ABSTRACT

The phenomenon of tax competition between countries still occurs in ASEAN-6 (Indonesia, Malaysia, Singapore, Philippines, Thailand, Vietnam) raising concerns about the potential decline in the quality of public goods and services. Economic integration and geographical proximity of the ASEAN-6 cause spatial interaction on CIT rate reduction. On one side, based on the eclectic theory, lower CIT rates become a factor attracting Foreign Direct Investment (FDI). Therefore, this study aims to analyze the impact of CIT, exchange rate, labor force, Gross Domestic Product (GDP) and trade openness to FDI, as well as the spatial weighting effect of CIT variable on FDI.

This study uses data from the ASEAN-6 panel for the period 2000 to 2022. Data were analyzed using regression data panel Fixed Effect Model (FEM), continued with spatial regression analysis (Spatial Autoregressive Model, Spatial Durbin Model, Spatial Error Model) to determine the spatial interaction of CIT policy on FDI.

The results show that CIT has no direct and indirect effect on FDI in ASEAN-6 because there are non-tax factors that effect investor decisions, the inaccurate CIT proxies, and CIT complexities. The spatial weighting of CIT which is not significant indicates that Tobler's first law of geography is not confirmed in ASEAN-6, where CIT has no effect on FDI in other countries. Meanwhile, the exchange rate variable has a negative effect, the labor force and GDP have a positive effect in attracting FDI. In contrast to these variables, trade openness has no effect on FDI in ASEAN-6.

Keywords: Tax competition, Corporate Income Tax (CIT), Foreign Direct Investment (FDI), spatial regression analysis.