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International Financial Reporting Standards Foreign Direct Investment in Asean Countries

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Abstract: The objective of this study is to investigate the relationship between International Financial Reporting Standard (IFRS) and Foreign Direct Investment (FDI) inflows. FDI has been identified as an economic consequence of IFRS. However, thus far, few studies have examined this issue in developing countries and there are no studies which have examined IFRS-FDI in ASEAN countries. In order to fulfill this objective, this study hypothesizes that IFRS is positively associated with FDI inflows. The hypothesis was empirically tested using a sample consisting of the ten ASEAN countries from 2001 to 2016, using a bias corrected Least Square Dummy Variable (LSDVC), and Ordinary Least Square (OLS). The results of the LSDVC and OLS analyses indicate that IFRS is positively associated with FDI inflows. Normally after the adoption of a new standard such as IFRS, regulators, practitioners and academicians would be interested in understanding the consequences. Therefore, this study contributes to the understanding of the economic consequences of IFRS. This study also provides evidence regarding the outcomes of IFRS, from the aspects of FDI inflows' enhancement. Therefore, the outcomes of this study may be useful for adopter and non-adopter countries to understand the economic consequences of IFRS. The findings may also provide important inputs to policy makers of non-adopter countries who are contemplating the adoption of IFRS. The positive relationship between IFRS and FDI inflows provides evidence that IFRS is an important determinant of FDI inflows, and eventually economic growth.

Keywords: ASEAN countries; economic consequence of IFRS; foreign direct investment (FDI); IFRS

JEL classification: F21, M21, M41

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Introduction

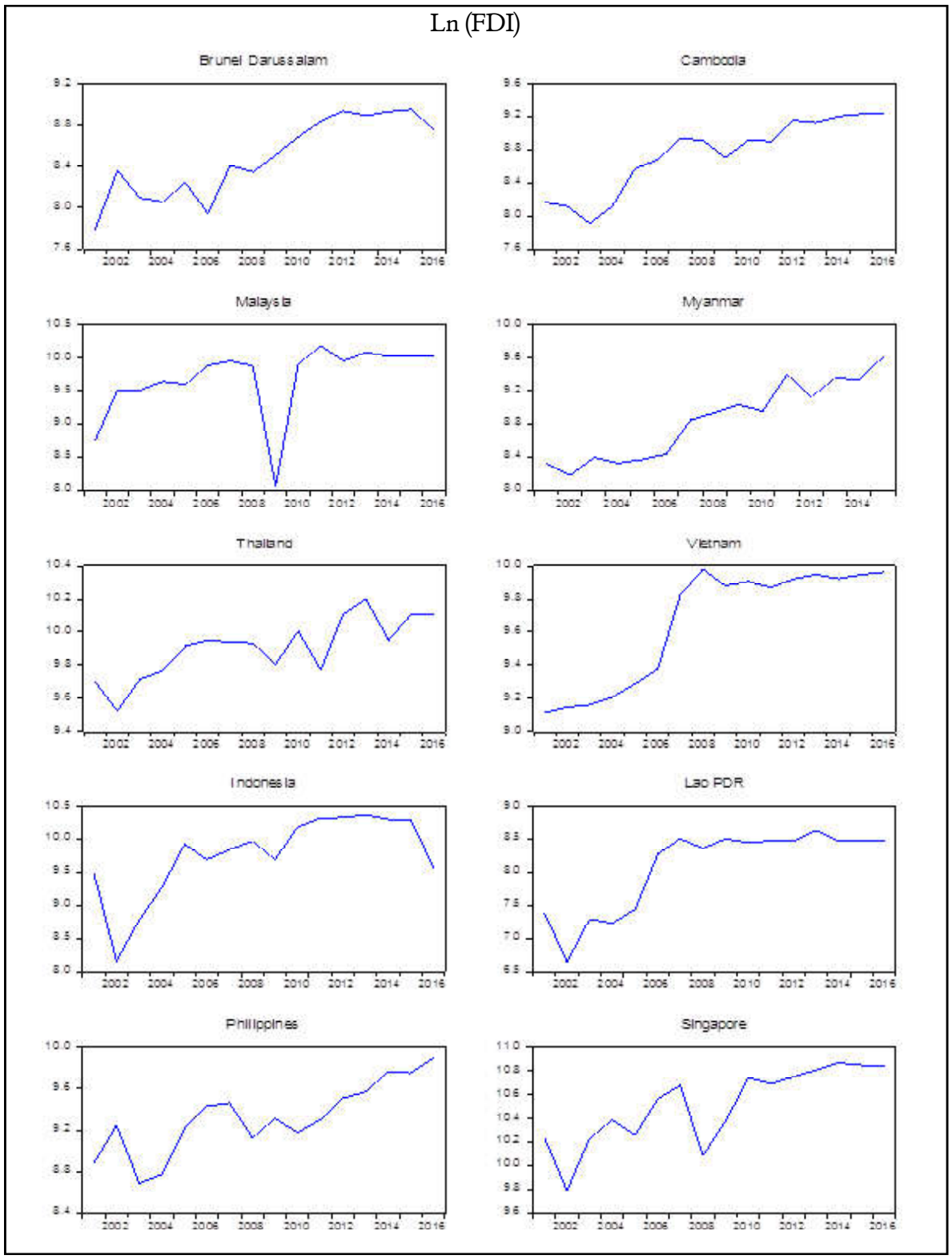
One of the most desired outcomes of an economic policy, in almost every country in the world, is to increase economic growth (Gordon et al. 2012; Zaidi and Huerta 2014; Noret al. 2015; Lungu et al. 2017). Most countries, especially developing countries, aim to achieve economic growth by attracting Foreign Direct Investment (FDI) into their country (Akisik 2014; Feeny et al. 2014; Thampanishvong and Kannika 2015; Iamsiraroj 2016; Ojewumi and Akinlo1 2017). However, foreign investors prefer markets with high quality information that enables them to assess investment prospects at a lower cost (Gordon et al. 2012; Akisik 2014). The International Financial Reporting Standard (IFRS), as a global accounting standard, has been widely acknowledged as one of the key inputs to reduce information asymmetry and increase the accounting information's quality, for the purpose of investment decisions (Ball 2006; Daske 2006; Ahmed et al. 2013; Chenet al. 2014; Kao and Wei 2014; Zaidi and Paz 2015). Therefore, IFRS's adoption may lead to increased transparency, which in turn may attract more foreign investors.

Although FDI has been identified as an economic consequence of IFRS (Samaha and Khlif 2016; Utama et al. 2016), very few studies have addressed this issue in great detail (Zeghal and Mhedhbi 2006; Gordon et al. 2012; Brüggemann et al. 2013; Lourenço and Branco 2015). Most studies that looked at the economic consequence of IFRS tend to focus on the cost of equity capital and economic growth (Daske et al. 2008; Castillomerino etal. 2014; Utama et al. 2016). Furthermore very few studies have looked at the economic consequence of IFRS in developing countries (Gordon et al. 2012; Lungu et al. 2017). Therefore, this study aims to fill the gap by using countries within the Association of Southeast Asian Nations (ASEAN) as a setting to examine the relationship between IFRS and FDI inflows.

Past studies have shown that the adoption of IFRS leads to improvements in the quality of the financial information being produced (Naranjo et al. 2013; Chen et al. 2015; Zaidi and Paz 2015). Better quality financial information leads to more transparency and more comparability, which consequently may improve information asymmetry (Ball 2006; Epstein 2009; Ahmed et al. 2013; Zaidi and Paz 2015; Li et al. 2017). Therefore, it could be concluded that more transparent financial information, or lower information asymmetry, are more likely to attract more foreign investors, and consequently result in economic growth. However, within ASEAN, two countries, Indonesia and Vietnam, have experienced high FDI inflows (Figure 1) even though these countries have not implemented IFRS (IASB 2016) (http://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/). Hence is it true that IFRS really leads to higher transparency and more inflows of FDI?

As highlighted earlier, studies which examine the relationship between IFRS and FDI inflows are limited. Additionally, all of them applied a statics panel and Ordinary Least Squares (OLS) estimator (Gordon et al. 2012; Lungu et al. 2017). Gordon et al. (2012) beside having an OLS estimator, also applied a two-stage instrumental variable model and Generalized Moment Method (GMM) (Conley 1999), to correct a potential endogeneity problem between IFRS and FDI. In examining the relationship between IFRS and FDI, there may be an endogeneity problem that is not addressed via the use of the OLS estimator (Gordon et al. 2012). Accord-

Figure 1. **FDI inflow in ASEAN Countries (1981-2016)**



ing to Nickell (1981), the presence of individual-specific effects, a lagged dependent variable and the potential endogeneity of the independent variables makes the use of traditional panel estimators, such as OLS, inappropriate. One possible solution, introduced by past studies to solve the potential endogeneity problem, is the GMM estimator. However, the GMM estimator is designed for a situation with a small time-series and large cross-section; hence it is not appropriate for this study as the sample consists of the ten ASEAN member countries from 2001 until 2016. Bruno (2005) developed a Least Square Dummy Variable bias Corrected (LSDVC) for short dynamic panels with fixed effects, which is an alternative method for GMM and suitable for small data sets (Bruno 2005). To the best of my knowledge, no studies have applied LSDVC to examine the relationship between IFRS and FDI inflows.

Besides the methodological contribution discussed above, the findings of this study could be useful for countries which are IFRS adopters, to understand the economic consequences of IFRS, while for non-adopter countries, the findings would be useful inputs for deliberating its adoption. This study also contributes to the extant literature by focusing on IFRS's adoption and FDI inflows. It is important to note that, without appropriate knowledge of the impact of IFRS, potential decision makers could be misled into making sub-optimal decisions. The outcomes of this study help to generalize the findings of earlier studies, which examined the effect of IFRS on FDI. The outcomes also can be useful for international bodies such as the IASB, the World Bank and the International Monetary Fund (IMF), which have attempted to achieve harmonization around the world, in different areas such as in accounting standards. The outcomes of this study could motivate researchers to examine other economic consequences of IFRS in ASEAN countries.

The remainder of this study will proceed as follows. In the next section, a brief review of the relevant literature is provided, which is then followed by the hypothesis development. After that, the research design, sample and research models used for testing the hypothesis are discussed. The estimation strategy is discussed in the next section. The findings of this study are presented in the last section. This study's limitations and suggestions for potential future research are provided in the final section of this paper.

Literature Review

One of the interesting issues that has frequently been analyzed and discussed in the accounting field in recent years is IFRS's adoption at the international level. IFRS is part of the accounting infrastructure that assists countries to promote their economic growth (Larson and Kenny 1995; Zaidi and Huerta 2014). In general, studies into IFRS's adoption found that IFRS improves the transparency, and consequently may lead to reduced information asymmetry and enhanced comparability and information quality.

Ball (2016) believed IFRS's adoption makes financial reporting more informative because IFRS provides better quality accounting information. Thus, IFRS's adoption will lead to improvements in the investors' ability to make financial decisions, improve investment and the effective allocation of financial resources worldwide (Brown 2013). IFRS's adoption may result in increased value relevance and less earnings management. Ahmed et al. (2013) suggested that IFRS produces more relevant and faithful information compared to local Generally Accepted Ac-

counting Principles (GAAP). Ahmed et al. (2013) also believed that IFRS's adoption reduces the scope for managerial discretion, since it is characterized by strong recognition rules, measurements, and disclosure requirements compared to local GAAP. Palea (2014) examined the effects of IFRS on the quality of financial reporting in the EU and concluded that the IFRS is value relevant. Black and Maggina (2016) also examined the value relevance of IFRS in Greece, and showed that several financial ratios were dramatically affected by IFRS in Greece. García et al. (2017) analyzed whether changing from a local to an international accounting standard improves the quality of accounting in Latin American companies. The study found changing from local accounting regulations to internationally approved standards increased the value relevance.

Recently, many countries have implemented IFRS, to achieve effective accounting and reporting systems. Therefore, it is important to understand the economic consequences of IFRS's adoption. Studies that have examined the economic consequences of IFRS include those by Zeghal and Mhedhbi (2006), Elbannan (2011), Ismail and Kamarudin (2013), Brüggemann et al. (2013), Lourenço and Branco (2015), Utama, Farahmita and Anggraita (2016). The economic consequences of IFRS, as examined by these past studies, are economic growth, the cost of equity capital and FDI. Thus far, economic growth and the cost of equity capital have been most widely examined.

Daske (2006) investigated the impact of IFRS on economic growth, using a sample of firms in Germany, and found that IFRS does not directly lead to any economic benefits. Zehri and Abdelbaki (2013) looked at the association between IFRS and economic growth in developing countries. Contrary to Daske (2006), they reported that economic growth increased with the advent of IFRS. Zaidi and Huerta (2014) assessed the impact of IFRS on the economic growth of adopting countries and concluded that IFRS leads to economic growth. Özcan (2016) investigated the effect of IFRS on economic growth between 41 countries that adopted IFRS and 29 countries that have not yet adopted IFRS. The results are in line with Zaidi and Huerta (2014), revealing that IFRS has significantly increased economic growth. Houqe et al. (2016) investigated the economic consequences of IFRS's adoption amongst listed companies in New Zealand, as indicated by the effect on the cost of equity capital. That study found that there is a significant negative association between IFRS and the cost of equity capital. In contrast, Tu (2013), Uwalomwa, Emeni, Uwuigbe and Oyeleke (2016) and Utama et al. (2016) found that IFRS does not lead to lower costs of equity capital.

Some of the prior research reported that there is a solid relationship between IFRS and FDI. For example, DeFond, Hu, Hung and Li (2011) examined changes in FDI after mandatory IFRS adoption in the EU countries from 2003–2007. DeFond et al. (2011) concluded that FDI increases when IFRS leads to improved comparability. Gordon et al. (2012) also examined the effect of IFRS's adoption on FDI inflows and covered 124 countries, for the period from 1996 to 2009. The findings of the study supported the argument that IFRS's adoption is positively associated with FDI inflows. Lungu et al. (2017) also examined the effect of IFRS's adoption on FDI for 26 emerging countries between 1996 and 2014. The study found IFRS adopters are more likely to benefit from a higher increase in FDI inflows than the non-adopters.

Based on the above discussion, there are good reasons to suggest that IFRS may well be an additional important driver of FDI. In past studies, several elements were found to be major determinants of FDI, such as market attractiveness, openness to trade, labors' wage, governance effectiveness and natural resources (Rogmans 2013; Nasreen and Anwar 2014; Sulaimanet al. 2016; Sengupta and Puri 2018). Bevan and Estrin (2004), Ramasamy and Yeung (2010), Sulaiman, Azman and Ismail (2016) and Sengupta and Puri (2018) show that GDP, labors' wage, GDP growth, openness to imports and exports (Open), infrastructure, exchange rates, long-term interest rates, the quality of government infrastructure, the regulatory environment, risk, and education levels are among the most important determinants of FDI.

Additionally, Dunning (1980) and (1993) developed the OLI paradigm in order to explore the FDI's determinants. The OLI paradigm or eclectic paradigm is an acronym for Ownership, Location and Internationalization advantages. According to the OLI paradigm, each country requires all three of these advantages to meet FDI inflows' enhancement. The ownership advantages include unique technological capabilities, or a strong brand name. The location advantages reflect the countries' location properties, such as special standards, regulations, taxes and tariffs. The internationalization advantages are about reasons to outsource certain activities to different countries, such as they are able to do it more cheaply or they have more local market knowledge.

The globally accepted financial reporting standards have been recognized as one of the major ingredients that make up a country's location advantage (Dunning 2001; Jayeobaet al. 2016; Owusu et al. 2017). Typically, investors are more attracted to the locations that have higher quality financial information. This is because the provision of quality financial information is a reflection of the level of a country's corporate transparency and comparability (Chipalkatti et al. 2007; Owusu et al. 2017). Therefore, the lack of a globally accepted financial reporting standard might be considered as an important inadequacy for FDI's improvement (Gordon et al. 2012; Akisik 2014; Owusu et al. 2017; Ugwu and Okoye 2018). Many countries adopt IFRS in order to raise their transparency and comparability, and reduce information asymmetry (Chen et al. 2014; Cho et al. 2015; Turki et al. 2017). Based on The Eurasian Association of Accountants and Auditors (EAAA), countries adopt IFRS because IFRS provides transparency in accounting information and reflects the real economic situation, which will enable the users of financial statements to make the right economic decisions.

However, in the literature there are a few studies that looked at IFRS as a determinant factor of FDI (Gordon et al. 2012). Furthermore, evidence of the economic consequences of IFRS is still limited in developing countries, especially with respect to the impact of IFRS's adoption on FDI. Additionally, there are no empirical documents with respect to the members of the Association of South East Asian Nations (ASEAN), which includes some of the world's fastest-growing economies (Joshi et al. 2016).

Based on this literature review, there is an important gap in the literature, given there exists differences between countries, in the aspects of their economy and society, regulatory authorities and accounting practices, which could theoretically determine the effectiveness of IFRS's adoption (Zeghal and

Mhedhbi 2006; Gordon et al. 2012; Lourenço and Branco 2015; Zhai and Wang 2016; Özcan 2016; Zaidi and Paz 2015; Khaled Samaha and Khlif 2016). There are only a few studies which examine the relationship between IFRS and FDI inflows, and specifically, there is no study that examines this relationship in ASEAN countries. It is hoped that this study contributes to the accounting knowledge and to understanding the economic consequences of IFRS's adoption.

Hypothesis

Past studies have employed several theories to provide justification for IFRS's adoption by developing countries. The theories include, the economic theory of networks, the isomorphism theory and the agency theory. According to the economic theory of networks, developing countries in the same region are likely to implement IFRS if they found out that the other countries in their region adopted IFRS, and have benefited from the adoption (Ramanna and Sletten 2009; Samaha and Khlif 2016), while the isomorphism theory posits that countries are motivated to adopt IFRS as some institutions, such as the International Monetary Fund (IMF) provide foreign aid providing IFRS is adopted (Judge et al. 2010: Samaha and Khlif 2016). The agency theory suggests that countries implement IFRS because they believe that more disclosure will lead to reduced agency costs and less information asymmetry, thus attracting more investors (Al-Akra et al. 2010). Another theory that can be used to explain IFRS's adoption is the signaling theory. This study uses the signaling theory as its underlying theory to explain the relationship between IFRS and FDI inflows. According to the signaling theory, countries are likely to make the decision to implement IFRS because they believe that IFRS provides a strong signal to the world that the firms in those countries will provide more meaningful and transparent accounting information than otherwise would be the case (Gordon et al. 2012). The signal is expected to attract more foreign investors into the country, resulting in increased FDI inflows.

As mentioned in the literature review section, there are very few studies that provide a link between IFRS and FDI (DeFond et al. 2011; Gordon et al. 2012; Lungu et al. 2017) and there is no study in the current literature which examines this issue in ASEAN countries. Therefore, the relationship between IFRS and FDI has not been well developed. However the empirical evidence thus far supports the theory and suggests a positive association between IFRS and FDI. Countries with IFRS implemented signal to the financial markets that the companies within these countries are following generally accepted global accounting standards. The underlying benefit of IFRS is to provide transparent, comparable and reliable financial information to decision makers. In addition to the benefits for investors, IFRS facilitates the development of world trade, which in turn promotes the economic growth of the adopting countries. IFRS affects financial decisions by increasing the comparability and reducing the adverse selection costs, primarily for foreign investors who are familiar with IFRS. Therefore, IFRS may lead to facilitating cross-border capital flows and can have an impact on FDI, and ultimately lead to economic growth. Despite solid theoretical support for such a relationship, there is no study examining the association of IFRS and FDI inflows in ASEAN countries. Therefore, based on the above discussion and the assertion of the signaling theory, this study hypothesizes that:

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

Methods

This study uses an approach which is similar to Gordon et al. (2012) and Lungu et al. (2017) to examine the effect of IFRS's adoption on FDI inflows, which involves a panel data research design. This study applies the OLS estimator to examine the relationship between IFRS and FDI inflows. Additionally, the LSDVC estimator is used to solve any endogeneity problems that may occur, which are not addressed via the use of the OLS estimator (Gordon et al. 2012).

Research Models

In order to test the hypothesis, OLS regression models (1) and (2) are utilized, in line with Gordon et al. (2012) and Lungu et al. (2017). Table 1 presents the two equation models applied in this study. The first model examines the effects of IFRS using dummy variables to explore its effect on FDI inflows in ASEAN countries. The second model considers the effect of the levels of compliance with IFRS, which is proxied by scores (Table 2) on FDI inflows in ASEAN countries. To the extent that IFRS leads to FDI inflows' enhancement, β_1 is expected to be positive and significant in models (1) and (2).

Table 1. **Equation Models of This Study**

Equation Models for OLS	NO
$LnFDI_{i,t} = \beta_0 + \beta_1 IFRS\ Dummy_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 GDPCAP_{i,t} + \beta_4 GDPG_{i,t} + \beta_5 OPEN_{i,t} + \beta_6 Inflation_{i,t} + \beta_7 EXCH_{i,t} + \beta_8 Edu_{i,t} + \beta_9 NODA_{i,t} + \beta_{10} VoiceAcc_{i,t} + \beta_{11} GovEff_{i,t} + \beta_{12} RegQua_{i,t} + \beta_{13} Rule_{i,t} + \beta_{14} Corrup_{i,t} + \beta_{15} Labor_{i,t} + \beta_{16} GFC_{i,t} + \varepsilon_{i,t}$	(1)
$LnFDI_{i,t} = \beta_0 + \beta_1 IFRS\ Level_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 GDPCAP_{i,t} + \beta_4 GDPG_{i,t} + \beta_5 OPEN_{i,t} + \beta_6 Inflation_{i,t} + \beta_7 EXCH_{i,t} + \beta_8 Edu_{i,t} + \beta_9 NODA_{i,t} + \beta_{10} VoiceAcc_{i,t} + \beta_{11} GovEff_{i,t} + \beta_{12} RegQua_{i,t} + \beta_{13} Rule_{i,t} + \beta_{14} Corrup_{i,t} + \beta_{15} Labor_{i,t} + \beta_{16} GFC_{i,t} + \varepsilon_{i,t}$	(2)
Equation Models for LSDVC with lag	
$LnFDI_{it} = \alpha LnFDI_{it\ \ 1} + \beta_{1,2} IFRS(DUMMY)_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 GDPCAP_{i,t} + \beta_5 GDPG_{i,t} + \beta_6 OPEN_{i,t} + \beta_7 Inflation_{i,t} + \beta_8 EXCH_{i,t} + \beta_9 Edu_{i,t} + \beta_{10} NODA_{i,t} + \beta_{11} VoiceAcc_{i,t} + \beta_{12} GovEff_{i,t} + \beta_{13} RegQua_{i,t} + \beta_{14} Rule_{i,t} + \beta_{15} Corrup_{i,t} + \beta_{16} Labor_{i,t} + \beta_{17} GFC_{i,t} + n_i + \epsilon_{it}$	(1)
$LnFDI_{it} = \alpha LnFDI_{it\ \ 1} + \beta_{1,2} IFRS(Level)_{i,t} + \beta_3 SIZE_{i,t} + \beta_4 GDPCAP_{i,t} + \beta_5 GDPG_{i,t} + \beta_6 OPEN_{i,t} + \beta_7 Inflation_{i,t} + \beta_8 EXCH_{i,t} + \beta_9 Edu_{i,t} + \beta_{10} NODA_{i,t} + \beta_{11} VoiceAcc_{i,t} + \beta_{12} GovEff_{i,t} + \beta_{13} RegQua_{i,t} + \beta_{14} Rule_{i,t} + \beta_{15} Corrup_{i,t} + \beta_{16} Labor_{i,t} + \beta_{17} GFC_{i,t} + n_i + \epsilon_{it}$	(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 standards 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).

Definition of Variables

This study investigates the relationship between IFRS and FDI inflows. Therefore, the dependent variable of this study is FDI inflows, whereas, the independent variable is IFRS. This study uses the natural logarithm of the FDI's value for the FDI inflows variable. This study uses two different measurements for IFRS, which are IFRS dummy and IFRS level. For IFRS dummy, the value of one is given if IFRS is required or permitted by a country while the value of zero is given if otherwise. This definition and measurement is in line with prior studies on the impact of IFRS's adoption on FDI such as those by Gordon et al. (2012) and Lungu et al. (2017). Additionally for further understanding of the differences in the levels of compliance with IFRS, the scores are measured on a zero to seven scale, based on Lungu et al. (2017) (Table 2). The score was constructed based on characteristics which are stated by the IFRS Foundation's jurisdictional profiles (IASB 2016). As mentioned before, Indonesia and Vietnam have not yet adopted IFRS. However as seen in Table 2, Indonesia, unlike Vietnam, has made a public commitment towards adopting IFRS. Therefore, Indonesia gains a score of two for its level of compliance with IFRS. Each ASEAN country also has a different starting year for IFRS's adoption [IFRS Foundation's jurisdictional profiles (IASB 2016)], therefore, this study applies the dummy and level scores based on the starting year for each country. Table 3 presents the starting year of IFRS's adoption by ASEAN countries.

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

Theoretically, the control variable influences the dependent variable, and its effect should be held constant to test the relative impact of the independent variables. Therefore, this study controls for the effect of some macro variables, which have been examined by prior studies, as factors that affect FDI inflows. The control variables which are applied to predict the effects of the variables on FDI inflows, in light of the extant theoretical and empirical evidence, consist of Gross Domestic Product (GDP), Gross Domestic Product (GDP) per capita, GDP growth, openness to exports and imports (Open), inflation, exchange rate (Exch), education (EDU), Net Official Development Assistance (NODA) and official aid received, labor wage rate, voice and accountability, governance effectiveness, regulatory quality, rule of law, control of corruption and Global Financial Crises (GFC). Table 4 provides a list of the variables which are used in the equation models, as well as variable definitions, measurements and data sources.

Table 4. **Variables, Measurements and Data Sources**

Variables	Measurements	Data Sources
FDI	Natural logarithm of foreign direct investment inflow data in current US dollars.	World Development Indicator (WDI) 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 0–6 scale (Table 2)	Based on characteristics defined by IASB (2016)
GDP (Size of Countries)	Logarithm of GDP (US Dollar)	World Development Indicator (WDI) by World Bank
GDP per capita	GDP per capita scaled by 100 (US dollar)	
GDP growth	GDP growth measured by dividing normal GDP with current year population (US dollar)	World Development Indicator (WDI) by World Bank
Openness to imports and exports	Absolute value of exports plus imports	World Development Indicator (WDI) by World Bank
Inflation	Natural logarithm of inflation, GDP deflator	World Development Indicator (WDI) by World Bank
Exchange Rate	Annual year – end exchange rates	World Development Indicator (WDI) by World Bank
Education	School enrollment (% gross) in US dollar	World Development Indicator (WDI) by World Bank

Table 4. *Continued*

Variables	Measurements	Data Sources
Net Official development Assistance and official aid received (NODA)	Natural logarithm of net official development assistance and official aid received in US dollar	World Development Indicator (WDI) by World Bank
Voice and Accountability	Reflects perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media	The Worldwide Governance Indicators (WGI)
Governance Effectiveness	Reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.	The Worldwide Governance Indicators (WGI)
Regulatory Quality	Reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.	The Worldwide Governance Indicators (WGI)
Rule of Law	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contracts' enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.	The Worldwide Governance Indicators (WGI)
Control of Corruption	Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by the elite and/or private interests.	The Worldwide Governance Indicators (WGI)
Labor Wage Rate	Reflects the labor wage rate	World Development Indicator (WDI) by World Bank
Global Financial Crises (GFC)	Defines the global financial crisis as year 2008 and 2009. GFC is equal to dummy 2008 plus dummy 2009	Global Financial Crisis 2008 and 2009

Sample Selection

This study uses ASEAN as its sample. The ASEAN was established in 1967 with the founding members being Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore and Thailand. In the late 1990s Vietnam, Laos, Cambodia and Myanmar joined ASEAN. This study focuses on ASEAN because ASEAN's economic growth has been very impressive over recent years. Table 5, which provides a summary of the FDI inflows of countries around the world, shows that there is a dramatic increase in FDI inflows in developing countries, from $619 billion in 2000 to $1.348 trillion in 2016, a growth of 119 percent (World Bank Report 2017). This impressive FDI growth is not observed in other groups of countries. Therefore, understanding the determinants or main drivers of FDI in developing countries is imperative. FDI inflows' enhancement in ASEAN is most significant compared with other regions of the world (UNCTAD 2017). Table 5 demonstrates a dramatic increase in FDI inflows for ASEAN countries, from $21 billion in 2000 to $128 billion in 2016 (a 505 percent growth). This is consistent with WIR's assertion that ASEAN improved its policy to attract higher FDI, to achieve economic growth (UNCTAD 2017). Therefore, ASEAN provides a good setting to explore FDI's determinants. Data for this study were collected from 2001 to 2016. This study uses 2001 as the starting year for the data's collection as it is the year that FDI data became available in the database for all the ASEAN countries. Therefore, the sample for examining the equations' models consists of the ten ASEAN countries and a total of 160 observations.

Table 5. **FDI Inflows**

FDI Inflows	Total (Trillion)	2000 (Billion)	2005 (Billion)	2016 (Trillion)
World's FDI Inflow, 211 countries	34.909	1.456 (Trillion)	1.541 (Trillion)	2.440
Developed Countries FDI Inflows, 35 countries	16.345	833.079	989.393	1.021
Developing Countries FDI Inflows, 149 countries	17.535	616.946	516.737	1.348
ASEAN Countries FDI Inflows, 10 countries	1.515	21.310	42.999	128.841 (Billion)
Economies in Transition Countries FDI Inflows, 17 countries	1.028	6.040	35.397	70.438 (Billion)

Table 6. **Descriptive Statistics, Before and After IFRS**

	Before IFRS						After IFRS					
	Mean	Max	Min	Skew	Kurto	Obs	Mean	Max	Min	Skew	Kurto	Obs
FDI	21.456	25.425	0.000	-0.042	2.534	116	22.439	25.724	0.000	-0.100	3.678	44
IFRS	0.000	0.000	0.000	NA	NA	116	1.000	1.000	1.000	NA	NA	44
COR	0.899	2.326	0.047	0.876	2.993	116	0.822	2.124	0.029	1.088	3.446	44
GDPCAP	8.295	53.238	0.139	1.837	3.087	116	11.695	56.957	0.951	1.783	4.597	44
GDPG	3.385	4.726	2.143	0.442	2.161	116	3.653	4.756	2.978	0.736	2.240	44
GFC	0.155	1.000	0.000	1.905	4.628	116	0.045	1.000	0.000	1.364	2.048	44
GOVEFF	0.808	2.437	0.014	0.913	3.208	116	0.799	2.237	0.000	0.650	2.502	44
INFLATION	6.936	41.509	-22.091	0.803	4.299	116	1.812	10.255	-17.468	-0.400	1.517	44
LABOR	46.758	95.033	10.063	0.475	1.916	116	56.785	92.744	15.189	0.032	2.191	44
EDU	2.740	3.966	0.864	-0.528	2.769	116	3.077	3.961	2.026	-0.499	2.187	44
EXCHANGE	5.155	9.949	0.223	-0.003	1.231	116	4.319	9.996	0.223	0.308	1.664	44
NODA	16.541	22.831	-15.107	-0.221	4.459	116	15.120	22.855	-16.329	-0.986	5.570	44
OPEN	127.910	441.604	0.167	1.640	4.553	116	127.339	370.686	0.200	0.479	2.621	44
REGUL	0.852	2.344	0.048	0.871	2.605	116	0.786	2.261	0.004	0.963	2.787	44
RULE	-0.289	1.707	-1.740	0.601	2.672	116	-0.137	1.832	-1.438	0.770	2.807	44
SIZE	10.712	11.970	9.245	-0.203	1.863	116	11.035	11.615	10.057	-0.691	1.810	44
VOICE	0.850	2.233	0.001	0.565	2.100	116	0.805	1.850	0.000	0.396	1.993	44

FDI is natural logarithm of Foreign Direct Investment; IFRS, the value of 1 if the IFRS is required/ permitted by countries and 0 otherwise; Size is logarithm of GDP; GDPCAP is GDP per capita scaled by 1000; GDPG is GDP Growth measured by dividing normal GDP with current year population; OPEN is absolute value of exports plus imports; inflation is natural logarithm of inflation; EXCH is annual year end exchange rates measured by national currency; EDU is Education level; NODA is net official development assistance and official aid received; Voice is voice and accountability; GovEff is governance effectiveness; Regul is regulatory quality; Rule is rule of law; Cor is control of corruption; Labor is labor wage rate; GFC is global financial crisis.

Table 7. **Correlation between Variables**

	FDI	SIZE	GDPCAP	GDPG	GOV	INFLA	EDU	EXCH	NODA	OPEN	REGUL	RULE	VOIC	COR	LAB	GFC
FDI	1.000															
SIZE	0.438	1.000														
GDPCAP	0.152	0.087	1.000													
GDPG	0.247	0.357	**0.852**	1.000												
GOVEFF	0.088	-0.190	0.600	0.367	1.000											
INFLA	-0.070	-0.154	-0.262	-0.422	-0.083	1.000										
EDU	0.154	0.563	-0.221	0.157	-0.595	-0.130	1.000									
EXCH	-0.127	-0.133	-0.632	-0.674	-0.517	0.203	-0.104	1.000								
NODA	-0.097	-0.158	-0.269	-0.427	0.015	0.156	-0.272	0.390	1.000							
OPEN	0.352	0.257	0.641	0.620	0.572	-0.325	-0.280	-0.373	-0.040	1.000						
REGUL	0.016	-0.303	0.465	0.156	**0.829**	0.177	-0.594	-0.381	0.084	0.270	1.000					
RULE	0.290	0.391	**0.810**	**0.907**	0.414	-0.410	0.050	-0.640	-0.319	**0.810**	0.164	1.000				
VOICE	-0.198	-0.591	-0.339	-0.536	0.089	0.373	-0.254	0.323	0.227	-0.429	0.375	-0.600	1.000			
COR	0.047	-0.206	0.392	0.055	0.747	0.056	-0.727	-0.117	0.258	0.449	0.759	0.128	0.133	1.000		
LABOR	0.170	0.311	0.757	**0.902**	0.356	-0.380	0.173	-0.785	-0.400	0.525	0.133	**0.842**	-0.567	-0.01	1.000	
GFC	0.036	0.023	-0.001	0.023	0.028	-0.009	0.044	-0.020	0.055	-0.001	-0.011	-0.018	0.017	0.050	-0.00	1.000

FDI is natural logarithm of Foreign Direct Investment; Size is logarithm of GDP; GDPCAP is GDP per capita scaled by 1000; GDPG is GDP Growth measured by dividing normal GDP with current year population; OPEN is absolute value of exports plus imports; inflation is natural logarithm of inflation; EXCH is annual year end exchange rates measured by national currency; EDU is education level; NODA is net official development assistance and official aid received; Voice is voice and accountability; GovEff is governance effectiveness; Regul is regulatory quality; Rule is rule of law; Cor is control of corruption; Labor is labor wage rate; GFC is global financial crisis.

Results

Table 6 provides the descriptive statistics of the data and Table 7 provides a multicollinearity results. The assumption behind the descriptive statistics in Table 6 is that the data are normally distributed, and a regression model based on those variables is valid. The total sample of the study consists of 160 country-year observations (ten ASEAN countries and from 2001 until 2016). According to Table 6, the mean values of FDI increased after IFRS, from 21.456 to 25.724. This FDI enhancement after IFRS is consistent with the findings of past studies (Gordon et al. 2012; Lungu et al. 2017).

Multicollinearity is a statistical phenomenon in which two or more predictor variables in a multiple regression model are highly correlated (Sekaran and Bougie 2016). According to Gujarati and Porter (2009) the presence of multicollinearity could affect the precision of a multiple regression analysis, as it makes the estimates of the regression's coefficients unreliable. The correlation values of less than 0.8 shows that there is no collinearity issue among the variables (Gujarati and Porter 2009). Table 7 provides the correlation matrix between the variables. As seen in Table 7, there is a multicollinearity problem between GDP per capita, GDP growth and rule of law. There is also a multicollinearity problem between GDP growth, rule of law and labor wage rate. The multicollinearity problem is also seen between governance effectiveness and regulatory quality. This problem is also seen between Open and rule of law. Therefore, this study excludes GDP growth, regulatory quality, rule of law and labor wage rate from the regression models.

Ordinary Least Square Findings

Models in this study are estimated using the OLS fixed effects panel regression approach, with a correction for the heteroscedasticity of the standard error. Table 8 shows the OLS regression results of the analysis. IFRS dummy (level) is positively and significantly related to FDI inflows at the five (ten) percent level with a coefficient value of 0.748 (0.098) and t-statistic 2.583 (1.729). This finding suggests that the level of FDI inflows increased after IFRS. Additionally the result also shows that a higher IFRS compliance level leads to higher FDI inflows enhancement. The findings lends support to the prior studies (Gordon et al. 2012; Lungu et al. 2017).

With regards to the control variables, Table 8 also shows that GDP (size) is positively related to FDI inflows (coefficient 3.241 (3.362) and t-statistic 5.105 (5.216)) at the one percent level. This result is also consistent with Lungu et al. (2017) and Sayari et al. (2018) that a higher GDP implies better prospects for FDI in the host country. The results also show that Open and education are positively associated with FDI inflows, when IFRS is considered. Additionally, the adjusted R^2 of model (1) and (2) are 0.80 and 0.79 respectively. This means that 80 percent of the changes in FDI inflows can be explained by the applied explanatory variables.

Table 8. **OLS Regression Results of Testing Relationship between IFRS and FDI Inflows (Models 1 & 2)**

		IFRS Dummy (Model 1)			IFRS Level (Model 2)		
Variables	**Predict**	**Coefficient**	**t-Statistic**	**Prob.**	**Coefficient**	**t-Statistic**	**Prob.**
IFRS	+	0.748**	2.583	0.011	0.098*	1.729	0.086
SIZE	+	3.241***	5.105	0.000	3.362***	5.216	0.000
VOICE	+	0.190	0.404	0.687	0.006	0.013	0.989
OPEN	+	0.014**	2.622	0.010	0.012**	1.969	0.051
NODA	+	0.012	1.082	0.281	0.008	0.762	0.447
EXCHANGE	-	-0.060	-0.336	0.738	-0.043	-0.233	0.816
EDU	+	0.673**	1.973	0.051	0.558	1.543	0.125
INFLATION	-	0.022	1.492	0.138	0.015	1.076	0.284
GOVEFF	+	0.415	0.715	0.476	0.266	0.456	0.649
GFC	-	-0.033	-0.132	0.895	-0.142	-0.568	0.571
GDPCAP	+	0.049**	2.565	0.011	0.047**	2.402	0.018
CORRUP	-	-0.987	-1.573	0.118	-0.950	-1.494	0.138
Adj R^2		0.806			0.796		
F-statistic		31.571			30.600		
Durbin-Watson		1.300			1.249		
N		160			160		

$$LnFDI_{i,t} = \beta_0 + \beta_1 IFRS\ Dummy\ \&\ Level_{i,t} + \beta_2 SIZE_{i,t} + \beta_3 GDPCAP_{i,t} + \beta_4 OPEN_{i,t} + \beta_5 Inflation_{i,t} + \beta_6 EXCH_{i,t} + \beta_7 EDU_{i,t} + \beta_8 NODA_{i,t} + \beta_9 VoiceACC_{i,t} + \beta_{10} GovEff_{i,t} + \beta_{11} Corrup_{i,t} + \beta_{12} GFC_{i,t} + \varepsilon_{i,t}$$

*, **, *** represent significance at the 10, 5 and 1 percent levels, respectively. IFRS required/permitted, the value of 1 if the IFRS is required/ permitted by countries and 0 otherwise, IFRS compliance level which scored based on Table 5.2, Size is logarithm of GDP; GDPCAP is GDP per capita scaled by 1000; OPEN is absolute value of exports plus imports; Inflation is natural logarithm of inflation; EXCH is annual year end exchange rates measured by national currency; EDU is education level; NODA is net official development assistance and official aid received; Voice is voice and accountability; GovEff is governance effectiveness; Cor is control of corruption; GFC is global financial crisis.

Dynamic Least Square Dummy Variable Bias-Corrected (LSDVC) Findings

Some relationships are dynamic and panel data allows us to understand the adjustments. A dynamic relationship means the dependent variable does not necessarily respond immediately to changes in the independent variable. The main issues in a dynamic panel are endogeneity and the method of estimation (Bogliacino et al. 2012). While Arellano and Bond (1991) introduced the difference-GMM as an appropriate estimator for solving the endogeneity, Blundell and Bond (1998) improved the difference-GMM and developed the system-GMM as a more appropriate estimator in the case of endogeneity. However, recent studies found that both these difference-GMM and system-GMM perform poorly when the panel is characterized by a low number of cross-sections (Bogliacino et al. 2012; Bruno 2005). Since the sample of this study included a small number of cross-

sections (the ASEAN 10), therefore this study used the proposed Least Squares Dummy Variable Bias-Corrected (LSDVC) estimator. Table 1 also shows the models with a lag for the dependent variable, FDI. The results of LSDVC are demonstrated by Table 9 (IFRS dummy (D) and FDI) and Table 10 (IFRS level (L) and FDI).

Tables 9 and 10 present the results of the association of IFRS dummy (level) and FDI inflows throughout ten ASEAN countries from 2001 until 2016 (160 balanced observations). First of all, as can be seen in Tables 9 and 10, the lag of the dependent variable (FDI inflows) is positively significant at one percent, which shows that LSDVC is appropriate. These tables also show the positive and significant association between the IFRS dummy [0.884 (AH), 0.874 (AB), 0.870 (BB)], IFRS level (0.173 (AH), 0.181(AB), 0.187(BB)] and FDI at the one percent level. These findings are consistent with the developed hypothesis that IFRS (dummy and level) is positively associated with FDI inflows and are in line with the OLS results.

Table 9. **Results of LSDVC (IFRS Dummy)**

Variables	LSDVC (AH)		LSDVC (AB)		LSDVC (BB)	
	Coef	P-V	Coef	P-V	Coef	P-V
FDI L1.	0.479***	0.000	0.450***	0.000	0.468***	0.000
IFRS D	0.884***	0.003	0.874***	0.000	0.870***	0.000
SIZE	1.047	0.204	1.182***	0.087	1.179	0.110
GDPCAP	-0.023	0.335	-0.028	0.156	-0.030	0.158
OPEN	-0.003	0.628	-0.002	0.693	-0.003	0.598
INFLATION	0.019	0.172	0.019	0.132	0.019	0.132
EXCHANGE	-0.034	0.867	-0.055	0.750	-0.050	0.783
EDU	0.497	0.242	0.583	0.118	0.552	0.141
NODA	-0.022	0.036	-0.021**	0.033	-0.022**	0.029
VOICE	-0.424	0.449	-0.294	0.538	-0.304	0.536
GOVEFF	0.653	0.261	0.543	0.285	0.569	0.277
CORRUPTION	0.025	0.971	-0.102	0.864	-0.054	0.930
Observations	160.000		160.000		160.000	
Countries	10.000		10.000		10.000	

$$LnFDI_{it} = \beta_0 + \alpha LnFDI_{it\ \ 1} + \beta_{1,2} IFRS(Dummy)_{it} + \beta_3 SIZE_{i,t} + \beta_4 GDPCAP_{i,t} + \beta_5 OPEN_{i,t} + \beta_6 Inflation_{i,t} + \beta_7 EXCH_{i,t} + \beta_8 Edu_{i,t} + \beta_9 NODA_{i,t} + \beta_{10} VoiceAcc_{i,t} + \beta_{11} GovEff_{i,t} + n_i + \epsilon_{it}$$

*, **, *** represent significance at the 10, 5 and 1 percent levels, respectively. The LSDVC is initialized with AH (Anderson and Hsiao), AB (Arellano and Bond) and BB (Blundell and Bond) consistent estimators and the standard errors are bootstrapped with 200 repetitions. The maximum lag of the instruments in the GMM is set to 2 to avoid instrument proliferation.

Table 10. **Results of LSDVC (IFRS Level)**

Variables	LSDVC (AH)		LSDVC (AB)		LSDVC (BB)	
	Coef	P-V	Coef	P-V	Coef	P-V
FDI L1	0.496***	0.000	0.496***	0.000	0.516***	0.000
IFRS L	0.173	0.493	0.181***	0.000	0.187***	0.000
SIZE	0.942	0.268	0.954	0.182	0.895	0.228
GDPCAP	-0.023	0.687	-0.025	0.216	-0.026	0.204
OPEN	0.005	0.561	0.006	0.316	0.006	0.328
INFLATION	0.011	0.874	0.011	0.382	0.012	0.344
EXCHANGE	-0.131	0.875	-0.130	0.460	-0.123	0.489
EDU	0.243	0.629	0.275	0.478	0.213	0.574
NODA	-0.017	0.732	-0.017*	0.089	-0.017*	0.084
VOICE	-0.165	0.980	-0.089	0.850	-0.076	0.871
GOVEFF	0.477	0.918	0.392	0.448	0.405	0.430
CORRUPTION	-0.052	0.953	-0.086	0.887	-0.052	0.932
Observations	160.000		160.000		160.000	
Countries	10.000		10.000		10.000	

$$LnFDI_{it} = \beta_0 + \alpha LnFDI_{it\ \ 1} + \beta_{1,2} IFRS(Level)_{it} + \beta_3 SIZE_{i,t} + \beta_4 GDPCAP_{i,t} + \beta_5 OPEN_{i,t} + \beta_6 Inflation_{i,t} + \beta_7 EXCH_{i,t} + \beta_8 Edu_{i,t} + \beta_9 NODA_{i,t} + \beta_{10} VoiceAcc_{i,t} + \beta_{11} GovEff_{i,t} + n_i + \epsilon_{it}$$

*, **, *** represent significance at the 10, 5 and 1 percent levels, respectively. The LSDVC is initialized with AH (Anderson and Hsiao), AB (Arellano and Bond) and BB (Blundell and Bond) consistent estimators and the standard errors are bootstrapped with 200 repetitions. The maximum lag of the instruments in the GMM is set to 2 to avoid instrument proliferation.

Additional Analysis

The OLS and LSDVC results show that IFRS's compliance level is positively associated with FDI inflows. However, it would be interesting to understand the differences between the levels of IFRS compliance as the scores vary from zero to seven. Therefore, this study applies the one-way ANOVA and multiple comparison test (Bonferroni) improved by Holm (1979) to determine whether there are differences between the levels of IFRS compliance in the FDI inflows' enhancement. Table 11 shows levels of IFRS compliance which comprise of five groups (zero, two, three, six and seven). In order to continue with the multiple comparison test, the variance of the groups should be analyzed (global test) based on the following hypotheses:

H_0: All the groups are the same

H_1: At least one group is different

If the results of the global test show that the F test is statistically significant, then the null hypothesis is rejected. A large F value indicates more variability among the groups than within the groups; hence the null hypoth-

Table 11. **Groups of Levels of IFRS Compliance**

IFRS(Level)	Freq.	Percent	Cum.
0	111	69.38	69.38
2	3	1.88	71.25
3	9	5.63	76.88
6	14	8.75	85.63
7	23	14.38	100
Total	160	100	

Table 12. **Analysis of Variance**

	Analysis of Variance				
Source	**SS**	**df**	**MS**	**F**	**Prob>F**
Between groups	184.797	4.000	46.199	12.490***	0.000
Within groups	573.127	155.000	3.698		
Total	757.925	159.000	4.767		

Stata Command: One-way FDI IFRS level, tabulate

Table 13. **Comparison of Ln (FDI) by IFRS (level) (Bonferroni)**

Groups	0	2	3	6
2	3.173**			
	0.054			
3	1.896	-2.277		
	0.076*	0.777		
6	3.077***	-0.096	2.181*	
	0.000	1.000	0.088	
7	1.897***	-1.276	1.001	-1.180
	0.000	1.000	1.000	0.722

Stata Command: One-way FDI IFRS level, tabulate Bonferroni

esis is rejected. An F value closer to one indicates a similar variability among the groups as within the groups, hence the null hypothesis is accepted and it can be concluded that the group means are equal. As can be seen in Table 12, the F test is significant at one percent, indicating that at least one group is different; therefore the next step is to carry out the multiple comparison test (Bonferroni test).

Table 13 presents the results of the Bonferroni test, which shows the differences between level zero (countries which did not implement IFRS) and levels two, three, six and seven. This result is in line with the OLS and LSDVC results, which suggest that the level of IFRS compliance is an important driver for foreign investors. This means that a higher level of IFRS compliance leads to more FDI enhancement.

Conclusion and Discussion

One of the most important goals of the economic policy in almost every country in the world is to increase the rate of economic growth, by increasing the amount of FDI across countries. FDI plays a crucial role in contributing to economic growth, and all the countries have been competing to increase their share of FDI. One of the important factors that affect FDI is high quality financial information. Foreign investors prefer markets with high quality information, which enables them to assess investment prospects at a lower cost. Therefore, IFRS is employed as one of the key inputs to increase transparency, reduce information asymmetry and ultimately affect the investors' decision making. IFRS provides transparency in the ac-

counting information and reflects the real economic situation, which enables the users of financial statements to make the right economic decisions. Indeed, transparent financial information is a crucial factor for achieving economic growth. Therefore, this study investigating IFRS focuses on one of the important determinants for FDI and economic growth.

As mentioned before, in business and the economy, the determinants of FDI have been widely explored, however there are very few studies which paid attention to IFRS as an FDI inflows' determinant. Also there are no studies which have investigated FDI inflows' determinants in ASEAN countries, as they had the highest percentage growth in their FDI from 2001 until 2016 (Table 5). Therefore, the objective of this study was to examine the relationship between IFRS and FDI inflows, in the context of the ASEAN 10, for the period 2001–2016. This study employed the OLS and LSDVC dynamic estimation methods to test the integrating properties of the variables.

The results of the OLS show the positive relationship between IFRS dummy (level) and FDI inflows. This result indicates that IFRS strongly improves the FDI inflows in ASEAN countries. The results of the LSDVC also indicate that IFRS leads to FDI inflows' enhancement and supports the results of the OLS. Therefore, the hypothesis of this study is accepted. Indeed, the results of this study show that IFRS does attract more foreign investment into a country. The results also show that the level of IFRS compliance is an important driver for foreign investors, even for Indonesia which has not yet accepted IFRS, but is taking steps to comply with it.

The outcomes of this study show that IFRS is a determinant factor for FDI inflows' enhancement and eventually economic growth. This study provides evidence that IFRS's implementation by the ASEAN member countries helped attract more FDI into those countries. The findings are also consistent with the assertion of the signaling theory, which suggests that countries adopting IFRS signal to other countries, and the financial markets, that companies within these countries are now following generally accepted global accounting standards. Moreover, the results also show that countries which have not adopted IFRS, but are in the process of adopting it, also provide a strong signal to the world that the companies in those countries will provide more meaningful and transparent accounting information than would be the case otherwise.

Association studies have been widely used in social science in general, and in accounting studies in particular, to better understand the impact of policy implementation. In the case of IFRS and FDI, it can only be concluded that IFRS can be associated with increased FDI inflows, but it does not indicate that IFRS causes FDI to increase. However, the findings suggest that countries that choose to implement IFRS are more likely to experience an increase in their FDI inflows. Although the impact on FDI is likely to differ, depending on the characteristics of a country, in general, for the ASEAN countries, the impact is an increase in FDI.

Contributions and Policy Implications

This study contributes to the existing literature in three fields, theoretical, policy and methodology.

Theoretical Contributions

There are few published studies that investigate the effect of IFRS on FDI inflows; however, this study contributes to the extant literature by investigating the relationship between IFRS and FDI inflows in developing countries, where academic studies have paid very little attention. Also, to the best of my knowledge, there has been no study that examines the effect of IFRS on FDI inflows in ASEAN countries. This study contributes by adding knowledge to the extant literature by focusing on the effect of IFRS on FDI inflows in ASEAN countries, which have seen impressive growth, by 505 percent, in their FDI inflows from 2000 until 2016, (Table 5).

Policy Implications

Since past studies documented that FDI positively affects economic growth, and the findings of this study show higher FDI after IFRS, hence it is concluded that IFRS is an important determinant factor for FDI inflows, and eventually economic development, in ASEAN countries. Indeed, developing countries with IFRS implemented will grab the attention of other countries to make investments and participate in their markets, which provides capital that is essential for their economic growth.

The findings of this study help policy makers and regulators, as well as inventors, to understand the benefits that are brought by IFRS. This study, by examining the relationship between IFRS and FDI inflows in ASEAN countries helps regulators and economists in developing countries to determine an important, determinant, factor for FDI inflows' enhancement and economic development.

The findings of this study are also useful for countries which are IFRS adopters, to understand the effect of IFRS on FDI inflows, and eventually economic growth. Also, the findings of this study motivate non-adopter countries such as Indonesia and Vietnam to implement IFRS, to achieve more growth in their economies.

Additionally, the findings of this study encourage policy makers in developing countries to have effective enforcement and pay more attention, to ensure a smooth transition and implementation of IFRS. The outcomes of this study can also be useful for international authority bodies such as IASB, the World Bank and the International Monetary Fund (IMF) that have attempted to achieve harmonization around the world, in different areas such as accounting standards.

Methodology Contributions

This study employs two estimation techniques, OLS and LSDVC, to benefit from the least biased analyses. Most of the past studies which investigated IFRS employed traditional OLS, however the relationship between IFRS and FDI inflows is a dynamic relationship, and there is a possible endogeneity problem between the variables. Hence, this study employs the LSDVC estimation technique, which is more appropriate for a dynamic relationship, and for endogeneity problem solving. Therefore, this study adds to the knowledge by using different estimation techniques for analyzing the relationship between the variables. Also, to the best of my knowledge,

this study is the first study which employed the LSDVC technique to examine the relationship between IFRS and FDI inflows.

Additionally, in order to understand the effect of different levels of IFRS's compliance on FDI inflows in ASEAN countries, this study employs a multiple comparison test by using a one-way ANOVA. As far as I am aware, this study is the first study which applies this technique for exploring the differences between the levels of IFRS's compliance and FDI inflows. Therefore, this study contributes to the past studies by applying OLS, LSDVC and the multiple comparison tests to examine the research hypothesis of this study.

Limitations and Future Studies

As with all empirical studies, this study has limitations. The past studies have examined the determinants of FDI inflows; however, this study was not able to utilize all of those determinants as control variables. Therefore, it is suggested that future studies consider other variables that have been identified by the past studies as FDI determinants. Additionally, it is suggested that future studies consider the role of information asymmetry on the relationship between IFRS's adoption and FDI inflows. Previous empirical studies have suggested that IFRS's adoption leads to information asymmetry improvements; however, there are very few studies which tested the effect of information asymmetry on this relationship.

This study examined the relationship between IFRS and FDI inflows throughout the ASEAN countries as a whole. This study suggests that future studies use different estimation methods such as Seemingly Unrelated Regression (SUR) estimation to find the effect of IFRS on FDI inflows between the individual ASEAN countries. Also, this study examined the effect of IFRS on FDI inflows by using a macro level procedure; as a suggestion for a future study, this study suggests to attempt to investigate this relationship with a micro level procedure.

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