower the foreign investment in a country. The estimation results are based on Egger et al. (2020) research.

EODB, ease of doing business has a positive and significant impact to the foreign investment. Every 1 point increase in ease of doing business, will be an increase in foreign investment by 0.39%. Ease of trying to describe how the condition of the process of starting and running a business in a country. The easier to run a business in a country, the more interested investors will be. This conclusion is in line with previous research which stated that there's a positive correlation between ease of doing business and foreign investment. The ease of doing business in one country will increase foreign investment in that country (Hossain et al., 2018).

EATR*EODB-EATR interaction variable and ease of doing business have a positive and significant influence by means that every 1 point increase in ease of doing business when EATR increases by 1%, on average it will decrease the value of foreign investment by 0.0530% ($-0.0536 + 0.0006 = 0.0530$). If in a country there is an increase in EATR of 1%, there will be a decrease in foreign investment by 0.0536%. If in the same period there is also an increase in the value of ease of doing business by 1 point, the decrease in foreign investment will be smaller which is 0.0530%. This shows that the ease of doing business will reduce the negative influence by EATR to foreign investment.

GDP, Gross Domestic Product Per Capita (GDP Per Capita) represents the people's purchasing power. The estimation result of model 2 defines that GDP Per Capita has a positive and significant affect on foreign investment. A 1% increase in Gross Domestic Product will increase foreign investment by 0.76%. The higher the GDP per capita of a country, the higher the foreign investment which entering the country. Investors consider the purchasing power of the people in a country as an attraction to invest. The high purchasing power of people in a country illustrates the size of the market for businesses that are run in that country. The larger the business market in a country will attract investors to funds their capital in that country. Estimates on this variable are in accordance with the research by Alshamsi et al. (2015).

OPEN, openness of a country (Openness) is the percentage of imports and exports of Gross Domestic Product. Openness has a positive and significant affect on the entry of foreign investment. A 1% increase in a country's openness will increase foreign investment by 0.78%. The openness of a country describes the conditions of cross-border trade in that country. The more open a country means international trade in that country are quite high. The higher the level of international trade in a country, it will attract investors to invest in that country. This estimation results are in line with the research of Rajneesh (2017).

INFR, the quality of infrastructure in this research is represented by the availability of a secure internet network in a country. Infrastructure has a significant positive affect on the entry of foreign investment. A 1% increase in infrastructure will increase foreign investment by 0.046%. Investors will look for investment destinations with low business costs. Good quality infrastructure will facilitate business and reduce operational costs for investors. The low cost of business operations in a country will be an attraction for foreign investment. Therefore, by improving the quality of a country's

infrastructure will further encourage the entry of foreign investment into the country. This estimation results are in accordance with the research from Nketiah-Amponsah and Sarpong (2019).

INST, the quality of the institution in this research is represented by the control of corruption index. Institutional quality in this estimate has a positive impact of 8.7% but not statistically significant, *ceteris paribus*. The quality of institutions describes the governance of a country. Good governance in a government body will create investment costs more efficient. Therefore, if the quality of government institutions increases, then the foreign investment which entering the country will also increase.

Furthermore, Instrumental-Variable Regression with GMM Estimator was carried out on model 2. Instrumental-Variable Regression was conducted in order to overcome the possibility of endogeneity problems in the model and GMM Estimator was chosen because it could overcome Heteroscedasticity problems. The instrument variable used in the GMM is the State Openness and Infrastructure variable. Karimi and Taherzadeh, (2016), Yoshino and Abidhadjaev, (2016) stated that the openness of a country and the quality of infrastructure will affect the taxes. The following is the estimation result of model 2 based on Instrumental-Variable Regression with GMM Estimator.

EATR - Effective Average Tax Rates have a negative and significant impact on the entry of foreign investment which means that a 1% increase in EATR will reduce foreign investment by 0.45%. The higher the EATR in a country, the lower the foreign investment in that country. EATR describes how much tax incentives are received by entrepreneurs and what the actual tax burden is. The higher the EATR, the greater tax burden that must be borne by the company. The high tax burden will discourage potential investors from investing in a country. The estimation results are in accordance with the research by Egger et al. (2020).

EODB, ease of doing business has a positive and significant impact on foreign investment. Every 1 point increase in ease of doing business, there will be an increase in foreign investment by 50.62%. The value of ease of trying are to describe the process of starting and running a business in a country. The higher the value of ease of doing business, the easier it is for a company to run a business in a country (Hossain et al., 2018).

EATR*EODB-EATR interaction variable and ease of doing business have a positive and significant affect, which means that every 1 point increase in ease of doing business when an EATR increases by 1%, on average it will decrease the value of foreign investment by 0.453% ($-0.4580 + 0.00510 = 0.4529$). If there is an increase in EATR by 1%, then foreign investment will decrease by 0.458%. If during the EATR increase period there is also a 1 point increase in ease of doing business, then foreign investment will be decrease by 0.453%. The value of decrease in the entry of foreign investment when there is an increase in the ease of doing business is smaller compare to when there's no increase in the ease of doing business. This shows that the ease of doing business will reduce the negative influence of EATR on foreign investment. This conclusion is in line with previous research which stated that there's a positive relations between ease of doing business and foreign investment. The ease of doing business in one country will increase foreign investment in that country (Hossain et al., 2018).

INST - The quality of the institution in this research is represented by the control of corruption index. The institution of a country has a positive and significant affect on the entry of foreign investment. An increase in 1 point of a country's control of corruption index will increase foreign investment by 35.16%. These results indicates that the investors will look for investment destinations which have a good institutional quality. Investors assume that corruption will create difficulties to control the business, risky and requires large costs. Therefore, the high

control of corruption in a country will encourage investors to funds their capital in that country. This estimation results are in line with the results of Epaphra and Massawe (2017).

GDP, Produk Domestik Bruto Per GDP -Gross Domestic Product Per Capita (GDP Per Capita) represents the level of people’s purchasing power in a country. People’s purchasing power describes the size of the market in the business world. The estimation result states that GDP Per Capita has a positive and significant effect on foreign investment. A 1% increase in GDP Per Capita will increase foreign investment by 1.068%. The greater the GDP Per Capita explains the higher the purchasing power of a country, it leads to the size of the business world market. Therefore, if GDP Per Capita increases, foreign investment entering the country will also increase. The results of research on this variable are in accordance with the results of research by Alshamsi et al. (2015).

In general, the estimation of model 2 with fixed effects has similar results with the theory and previous research in how the impact of taxes on foreign investment. The main explanatory variable in model 2 is EATR, but the magnitude of the effect of the EATR variable on foreign investment is relatively small compared to other variables. The estimation result with Fixed Effect shows that the dominant factor influencing the entry of foreign investment is the openness of a country and the estimation using GMM states that the quality of a country’s institutions has the greatest influence value among other variables.

Estimation Results of Model 3 (with sample classification)

Model 3

$$\ln FDI_{it} = \alpha_i + \beta_{13}EATR_{it-1} + \beta_{14}EODB_{it-1} + \beta_{15}(EATR * EODB)_{it-1} + \beta_{16}INST_{it-1} + \beta_{17}\ln GDP_{it-1} + \beta_{18}\ln OPEN_{it-1} + \beta_{19}\ln INFRA_{it-1} + \varepsilon_{it} \dots\dots\dots(3)$$

Table 4
Estimation Results of Model 3
(with sample classification based on developed and developing countries)

Variable	Information	OLS		Fixed Effect	
		Developing	Developed	Developing	Developed
EATR	Effective Average	-0.071438**	-0.0155156	-0.0266851*	-0.1282925
	Tax Rate	(0.0287309)	(0.0975059)	(0.0143942)	(0.0848389)
EODB	Ease of Business	0.0041074	0.0091636	0.0012862	0.0117069*
		(0.0031926)	(0.0080435)	(0.0019506)	(0.0064392)
EODB	EATR Interaction	0.0014154***	0.0002876	0.0006797	0.0015485
*EATR	and Ease of Doing	(0.0004234)	(0.0013376)	(0.0004107)	(0.0010797)
INST	Institution	0.2447616**	0.0845116	-0.2245267	0.0170586***
		(0.1220882)	(0.0594569)	(0.1937355)	(0.0042693)
GDP	GDP Per Capita	0.8865865***	1.004626***	0.7003722***	0.191994
		(0.036113)	(0.058739)	(0.2439159)	(0.2398831)
OPEN	State openness	0.8388305***	1.259619***	0.7565777***	1.494151
		(0.1829305)	(0.1784753)	(0.2506298)	(0.9971621)
INFRA	Infrastructure	0.0849946***	0.1446413**	0.0163972	0.0728677**
		(0.0313831)	(0.0728508)	(0.0174124)	(0.0284819)
Constanta		-12.96645	-16.23765	-7.378849	6.291571
R-Square		0.9459	0.7383	0.9426	0.2761

Sumber: Output Stata (2022)

In model 3, the sample is divided into 2 groups, namely developing countries and developed countries. It purposes to explore the impact of EATR on foreign investment in different conditions, so the results can be compared. Determination of the category of countries included in developing countries or developed countries can be based on Gross Domestic Product per capita. The World Bank divides countries into 4 categories based on the value of GDP per capita, namely Low Income, Lower Middle Income, Upper Middle Income and High Income. Based on data in 2020, a high income country is a country with a gross domestic per capita income for more than 12535 US dollars. A developed country or a high-income country is a sovereign country that has a high quality of life and a developed economy compared to other less developed countries. The World Bank states that countries with the High Income can be categorized as developed countries and beyond that can be categorized as developing ones. Based on this statement, in this study, the countries with income above 12535 US dollars will be included in the developed country group and countries with income below that will be included in the developing country group. Table 4 is the estimation result of model 3 using OLS and Fixed Effect.

The estimation results through OLS technique in model 3 shows that EATR statistically has no affect on the entry of foreign investment in the developed group but shows a negative and significant impact on the developing group. The estimation results for the developing group show that a 1% increase in EATR will cause a decrease in foreign investment by 0.071%. The ease of doing business variable has no statistical affect on foreign investment in both groups. The interaction variable between EATR and ease of doing business has a positive and significant affect on the developing group, but statistically not proven to have an effect on foreign investment in the developed group. In the developing group, on the average, EATR will reduce foreign invest-

ment by 0.0700% ($-0.0714 + 0.0014 = -0.0700$), in other words, the ease of doing business in the developing group will reduce the negative influence from EATR on Foreign investment.

In the developing group, all control variables showed a positive and significant affect on foreign investment. In the developed group, the control variables is in the form of GDP, infrastructure and state openness which have a positive and significant affect, but statistically institutional variables did not show an impact to foreign investment.

Furthermore, the estimation of the model with Fixed Effect was conducted in order to overcome the bias caused by the unobserved heterogeneity. The estimation results of the model based on Fixed Effect could be described as follows.

EATR, The Effective average tax rate did not statistically affect the foreign investment in the group of developed country, but it shows a negative and significant affect in the developing group. In the developing group, a 1% increase in EATR will reduce foreign investment by 0.026%. The high EATR could explains how many tax incentives are received by the company so that it will illustrates the amount of tax burden borne by investment. Prospective investors will choose an investment location which has the greatest profit with the smallest investment costs. The large investment costs caused by the high EATR will make investors discourage their intention to invest. Prospective investors in developing countries use tax incentives as one of considerations in determining investment decisions. The smaller the tax incentives that apply to a country, the higher the EATR will be and conversely. The increase in EATR in developing countries indicates that there are fewer tax incentives felt by entrepreneurs, it will reduce the value of foreign investment in these countries.

EODB, Ease of Doing Business does not statistically show an effect on foreign investment in the developing group, but shows a positive and significant effect on foreign

investment in the developed group. An increase of 1 point in the ease of doing business in the developed group will increase foreign investment by 1.17%. These results indicate that the ease of doing business is an important factor that attracts the entry of foreign investment in developed countries. This conclusion is in line with previous research which stated that there's a positive correlation between ease of doing business and foreign investment. The ease of doing business in one country will boost the foreign investment in that country (Hossain et al., 2018).

EATR*EODB-EATR interaction variable and ease of doing business, statistically not proven to have an impact on foreign investment in developing and developed groups. This thought occurred due to the lack of observations, causing a loss of statistical significance when classifying samples.

INST, the quality of the institution in this research is the control of corruption index. The institution in a country has a positive and significant affect on the entry of foreign investment in the developed group but not statistically proven to have a significant impact on foreign investment in the developing group. These results indicates that in developed countries, the quality of institutions is a factor which supporting the entry of foreign investment, but it is not a concern for investors in developing countries because generally developing countries have poor quality institutions. An increase of 1 point in the quality of institutions in developed countries will increase foreign investment by 1.7%. These estimation are in line with the results from research by Epaphra and Massawe (2017).

GDP, Gross Domestic Product Per Capita represents the purchasing power of people in a country and describes how the market will be faced by investors when investing in a country. The higher the people's purchasing power will certainly increase the confidence of investors to invest. The estimation results in model 3 show that GDP Per Capita has a positive and significant effect on

foreign investment in the developing group, but statistically does not show its effect on foreign investment in the developed group. Countries that are included in the developed group are developed countries, which means the country has a large GDP Per Capita. The value of GDP Per Capita illustrates the high purchasing power of the people. Therefore, GDP Per Capita is no longer a concern for investors when deciding to invest in developed countries. This explains why the GDP Per Capita variable is not significant in the developed country group.

In the developing group, a 1% increase in Gross Domestic Product Per Capita will increase foreign investment by 0.79%. These results show that GDP Per Capita is a factor which considered by prospective investors to invest in developing countries. GDP Per Capita in developing countries describes how the business market in that country is. These estimation are in line with the research by Alshamsi et al. (2015) which states that the higher the GDP Per Capita of a country, the higher the foreign investment which entering the country.

OPEN, the state openness has a positive and significant affect on foreign investment in the developing group, but statistically did not show its effect on foreign investment in the developed group. In the developing group, a 1% increase in a state's openness will increase foreign investment by 0.92%. This explains that the more open trade in developing countries, the more interested investors will be. Trade openness is not a meaningful thing for investors in the developed group, this happens because trade in developed countries has tended to be good and investors in developed countries consider other factors outside of state openness such as the ease of doing business or the quality of institutions. These estimation are in line with the research by Rajneesh (2017).

INFR, the quality of infrastructure in this research is represented by the availability of a secure internet network in a country. Infrastructure has a significant positive affect

towards the entry of foreign investment in the developed group but is not proven to have a significant effect on foreign investment in the developing group. The quality of infrastructure in developing countries tends to be less than the one in developed countries. Developing countries still have difficulty in providing adequate infrastructure for the business world. Poor infrastructure quality can increase the company's operating costs. In the developed group, a 1% increase in infrastructure quality will increase foreign investment by 0.072%. The quality of infrastructure in developed countries tends to be quite good so it becomes one of the attractions for investors to invest. These estimation results in developed are in accordance with research results which state that infrastructure has a positive correlation with foreign investment. The better the infrastructure of a country will increase the entry of foreign investment Nketiah-Amponsah and Sarpong (2019).

In the group of developing countries, EATR is still considered by investors in placing capital in a country, meaning that investors are still considering the tax incentives that exist in developing countries. In addition, investors will also consider GDP Per Capita and state openness in developing countries. This means that prospective investors in developing countries consider the purchasing power of the people and cross-border trade as main factors.

Meanwhile, in developed countries, investors view the ease of doing business, the quality of infrastructure and the quality of institutions as the main attraction for foreign investment. The estimation results in the model 3 did not meet the research hypothesis as a whole, but the estimation results which show statistical significance indicate that the direction of influence is in line with the estimation results in models 1 and 2 which according to prior research.

CONCLUSION AND SUGGESTIONS

Conclusion

This research aims to see how the impact of taxes on foreign investment through EATR which estimated by Hanappi's framework (2018) with a study of panel data in 70 countries during period of 2017 until 2020.

The main contribution of this research as the use of EATR with the forward looking method in examining the impact of the effective average tax rate on foreign investment. This results showed that EATR had a negative and significant affect in allure the foreign investment. The high or low EATR can caused by the amount of tax incentives that apply to a country. Countries with low of EATR are investor-friendly countries by providing large amounts of incentives. The less tax incentives a country has, the higher the EATR will be and it will reduce the entry of foreign investment.

The convenience variable tries to describe how the process of starting and running a business in a country. The ease of doing business variable has a positive impact on foreign investment. The easier it is to run a business in a country, the more interested investors will be to invest in that country. This shows that investors pay attention to the ease of doing business as an important supporting factor in making investment decisions.

The interaction variable between EATR and ease of doing business is proven to have a positive and significant correlation. If there is an increase of EATR in a country, the decrease in foreign investment will be smaller if the country has higher ease of doing business. These estimation results show the ease of doing business is trying to reduce the negative impact from EATR to foreign investment.

Beside that, the correlation between GDP Per Capita and foreign investment is positive and significant. Gross Domestic Product Per Capita represents the people's purchasing power, so the positive and significant influence indicates that investors are interested in information that represents

people's purchasing power in a country. The high purchasing power of the people in a country illustrates the large size of the business market that is run in that country. The larger the business market in a country will attract investors to invest in that country. Therefore, the higher the GDP Per Capita of a country, the higher the foreign investment which will enter the country.

This research also confirms that an important determinant factor of foreign investment is the state openness. The estimation results prove that state openness has a positive and significant impact on foreign investment. The openness of a country describes how the conditions of cross-border trade in that country are. The more open a country means international trade in that country is quite high. The higher the level of international trade in a country, the more attractive that country's foreign investment will be.

The quality of institutions in this research is represented by the quality of a country in controlling corruption. The estimation results show that institutions have a positive and significant effect on the entry of foreign investment. The estimation results show that the higher the quality of a country's institutions, the higher foreign investment that will enter the country. The quality of institutions describes how well the governance of a country is. Investors will look for investment destinations that have good institutional quality so that the business processes are more efficient and have less risk.

The quality of infrastructure in this research is represented by the availability of a secure internet network in a country. Infrastructure has a positive and significant effect on the entry of foreign investment. Investors will look for investment destinations with low business costs. Good quality infrastructure will facilitate business and reduce operational costs for investors. The low cost of business operations in a country will be an attraction for foreign investment. Therefore, the improvement of a country's

infrastructure will further encourage the entry of foreign investment into a country.

Suggestions

In accordance with the results of the research above, the following are suggestions that the author can convey to the government as a policy decision maker. Based on the conclusion of the study, in general, EATR has a negative and significant effect on foreign investment. The higher the EATR, the smaller the foreign investment entering a country. EATR itself is influenced by tax incentives issued by the government, the greater the tax incentives, the lower the EATR and encourage the entry of foreign investment. Therefore, the government needs to consider providing tax incentives in order to encourage the entry of foreign investment into a country.

When viewed from the coefficient, a 1% decrease in EATR will increase the entry of foreign investment by less than 1%, this indicates that foreign investment is not sensitive to changes in EATR. However, in addition to the nominal amount of foreign capital that enters a country, there are many other positive impacts from the entry of foreign investment into a country, for example in the form of technological spillovers and the exchange of new methods. This positive impact can be taken into consideration other than just looking at the nominal amount of foreign investment entering a country.

According to the research conclusion of the ease of doing business is a determining factor for foreign investment. The government must seek to improve the ease of doing business, one of way by accelerating the licensing process for business activities. Good quality institutions will increase the entry of foreign investment. Institutions is an important factor which determining the entry of foreign investment in developed countries. Poor quality of institutions in a country can cause business operations to become inefficient, therefore the government should continue to improve the quality of

institutions so they can convince the investor that this country is indeed a worthy investment destination.

In deciding the investment location, investors will see GDP Per Capita as the purchasing power of the people in a country. So the government should try to increase the Gross Domestic Product Per Capita by increasing productivity or reducing the rate of population growth, so it will produce a larger GDP Per Capita and investors will convince that the country has high purchasing power of the people.

The state openness is proven to have affect towards the entry of foreign investment. Therefore, the government should increase the cooperation between countries, especially countries with the closest position, or have large resources for investment so it will increase foreign investment to enter the country. The quality of infrastructure did not escape the consideration of investors. Infrastructure is a determining factor for the entry of foreign investment, therefore the government should provide good infrastructure for business activities so that operational costs become more efficient and investors which attracted to invest.

In addition, the authors suggest to researchers who are interested in researching the impact of taxes on foreign investment through EATR according to the Hanappi (2018) framework as the basis for research, because the EATR can measure the impact of taxes on investment by explaining the tax incentives received by investors so it will describes the actual tax conditions faced by companies in determining investment locations.

In addition to the limitations of EATR data as the main variable, it is expected that further research can add another variables as controls, because the determinants of foreign investment are quite numerous. In terms of data processing methods, it is hoped that future research can use the latest methods in order to provide the research results which are free from problems of reverse causality and endogeneity.

Furthermore, to entrepreneurs or prospective investors, the author suggests using EATR according to Hanappi's conceptual framework (2018) with as a basis for consideration in making decisions to invest in a country, not based on the Statutory Tax Rate because the EATR estimated by Hanappi (2018) can describe tax facilities which accepted by the entrepreneur and explain the actual tax burden.

Limitations

Limitations in this research are the problem of data limitations. The author is unable to perform EATR calculations personally due to the absence of necessary data access in international databases. Therefore, the authors conducted an analysis based on the EATR estimation results from Hanappi (2018) which have been provided in the OECD database during 2017-2020. In addition, the presence of missing data in several countries causes the sample to be increasingly reduced. The number of observations that are not large enough makes it impossible to estimate using GMM in model 3, because there are problems with the validity of the instrument variables. Therefore, the further research should use larger amounts of data.

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