

## RESEARCH ARTICLE

# Assessing the corruption perceptions index and rule of law index as drivers of FDI inflows in emerging Asia-Pacific economies: A panel data approach

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**Abstract** - This study examines whether institutional quality, represented by the Corruption Perceptions Index (CPI) and Rule of Law Index (RLI), influences foreign direct investment (FDI) inflows in emerging Asia-Pacific economies. Using an unbalanced panel of 19 economies from 2010 to 2022, the study applies static panel-data regression with pooled ordinary least squares, fixed-effects, and random-effects specifications. The CPI and RLI are significant when examined separately without macroeconomic controls, but their effects become statistically insignificant once the control variables are included. GDP per capita and population emerge as the more robust determinants of FDI inflows, indicating a predominantly market-seeking motive. The findings suggest that policymakers should complement governance improvements with measures that expand market opportunities, regional integration, and trade connectivity.

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## 1. Introduction

Emerging economies confront distinct challenges and opportunities in pursuing economic growth. For these economies, sustainable and inclusive development is central to raising living standards, reducing poverty, and creating employment. Nair-Reichert and Weinhold (2001) show that foreign direct investment (FDI) can enhance growth in developing economies, although its effects vary across countries. Freckleton et al. (2012) likewise report a positive relationship between FDI and economic growth, with corruption influencing the strength of this relationship. In Asia, inclusive growth remains important because rapid economic expansion does not automatically eliminate poverty and inequality (Aoyagi & Ganelli, 2015). Long-term economic growth can support poverty reduction and higher living standards (Latief et al., 2020), while evidence from South Asia also highlights the close relationship among growth, inequality, and poverty reduction (Anwar et al., 2020). FDI may contribute to economic development through capital formation, technology transfer, managerial knowledge, productivity spillovers, and stronger linkages with domestic firms (Javorcik, 2004; Zhang, 2001). Over the past decade, emerging Asia-Pacific economies have attracted substantial FDI, although inflows remain uneven across countries. China continues to be a major recipient, while economies such as Vietnam, Indonesia, and Thailand have attracted increasing investment because of expanding domestic markets, supportive policies, and competitive production conditions. Although the COVID-19 pandemic disrupted regional investment flows, subsequent recovery has reinforced the continuing attractiveness of emerging Asia-Pacific economies as investment destinations.

Emerging Asia-Pacific is particularly attractive to foreign investors because of its dynamic economies, expanding consumer markets, and increasingly integrated regional production networks. At the same time, investors must account for institutional conditions that may increase transaction costs and reduce productivity, including corruption and weaknesses in the rule of law (Habib & Zurawicki, 2002; Mathur & Singh, 2013). Policies that support investment, infrastructure, productive capacity, and international trade can strengthen economic growth and improve investment attractiveness (Zhang, 2001). Such efforts should be complemented by effective legal and regulatory frameworks, anti-corruption measures, stronger rule-of-law institutions, and a business environment that facilitates entrepreneurship and investment.

Corruption remains an important institutional concern because it can increase uncertainty, raise transaction costs, weaken public trust, and adversely affect economic development (Dimant & Tosato, 2018; Habib & Zurawicki, 2002). However, empirical evidence regarding the relationship between corruption, institutional quality, and FDI remains mixed. In particular, relatively limited research has jointly examined how corruption perceptions and the rule of law influence FDI inflows across emerging Asia-Pacific economies using recent panel data. This creates an important empirical gap, as investors may weigh institutional weaknesses against other location advantages, particularly market size, purchasing capacity, and broader macroeconomic conditions. To address this gap, this study examines 19 emerging Asia-Pacific economies: Afghanistan, Bhutan, Bangladesh, Brunei, Cambodia, China, India, Indonesia, Lao PDR, Malaysia, Myanmar, Nepal, North Korea, Pakistan, Papua New Guinea, the Philippines, Sri Lanka, Thailand, and Vietnam. The sample spans South Asia, Southeast Asia, East Asia, and Oceania and captures considerable variation in economic development, population size, political systems, and institutional conditions. In addition to the Corruption Perceptions Index (CPI) and Rule of Law Index (RLI), the study incorporates GDP per capita, population, the real exchange rate, and the real interest rate as control variables. A stable macroeconomic environment is widely regarded as an important foundation for attracting FDI, including within ASEAN economies (Nguyen et al., 2021). Accordingly, this study investigates whether corruption perceptions and the rule of law significantly influence FDI inflows in emerging Asia-Pacific economies and whether these institutional factors remain important after accounting for major macroeconomic

determinants. By examining these relationships using panel data from 2010 to 2022, the study contributes to the literature by providing more recent evidence on the relative importance of institutional quality and market-related factors in explaining FDI inflows across emerging Asia-Pacific economies.

## 2. Literature Review

The eclectic paradigm explains FDI through ownership, location, and internalisation advantages (Dunning & Lundan, 2008). Firms engage in FDI when they have ownership-specific advantages, the host economy offers attractive location-specific conditions, and internalising cross-border activities is more efficient than relying on external market transactions. Relevant location advantages include market size, natural resources, infrastructure, labour costs, political stability, and institutional quality. Corruption and the rule of law are therefore particularly relevant as elements of the host-country institutional environment. Table 1 summarises the main FDI motivations within this framework.

**Table 1**

*Investor motivations for foreign direct investment*

| Motives                                             | Ownership                                                                                                                                                   | Location                                                                                                                                                                   | Internalisation                                                                                                                 |
|-----------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| Natural-resource seeking                            | Capital, technology, access to markets; complementary assets; size and bargaining strengths                                                                 | Possession of natural resources, and related transport and communications infrastructure; tax and other incentives                                                         | To ensure stability of suppliers at right price; to control markets                                                             |
| Opportunity/<br>Market seeking                      | Capital, technology, information, management and organisation skills; surplus R&D and other capacity; economies of scale; ability to generate brand loyalty | Material and labour cost; market size and characteristics; government policy (e.g. with respect to regulations and to import controls, investment incentives, etc.)        | A desire to reduce transaction or information costs, buyer ignorance or uncertainty; to protect property rights                 |
| Efficiency seeking<br>(a) product or<br>(b) process | As above, but also access to markets; economies of scope, geographical diversification and/or clustering, and international sourcing of inputs              | Economies of product or process specialisation and concentration.<br>Low Labour cost; incentive to local production by host governments; a favourable business environment | As for second category, plus common governance economies gain.<br>Vertical integration and horizontal diversification economies |
| Strategic asset seeking                             | Any of first three that offer opportunities for synergy with existing assets                                                                                | Any of first three that offer technology, organisational, and other assets in which firm is deficient                                                                      | Economies of common governance; improved competitive or strategic advantages; to reduce or spread risk                          |

*Source: Adapted from Dunning and Lundan (2008)*

The decision to include the CPI and the RLI as distinct variables is grounded in their potential influence on investor confidence, risk perceptions, and the attractiveness of host-country locations. Within the OLI framework, institutional quality complements physical infrastructure and market conditions as a location-specific determinant of FDI (Dunning & Lundan, 2008). Transparency, accountability, and legal predictability can reduce uncertainty and strengthen investor confidence. Harms and Ursprung (2002) show that political and civil freedoms can influence foreign investment decisions, while evidence from ASEAN indicates that stronger control of corruption can support FDI inflows (Ngoc et al., 2018). However, empirical findings remain mixed, and the importance of governance can depend on broader host-country characteristics and investment motives. Natural resources and policy conditions may also exert substantial influence (Agosin & Machado, 2007).

Prior research identifies a wide range of location factors associated with FDI, including market size, economic conditions, investment incentives and policies, infrastructure and connectivity, labour and natural-resource conditions, political and legal institutions, market access, technology, and regional integration (Cole et al., 2009; Dunning & Lundan, 2008; Javorcik, 2004; Mathur & Singh, 2013). The political and legal environment encompasses governance, transparency, accountability, and the rule of law, all of which can affect a host economy's attractiveness to foreign investors (Habib & Zurawicki, 2002; Hoang & Bui, 2015; Mathur & Singh, 2013). Following the 2008 global financial crisis, emerging Asian economies also faced renewed pressure to strengthen domestic demand and regional linkages (Goldstein & Xie, 2009). Trade facilitation in ASEAN can generate substantial economic benefits (Shepherd & Wilson, 2009), while deeper South Asian integration with East Asian production networks can expand regional investment opportunities (Anbumozhi & Kalirajan, 2020). Exchange-rate stability is another relevant consideration for regional trade and investment relationships (Tang, 2014).

### 2.1 Foreign Direct Investment and Corruption Perceptions Index

Habib and Zurawicki (2002) find that corruption can deter FDI by increasing uncertainty and operating costs in host economies. In contrast, Gupta and Ahmed (2018) report that corruption does not significantly determine FDI flows in South Asia once market-related factors are considered. Their findings instead emphasise the importance of market size, supporting a market-seeking explanation of FDI. These mixed results justify re-examining the relationship between the CPI and FDI inflows in emerging Asia-Pacific economies.

H1: The CPI is positively associated with FDI inflows.

### 2.2 Foreign Direct Investment and Rule of Law Index

Henisz (2000) and Li and Resnick (2003) emphasise the importance of credible legal and political institutions in reducing investment risk. Understanding the relationship between FDI and the rule of law is therefore important for policymakers seeking to improve transparency, accountability, and the investment climate (Wang et al., 2012). Buchanan et al. (2012) find that institutional quality, including the rule of law, is positively associated with FDI across a broad sample of countries, while Staats and Biglaiser (2012) show that judicial strength and adherence to the rule of law matter for FDI in Latin America.

H2: The RLI is positively associated with FDI inflows.

### 2.3 Foreign Direct Investment and Macroeconomic Factors

Ismail (2009) finds that macroeconomic conditions, including inflation, exchange-rate conditions, and fiscal management, can influence FDI inflows in ASEAN. The real interest rate may also matter because it affects financing conditions and the relative cost of capital. Kumari and Sharma (2017) report a significant relationship between real interest rates and FDI in developing economies. Market size and income levels likewise remain important considerations for market-seeking FDI (Gupta & Ahmed, 2018; Ramasamy & Yeung, 2010).

## 3. Methodology

### 3.1 Research Design and Sampling Method

This study employs quantitative panel-data analysis to examine the relationships among FDI inflows, the CPI, the RLI, and the control variables. The analytical procedure is summarised in Figure 1. Estimation begins with pooled ordinary least squares (POLS), followed by random-effects (REM) and fixed-effects (FEM) models. The Breusch-Pagan Lagrangian Multiplier test, poolability F-test, and Hausman test are then used to select the most appropriate model specification. The sample was selected purposively and comprises 19 economies in the Asia-Pacific region. Selection considered geographical, economic, and political diversity; population size; legal and regulatory conditions; and the availability of the required macroeconomic data. Table 2 lists the economies included in the analysis.

**Table 2**

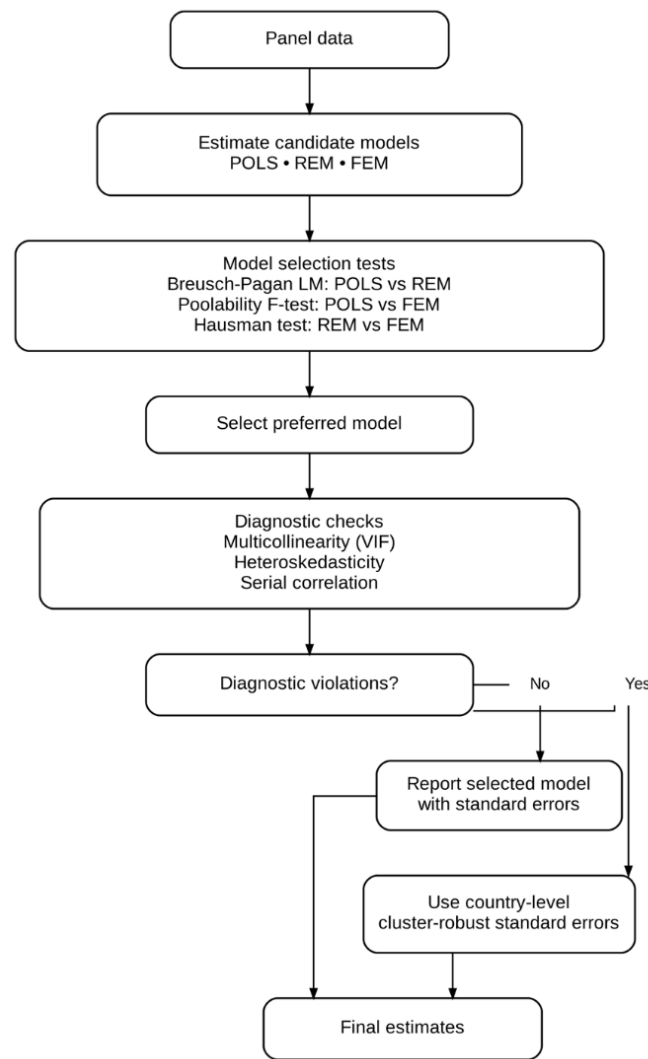
*Emerging Asia-Pacific economies included in the study*

| No | Country     | No | Country          |
|----|-------------|----|------------------|
| 1  | Afghanistan | 11 | Myanmar          |
| 2  | Bhutan      | 12 | Nepal            |
| 3  | Bangladesh  | 13 | North Korea      |
| 4  | Brunei      | 14 | Pakistan         |
| 5  | Cambodia    | 15 | Papua New Guinea |
| 6  | China       | 16 | Philippines      |
| 7  | India       | 17 | Sri Lanka        |
| 8  | Indonesia   | 18 | Thailand         |
| 9  | Lao PDR     | 19 | Vietnam          |
| 10 | Malaysia    |    |                  |

This study does not involve human participants; the country is the unit of analysis, which is common in international business and economics research. The panel analysis uses secondary country-level data to identify relationships between the explanatory variables and FDI inflows. We transformed variables expressed in levels using natural logarithms where appropriate. In log-log specifications, the estimated coefficients can be interpreted as elasticities; because the real interest rate remains in percentage terms, its coefficient has a semi-log interpretation. Table 3 presents the variables, proxies, units, data sources, and supporting references.

**Figure 1**

Process flow for panel-data model selection and diagnostic testing


**Table 3**

Variables, proxies, and data sources

| Variable                            | Proxy                      | Unit             | Data Source                 | References                                                                   |
|-------------------------------------|----------------------------|------------------|-----------------------------|------------------------------------------------------------------------------|
| Foreign Direct Investment (lnfdi)   | Log of FDI Inflow          | USD              | World Bank                  | (Habib & Zurawicki, 2002); (Mathur & Singh, 2013)                            |
| Corruption (lnpci)                  | Log of CPI                 | Score            | Transparency International  | (Habib & Zurawicki, 2002); (Mathur & Singh, 2013); (Ngoc, Hai & Chinh, 2018) |
| Rule of Law (lnrli)                 | Log of RLI                 | Score            | World Governance Indicators | (Staats & Biglaiser, 2011); (Kunsch, Schnarr, & Rowe, 2014)                  |
| High consumption potential (lngdpc) | Log of real GDP per Capita | USD              | S&P Global                  | (Habib & Zurawicki, 2002)                                                    |
| Market size (lnpopulation)          | Log of population          | Number of people | World Bank                  | (Habib & Zurawicki, 2002);                                                   |
| Price competition (lnexc)           | Real exchange rate         | USD              | S&P Global                  | (Hoang & Bui, 2015)                                                          |
| Investor's cost of capital (rir)    | Real interest rate         | %age             | World Bank                  | Hoang & Bui, 2015)                                                           |

\*Note: S&P Global reports the local-currency value of one US dollar for the exchange-rate variable.

We transformed FDI, CPI, RLI, population, GDP per capita, and the real exchange rate using the natural logarithm. The real interest rate was retained in its original form because it is already expressed as a percentage.

### 3.2 Econometric Model

Six models were specified to test the hypotheses. Model (1) examines the relationship between the CPI and FDI, while Model (2) examines the relationship between the RLI and FDI. Model (3) includes both institutional variables. Models (4) and (5) extend Models (1) and (2), respectively, by adding the macroeconomic controls. Model (6) includes the CPI, the RLI, and all control variables. Because preliminary analysis indicates a high correlation between the CPI and the RLI, the variables are also estimated separately in Models (1), (2), (4), and (5).

Model (1): Corruption Perceptions Index and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln cpi\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (1)$$

Model (2): Rule of Law Index and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln rli\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (2)$$

Model (3): Corruption Perceptions Index, Rule of Law Index, and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln cpi\_it + \beta_2 \ln rli\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (3)$$

Model (4): Corruption Perceptions Index, GDP per capita, population, real exchange rate, real interest rate, and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln cpi\_it + \beta_2 \ln gdp\_it + \beta_3 \ln pop\_it + \beta_4 \ln exc\_it + \beta_5 \ln rir\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (4)$$

Model (5): Rule of Law Index, GDP per capita, population, real exchange rate, real interest rate, and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln rli\_it + \beta_2 \ln gdp\_it + \beta_3 \ln pop\_it + \beta_4 \ln exc\_it + \beta_5 \ln rir\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (5)$$

Model (6): Corruption Perceptions Index, Rule of Law Index, GDP per capita, population, real exchange rate, real interest rate, and foreign direct investment

$$\ln fdi\_it = \alpha + \beta_1 \ln cpi\_it + \beta_2 \ln rli\_it + \beta_3 \ln gdp\_it + \beta_4 \ln pop\_it + \beta_5 \ln exc\_it + \beta_6 \ln rir\_it + \mu_i + \lambda_t + \varepsilon_{it} \quad (6)$$

where:

FDI<sub>it</sub> represents foreign direct investment for country *i* in time period *t*.

$\alpha$  is the intercept term, representing the expected value of FDI when all explanatory variables are zero.

$\beta_1$ – $\beta_6$  are the regression coefficients associated with the explanatory variables included in each model.

$\mu_i$  represents the country-specific effect or other unobserved time-invariant factors not captured by the explanatory variables.

$\lambda_t$  represents the time-specific effect or other unobserved common factors not captured by the explanatory variables.

$\varepsilon_{it}$  represents the idiosyncratic error term, capturing the remaining unexplained variation in FDI.

### 3.3 Data Analysis Method

All six models are estimated using static panel-data methods. The analysis begins with POLS and proceeds to REM and FEM specifications. Model selection is based on the Breusch-Pagan Lagrangian Multiplier test, poolability F-test, and Hausman test. When heteroskedasticity or serial correlation is detected, we use cluster-robust standard errors at the country level.

## 4. Results and Discussion

The analysis covers 19 emerging Asia-Pacific economies over the period 2010–2022. Secondary data are drawn from S&P Global, the World Bank, Transparency International, and the Worldwide Governance Indicators. Table 4 presents the descriptive statistics. The reported variance inflation factors (VIFs) are below 10, although the high correlation between the CPI and RLI requires caution when including both variables in the same specification (O'Brien, 2007).

### 4.1 Diagnostic Test

The correlation matrix in Table 5 shows that FDI has weak to moderate bivariate correlations with the explanatory variables. The strongest relationship among the explanatory variables is between the CPI and the RLI ( $r = 0.9016$ ), indicating a potential multicollinearity concern when the two institutional variables are entered simultaneously. For this reason, Models (1), (2), (4), and (5) estimate their effects separately, while Models (3) and (6) are retained as additional joint specifications and should be interpreted cautiously.

## 5. Discussion

Table 6 presents the random-effects estimates with cluster-robust standard errors. The model-selection tests described in Section 3.3 indicate that the random-effects specification is preferred across the six models. In Models (1) and (2), the CPI and RLI are each positive and statistically significant when entered separately without macroeconomic controls. Because the variables are in logarithms, the Model (1) CPI coefficient implies that a 1% increase in the CPI is associated with an approximately 0.238% increase in FDI, while the Model (2) RLI coefficient implies an approximately 0.098%

increase in FDI. However, when Model (3) includes both institutional variables, neither remains statistically significant, consistent with the high correlation reported in Table 5.

**Table 4**  
*Descriptive statistic*

| Variables    | Descriptive Statistic |           |           |          |          |      |
|--------------|-----------------------|-----------|-----------|----------|----------|------|
|              | Obs                   | Mean      | Std. dev. | Min      | Max      | VIF  |
| lnfdi        | 247                   | 23.03065  | 1.02962   | 17.77681 | 26.57855 |      |
| lnncpi       | 234                   | 3.411013  | 0.4110861 | 2.07944  | 4.21951  | 6.60 |
| lnrli        | 233                   | 3.367118  | 0.9885686 | -0.75612 | 4.43812  | 6.35 |
| lngdpc       | 247                   | 7.714023  | 1.180752  | 4.6732   | 10.75458 | 2.06 |
| lnexc        | 247                   | -4.71661  | 2.81882   | -10.0549 | -0.22314 | 1.60 |
| lnpopulation | 247                   | 17.50773  | 2.039854  | 12.8893  | 21.07193 | 1.26 |
| rir          | 172                   | 0.0409517 | 0.0583225 | -0.20497 | 0.28054  | 1.17 |

\*Notes: lnfdi = Foreign Direct Investment; lnncpi = Corruption Perception Index; lnrli = Rule of Law Index; lngdpc = High Consumption Potential; lnexc = Price Competition; lnpopulation = Market size; rir = Investor's Cost of Capital

**Table 5**  
*Correlation matrix*

| Variables    | lnfdi   | lnncpi  | lnrli   | lngdpc  | lnexc   | lnpopulation | rir    |
|--------------|---------|---------|---------|---------|---------|--------------|--------|
| lnfdi        | 1.0000  |         |         |         |         |              |        |
| lnncpi       | 0.3293  | 1.0000  |         |         |         |              |        |
| lnrli        | 0.2990  | 0.9016  | 1.0000  |         |         |              |        |
| lngdpc       | 0.0444  | 0.5485  | 0.4729  | 1.0000  |         |              |        |
| lnexc        | 0.0505  | 0.2486  | 0.1554  | 0.1600  | 1.0000  |              |        |
| lnpopulation | 0.6519  | -0.0457 | 0.0581  | -0.4716 | -0.2078 | 1.0000       |        |
| rir          | -0.1837 | -0.2461 | -0.3590 | -0.1285 | -0.1193 | -0.1827      | 1.0000 |

\*Notes: lnfdi = Foreign Direct Investment; lnncpi = Corruption Perception Index; lnrli = Rule of Law Index; lngdpc = High Consumption Potential; lnexc = Price Competition; lnpopulation = Market size; rir = Investor's Cost of Capital

Once the control variables are added in Models (4)–(6), the CPI and RLI are also statistically insignificant. These findings are consistent with prior evidence that governance effects on FDI can be weak or context-dependent (Iloie, 2015; Méon & Sekkat, 2007; Wheeler & Mody, 1992). By contrast, GDP per capita and population show more robust positive relationships with FDI. The results therefore point to market size and purchasing capacity as stronger drivers of FDI in emerging Asia-Pacific economies, consistent with market-seeking explanations in prior research (Gupta & Ahmed, 2018; Kumari & Sharma, 2017; Ramasamy & Yeung, 2010). The findings suggest that investors may accept weaker institutional conditions when host economies offer sufficiently attractive market opportunities. China, India, and Indonesia, for example, continue to attract substantial FDI despite differences in governance quality. This pattern is consistent with the market-seeking motive of FDI, whereby investors are attracted by large consumer bases, growth potential, and opportunities to expand domestic sales. Other factors not tested directly in this study—such as natural-resource endowments, trade agreements, government incentives, and transport and digital connectivity—may further shape location decisions (Dunning & Lundan, 2008; Wadhwa & Reddy, 2011).

The market-seeking interpretation can also be viewed alongside recent Malaysia-focused research showing that stakeholder and ecosystem conditions beyond aggregate market size shape market engagement and organisational outcomes. Across healthcare, digital payments, courier services, and social-enterprise consumption, perceived usefulness, service quality, trust, satisfaction, and stakeholder value shape adoption, continuance, and customer responses (Cheah et al., 2025; Cheah et al., 2026; Foo & Cheah, 2026; Tan & Cheah, 2025; Taufiq & Cheah, 2026). At the organisational level, recent research on social enterprises similarly shows that the ability to balance institutional and commercial logics can influence performance in nascent ecosystems (Nguyen et al., 2026). Although these studies do not examine FDI directly, they reinforce the broader interpretation that the attractiveness of large emerging markets depends partly on the quality of the business ecosystem in which investors operate. Within the eclectic paradigm, GDP per capita and population are best interpreted as host-country location advantages rather than ownership advantages of multinational enterprises (Dunning & Lundan, 2008). GDP per capita captures purchasing power and domestic market attractiveness, while population reflects potential market size and the scale of the consumer base. Their positive coefficients therefore support a market-seeking interpretation of FDI inflows. This result also reinforces the importance of distinguishing firm-specific ownership advantages from country-specific location advantages when applying the OLI framework.

**Table 6**  
Regression summary

| Variables    | Model 1                    | Model 2                    | Model 3                    | Model 4                     | Model 5                     | Model 6                     |
|--------------|----------------------------|----------------------------|----------------------------|-----------------------------|-----------------------------|-----------------------------|
|              | Random Effect (Cluster)    | Random Effect (Cluster)    | Random Effect (Cluster)    | Random Effect (Cluster)     | Random Effect (Cluster)     | Random Effect (Cluster)     |
| lnapi        | 0.2377431**<br>(0.1062973) |                            | 0.1976995<br>(0.1420051)   | 0.3142316<br>(0.2054742)    |                             | 0.5404549<br>(0.3737103)    |
| lnrli        |                            | 0.098359**<br>(0.0450905)  | 0.0781004<br>(0.0574143)   |                             | 0.0212987<br>(0.0526155)    | -0.156535<br>(0.1725897)    |
| lngdpc       |                            |                            |                            | 0.2378606*<br>(0.126101)    | 0.3084948***<br>(0.1169991) | 0.2623692**<br>(0.1301495)  |
| lnexc        |                            |                            |                            | 0.047959<br>(0.0457287)     | 0.0509718<br>(0.0461423)    | 0.0471732<br>(0.0455998)    |
| lnpopulation |                            |                            |                            | 0.4514557***<br>(0.1152864) | 0.4709919<br>(0.1140148)    | 0.4640436***<br>(0.1151943) |
| rir          |                            |                            |                            | -0.3937829<br>(0.6004282)   | -0.2476722<br>(0.4079511)   | -0.5303858<br>(0.660968)    |
| constant     | 22.21823***<br>(0.3252475) | 22.70267***<br>(0.1943243) | 22.09488***<br>(0.3339884) | 12.38047<br>(2.211603)      | 12.4953<br>(2.387693)       | 11.74022***<br>(2.384096)   |

Note: All models are estimated using random effects with cluster-robust standard errors. Standard errors are reported in parentheses. \*, \*\*, and \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively. Model selection considered the Breusch-Pagan LM test, poolability F-test, and Hausman test.

## 6. Conclusion

The random-effects results indicate that the effects of the CPI and RLI on FDI inflows are not robust once macroeconomic controls are introduced. Although both institutional variables are positive and significant in the simpler bivariate models, their effects become statistically insignificant in the fuller specifications. GDP per capita and population are the more consistent positive determinants of FDI, suggesting that market size and purchasing capacity are central to FDI location decisions in emerging Asia-Pacific economies. This pattern is consistent with a predominantly market-seeking motive. Policymakers should therefore pursue governance improvements alongside measures that expand regional markets, strengthen sector-specific investment conditions, and deepen trade and supply-chain connectivity. For smaller economies, regional integration and cross-border market access may help compensate for limited domestic market size. From a business perspective, investors should carefully assess the risk-return trade-off associated with differences in institutional quality across emerging Asia-Pacific economies. Large and growing markets may offer attractive commercial opportunities even where governance conditions are less favourable, but investors should evaluate such opportunities alongside legal, regulatory, and operational risks. Firms should therefore assess product-market fit, institutional conditions, and supply-chain connectivity before committing capital. More broadly, well-designed FDI policies can contribute to employment, technology transfer, infrastructure development, and economic growth when appropriate domestic institutions and market conditions support investment.

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## Declaration of Competing Interests

The authors declare no conflicts of interest.

## CRedit Authorship Contribution Statement

Kevin William Timothy: Conceptualization; Data curation; Visualisation; Writing – original draft  
Chin Phaik Nie: Conceptualization; Verification; Investigation; Writing –review & revise; Analysis; Supervision  
Jeffrey S. S. Cheah: Conceptualization; Writing –review & revise; Supervision

## Availability of Data and Materials

The data supporting this study's findings are available on request from the corresponding author.

## Generative Artificial Intelligence Declarations

During the preparation of this manuscript, the authors used generative AI to assist with language editing and improve readability. The authors reviewed and edited all AI-assisted content and take full responsibility for the final manuscript.

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