

to IFRS leads to increase FDI. The study used 30 OECD countries for the period 2000 to 2005. The study found positive association between IFRS and FDI due to reduce information processing costs for foreign investors. Gordon et al. (2012) also examined the effect of IFRS adoption on FDI inflows. Their study covered 124 countries, for the period from 1996 to 2009. Their findings supported the positive association between IFRS adoption and FDI inflows. Beneish, Miller and Yohn (2015) investigated whether mandatory IFRS adoption is associated with increased foreign investment for 51 countries in 2005. The study found that IFRS adoption has a positive and significant relationship with FDI. Lungu et al. (2017) also examined the effect of IFRS adoption on FDI between 26 emerging countries from 1996 until 2014. The study found that countries which adopted IFRS are more likely to benefit from a higher increase in FDI inflows than non-adopters.

Despite of above studies which reported a positive association between IFRS adoption and FDI, Nnadi and Soobaroyen (2015) reported a negative result. The study covered 34 African countries over 20 years. Nnadi and Soobaroyen (2015) found IFRS adoption to be negatively associated to FDI. Owusu et al. (2017) also examined the relationship between IFRS adoption and FDI between 116 developing countries covering the period of 1996 to 2013. The study found that IFRS adoption does not affect FDI inflows. As can be seen, evidences which looked at IFRS adoption and FDI are still limited especially in developing countries. Furthermore, empirical studies which are known about this topic with respect to members of ASEAN region is also few.

According to Gordon et al. (2012) one of the main reason that lead countries to adopt IFRS is the strong signal to the investors that their companies prepare more transparent financial information compare with countries without IFRS adoption. Since, more transparent financial information may lead to information asymmetry improvement, therefore, this signal should have a positive effect on attracting more foreign investors. Therefore, based on the above discussion and the assertion of signaling theory, this study hypothesizes that:

H_1 : *IFRS adoption has a positive association with foreign direct investment inflows.*

RESEARCH METHODOLOGY

This study applies panel data research design which combines time-series and cross-sectional data. There are three method for estimating a panel data, which are Static Panel, Panel Co-integration and Dynamic Panel. The estimation technique for static panel is Ordinary Least Squares (OLS), for panel co-integration is Dynamic Ordinary Least Squares (DOLS) and Fully Modified Ordinary Least Squares (FMOLS), while for dynamic panel is Generalized Method of Moments (GMM). Most past studies which examined the effects of IFRS adoption on FDI inflows such as Gordon et al. (2012) and Lungu et al.

(2017) employed the static panel data analysis and an OLS estimation technique, while Owusu et al. (2017) applied the dynamic panel analysis and GMM estimation technique. According to Kao and Min-Hsien Chiang (1999) the OLS estimator has a non-negligible bias in finite samples and the FMOLS estimator does not improve over the OLS estimator in general. Furthermore GMM estimator is designed for situation with small time-series and large cross-sections, and thus is not appropriate for this study. Kao and Chiang (2000) also indicates that the DOLS estimator may be more promising than the OLS or FMOLS estimators in estimating co-integration panel regressions.

Additionally, in relationship between IFRS and FDI may be an endogeneity problem that is not addressed via the use of the OLS estimator (Gordon et al. 2012). According to Kao and Chiang (2000) the DOLS estimator is constructed by making corrections for endogeneity to the OLS estimator. In the best of our knowledge, no previous study has applied panel co-integration to examine the relationship between IFRS adoption and FDI inflows. Therefore, this study employs DOLS estimation technique to examine the relationship between variables.

SAMPLE SELECTION

This study uses South East Asian Nations (ASEAN) as sample. The ASEAN was established in 1967 with founding members made up of Brunei Darussalam, Indonesia, Malaysia, Philippines, Singapore and Thailand. In the late 1990s Vietnam, Laos, Cambodia and Myanmar joined ASEAN. This study focuses on ASEAN because, it is observed that the ASEAN's economic growth has been very impressive over recent years. The overall score of ASEAN economic growth has increased by 98 percent from 2012 to 2016 (Heritage Foundation reports), a record that is unique and has not been observed in other regions. In addition, based on Figure 1, FDI of ASEAN has increased by 81 percent from 2012 to 2016 i. In 2016 ASEAN regional expansion by multinational firms has resulted in inflows of US\$120 billion, representing almost 16% of world FDI among developing countries in 2015 (ASEAN 2017). Moreover, ASEAN consist of different stages of economic development and freedom, which based on Sovbetov and Moussa (2017) is the main factor for attracting foreign investors. Therefore, ASEAN countries provides a different setting to examine the issue of IFRS adoption and FDI.

Data for this study was collected from 2001 to 2016. This study uses 2001 as the starting year for data collection as it is the year that FDI data became available in database for all ASEAN countries. Therefore, the sample for examining equation models consist of 10 ASEAN countries and a total of 160 observations.

RESEARCH MODELS

In line with Gordon et al. (2012) and Lungu et al. (2017) this study uses two equation models to examine the relationship between IFRS and FDI inflows. The first model

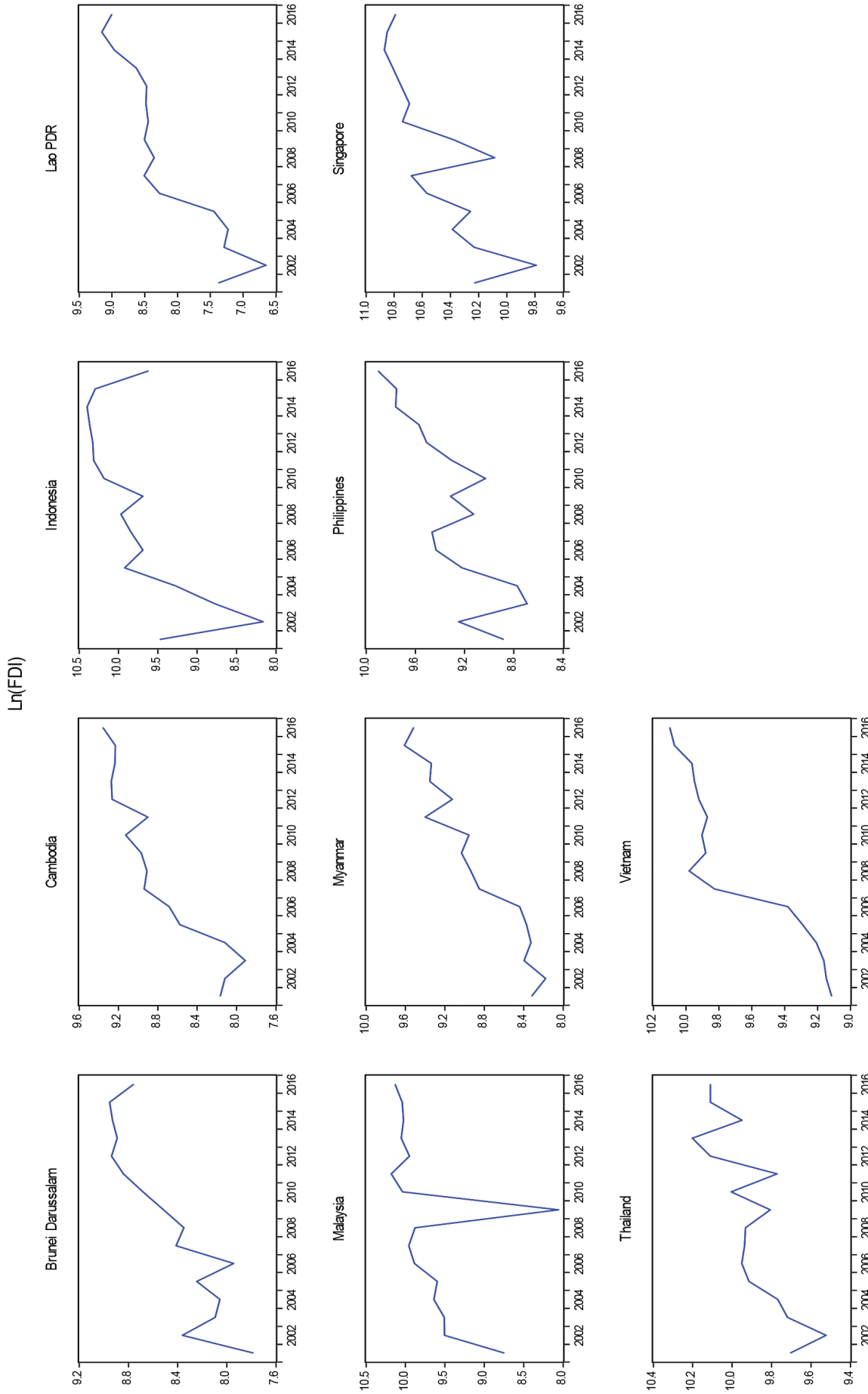


FIGURE 1. FDI inflows in ASEAN from 2001 to 2016

examines the effects of IFRS using dummy variables to explore its effect on FDI between ASEAN countries. The second model considers the effect of IFRS based on score to explore effect of compliance level of IFRS on FDI between ASEAN countries. Table 1 presents the equation models applied in this study.

DEFINITION OF VARIABLES

The dependent variable of this study is FDI, whereas, the independent variable is IFRS adoption. This study uses the natural logarithm of absolute FDI value ($\ln FDI$) for FDI inflows variable. IFRS adoption is measured based on dummy variable for Model 1 and score which represent level of IFRS compliance for Model 2. For Model 1, a dummy variable equal to 1 is given if a country has adopted IFRS and 0, if otherwise. For further understanding of the effects of IFRS on FDI inflows, this study considers the differences in the level of compliance in Model 2. The score for level of compliance ranges from 0 to 7, (Table 2). In Model 2 the level of compliance score replaces dummy variables in Model 1. In line with Lungu et al. (2017) the score was constructed based on IFRS Foundation's Jurisdictional Profiles (IASB 2016). As discussed before, Indonesia and Vietnam have not adapted IFRS, however, based on IFRS Foundation's Jurisdictional Profiles, Indonesia has a score of 2 because it has made a public commitment in support of moving towards a set of high quality global accounting standard which is the IFRS. However, Vietnam has a score of zero.

Each ASEAN country has different starting date of IFRS compliance (IFRS Foundation's Jurisdictional Profiles (IASB 2016)), therefore, this study applies dummy and level scores based on different starting dates for each countries. Table 3 presents the starting date of IFRS compliance in ASEAN countries.

In line with Gordon et al. (2012), this study uses gross domestic product (GDP) (as the country's size), annual year-end exchange rates (EXCH) and education level (EDU) as control variable. Table 4 shows the variables which are used in the equation models, as well as, variable definitions, measurements and data sources. Past studies which addressed the relationship between IFRS adoption and FDI such as Gordon et al. (2012) and Lungu et al. (2017) used more control variables in their estimation. However, this study applied GDP, EXCH and EDU as control variables based on the principle of parsimony. The principle of parsimony propose that unnecessary assumptions should be avoided. Indeed, this principle is used as a logical tool to filter out all unnecessary from scientific and philosophical arguments

that leads to complication. Hence, as long as the models follow the standard econometric technique and the results seems to followed the theory, therefore the models are adequate or parsimonious.

ESTIMATION STRATEGY

As mentioned before, this study applies a panel co-integration technique. The first step in applying this technique is to check the stationary or non-stationary properties of variables via the panel unit root test. The result of the panel unit root tests determines the order of integration of the variables. If all variables are integrated then proceed with panel co-integration test. If there are co-integration among variables based on the Pedroni tests, then proceed with long-run estimation or DOLS. Finally the Granger-causality test is carried out to explore the short and long run causality among variables.

PANEL UNIT ROOTS TESTS

To determine the stationary or non-stationary properties of variables this study applies Levin, Lin and Chu (2002) (LLC) and Im, Pesaran and Shin (2002) (IPS) unit root tests. The LLC allows for two-way fixed effect, one coming from the and the second from the θ_i .

$$\Delta Y_{i,t} = \alpha_i + \delta Y_{i,t-1} + \beta_i t + \sum_{k=1}^n \varnothing_i \Delta Y_{i,t-k} + \theta_i + \varepsilon_{it}$$

The hypotheses of this test are;

$$H_0: \delta = 0 \ (\rho = 1)$$

$$H1: \delta < 0 \ (\rho < 1)$$

The LLC assumes that pooled estimation for each i cross-section. The IPS test extended the LLC test by allowing heterogeneity on the coefficient of the $Y_{i,t-1}$,

$$\Delta Y_{i,t} = \alpha_i + \delta_i Y_{i,t-1} + \beta_i t + \sum_{k=1}^n \varnothing_i \Delta Y_{i,t-k} + \varepsilon_{it}$$

The hypotheses of this test are;

$$H0: \delta_i = 0 \text{ for all } i \ (\rho = 1)$$

$$H1: \delta_i < 0 \text{ for at least one } i \ (\rho < 1)$$

If ρ is in fact 1, we face what is known as the unit root problem, that is, a situation of non-stationarity. However, if $\rho < 1$, then it can be concluded that the data is stationary. If the results of LLC and IPS were non-stationary at level, but their first difference, were stationary, therefore, it

TABLE 1. Equation models of this study

Equation Models	NO
$\ln FDI_{i,t} = \beta_0 + \beta_1 FRS(DUMMY)_{i,t} + \beta_2 \ln GDP_{i,t} + \beta_3 EXCH_{i,t-1} + \beta_4 EDU_{i,t-1} + \varepsilon_{i,t}$	(1)
$\ln FDI_{i,t} = \beta_0 + \beta_1 FRS(LEVEL)_{i,t} + \beta_2 \ln GDP_{i,t-1} + \beta_3 EXCH_{i,t-1} + \beta_4 EDU_{i,t-1} + \varepsilon_{i,t}$	(2)

TABLE 2. IFRS adoption scores

Score	Characteristics of IFRS adoption	Brunei	Cambodia	Indonesia	Laos	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
1	Has the jurisdiction made a public commitment in support of moving towards a single set of high quality global accounting standards?	1	1	1	1	1	1	1	1	1	0
2	Has the jurisdiction made a public commitment towards IFRS Standards as that single set of high quality global accounting standards?	1	1	1	1	1	1	1	1	1	0
3	For domestic companies are IFRS Standards REQUIRED or PERMITTED?	0	1	0	1	1	1	1	1	0	0
4	Are IFRS Standards also required or permitted for more than the consolidated financial statements of companies whose securities trade in a public market?	0	1	0	0	1	1	1	1	0	0
5	Are all or some foreign companies whose securities trade in a public market either REQUIRED or PERMITTED to use IFRS Standards in their consolidated financial statements?	0	1	0	0	1	0	1	1	1	0
6	Are IFRS Standards incorporated into law or regulations?	0	1	0	0	1	1	1	0	0	0
7	Has the jurisdiction adopted the IFRS for SMEs Standard for at least some SMEs?	0	1	0	0	1	1	1	1	0	0
Total		2	7	2	3	7	6	7	6	3	0

Source: Scores attributed by authors, based on characteristics defined by IASB (2016).

TABLE 3. The IFRS adoption date of ASEAN countries

ASEAN Countries	Year of IFRS adoption
Brunei Darussalam	2014
Cambodia	2012
Indonesia	Has not adopted (public commitment in support of moving towards IFRS from 2012)
Laos	2014
Malaysia	2012
Myanmar	2011
Philippines	2005
Singapore	2010
Thailand	2011
Vietnam	Has not adopted

Source: Information is synthesized and disclosed for each country from the IASB's webpage

TABLE 4. Variables, measurements and data collection sources

Variables	Measurements	Data Collection Sources
LnFDI	Natural logarithm of foreign direct investment inflow data in current US dollars.	World Development Indicator (WDI) database published by World Bank
IFRS(DUMMY)	Dummy variable equal to 1, if a country has adopted IFRS; 0, otherwise.	The IASB's webpage (http://www.ifrs.org/Use-around-the-world/Pages/Jurisdiction-profiles.aspx)
IFRS(LEVEL)	A score measured on a 0–7 scale (Table 2)	based on characteristics defined by IASB (2016)
LogGDP	Log of GDP in current US dollars, a market factor that attracts FDI.	World Development Indicator (WDI) database published by World Bank
EXCH	Annual year – end exchange rates measured by national currency units per SDR ^b scaled by 100	World Development Indicator (WDI) database published by World Bank
EDU	Education level	World Development Indicator (WDI) database published by World Bank

could be concluded that variables are integrated of order 1, denoted as $I(1)$ and the process can be continued as panel co-integration (1st generation). Table 5 presents the estimated results of panel unit root with trend at level and first difference for all the variables of this study. The findings show that all variables are non-stationary in their level form, however, all of them are stationary at first difference. Thus, the null hypothesis of non-stationary is rejected and results show all variables are stationary and integrated of order 1 in the panel of ASEAN countries.

THE PANEL CO-INTEGRATION TESTS

As mentioned earlier, if the results of LLC and IPS were non-stationary at level, but their first difference, were stationary, therefore, it could be concluded that variables are integrated of order 1, denoted as $I(1)$ and the process can be continued as panel co-integration (1st generation). Based on the panel unit root tests (Table 5) all variables are integrated of order 1 or $I(1)$, hence we can proceed with panel co-integration test in order to establish if a long-run equilibrium relationship among the variables exists. This study utilizes a panel co-integration test which is suggested by Pedroni (1999, 2000) in order to check

co-integration. The Pedroni's panel co-integration can be expressed as follow;

$$LnFD_{it} = \alpha_{it} + \delta_1 t + \beta_1 IFRS(DUMMY \text{ or } LEVEL)_{it} + \beta_2 LogGDP_{it} + \beta_3 EXCH_{it} + \beta_4 EDU_{it} + \epsilon_{it}$$

where $\epsilon_{it} = \rho_i \epsilon_{it-1} + \mu_{it}$ are the estimated residuals from the panel long-run relationship.

The parameters and allow for the possibility of country fixed effects and deterministic trends, respectively. To test the null hypothesis, i.e. $\rho = 1$, Pedroni (1999, 2000) proposed seven statistics, four within dimension or panel and three between dimension or group statistics to check co-integration of this study panel data. The within dimension tests consist of 4 statistics, namely, *panel v-statistic*, *panel rho-statistic*, *panel PP-statistic* and *panel ADF-statistic*. The between dimension tests include 3 statistics, *group rho-statistic*, *group PP-statistic* and *group ADF-statistic*. If there is co-integration among variables with using Pedroni test, then can be proceed with long-run estimation. Table 6 presents the results of the panel co-integration tests. Four of the seven panel co-integration tests indicate that the null hypothesis of no

TABLE 5. Panel unit root test results

Variables	At level		At first differences	
	Statics	P-value	Statics	P-value
LLC test				
LnFDI	-0.117	0.453	-3.469	0.000
IFRS(DUMMY)	-	-	-	-
IFRS(LEVEL)	-	-	-	-
LogGDP	5.342	1.000	-5.058	0.000
EXCH	1.042	0.851	-4.694	0.000
EDU	1.116	0.867	-2.455	0.007
IPS test				
LnFDI	-0.575	0.282	-3.657	0.000
IFRS(DUMMY)	-	-	-	-
IFRS(LEVEL)	-	-	-	-
LogGDP	4.915	1.000	-1763	0.038
EXCH	2.392	0.991	-1.587	0.056
EDU	1.852	0.968	-1.607	0.072

TABLE 6. Pedroni panel co-integration test results

Test	Panel v-Statistic	Panel rho-Statistic	Panel PP-Statistic	Panel ADF-Statistic	Group rho-Statistic	Group PP-Statistic	Group ADF-Statistic
Static	-0.966	1.721	-4.029	-1.733	2.490	-11.169	-3.307
P-value	0.833	0.957	0.000	0.041	0.994	0.000	0.000

An intercept and trend is included in the co-integration equations.

co-integration is rejected at the 1% level (Panel PP-Statistic, Group PP-Statistic and Group ADF-Statistic) and 5% level (Panel ADF-Statistic) significance. The findings of within dimension statistics and between dimensions statistics demonstrate the rejection of the null hypothesis in most statistics (4 statistics is significant around 1%). Therefore, LnFDI, IFRS (DUMMY or LEVEL), LogGDP, EXCH and EDU are co-integrated in ASEAN for the period 2001-2016 and can proceed with long run estimation.

ESTIMATION OF PANEL CO-INTEGRATION REGRESSION

Based on Pedroni's panel co-integration tests (Table 6) all variables of this study are co-integrated, the next step is to estimate long-run co-integration. As discussed earlier, Kao and Chiang (2000) proposed that the Ordinary Least Square (OLS) is known to yield biased and inconsistent results, therefore, they proposed several estimators such as Dynamic OLS (DOLS) and Fully Modified OLS (FMOLS) to estimate the long-run coefficient. Dynamic OLS (DOLS) estimator is promising in small samples and it is appropriate for co-integrated panels. Based on Kao and Chiang (2000) the DOLS estimator may be more promising than the OLS or FMOLS estimators in estimating co-integrated panel regressions. Therefore, this study applied DOLS technique. Table 7 presents the results of the DOLS for both regression models.

Table 7 illustrates results of both models (Model 1, DUMMY variables and Model 2, compliance level of IFRS). This study argues that by adopting IFRS, countries signal

to investors from other countries that they are following a global accounting standards and have more transparent financial information. Therefore, IFRS may affect foreign investors' decision making.

The results of Model 1 supports a positive relationship between IFRS adoption (dummy variables) and FDI inflows at 0.10 with DOLS estimator technique. This result is consistent with Gordon et al. (2012) and Lungu et al. (2017) findings with OLS estimator technique. Consequently, this result means that in general IFRS adoption results in increase of FDI in flows by 17%. Therefore, this study supports the choice of IFRS adoption for ASEAN countries as a determinant factor which leads to increase its investment inflows.

Model 2 of Table 7 also demonstrates a positive significant relationship between IFRS (Level of compliance) and FDI inflows at 0.01 with DOLS estimator technique. The DOLS results is also consistent with Lungu et al. (2017) findings with OLS technique. The DOLS results demonstrate IFRS compliance may be an important motivation for foreign investors. Consequently, this result means that an increase in the level of IFRS compliance in ASEAN countries which adopt IFRS, has an impact of 2.9% increase in FDI inflows. Therefore, the hypothesis of this study is accepted. As can be seen in Table 7 the results of the both models illustrate that the LogGDP is positively associated with FDI inflows. This result also is consistent with findings of the past studies. However, Exchange and EDU are not significantly associated with FDI inflows.

TABLE 7. DOLS estimation technique results

Variables	Coefficient	P-value
Model 1		
IFRS(DUMMY)	0.177*	0.076
LogGDP	1.195***	0.000
EXCH	5.25E-04	0.948
EDU	7.83E-03	0.421
Model 2		
IFRS(LEVEL)	0.029*	0.067
LogGDP	1.239***	0.000
EXCH	-0.003	0.224
EDU	0.013*	0.097

PANEL CAUSALITY TESTS

Next the Granger-causality test is carried to determine the causality between variables in a long-run co-integration relationship (Hamit-haggar 2012). Pesaran, Shin and Smith (1999) developed a panel vector error correction model (VECM) which is applied for Granger causality tests. Based on Granger (1969) co-integration between variables shows that there is causality in at least one direction between variables. The VECM models used in this study are as follows;

$$\begin{aligned} \Delta \text{LnFDI}_{it} = & \beta_{2j} + \sum_{m=1}^p \beta_{im} \Delta \text{LnFDI}_{it-m} + \\ & \sum_{m=1}^p \vartheta_{im} \Delta \text{IFRS}_{it-m} + \sum_{m=1}^p k_{im} \Delta \text{LogGDP}_{it-m} + \\ & \sum_{m=1}^p \theta_{im} \Delta \text{EXCH}_{it-m} + \sum_{m=1}^p \alpha_{im} \Delta \text{EDU}_{it-m} + \\ & \omega_1 \text{ECT}_{t-1} + \varepsilon_{1t} \end{aligned}$$

$$\begin{aligned} \Delta \text{IFRS}_{it} = & \beta_{2j} + \sum_{m=1}^p \beta_{im} \Delta \text{IFRS}_{it-m} + \sum_{m=1}^p \vartheta_{im} \Delta \text{LnFDI}_{it-m} \\ & + \sum_{m=1}^p k_{im} \Delta \text{LogGDP}_{it-m} + \sum_{m=1}^p \theta_{im} \Delta \text{EXCH}_{it-m} \\ & + \sum_{m=1}^p \alpha_{im} \Delta \text{EDU}_{it-m} + \omega_1 \text{ECT}_{t-1} + \varepsilon_{1t} \end{aligned}$$

$$\begin{aligned} \Delta \text{LogGDP}_{it} = & \beta_{2j} + \sum_{m=1}^p \beta_{im} \Delta \text{LogGDP}_{it-m} + \\ & \sum_{m=1}^p \vartheta_{im} \Delta \text{LnFDI}_{it-m} + \sum_{m=1}^p k_{im} \Delta \text{IFRS}_{it-m} + \\ & \sum_{m=1}^p \theta_{im} \Delta \text{EXCH}_{it-m} + \sum_{m=1}^p \alpha_{im} \Delta \text{EDU}_{it-m} + \\ & \omega_1 \text{ECT}_{t-1} + \varepsilon_{1t} \end{aligned}$$

$$\begin{aligned} \Delta \text{EXCH}_{it} = & \beta_{2j} + \sum_{m=1}^p \beta_{im} \Delta \text{EXCH}_{it-m} + \\ & \sum_{m=1}^p \vartheta_{im} \Delta \text{LnFDI}_{it-m} + \sum_{m=1}^p k_{im} \Delta \text{IFRS}_{it-m} + \\ & \sum_{m=1}^p \theta_{im} \Delta \text{LogGDP}_{it-m} + \sum_{m=1}^p \alpha_{im} \Delta \text{EDU}_{it-m} + \\ & \omega_1 \text{ECT}_{t-1} + \varepsilon_{1t} \end{aligned}$$

$$\begin{aligned} \Delta \text{EDU}_{it} = & \beta_{2j} + \sum_{m=1}^p \beta_{im} \Delta \text{EDU}_{it-m} + \sum_{m=1}^p \vartheta_{im} \Delta \text{LnFDI}_{it-m} \\ & + \sum_{m=1}^p k_{im} \Delta \text{IFRS}_{it-m} + \sum_{m=1}^p \theta_{im} \Delta \text{LogGDP}_{it-m} + \\ & \sum_{m=1}^p \alpha_{im} \Delta \text{EXCH}_{it-m} + \omega_1 \text{ECT}_{t-1} + \varepsilon_{1t} \end{aligned}$$

where Δ is the lag operator and is one period lagged error term to identify long run causality between variables used by this studies. Short run causality estimate with testing of various hypotheses. For example, short run causality from IFRS to LnFDI is estimated by testing hypothesis: H_0 : for all i and m . The rejection of this hypothesis implies that IFRS is causing LnFDI in the short run. A similar hypothesis procedure will be employed to test various hypotheses. The significance of the error correction terms in each set of equations can be tested using t-tests. Short run dynamics can be tested using Granger causality F tests. Table 8 reports short run and long run causality results.

Table 8 displays the outcomes of the short and long run causality tests. The short run test shows that changes in IFRS adoption (DUMMY or LEVEL) or decision to adopt IFRS have significant impact on FDI inflows. The causality test normally indicates the direction between variables. The results of causality test show there is a direction from IFRS to FDI which means that IFRS adoption affect FDI inflows. The results of short run panel causality test also show that the changes in GDP or size of ASEAN countries

TABLE 8. Panel causality test results

Dependent variable	Source of causation (Independent variables)						
	Short run					Long run	
	$\Delta \ln FDI$	$\Delta IFRS$ (DUMMY)	$\Delta IFRS$ (LEVEL)	$\Delta \log GDP$	$\Delta EXCH$	ΔEDU	ECT
Model 1							
$\Delta \ln FDI$		2.972* [0.105]		4.100** [0.042]	6.028** [0.014]	0.064 [0.799]	-4.892* [0.043]
$\Delta IFRS$ (DUMMY)	0.033 [0.854]			0.070 [0.791]	0.494 [0.482]	0.026 [0.872]	0.330** [0.034]
$\Delta \log GDP$	3.733** [0.053]	0.412 [0.520]			0.424 [0.514]	0.319 [0.572]	-4.330*** [0.006]
$\Delta EXCH$	0.230 [0.631]	0.092 [0.761]		0.054 [0.815]		1.861 [0.172]	-0.001 [0.496]
ΔEDU	0.134 [0.713]	1.141 [0.285]		4.683 [0.030]	1.290 [0.255]		-1.295 [0.277]
Model 2							
$\Delta \ln FDI$			2.825* [0.107]	3.915** [0.048]	5.417** [0.019]	0.089 [0.764]	-4.927** [0.044]
$\Delta IFRS$ (Level)	0.048 [0.826]			0.219 [0.639]	0.483 [0.487]	0.128 [0.721]	0.063 [0.210]
$\Delta \log GDP$	3.564** [0.059]		0.014 [0.904]		0.219 [0.639]	0.454 [0.500]	-4.366*** [0.006]
$\Delta EXCH$	0.171 [0.679]		0.549 [0.461]	0.068 [0.796]		1.979 [0.159]	0.063 [0.504]
ΔEDU	0.113 [0.736]		0.426 [0.514]	4.766** [0.029]	1.170 [0.279]		-1.478 [0.283]

have significant impact on FDI inflows. The results also show that there is a strong short run causality between changes in FDI inflows and changes in GDP or size of ASEAN countries. According to the long run test, results show a causality relationship between variables, from EXCHANGE, GDP and IFRS adoption to FDI inflows. This means that, all variables may affect FDI inflows. Additionally, there is a strong causality from FDI inflows to GDP, it means that FDI may affect GDP growth.

SUMMARY AND CONCLUSION

The objective of this study was to explore the long run relationship and the existence of causality relationship between IFRS adoption and FDI inflows in the context of ASEAN for the period 2001– 2016. Hence, this study have implemented panel unit root to test the integrating properties of variables. This study has implemented Pedroni co-integration approaches to test co-integration between variables. As well as, The Granger causality are used to examine the direction of causality between variables.

Results shows that all of the variables of this study are integrated at I (1). This result is confirmed by panel unit root tests which show the existence of co-integration between IFRS (DUMMY or LEVEL), GDP, EXCH, EDU and FDI inflows.

The DOLS estimation analysis, shows a positive significant relationship between IFRS (DUMMY or LEVEL) and FDI inflows at 10%, indicating that IFRS adoption improves the FDI inflows. The estimation exposes also a positive and significant relationship between GDP was also found to be positively related to FDI inflows. Moreover, when the compliance LEVEL of IFRS adoption was considered, the DOLS estimation technique also shows a positive and significant relationship between FDI inflows and education at 5%. The causality test also confirms short run causality between IFRS and FDI inflows, GDP and FDI inflows and EXCH and FDI inflows. The result also confirms short run causality between FDI inflows and GDP. Additionally there is also long-run causality from IFRS adoption to FDI inflows and from FDI inflows to GDP. However, there is no long run causality between FDI inflows and IFRS adoption.

Indeed, the result of this study shows that IFRS adoption attracts more foreign investments into a country. The results also show that the level of compliance with IFRS is an important driver for foreign investors even for Indonesia which had not adopt IFRS but is taking steps to comply with IFRS.

As with all empirical studies, this study has limitation. There are empirical studies in literature which examined the determinants of FDI inflows, however, this study was not able to utilize all of those determinants as control

variables. Taking into consideration the sample size, the analysis used in this study limits the number of variables. Therefore only three control variables were examined in the pursuit of parsimony. Therefore, this study suggests that for future study more control variables are taken into consideration. Additionally this study suggests that future studies consider the role of information asymmetry on relationship between IFRS adoption and FDI inflows. Previous empirical studies mentioned that IFRS adoption leads to information asymmetry improvement, however, there are very limited studies which tested the effect of information asymmetry on relationship between IFRS adoption and FDI inflows. To the best of our knowledge, there is no study which examined the relationship between information asymmetry and FDI inflows.

NOTES

- ¹ The OLS estimator is consistent for its true value, but the t-statistic diverges so that inferences about the regression coefficient, β , are wrong with a probability that goes to one.

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