# CHAPTER V

# RESEARCH FINDINGS AND DISCUSSION

On this chapter, researcher discuss the findings and explain the analysis of the data over the period 2001-2014 in descriptive analysis and using statistical measurement. Furthermore the result is compared to the theory and previous research as written on chapter 2.

## 1.1. Descriptive Analysis

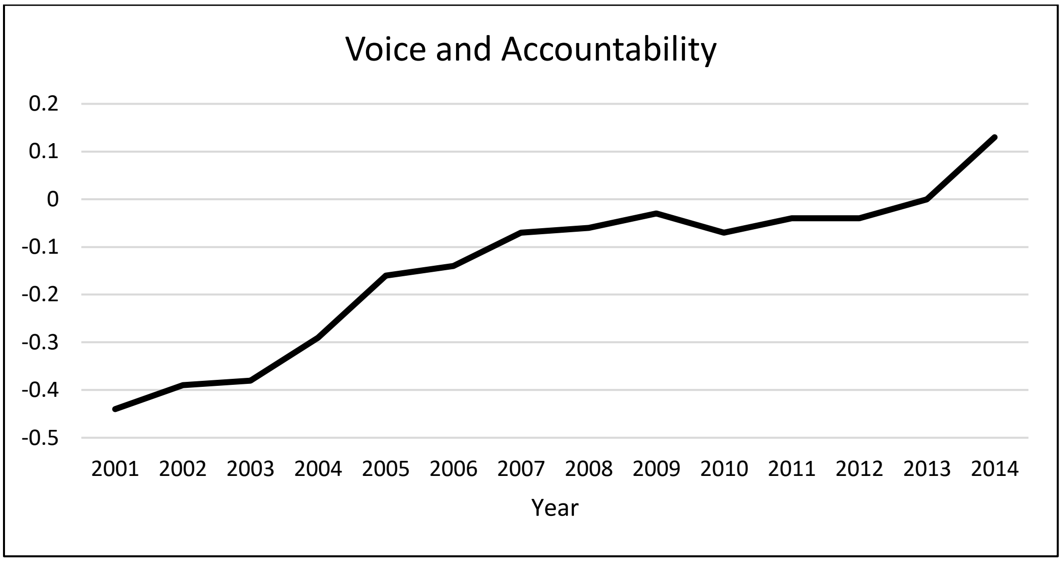
Descriptive analysis is employed to describe the pattern of the data for each of the variable, both dependent and independent variables. It aims to figure out the movement each variable from year 2001 to 2014, average value, minimum and maximum value, and explain what causing the movement.

### 5.1.1 Governance Quality

#### 5.1.1.1 Voice and Accountability

Figure 5.1 drawing an enhancement on voice & accountability performance from 2001 to 2014. It begun from -0.44 in 2001 and gradually increase to -0.03 at 2009. However, in 2010 the citizen's freedom to speak level were fall from -0.03 to -0.07. Afterwards it rise gradually again on the following years and at the end achieve the highest point on 0.13 at 2014. Over the period 2001 to 2014, the minimum level of voice and accountability index was in 2001 at -0.44 point, while the maximum level was in 2014 at 0.13 point, and the enhancement of index is 0.57 point. The mean value of voice and accountability index from 2001 to 2014 is -0.14 with standard deviation of 0.17 point.

Below is the figure of voice and accountability index from year 2001 to 2014.




| | |
|---|---|
| Mean : - 0.14 | Minimum : - 0.44 |
| Standard Deviation : 0.17 | Maximum : 0.13 |

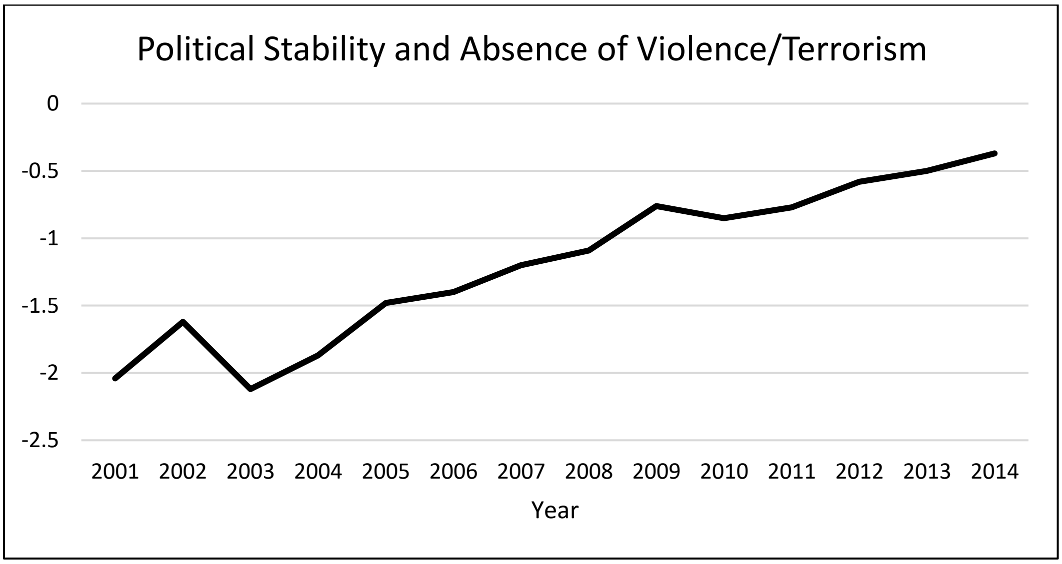
Source: BPS (2016), processed with SPSS

**Figure 5.1** Voice and Accountability Index

From the graph of voice & accountability above, it describe the ability of country's citizens to take participation in choosing their government, freedom to expression about political issue and the country. It can be said that democracy process is running well in Indonesia and showing an improvement. Indonesian government giving more freedom to their citizen to express and to establish an organization. Mass media is allowed and free to write the news about country's government or politic as long the news follow the regulation and code of ethics.

#### 5.1.1.2 Political Stability and Absence of Violence/Terrorism

The figure of political stability and absence of violence/terrorism index from 2001 to 2014 is illustrated in figure 5.2.




| | | | |
|---|---|---|---|
| Mean | : - 1.19 | Minimum | : - 2.12 |
| Standard Deviation | : 0.58 | Maximum | : - 0.37 |

Source: BPS (2016), processed with SPSS

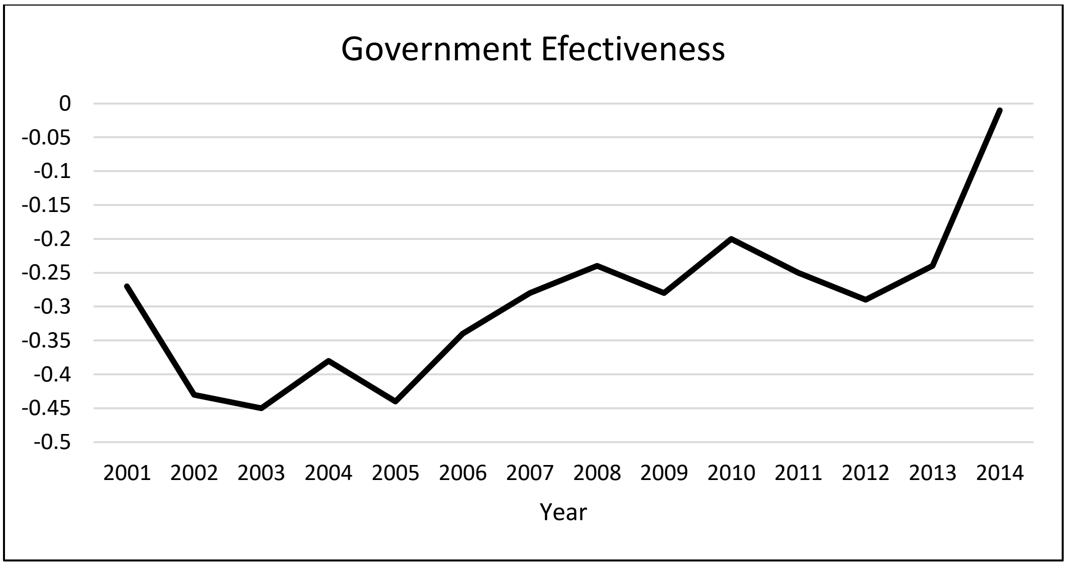
**Figure 5.2** Political Stability and Absence of Violence/Terrorism Index

The figure 5.2 about political stability and absence of violence/terrorism index from 2001 to 2014 is showing a significant increase level. Indonesian politic was stand at level -2.04 in 2001, after an increase in one year then it fell down to the lowest score at -2.12 in 2003. Moreover, between 2004 and 2009 there was a sharp increase from -1.87 to -0.76, whereas it was a decrease of 0.1 point in 2010. Afterwards this trend showed a sharp rise from level -0.85 to -0.37 in 2014. Over the period 2001 to 2014, the minimum level of political stability and absence of violence/terrorism index was in 2003 at -2.12 point, while the maximum level was in 2014 at -0.37 point, and the enhancement of index is 1.67 point. The mean value of political stability and absence of violence/terrorism index from 2001 to 2014 is -1.19 with standard deviation of 0.58 point.

The graph of political stability and absence of violence/terrorism index give illustration about the political environment in Indonesia, how stable the political and how the politic can influence the existence of violence or terrorism. It describe that after a decade Indonesian government has create stability on their political life and start to gain public trust on it. Moreover, the violence and terrorism that caused by political situation is decrease. Between all six governance indicators, political stability and absence of violence/terrorism index showing a good progress and being the biggest enhancement.

#### 5.1.1.3 Government Effectiveness

Below is the figure of government effectiveness index from 2001 to 2014.




| | | | |
|---|---|---|---|
| Mean | : - 0.29 | Minimum | : - 0.45 |
| Standard Deviation | : 0.11 | Maximum | : - 0.01 |

Source: BPS (2016), processed with SPSS

**Figure 5.3** Government Effectiveness Index

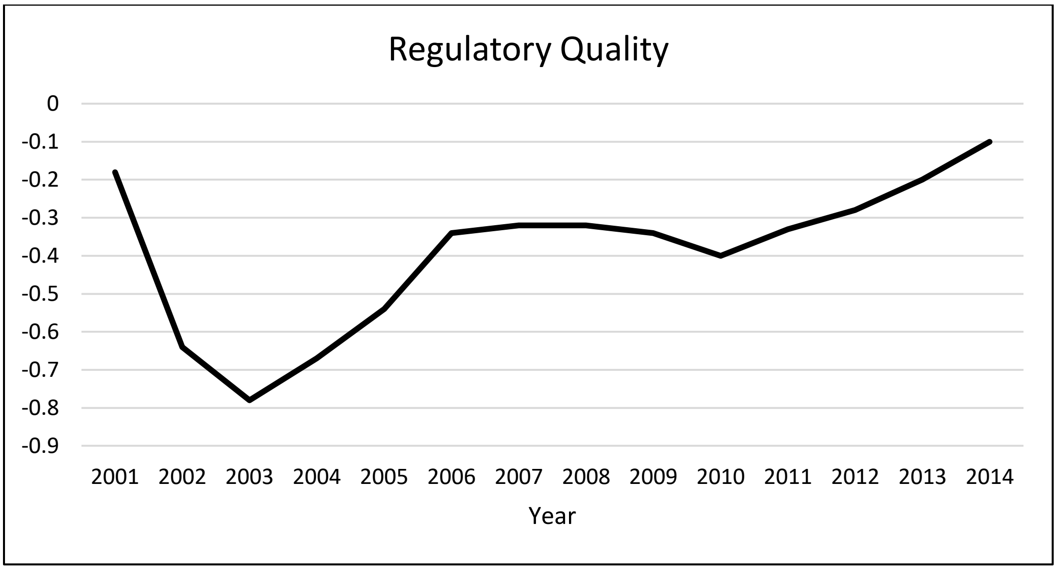
Figure 5.3 is a line graph presenting the government effectiveness in giving public service, making the quality policy, and the commitment to implement the policies from 2001 to 2014. Although, the indicator was decline on several years (2003, 2005, 2009, and 2012), overall the scores of government effectiveness has risen in 14 years. The sharp incline was occur in a year prior to 2014, from -0.24 to -0.01. From 2001 to 2014 the minimum level of government effectiveness index was in 2003 at -0.43 point, while the maximum level was in 2014 at -0.01 point, and the enhancement of index is 0.26 point. The mean value of government effectiveness index from 2001 to 2014 is -0.29 with standard deviation of 0.11 point.

From the graph, it indicates that citizens have good experience to the government improvement on public services, especially on the government office that giving service directly to public. Their civil services are begun to be independent and not affected by political environment. Government also formulate policy that ease citizen and, have commitment to implement it on their services. However, although there is an enhancement of government effectiveness, the enhancement level is quite small.

#### 5.1.1.4 Regulatory Quality

On the graph in Figure 5.4, it can be seen the graph of regulatory quality. The graph picturing the rating of government ability to formulate and implement policies and regulations. It was start at -0.18 in 2001 and fall down to -0.78 in 2003. Afterwards, it incline steadily for next 4 years till 2007 at -0.32, then it continue to downward trend till 2010 to -0.4 point. The next year the rating was increase gradually and reach score at -0.1 on 2014. From 2001 to 2014 the minimum level of regulatory quality index was in 2003 at -0.78 point, while the maximum level was in 2014 at -0.1 point, and the enhancement of index is 0.08 point. The mean value of regulatory quality index from 2001 to 2014 is -0.39 with standard deviation of 0.19 point.

The figure of regulatory quality index from 2001 to 2014 is presented in figure 5.6 as follows:




| | | | |
|---|---|---|---|
| Mean | : - 0.39 | Minimum | : - 0.78 |
| Standard Deviation | : 0.19 | Maximum | : - 0.1 |

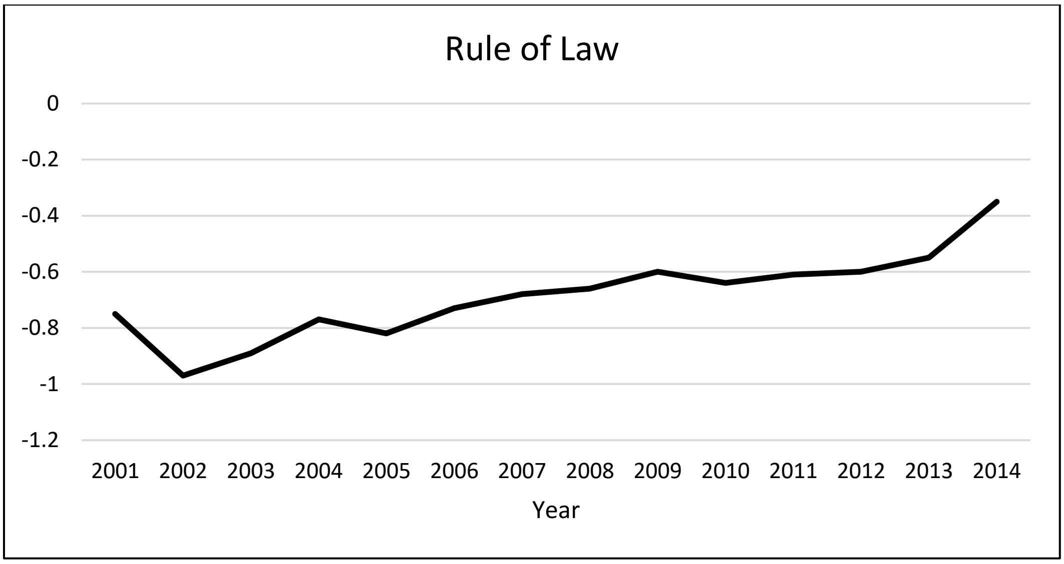
Source: BPS (2016), processed with SPSS

**Figure 5.4** Regulatory Quality Index

The increase trend was pictured from the graph on figure 5.4, it clearly explain the government quality in making regulation that pro to citizen. The proper rule is important to governance reform, because regulation can affecting to the relationship between government, firm, and citizen that can keep the country's economy running well. The enhancement on regulatory quality is occur since 2003 till 2014, after experience the sharp declining from 2001 to 2003. The quality of regulation created by the government is showing an improvement, and it starting to give ease to the citizen's especially the permit for business on private sector. However, along the survey period, the improvement level was very small. Between all six governance indicators, the movement in regulatory quality index is the smallest.

#### 5.1.1.5 Rule of Law

The figure of rule of law index from 2001 to 2014 is illustrated as follows:




| | | | |
|---|---|---|---|
| Mean | : - 0.68 | Minimum | : - 0.97 |
| Standard Deviation | : 0.15 | Maximum | : - 0.35 |

Source: BPS (2016), processed with SPSS

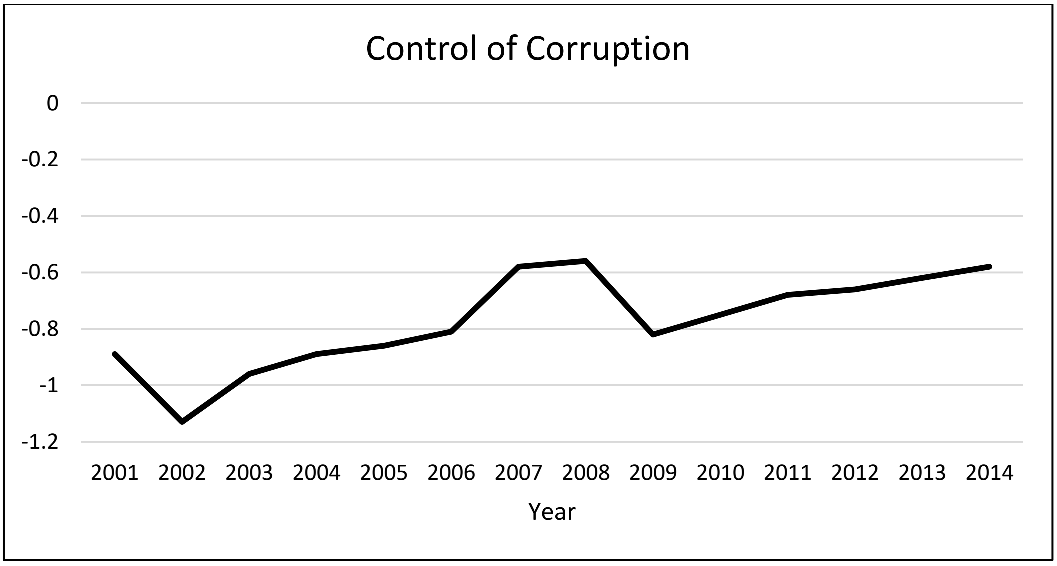
**Figure 5.5** Rule of Law Index

According to the graph on figure 5.5, it clearly shows that the score of government ability to enforce the law was shift positively among the survey period. Even though in some years the graph got negative change, on 2002, 2005 and 2010, the trend still showing an increase. It starts from score -0.75 in 2001 and end at -0.35 on 2014. From 2001 to 2014 the minimum level of rule of law index was in 2002 at -0.97 point, while the maximum level was in 2014 at -0.35 point, and the enhancement of index is 0.4 point. The mean value of rule of law index from 2001 to 2014 is -0.68 with standard deviation of 0.15 point.

The graph showing that strengthening the rule of law is needed in order to improve service delivery and build public and private confidence. According to the positive trend of rule of law, the government institution was believed by the citizen can fulfill the public rights. Furthermore, citizen’s trust has grown that government, police, and the courts can enforce the law and implement well the regulation. It can be said that the governance system is improving.

### 5.1.1.6 Control of Corruption

Below is the figure of control of corruption index from 2001 to 2014.




| | | | |
|---|---|---|---|
| Mean | : - 0.77 | Minimum | : - 1.13 |
| Standard Deviation | : 0.16 | Maximum | : - 0.56 |

Source: BPS (2016), processed with SPSS

**Figure 5.6** Control of Corruption Index

The graph on figure 5.6 indicates the control of corruption level on government, it got low score on 2002 (-1.13), and after 5 years the score showing an increase to -0.58 on 2007. Afterwards, the point was decline slightly to -0.56 at 2008, and going to fall down on 2009 to -0.82. However, the next trend was increase gradually and move steadily until 2014 to the same point in 2007 at -0.58. From 2001 to 2014 the minimum level of control of corruption index was in 2002 at -1.13 point, while the maximum level was in 2008 at -0.56 point, and the enhancement of index is 0.31 point. The mean value of control of corruption index from 2001 to 2014 is -0.77 with standard deviation of 0.16 point.

Figure 5.6 explaining the public trust regarding the corruption practices in the operational of government institution. Public perception of corruption practice on government has shift positively and showing a good trend. It means public starting to trust the government, and the corruption practices is begin to decrease. However, the public trust sometimes changes and the enhancement is not very big. The last point of control of corruption index in 2014 is the lowest point between all six government indicators.

### 5.1.2 Tax Holiday in Indonesia

Fiscal policy about tax holiday was exist since year 1967 and has been amended several times till now. The first tax holiday was enacted on Act No. 1 year 1967 about Foreign Investment. On Act No. 1 year 1967 there are another incentives beside tax holiday, such as dividend tax exemption, accelerated depreciation, and stamp duty exemption on capital. Further, three years after or in 1970 that tax holiday regulation was amended through Act No. 11 year 1970 about changes and addition on Act No. 1 year 1967 about foreign investment. Afterwards, in 1996 tax holiday facility was emerge in form of corporate income tax which is paid by the government and enacted on Government Regulation No. 45 year 1996 about income tax on corporate in certain industry sector, later this regulation was amended in year 2000. The amendment is through Government Regulation No. 148 year 2000 about income tax facility for investment in certain sector and/or certain area.

Furthermore, recent regulation about tax holiday was emerge on Act No. 25 year 2007 about investment, in article 18 verse 5 clearly state that the facilities of tax exemption or corporate income tax (CIT) reduction can be granted to new investor that invest on pioneer industries which is industries that having extensive linkage, giving value-added and high externality, having new technology, and having a strategic value for the national economy. The Indonesian government provides a tax exemption or reduction (tax holiday) through tax incentives regulation, namely:

a) Minister of Finance Regulation No. 130/PMK.011/2011, about CIT exemption and reduction;
b) Minister of Finance Regulation No. 192/PMK/011/2014, about revise of Minister of Finance Regulation No. 130/PMK.011/2011; and
c) Minister of Finance Regulation No. 159/PMK.010/2015, about CIT reduction.

Based on the Minister of Finance Regulation No. 130/PMK.011/2011, Indonesian government give tax holiday facility for new domestic or foreign investors that invest in a specified business sectors. Tax holiday is giving benefit to manufacturing projects in high priority sectors, namely, oil refining/petrochemicals, renewable energy, machinery, base metals, and telecommunication equipment. Moreover, those new projects must built at the location in remote areas, so it can be a trigger for the economic life on that area. The industry can give employment to the citizens around there.

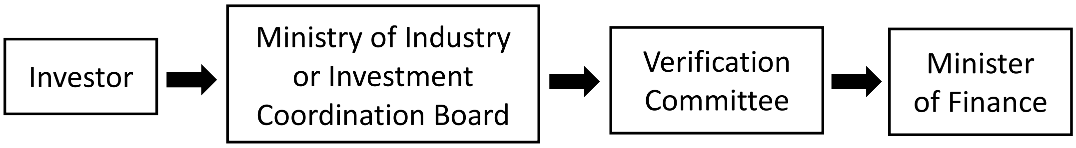
Besides the industry sector and the location, to receive tax holiday facility the investor must fulfill the following requirements:

a) Invest at least 1 trillion Rupiah in a qualified pioneer industry;
b) Deposit at least 10% of the total investment in an Indonesia bank, and cannot be withdrawn before the company undertakes its investment plan;
c) The investor must be a new taxpayer with Indonesian legal entity status. The investor should be a new company that have legal entity in Indonesia after 15 August 2010 (one year before the enactment date).

If the requirements have been met, the company will get the benefit of tax holiday as follow:

1) An exemption from corporate income tax for 5 to 10 years from the date commercial production commences.
2) After tax holiday period ended, the foreign company will be entitled to corporate income tax reduction of 50% for a further 2 years.
3) The company can get extension of the exemption or reduction in corporate income tax, depends on the competitiveness and strategic value of the industry.

Foreign investors can submit the tax holiday application to Ministry of Industry (MOI) or Investment Coordination Board (BKPM), then MOI or BKPM will propose to Ministry of Finance (MOF) before 15 August 2014. If accepted by verification committee in MOF, Minister of finance will issued decree to give the investor tax holiday for a certain time (5 – 10 years). In addition after the expiration of the tax holiday, the foreign company will be entitled to an income tax reduction of 50% for a further 2 years. An extension of the exemption or reduction in CIT will be given depends on the competitiveness and strategic value of the industry. Below is the scheme for corporation to propose tax holiday facility.




Source: Minister of Finance Regulation No. 130/PMK.011/2011

**Figure 5.7** Scheme of Tax Holiday Facility

In year 2014 the government issued new regulation, Minister of Finance Regulation No. 192/PMK/011/2014. The regulation is about changes on several point in previous regulation. It is stated in article 1, the dateline to submit tax holiday request to MOF was extended from 15 August 2014 into 15 August 2015. On August 2015 the Minister of Finance Regulation No. 192/PMK/011/2014 was expired, moreover, based on meeting between related ministry and agency (Ministry of Finance, Ministry of Industry, and Investment Coordination Board/BKPM) the government decide to continue the facilities with some adjustment in several article through Minister of Finance Regulation No. 159/PMK.010/2015.

In new regulation, Minister of Finance Regulation No. 159/PMK.010/2015, the industries that can get benefit from tax holiday facility are modified into nine sectors. They are Metal base industries; Natural oil refining industries; Basic organic chemical industries derived from oil and natural gas; Machinery industries that produce industrial machines; Manufacturing industries based on agriculture, forestry and fishery; Telecommunication, information and communication industries; Marine transportation industries; Manufacturing industries as part of main industry in Special Economic Zones (SEZ); and Economic infrastructure outside of a Government and Business Entity Scheme.

The amount of corporate income tax reduction now appointed from 10% - 100% and after the end of period no additional 50% of tax reduction. Special for telecommunication industry with the investment below 1 trillion Rupiah can get 50% of tax income reduction. The period of tax holiday is 5 – 15 year and with the discretion from Ministry of Finance, the period can be given till 20 year. Now the application cannot submitted to Ministry of Industry, the applicant must submit to Investment Coordination Board, then forwarded to verification committee on Ministry of Finance. Moreover, this regulation is not be discussed more on this research because the enactment date is not related to the research time period.

Since 2011 till November 2015 there are 31 companies submitted a proposal to get tax holiday (Ministry of Industry, 2015). From that applicants only 11 corporates have meet the requirements and forwarded the request to Ministry of Finance, the rest 20 applicants did not meet the requirement and recommended to get tax allowance. Furthermore, after verifying the 11 applicants that meet the requirements, the verification committee decided only 6 corporates are eligible and proper to receive tax holiday. The rest 5 corporates are decided by verification committee cannot receive tax holiday. Ministry of Finance already issued Minister of Finance Decree for them who receive tax holiday facilities and they will take benefit from tax holiday after starting the commercial operations.

Below is the table of companies that submit tax holiday proposal and their current status.

**Table 5.1** List of Companies Receive Tax Holiday Facility

| No | Company | Industry | Investment | Notes |
|---|---|---|---|---|
| 1 | PT. Unilever Oleochemical Indonesia | Oleo chemical | 1.15 trillion Rupiah | KMK No. 463/KMK.011/2012 |
| 2 | PT. Petrokimia Butadiene Indonesia | Petrochemical | 120 million USD | KMK No. 462/KMK.011/2012 |
| 3 | PT. Energi Sejahtera Mas | Oleo chemical | 2.8 trillion Rupiah | KMK No. 271/KMK.011/2014 |
| 4 | PT. Ogan Komering Ilir Pulp & Paper Mills | Pulp & Tissue | 29 trillion Rupiah | KMK has not been published |
| 5 | PT. Caterpillar Indonesia Batam | Heavy equipment | 1.4 trillion Rupiah | KMK has not been published |
| 6 | PT. Synthetic Rubber Indonesia | Synthetic rubber | 4.6 trillion Rupiah | KMK has not been published |

Source: Ministry of Industry (2015)

Until 2015, there are six companies granted tax holiday as a tax incentive from Ministry of Finance, the first is PT. Unilever Oleochemical Indonesia, based on Minister of Finance Decree KMK No. 463/KMK.011/2012 the company has been granted to receive tax holiday for 5 years. Second, PT. Petrokimia Butadiene Indonesia, based on Minister of Finance Decree KMK No. 462/KMK.011/2012 the company has been granted to receive tax holiday for 5 years. Third, PT. Energi Sejahtera Mas, based on Minister of Finance Decree KMK No. 271/KMK.011/2014 the company has been granted to receive tax holiday for 7 years. Fourth, PT. Ogan Komering Ilir Pulp & Paper Mills, has been granted tax holiday for 8 years. Fifth, PT. Caterpillar Indonesia Batam, has been granted tax holiday for 5 years. The last is PT. Synthetic Rubber Indonesia, has been granted tax holiday for 5 years.

Table 5.2 below describe some companies that the tax holiday proposal is not accepted.

**Table 5.2** List of Companies Did not Receive Tax Holiday Facility

| No | Companies | Industry | Investment | Notes |
|---|---|---|---|---|
| 1 | PT. Indorama Polychem Indonesia | Polyeser Yarn, Fiber, and Chips | 256 million USD | Suggested to Submit tax allowance |
| 2 | PT. Feni Haltim | Smelter Ferronickel | 16 trillion Rupiah | Suggested to Submit tax allowance |
| 3 | PT. Well Harvest Winning Alumina Refinery | Smelter grade alumina | 6.7 trillion Rupiah | Suggested to Submit tax allowance |
| 4 | PT. Sulawesi Mining Investment | Nickel pig iron | 6.4 trillion Rupiah | Suggested to Submit tax allowance |
| 5 | PT. Sateri Viscose International | Highgrade digital paper | 14.57 trillion Rupiah | Suggested to Submit tax allowance |

Source: Ministry of Industry (2015)

Table 5.2 inform that there are five companies have meet the requirement, but decided by verification committee cannot receive tax holiday facility. Ministry of industry as the first institution has done the first selection and forward the application to Ministry of Finance to be evaluated by verification committee. After some meeting, the team decided the company cannot receive tax holiday and suggested to submit tax allowance facility. The rejection is because some confidential reason by committee or the discretion from Minister of Finance.

Table 5.3 below is the companies that submit the application but did not meet the requirement.

**Table 5.3** List of Companies Did not Meet the Requirement

| No | Companies | Industry | Investment | Notes |
|---|---|---|---|---|
| 1 | Pt. Amoco Mitsui PTA Indonesia | PTA | 150-160 million USD | Old company |
| 2 | PT. Toyota Motor Manufacturing Indonesia | Motor Vehicle | 5 trillion Rupiah | Old company |
| 3 | PT. Indonesia Chemical Alumina | Bauxite | 490 million USD | Old company |
| 4 | PT. Indoferro | Iron & Steel | 160 million USD | Old company |
| 5 | PT. Aria Persada Indonesia | Palm oil | 1.2 trillion Rupiah | Already got tax allowance |
| 6 | PT. Weda Bay Nickel | Nickel | - | Old company |
| 7 | PT. Meratus Jaya Iron & Steel | Iron & Steel | - | Old company |
| 8 | PT. Delta Prima Steel | Iron & Steel | - | Old company |
| 9 | PT. Wilmar Bioenergi Indonesia | Bioenergy | - | Already got another tax incentive |
| 10 | PT. Wilmar Nabati Indonesia | Oleo chemical | - | Already got another tax incentive |
| 11 | PT. Sharp | - | 1.3 trillion Rupiah | Old company and the industry did not match |
| 12 | Loreal | - | 1.25 trillion Rupiah | Old company and the industry did not match |
| 13 | PT. Nippon Sukubai | Petrochemical | - | The industry did not match |

| | | | | |
|---|---|---|---|---|
| 14 | PT. Sumber Indah Perkasa | Palm oil | - | Submit tax allowance |
| 15 | PT. Ivo Mas Tunggal | Palm oil | - | Submit tax allowance |
| 16 | PT. Krakatau Posco | Plate & HRC | 2.7 billion USD | Submit tax allowance |
| 17 | PT. Bulungan Methanol | Methanol processing from coal | 500 million USD | Still reviewed by the committee |
| 18 | PT. Krakatau Posco Energy | Captive Power Plant | 2.7 trillion Rupiah | Did not get recommendation |
| 19 | PT. Krakatau Nippon Steel Sumikin | Metal | 5 trillion Rupiah | Did not get recommendation |
| 20 | PT. Krakatau Osaka Steel | Metal | 2.75 trillion Rupiah | Did not get recommendation |

Source: Ministry of Industry (2015)

From the data on table 5.3 above, facilitation of tax holiday has not been given to many corporate taxpayers. There are many companies submit the application and more than half of them are fail on the first selection. The reason for rejection is the company is not a new taxpayer in Indonesia, some companies on this category are suggested to submit tax allowance. Then, some company industry is not match to the criteria as written on the regulation, the companies are suggested to submit tax allowance. The other reason is the company already got another tax incentives facility such as tax allowance, so they cannot submit proposal for tax holiday. Moreover, some companies are still reviewed by the committee and the others are decided did not get recommendation for tax holiday.

### 5.1.3 Foreign Direct Investment in Indonesia

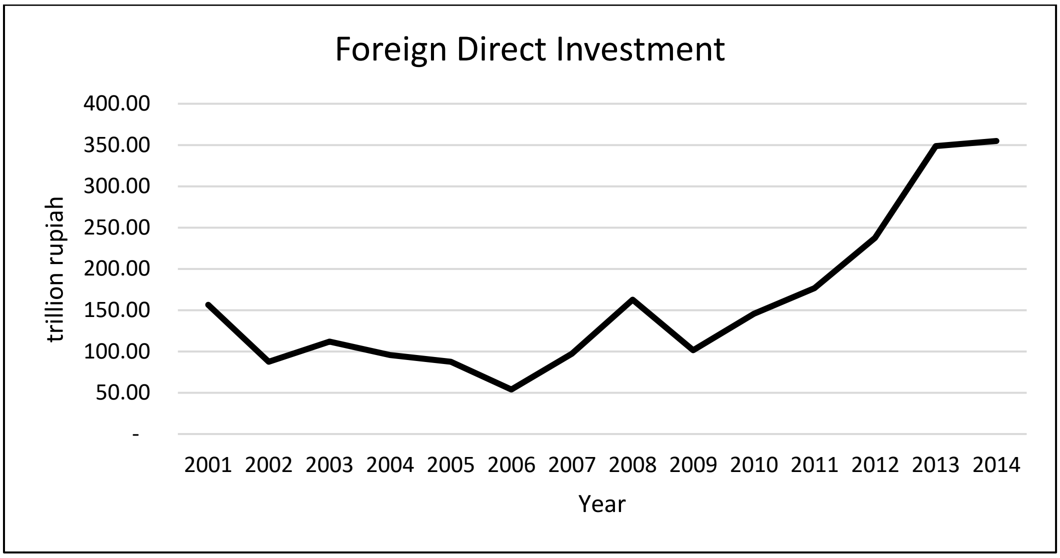
Investment policy in Indonesian is issued by the government since a long time ago, namely, Act No. 1 year 1967 about foreign investment, Act No. 6 year 1968 about domestic investment, and the last is Act No. 25 year 2007 about investment. Behind those Act there are some regulation supporting, such as regulation about tax incentives, regulation to establish a new company, regulation to acquisitions an area, labor regulation, and regulation issued by the related ministry or local government.

Act No. 1 year 1967 is the act signed by the first Indonesian president at 10 January 1967, this Act issued because the president had opinion that Indonesia need funding from foreign investor and it believes can leverage the Indonesian economic level at that time. It is also expected can transfer the technology and management skill in order to accelerate economic development through opening employment. However, there is a limitation for investor, not all sector are opened to foreign investor. It is prohibited to invest on sector that important to country and have relation to citizen's interest, for instance, port, energy, telecommunication, drinking water, mass media, and army weapon. Moreover, some facilities and benefit can be obtained by the investor, they can get reduction of corporate tax or free from income tax if they meet some requirements. Indonesian government allow them to bring worker from their country if there is no domestic worker meet the criteria.

One year after, in 1968 Indonesian government issued Act no. 6 year 1968 about domestic investment. It aims to invite domestic investor participation in every investment opportunity, in other word it support Indonesia citizen to be host on their own country. Differ with the regulation for foreign investment, there is no restriction for domestic investor in terms of business sector or location. They also get same facilities and benefit with foreign investor, such as reduction of corporate income tax and reduction of tax for importing capital goods. At year 1970, Indonesian government issued Act No. 11 year 1970 about changes and addition of Act No. 1 year 1967 and Act No. 12 year 1970 about changes and addition of Act No. 6 year 1968. Act No. 11 and 12 changes the articles related to tax incentives facilities in order to be more attracting more investor.

After 40 years, the new investment regulation is issued, it is Act no. 25 year 2007 about investment. This act revise the previous Act no. 1 year 1967 and Act no. 2 year 1968, because the previous Act no longer suit with the needs to attract investor and accelerating economic development. According to Act no. 25 year 2007, the objectives of investment are: Increasing national economic growth; Create employment; Increasing the sustainable of economic development; Improving the competitiveness of national business; Increasing the capacity and capability of national technology; Encourage the development of economic community; Processing potential economy into real economic strength by using domestic or foreign fund; and increasing social welfare.

The new regulation is created to make investor feel safety and comfort to invest and save their fund in Indonesia. It can be seen that after the enactment of Act No. 25 year 2007, trend of Foreign Direct investment is showing an increase. It is drawn from figure 5.2 below about Foreign Direct Investment realization that the trend is positive. In year 2007 the macro economic indicator showing the improvement of business climate, investor confidence is growing up because the country risk is going down, and in general government performance is starting to show the improvement although there are still some problem to be fixed in bureaucracy sector and law enforcement.




| | | | |
|---|---|---|---|
| Mean | : 158.47 | Minimum | : 53.91 |
| Standard Deviation | : 25.21 | Maximum | : 354.91 |

Source: BPS (2016), processed with SPSS

**Figure 5.8** Foreign Direct Investment Inflow

Overall, the number of FDI inflow in Indonesia has grown since 2001 to 2014 and the improvement is multiple, from around 156.58 trillion Rupiah to 354.91 trillion Rupiah. Over the period 2001 to 2014, the minimum value of foreign direct investment was in 2006 at 53.91 trillion Rupiah, while the maximum value was in 2014 at 354.91 trillion Rupiah. Foreign direct investment average is 158.47 trillion Rupiah with the standard deviation 25.21 trillion Rupiah.

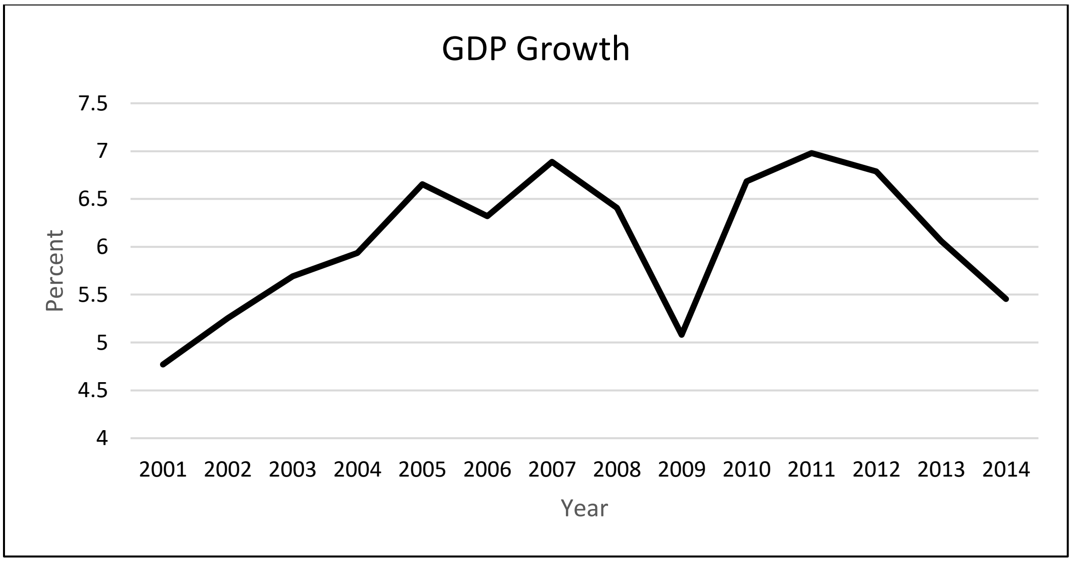
Even though the general trend showing an increase, at some years FDI value was decline and at 2006 reach the lowest amount. For instance, after the increase in 2003, FDI was decline for three consecutive year to the lowest number at 53.91 trillion Rupiah in 2006. The reduction of FDI is occurring again at 2009, it declines around 38% from year 2008, it was the moment where global crisis attack most country in Europe and Asia. Moreover, Indonesia also held president election on 2009. Many foreign investor reduce their investment because they didn't feel safe to invest their money on other country. However, Indonesian government can go through the crisis and getting back the investor trust to invest in Indonesia.

As illustrated in figure 5.8, the trend of FDI realization is showing an increase after 2009 till 2014. Some event occur on this period, one of them is in 2011 government issued new tax incentives regulation where it gives benefit to foreign investor. It is tax holiday facility and gives foreign investor opportunity to get corporate income tax exemption or reduction for certain period. Moreover, in 2014 the growth is slower because it is political year (president election). As mention before, the election was running very tight and takes time. That causing many investor hold their investment and look to the market progress after the election result. Because the more stable the economic and political situation, the lower the risk in investing. Hence, the capital invested on the country will be higher.

### 5.1.4 Indonesian Economic Growth

Economic growth is one of the indicator to view and measure the economic performance of a country. If the economic growth of a country showing a good, fast progress, and significant increase, then it can be said that the country's development is success. However, although the growth is showing an increase, but has the slow progress, it cannot be said has a success development. Figure 5.1 drawing the Indonesian economic growth over the research period. It is the growth of gross domestic product at constant price from 2001 to 2014. Gross domestic product at constant price means the gross domestic product over the period is measured using the basic price at same year, and the gross domestic product in here is using product price at year 2000 as basic price.

According to the figure 5.9, Indonesian economic growth over the period is change each year, in some year it can be increase and decrease. However the movement is not showing a significant change, it is on range between 4.5% and 7%. At first decade from 2001 to 2011, the enhancement of economic growth is occur from 4.7% to 6.9%. From 2001 to 2007 Indonesian economic growth is increasing gradually, this moment is called economic recovery after through financial crisis in Asia at late 90’s. In 2009 the growth was bounce to 5.08% and going up again to 6.9 in 2011. Then, at the end of period on 2014, the growth was going to slow again at 5.45%. It can be said that over the period Indonesian economic growth is running slow and each year the growth is under 10%.




Source: BPS (2016)

**Figure 5.9** Indonesian Economic Growth

From the figure above we can see the Indonesian economic was on crisis at year 2008 and 2009, it was affected by global crisis which is started from Greece that has trouble to pay debt to International Monetary Fund (IMF). Moreover, United

State of America was on global crisis too, it caused by the loan which is offered to citizen for buying home has stuck and some borrower cannot paid. That two international event give effect to global crisis which is suffered by some European and Asia country. Therefore foreign investor did not interested to invest on other country especially on Asia, they worried the business is fail and their fund cannot going back.

In addition, in 2009 Indonesia held president election. This event also causing the decline of economic growth at that year. But since the election went good, the effect to economic growth is not big as the global crisis effect. However, Indonesian economic is not affected for long time by the global crisis and president election. Some economist also appreciate that Indonesia as the largest economy in Southeast Asia can handle the crisis and the declining of growth did not big as the other ASEAN countries. The data said that from 2007 to 2009 Indonesian economic growth declining for 1.8%.

After the crisis in 2009, although there is a sharp declining in commodity prices, stock market, and weakening of Indonesian currency, Indonesian economic still growth. In 2010, World Bank reported that because the consistency of Indonesian economic growth, each year 7 million people in Indonesia is entering the middle class level. In 2012, the population of Indonesian middle class reach 75 million people (30% from total 240 million people of Indonesia citizen). This enhancement make Indonesia has the power as consumer that push the economy and significantly causing the growth of domestic and foreign investment since 2010.

Moreover, 2014 is the political year for Indonesia. There was president election and legislative election in 2014. On this election the competition between two candidates is very tight and not at the election only, but continue until the constitutional court since one of the candidate appealed the election result. For about five months in 2014, the political situation is not clear and no economic certainty, it results to the slowdown of investment realization and reduce the country's economic expansion. In addition, another political issue that detain the economic growth are the bureaucratic in Indonesia government that causing the slow of government spending and the weak of coordination among government institution (both in central and regional level).

## 1.2. Analyzing the Effect of Governance Quality and Tax Holiday on Foreign Direct Investment and Economic Growth by Using Regression Analysis

The first test conducted before doing regression analysis is statistical test. This test is aim to examine the interaction among independent variable and dependent variable. Furthermore, it can measure and explain how the effect of independent variable toward dependent variable. The test consisting of coefficient of determinant, F-test, and t-test.

### 5.2.1 Coefficient of Determination

Coefficient of determination objective is to measure the percentage of independent variables ability to explain the dependent variable, or to examine contribution of independent variables toward dependent variable. The first model, FDI model, is analyzed using multiple linear regression, in this case to examine the coefficient of determination is using adjusted R-square. The second model, GDP model, is analyzed using simple linear regression, and using R-square to examine the coefficient of determination. Below is the coefficient of determination for FDI model and GDP model.

**Table 5.4** Coefficient of Determination

| | |
|---|---|
| **FDI Model** | Adjusted $R^2$ = 0.841 |
| **GDP Model** | $R^2$ = 0.515 |

Source: Data processed with SPSS (2016)

Adjusted R-square of foreign direct investment is 0.841. It indicates that the foreign direct investment can be explained by voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday for 84.1%, or in other words voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday contribute 84.1% to foreign direct investment. Meanwhile the rest, 15.9%, is the contribution by other variables which are not examined on this research.

R-square of gross domestic product is 0.515. It indicates that variety of gross domestic product can be explained by foreign direct investment for 51.5%, or in other words foreign direct investment contributes 51.5% toward gross domestic product. Meanwhile, the rest, 48.5% is the contribution from other variables which are not observed on this research.

### 5.2.2 F-Test

F-test or simultaneous test is a test conducted to look the simultaneous effect of all independent variables toward the dependent variable by review the probability value of F-Statistic. If the probability value < α (0.05) then H0 rejected or the independent variables has significant effect to the dependent variable. Vice versa, if the probability value is > α (0.05) then H0 accepted or the independent variables has effect but not significant to the dependent variable. Table 5.5 provides the information of F-test from FDI model. It gives the result of the simultaneous effect of voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday toward foreign direct investment

**Table 5.5** F-test of FDI Model

| Independent Variables | Dependent Variable | F Statistic | Significant |
|---|---|---|---|
| VA | Ln FDI | 21.403 | 0.000 |
| PV | | | |
| GE | | | |
| RQ | | | |
| RL | | | |
| CC | | | |
| TH | | | |

Source: Data processed with SPSS (2016)

In the FDI model on table 5.5, the F statistic reach 21.403 with significant value 0.000, it means probability < α (0.05) and H0 rejected. In other words, voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday have significant effect toward foreign direct investment.

Further, F-test on GDP model or the simultaneous effect of foreign direct investment toward gross domestic product is on table 5.6.

**Table 5.6** F-test of GDP Model

| Independent Variables | Dependent Variable | F Statistic | Significant |
|---|---|---|---|
| Ln FDI | Ln GDP | 27.601 | 0.000 |

Source: Data processed with SPSS (2016)

Table 5.6 indicates the second model, or the effect of foreign direct investment toward gross domestic product has F statistic 27.601 with probability of 0.000, it means probability < α (0.05). In other words, foreign direct investment has significant effect toward gross domestic product.

### 5.2.3 t-Test

t-test or partial test is a test conducted to check the influence of each independent variable toward dependent variable. It can be checked from the probability value of each variable. If the probability value is < α (0.05) then H0 rejected or the independent variable has significant effect to the dependent variable. Vice versa, if the probability value is > α (0.05) then H0 accepted or the independent variable has effect but the effect is not significant to the dependent variable.

Table 5.7 below presents the result of the partial test of the effect of voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday toward foreign direct investment.

**Table 5.7** t-test of FDI model

| Independent Variables | Dependent Variable | Coefficient | T Statistic | Significant |
|---|---|---|---|---|
| VA | Ln FDI | -5.547 | -4.256 | 0.000 |
| PV | | 1.019 | 3.405 | 0.003 |
| GE | | 1.411 | 1.250 | 0.226 |
| RQ | | -1.222 | -2.733 | 0.013 |
| RL | | 2.071 | 1.584 | 0.129 |
| CC | | 2.165 | 3.604 | 0.002 |
| TH | | 0.473 | 2.890 | 0.009 |

Source: Data processed with SPSS (2016)

Hypothesis 1 (H1) is voice and accountability effect to foreign direct investment. The value of T statistic is -4.256 with significant value 0.000. It means, probability < α (0.05). In other words, voice and accountability has significant effect toward foreign direct investment. Hence, Hypothesis 1 (H1) is accepted.

Hypothesis 2 (H2) is political stability and absence of violence/terrorism effect to foreign direct investment. The value of T statistic is 3.405 with significant value 0.003. It means, probability < α (0.05). In other words, political stability and absence of violence/terrorism has significant effect toward foreign direct investment. Hence, Hypothesis 2 (H2) is accepted.

Hypothesis 3 (H3) is government effectiveness effect to foreign direct investment. The value of T statistic is 1.250 with significant value 0.226. It means, probability > α (0.05). In other words, government effectiveness does not have significant effect toward foreign direct investment. Hence, Hypothesis 3 (H3) is rejected.

Hypothesis 4 (H4) is regulatory quality effect to foreign direct investment. The value of T statistic is -2.733 with significant value 0.013. It means, probability < α (0.05). In other words, regulatory quality has significant effect toward foreign direct investment. Hence, Hypothesis 4 (H4) is accepted.

Hypothesis 5 (H5) is rule of law effect to foreign direct investment. The value of T statistic is 1.584 with significant value 0.129. It means, probability > α (0.05). In other words, rule of law does not have significant effect toward foreign direct investment. Hence, Hypothesis 5 (H5) is rejected.

Hypothesis 6 (H6) is control of corruption effect to foreign direct investment. The value of T statistic is 3.604 with significant value 0.002. It means, probability < α (0.05). In other words, control of corruption has significant effect toward foreign direct investment. Hence, Hypothesis 6 (H6) is accepted.

Hypothesis 7 (H7) is tax holiday effect to foreign direct investment. The value of T statistic is 2.890 with significant value 0.009. It means, probability < α (0.05). In other words, tax holiday has significant effect toward foreign direct investment. Hence, Hypothesis 7 (H7) is accepted.

Furthermore, the result of partial hypothesis testing of the effect of foreign direct investment toward gross domestic product is shown on table 5.8. Basically it has same result with the F-test, because there is only one independent variable (foreign direct investment).

**Table 5.8** t-test of GDP model

| Independent Variables | Dependent Variable | Coefficient | T Statistic | Significant |
|---|---|---|---|---|
| Ln FDI | Ln GDP | 0.336 | 5.254 | 0.000 |

Source: Data processed with SPSS (2016)

Hypothesis 8 (H8) is foreign direct investment effect to gross domestic product. The value of T statistic is 5.254 with significant value 0.000. It means, probability < α (0.05). In other words, foreign direct investment has significant effect toward gross domestic product. Hence, Hypothesis 8 (H8) is accepted.

To sum up, from the partial test, it results that each independent variable, except government effectiveness and rule of law, has significant effect toward foreign direct investment. Moreover, foreign direct investment has significant effect toward gross domestic product.

### 5.2.4 Regression Analysis

After doing statistical test, the next data processing is multiple linear regression analysis for FDI model and Simple linear regression for GDP model. This test is conducted to test the hypothesis and see the value of independent variables to determine its direction. The regression result is presented on table 5.9.

**Table 5.9** Regression Analysis of FDI Model

| Independent Variables | Dependent Variable | Coefficient | Significant |
|---|---|---|---|
| Constant | Ln FDI | 35.892 | 0.000 |
| VA | | -5.547 | 0.000* |
| PV | | 1.019 | 0.003* |
| GE | | 1.411 | 0.226 |
| RQ | | -1.222 | 0.013* |
| RL | | 2.071 | 0.129 |
| CC | | 2.165 | 0.002* |
| TH | | 0.473 | 0.009* |
| $F_{count}$ = 21.403<br>Adjusted $R^2$ = 0.841<br>(*) = Significant | | | |

Source: Data processed with SPSS (2016)

According to the regression result, the FDI model becomes:

$$Ln\ FDI = 35.892 - 5.547\ VA + 1.019\ PV + 1.411\ GE - 1.222\ RQ + 2.071\ RL + 2.165\ CC + 0.473\ TH$$

From table 5.9, some points can be summarized as follows:

a) The coefficient of constant is 35.892. It means if the other variables are zero, then foreign direct investment has a value 35.892.

b) The coefficient of effect voice and accountability toward foreign direct investment is -5.547 and significant. It means voice and accountability has negative and significant effect toward foreign direct investment. In other words, the higher voice and accountability, the lower foreign direct investment.

c) The coefficient of effect political stability and absence of violence/terrorism toward foreign direct investment is 1.019 and significant. It means political stability and absence of violence/terrorism has positive and significant effect toward foreign direct investment. In other words, the higher political stability and absence of violence/terrorism, the better foreign direct investment.

d) The coefficient of effect government effectiveness toward foreign direct investment is 1.411 but not significant. It means government effectiveness has positive but insignificant effect toward foreign direct investment. In other words, although government effectiveness can stimulate foreign direct investment, the growth is not significant.

e) The coefficient of effect regulatory quality toward foreign direct investment is -1.222 and significant. It means regulatory quality has negative and significant effect toward foreign direct investment. In other words, the higher regulatory quality, the lower foreign direct investment.

f) The coefficient of effect rule of law toward foreign direct investment is 2.071 but not significant. It means rule of law has positive but insignificant effect toward foreign direct investment. In other words, although rule of law can stimulate foreign direct investment, the growth is not significant.

g) The coefficient of effect control of corruption toward foreign direct investment is 2.165 and significant. It means control of corruption has positive and significant effect toward foreign direct investment. In other words, the higher control of corruption, the better foreign direct investment.

h) The coefficient of effect tax holiday toward foreign direct investment is 0.473 and significant. It means tax holiday has positive and significant effect toward foreign direct investment. In other words, when tax holiday is offered, foreign direct investment is increase.

**Table 5.10** Regression Analysis of GDP Model

| Independent Variables | Dependent Variable | Coefficient | Significant |
|---|---|---|---|
| Constant | Ln GDP | 24.160 | 0.000 |
| Ln FDI | | 0.336 | 0.000* |
| $F_{count}$ = 27.601<br>$R^2$ = 0.515<br>(*) = Significant | | | |

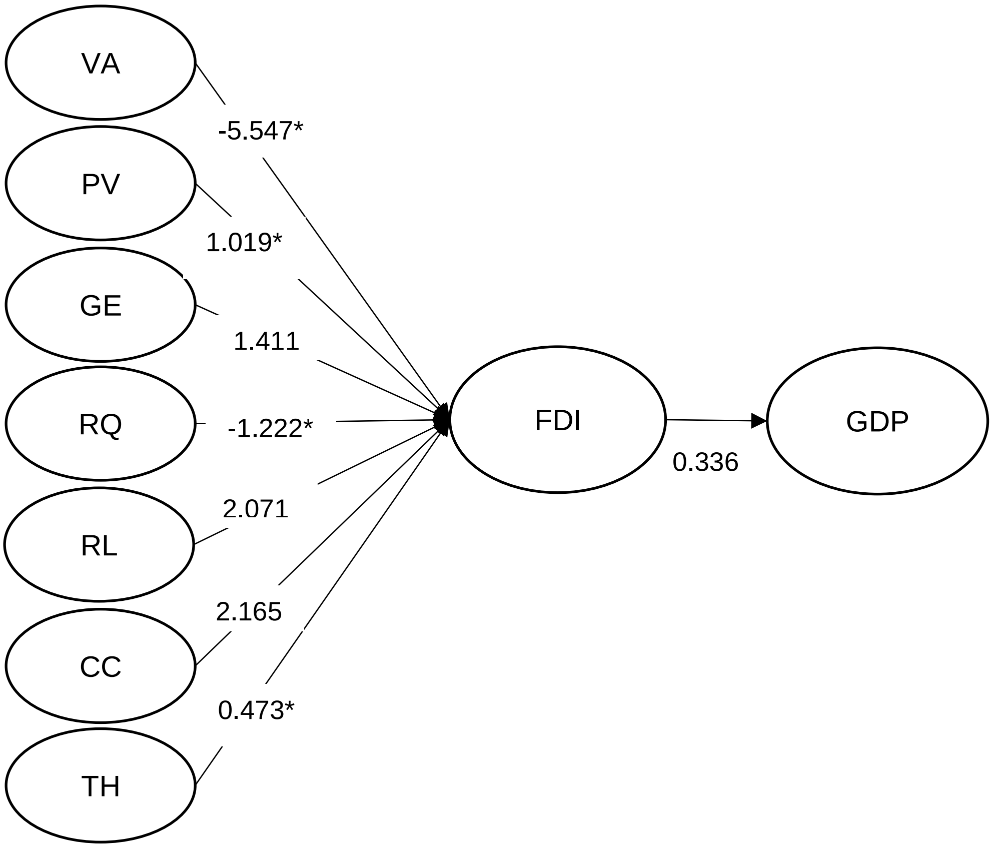
Source: Data processed with SPSS (2016)

According to the regression result on table 5.10, the GDP model becomes:

Ln GDP = 24.160 + 0.336 Ln FDI

From table 5.10 it can be summarized that the coefficient of constant is 24.160. It means if the other variable is zero, then gross domestic product has a value 24.160. Furthermore, coefficient of effect foreign direct investment toward gross domestic product is 0.336 and significant. It means foreign direct investment has positive and significant effect toward gross domestic product. In other words, the higher foreign direct investment, the better gross domestic product.

The diagram of estimation result of effect of independent variables to dependent variable can be seen in figure below.




*Significant

Source: Author summary

**Figure 5.10** Diagram of the Estimation Result

The independent variables can be stated to have the strongest or dominant effect to dependent variable if they have the highest coefficient result. Based on figure 5.9 above, the independent variable which has the highest effect toward foreign direct investment is voice and accountability for -5.547. It means voice and accountability has dominant effect to foreign direct investment.

Furthermore, the examining result of the effect of independent variables toward dependent variable is summarized in table 5.11.

**Table 5.11** Findings summary

| | |
|---|---|
| **Simultaneous testing (F-Test)** | |
| a) Simultaneously, voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption, and tax holiday have significant effect on foreign direct investment.<br>b) Foreign direct investment has significant effect on gross domestic product | |
| **Partial Testing (t-test)** | |
| a) **H1:** Voice & Accountability has significant effect on Foreign Direct Investment | - H1 is accepted (significant but negative) |
| b) **H2:** Political stability and absence of violence/Terrorism has significant effect on Foreign Direct Investment | - H2 is accepted (significant and positive) |
| c) **H3:** Government effectiveness has significant effect on Foreign Direct Investment | - H3 is rejected (insignificant but positive) |
| d) **H4:** Regulatory quality has significant effect on Foreign Direct Investment | - H4 is accepted (significant but negative) |
| e) **H5:** Rule of law has significant effect on Foreign Direct Investment | - H5 is rejected (insignificant but positive) |
| f) **H6:** Control of Corruption has significant effect on Foreign Direct Investment | - H6 is accepted (significant and positive) |
| g) **H7:** Tax holiday has significant effect on Foreign Direct Investment | - H7 is accepted (significant and positive) |
| h) **H8:** Foreign Direct Investment has significant effect on Economic Growth | - H8 is accepted (significant and positive) |
| **Dominant Effect** | |
| Voice and accountability has the dominant effect to foreign direct investment inflow. | |

Source: Author summary

## 1.3. Discussion

All indicators of governance quality are showing an increase trend for 14 years. Even though there were not significance movement, it proofing that Indonesian government has improve their services and give positive impact to public opinion. The change of each indicator point are different due to public opinion and experience in public services. The wide variance or big enhancement can be seen at political stability and absence of violence indicator, it has improve 1.67 point from -2.04 at the beginning (2001) and -0.37 at the end (2014). Meanwhile, the small variance or quite enhancement was shown by regulatory quality indicator, it is 0.08 point from -0.18 (2001) to -0.1 (2014). Moreover, at the end of period from all indicators voice and accountability got the highest rate, it means citizens have satisfied about the experience in freedom of speech and responsibility. Control of corruption got the lowest rate from public. It indicates public still having question due to government ability in controlling the corruption.

Afterwards, there are two model tested on this research, the result of first model has similarity with the previous research mentioned on chapter 2. Research conducted by Saidi, et al (2013) regarding the influence of governance indicators on the attractiveness of foreign direct investment conclude that political stability and absence of violence/terrorism and regulatory quality have significant impact on FDI inflows, while this research also found that the same two government indicators have significant effect toward foreign direct investment.

The second model is the foreign direct investment effect toward gross domestic product. The result of the statistical test is foreign direct investment positively and significantly give effect to economic growth. This result is in accordance with previous research By Wahiba (2014), Misztal (2010), and Adams

(2009). On Wahiba (2014) research the result is foreign direct investment has positive effect to Tunisia economic growth, the similar opinion stated on Misztal (2010) research paper that the inflow of FDI was one of the key factors of GDP determinant in Romania. Further, Adams (2009) research results is direct investment positive and significantly correlated with economic growth.

In addition, the result above is in accordance with the theory from Harrod-Domar growth model, where gross domestic product depends directly on the national net saving rate. Therefore, more investment will lead to more growth. Gruber (2011) on his book also mention that more savings means more capital, and more capital means more growth. In other words, savings can be act as an engine of growth. Moreover, as cited from Todaro (2012) the less of foreign investment inflow to developing country could slow down the growth in the economies, and vice versa.

Furthermore, the result of simultaneous effect of voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, control of corruption and tax holiday to foreign direct investment from 2001 to 2014 is significant and positive. The same result is occur on research by Pereira (2013) about relationship among state governance and foreign direct investment in Vietnam. In the long term view or 20 years period, the government quality does not have significant effect toward foreign direct investment, but significant effect of governance quality was founded in short term relationship, 10 years period from 2001 to 2011.

World Bank (2015) when issued the governance indicator also mention that the six indicators are related each other and should not be used separately. It can be used together cross the three exercised area, namely; the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them. For example, the better government accountability could lead to less corruption practices, the more effective the government can provide a better regulatory environment. Afterward, respect for the rule of law leads to the fair process in selecting and replacing government, then it can minimize the abuse of public office for personal benefit.

Although the simultaneous effect of governance quality indicator and tax holiday toward foreign direct investment is significant, in partial the significant effect only comes from voice and accountability, political stability and absence of violence/terrorism, regulatory quality, control of corruption, and tax holiday. Meanwhile, government effectiveness and rule of law have insignificant effect to foreign direct investment. These result show, in partial, only 4 of 6 governance quality indicators plus tax holiday that strongly determine the foreign direct investment.

Foreign investors are interested to voice and accountability indicator, it means the freedom of citizen to be involved in the democracy process is getting attention from investors. As explained by BKPM (2016), the democracy in Indonesia is showing and improvement since late 1990's. In Asia, Indonesia is one of the country that has successfully implement the freedom of democracy after through the democracy trouble. On the voice and accountability graph in previous part, the trend also showing an improvement from 2001 to 2014. However the statistical measurement results is negative, it means the higher voice and accountability, the lower foreign direct investment. This is contrast with Zidi (2016), where voice and accountability is positive and insignificant.

The political stability also taking part of investor decision, it is in accordance with opinion written by Basri and Patunru (2008) that the ability of the government to attract investment from foreign to Indonesia is highly dependent on political stability and ease of doing business in the country. Moreover, in a report about investment climate in Indonesia conducted by LPEM-FEUI and World Bank (2007), political instability is one of the factor that can increase the cost of doing business in Indonesia, it is also one of the investor consideration before investing their fund. This is in accordance with Dunning (1993) that foreign investor looking for lower cost structure in host country due to the investment motives for efficiency seeking.

Further, Clark, et al (2007) explain one of the factor influencing foreign direct investment is political stability. The more stable the economic and political condition, then the lower the risk faced by the investor on their investment activity, and it will attract more foreign investment. The statistical measurement results on this research indicates the positive and significant effect of political stability on foreign direct investment. The higher political stability, the higher too foreign direct investment.

Afterwards, the result for government effectiveness is different to the research conducted by Zidi (2016) which conclude the operation of the state or government effectiveness is positively correlated and significant with the entry of foreign direct investment. Statistically government effectiveness has positive effect but insignificant to foreign direct investment. This finding means the quality of public service has positive impact, but the impact not affecting much the number of foreign direct investment inflow. According to Musgrave (1973) statement, tax incentive should be designed well to minimize interference with tax. Therefore, government must formulate proper regulation.

Moreover, regulatory quality is being the concern of investor. It is government ability to formulate and implement the policies or regulations that pro to the citizens and private sector. According to Dunn (2004), one of the stage in public policy process making is policy formulation. On this stage the problems will be discussed and defined so government can decide to create the public policy or not and what kind of policy fit to solve the problem. Another stages is the policy implementation where the policy is applied on society through government bureaucracies. In fact, the problem faced by the investor is the bureaucratic process in making investment license which is not efficient and effective. It must through many procedure that involving many government institution and takes more time.

BKPM as the responsible institution in handling investment create a proper policy and facility such as one stop service for investment permit. Currently BKPM has new program called 3 hours investment licensing service. If the investor can fulfill the requirement, in 3 hours the investment license will be issued with the other document such as deed of establishment and approval, tax registration number, certificate of company registration, the foreign workers recruitment plan, work permit, importer identification number, customs registration number, letter on land availability information. However, the statistical measurement give opposite result where regulatory quality has negative and significant impact. It means if the regulatory quality higher then foreign direct investment will lower and the effect is significant. This is similar to Saidi, et al (2013), the effect is significant. But, this result is different with Zidi (2016), where regulatory quality has positive effect but not significant.

Furthermore, this research found that rule of law is positively affecting foreign direct investment but not significant. Actually, the investment climate in Indonesia is affected by the security on business location and law enforcement by authorized party. However, according to the research result, there are positive and insignificant impact of law enforcement toward foreign direct investment. It means the higher rule of law index, then foreign direct investment will be better although the change is insignificant. The result is in line with Zidi (2016) who found that rule of law has positive effect but not significant.

Afterwards, control of corruption is part of governance quality indicator which has significant effect since issue about corruption in Indonesian government increase. Currently most of the institution leader has commitment to erase the corruption practice on their institution. Moreover, Corruption Eradication Commission (KPK) also has increase doing investigation and eradicate many corruption practices. In fact, Corruption practice in Indonesia for the last decade has decreased, and it is effecting to the enhancement of the public trust to government institution. Therefore the index is showing an improvement and from the statistical measurement the result is positive and significant. The better control of corruption, the better foreign direct investment. However, this result is contrast to Zidi (2016), where control of corruption is negatively affect to foreign direct investment and significant.

According to the research, tax holiday which is offered to public since august 2011 has positive and significant effect to foreign direct investment. This consistent with Clark, et al (2007) and UNCTAD (1998) that tax factor or fiscal policy is one of the factor influencing FDI. However, the previous research gives another result, for instance, Kandpal and Kavidayal (2014) conclude that there is no insufficient findings regarding tax incentive effectiveness but tax incentives plays a key role in the policy initiatives to increase their appeal to foreign investors. Parys and James (2010) found that there is no robust positive relationship between tax holiday and investment in the CFA Franc zone country, while, increasing the number of legal guarantees and reducing the tax system complexity could attract investment.

Lastly, from all the independent variable used on this research, there is one variable that has the most impact or the dominant effect toward dependent variable. From the statistical calculation the highest coefficient value among the other independent variables is voice and accountability. It means voice and accountability has the dominant effect toward foreign direct investment, and every change in voice and accountability will highly affect the foreign direct investment.