

SUMMARY

This research investigates the impact of institutional quality on Foreign Direct Investment (FDI) inflows in ASEAN countries following the 1997-1998 Asian Financial Crisis. The research problem highlights the lingering institutional instability, where weaknesses in governance, low transparency, and corruption have led to an uneven distribution of FDI across the region. Furthermore, a mismatch exists between theoretical expectations and real-world patterns, as countries with high political stability do not always attract high FDI, while others succeed through aggressive liberalization. Therefore, the research objective is to empirically analyze how the six dimensions of the Worldwide Governance Indicators (WGI) individually and simultaneously influence FDI inflows in ten ASEAN member countries from 1998 to 2023.

The methodology employs a quantitative panel data analysis using the Fixed Effects Model (FEM) and the Feasible Generalized Least Squares (FGLS) method to address issues of heteroskedasticity and autocorrelation. The study also incorporates macroeconomic control variables, including GDP growth, population, inflation, and labor force. The results indicate that institutional quality plays a significant but varied role: Political Stability, Regulatory Quality, and Control of Corruption have a positive and significant influence on attracting FDI. In contrast, Voice and Accountability and Government Effectiveness exhibit a significant negative effect, suggesting that intensive public scrutiny or rigid bureaucratic procedures can sometimes discourage investors. Notably, the Rule of Law was found to have no significant partial effect in this study.

The implications of these findings suggest that ASEAN governments must prioritize institutional reforms, particularly by strengthening anti-corruption policies and improving regulatory quality to build investor trust. Additionally, there is a critical need to simplify bureaucratic procedures to balance regulatory effectiveness with the ease of doing business. Strengthening institutional quality not only serves to attract foreign capital but also functions as an absorptive capacity that allows ASEAN countries to maximize the benefits of FDI for sustainable economic growth.

Keyword: Foreign Direct Investment, Institutional Quality, Worldwide Governance Indicators, ASEAN Countries, Panel Data Analysis