THE EFFECT OF FOREIGN DIRECT INVESTMENT (FDI), INVESTMENT PORTFOLIO, EXCHANGE RATE, AND INFLATION ON CURRENT ACCOUNT BALANCE (CAB) WITH THE CORRUPTION PERCEPTION INDEX (CPI) AS A MODERATION VARIABLE FOR THE PERIOD 1995-2022 IN ASEAN-6

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ABSTRACT

This study re-examines the effect of Foreign Direct Investment (FDI), portfolio investment, exchange rates, and inflation on the Current Account Balance (CAB), with the Corruption Perception Index (CPI) as a moderating variable for the 1995–2022 period in ASEAN-6. The hypotheses are tested using MRA and panel data regression. This study took secondary data from The World Bank and Transparency International (TI). It used 168 samples from six ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The results showed that Foreign Direct Investment (FDI) had a significant negative effect on Current Account Balance (CAB), portfolio investment had a significant positive effect on Current Account Balance (CAB), and exchange rates and inflation did not affect Current Account Balance (CAB). In addition, the moderating variable used, namely the Corruption Perception Index (CPI), is proven to moderate the four independent variables with a significant negative effect. This research is limited to ASEAN-6 countries and only uses CPI as a moderating variable. Suggestions for further research should be replicated outside ASEAN-6 and consider other variables.

Keywords: Foreign Direct Investment (FDI), Portfolio Investment, Exchange Rate, Inflation, Corruption Perception Index (CPI)

A.   INTRODUCTION

Following the Asian Financial Crisis (AFC) in 1996, the global financial crisis in 2007, and most recently, the 2019 coronavirus disease (COVID-19) pandemic in 2020, ASEAN was one of the first affected regions in Asia. Emergency support packages for COVID-19 have been provided to countries. ASEAN has taken steps to subsidize their economies by issuing payments or grants, cash, economic stimulus packages, food subsidies, wage subsidies, etc. Global financial shocks and recessions may occur in this region as government spending

exceeds revenue by implementing control measures against COVID-19 (Marimuthu et al., 2021). It has been predicted that the world economy will face the potential for a global recession in 2023. The decline in world economic growth can prove this; one contributing factor is inflation and the depreciation of the exchange rate, which threatens purchasing power and creates uncertainty (Kementerian Koordinator Bidang Perekonomian RI, 2022).
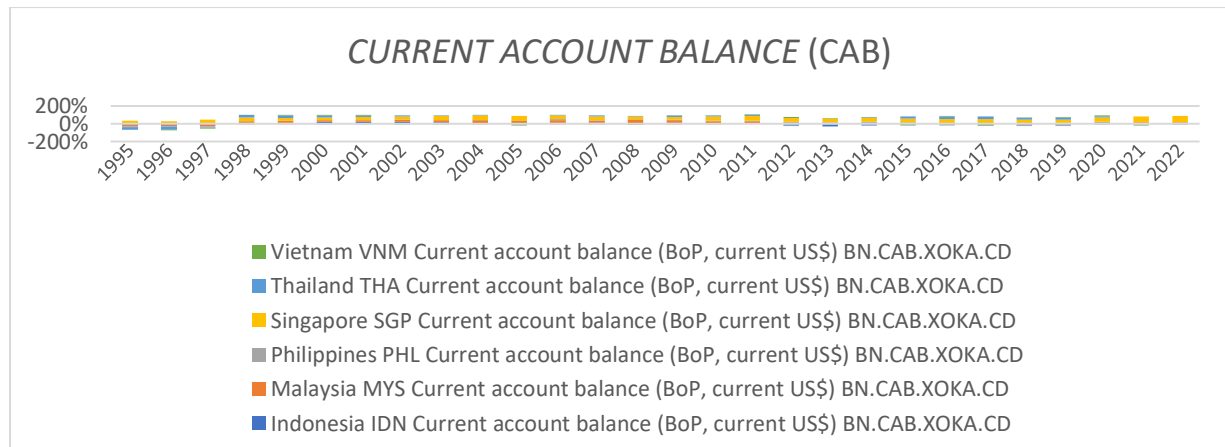

Figure 1. ASEAN-6 Current Account Balance (in US dollars)

Source: World Bank, Processed Data, 2023

Figure 1 shows a gap in its development, especially in the 1997–1998 period, where the current account surplus for ASEAN-6 was getting higher. The peak occurred in 2006–2007 when the aggregate current account surplus of ASEAN-6 reached 594.4 billion USD in 2007 (4.1% of GDP). In 2009, there was a narrowing gap in the current account due to a sharp decline in the volume and value of global trade. However, in the 2010–2011 period, the transaction imbalance has again increased.

In fact, according to researchers (Das, 2016), China and other Asian Tiger countries (such as South Korea, Malaysia, Singapore, Indonesia, and Thailand) experienced an average current account surplus of 6.4% of GDP in 2000–2009, which positioned them as the world's largest lenders. After the 1997–1998 financial crisis.
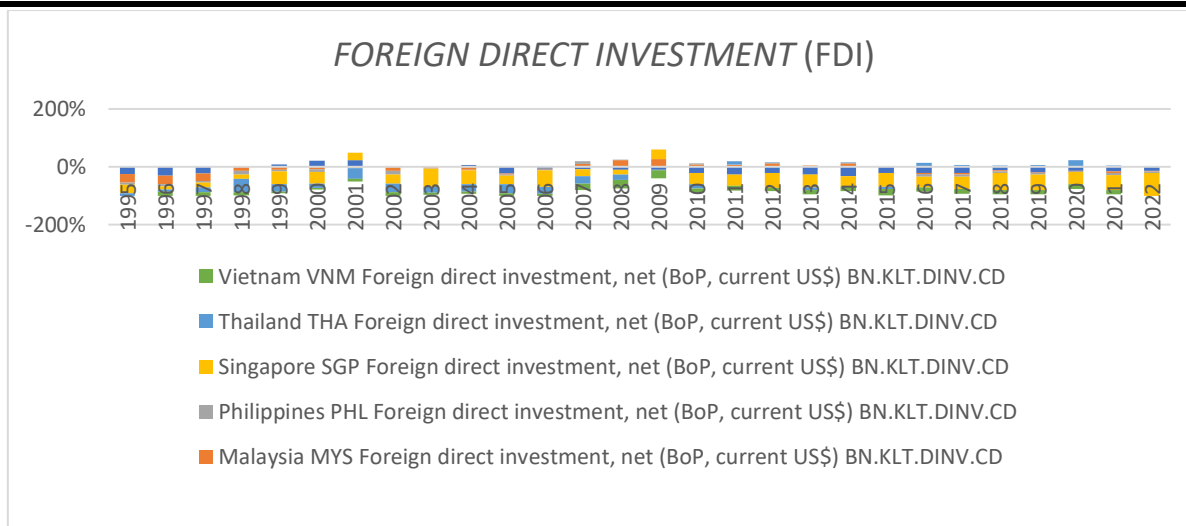
Figure 2. ASEAN-6 Foreign Direct Investment (FDI) (in US dollars) 1995-2022

Source: World Bank, Processed Data, 2023

Figure 2 shows how FDI changes yearly in ASEAN-6 countries, especially in countries categorized as developing countries. As can be seen, Singapore receives a significant amount of FDI every year. However, it decreased in 2016, together with Indonesia and Thailand. Foreign direct investment, or FDI, inflows to ASEAN countries decreased by 20% in 2016, according to the 2017 Investment Report published by the United Nations Conference on Trade and Development (UNCTAD). This decrease was caused by several things, including the repayment of large loans, the purchase of large assets by ASEAN corporations in their home countries, and sizable divestments. The impact of corruption on Foreign Direct Investment (FDI) in a country has recently been widely studied.

Corruption is one of the main diseases that can threaten a country's economic prosperity. To attract foreign investors, governments in Southeast Asia must pay special attention to eradicating corruption. It is known that ASEAN-6 countries have several poor CPI scores; Figure 3 provides further information.
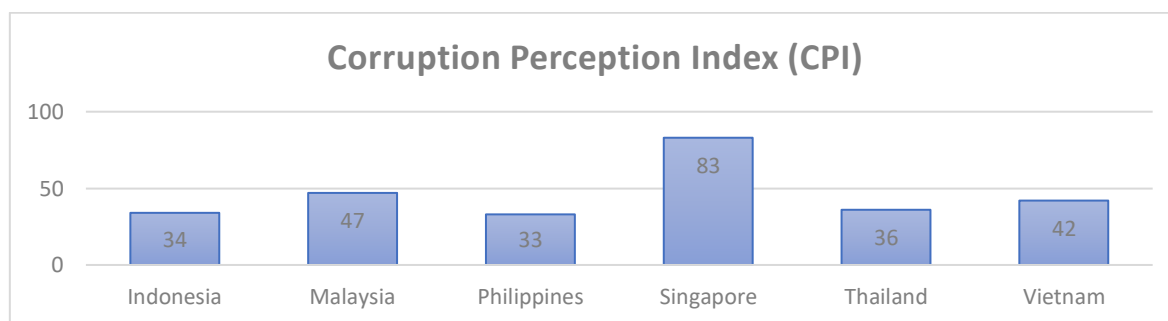

Figure 3. ASEAN-6 Corruption Perception Index (CPI) (in score units) 2022

Source: Transparency International, Processed Data, 2023

The CPI is interpreted as follows: the closer to 100, the better and less corrupt the nation is, while the closer to 0, the more corrupt it is. Figure 3 shows that Singapore in 2022 is ranked first with a total score of 83, which means Singapore is free from corrupt acts. Malaysia is in second place with a score of 47, indicating that it is relatively free of corruption. Meanwhile, other ASEAN-6 countries, such as Indonesia, the Philippines, Vietnam, and Thailand, score close to zero, which suggests that there is active corruption in these countries.

The research results obtained in advance by Affiza (2022) who conducted research entitled "Analysis of Exchange Rate Effects on Current Account Balance in ASEAN-6" found study findings indicating that, from 2010 to 2019, the exchange rate had a substantial negative impact on the current account balance in ASEAN-6, while the exchange rate variable, gross domestic product, and foreign direct investment simultaneously showed a positive direction and at the same time had a significant effect on the ASEAN-6 current account balance in 2010–2019. In addition to the studies mentioned above, other studies have also been referred to as references by researchers for this study, including research from Mahmudah (2021) entitled "The Effect of Foreign Direct Investment (FDI), Portfolio Investment, Foreign Exchange Reserves, Exchange Rates, Exports, and Imports on the Current Account Deficit (CAD) in Indonesia in the 1990-2020 Period", found that imports and foreign exchange reserves significantly affected the current account deficit in the long and short term. Only long-term variables are affected by exports and portfolio investment.

The similarity of this research with previous research can be related to the type of research, namely looking at the effect between several variables using quantitative research types. Other similarities are that they both discuss Foreign Direct Investment (FDI), Portfolio Investment, Exchange rates, and Current Account Balance (CAB). Meanwhile, the differences between this research and previous research can be found in the object of research and other issues discussed in it; namely, in this study, the researchers chose ASEAN-6 countries consisting of Indonesia, Malaysia, the Philippines, Singapore, Vietnam, and Thailand as objects. In this study, the researcher chose these countries because they were essentially categorized as a group of developing countries, so transaction deficits often occurred. In addition, these countries have poor CPI scores; for that reason, researchers are interested in making ASEAN-6 countries research objects.

In addition to the differences described above, this study is also different in the types of variables used, in which researchers add the inflation variable as an independent variable and the Corruption Perception Index (CPI) variable as a moderating variable. The theoretical basis

for using CPI as a moderating variable in this study can be supported by one of the theories put forward by Bologne (1999) about the GONE Theory, as the theory explains that several factors cause corruption, such as Greed, Opportunities, Needs, and Exposure.

In addition to the theory, there is also an explanation from Mauro (1995) those who said that perceptions of corruption can affect a country's economic activity in terms of investment and others by making CPI a moderating variable. Of course, this explanation is also based on several previous studies that made CPI a moderating variable (Khairi, 2019; Lala, 2021; Moustafa, 2021). In this study, the researcher used the CPI as a moderating variable because she wanted to see whether the Corruption Perception Index (CPI) could strengthen the independent variable or vice versa.

As for what makes researchers interested and want to examine more deeply the effects of foreign direct investment, portfolio investment, exchange rates, and inflation on the current account balance with the Corruption Perception Index (CPI) as a moderating variable, maintaining a surplus in the current account balance is important. Because it is wrong that one of the most debated economic topics is the current account deficit, it is important to discuss the elements that impact a country's current account balance to turn this into a more effective policy. This study can assist the governments of ASEAN-6 countries in formulating appropriate economic strategies to improve the current account balance, especially for developing countries that usually experience deficits and are always aware of an unstable global economic situation.

B. LITERATURE REVIEW

Theory of John Stuart Mill

According to John Stuart Mill's theory, he found a balance, as the value of exporters determines a country's provisions to finance imports, but in reality, it is not like that. The instability of exporters and importers is one of the causes of a country's current surplus or deficit (Mill, 1882). Polat (2011) shows that deficits and surpluses in the current account generate profits and losses in the long and short term. A country benefits from a current account surplus in the short term because it gets income in the form of loan interest from foreign investment, but in the long term, it will incur losses caused by passive foreign investment, resulting in reduced domestic supply; therefore, the development will be disturbed (Mahmudah, 2021).

International Capital Movement Theory

Dominick Salvatore divides foreign investment into direct and portfolio investments (Salvatore, 1994). Investments primarily related to financial assets, such as debentures, stocks, bonds, and others, are known as portfolio investments. Compared to the income or output side, these capital flows include financial capital flows, which usually have an immediate effect on the balance of payments or exchange rates. In contrast, direct investment is the purchase of real assets such as factories, land, capital, and management. The technique of acquiring a business or buying most or all of a company's stake in another business is known as a direct investment (Hemanona & Suharyono, 2017).

Purchasing Power Parity Theory

The relationship between domestic commodity prices and the exchange rate is explained by the theory of Purchasing Power Parity (PPP). According to this theory, because customers will have equal purchasing power to buy local and international goods, the exchange rate will reflect the difference in inflation rates between the two countries. A Swedish economist named Gustave Cassel created the PPP theory in 1920 when Europe's inflation increased. This theory is based on the law of one price, which states that if a commodity is priced in the same currency in many countries, the price will be the same in all those locations (Ballie, 1990).

Effect of Foreign Direct Investment (FDI) on Current Account Balance (CAB) in ASEAN-6

The theory of International Capital Movement defines two categories of international capital: direct investment and investment in securities. A country's current account balance will be affected by the inflow of FDI. The country's currency exchange rate increased due to the inflow of foreign direct investment, which benefited the balance of payments. With the presence of foreign capital, a country can increase the output of export-oriented industries and reduce the volume of imports. Research results by Bedir & Soydan (2016) and also Halil et al. (2021) obtained Foreign Investment (FDI), which has a major impact on the current account balance. As for Ariyani et al. (2018), attracting direct investment (FDI) harms the current account balance. From this exposure, the following hypothesis can be stated:

H1: Foreign Direct Investment (FDI) has a positive and significant effect on the Current Account Balance (CAB)

Effect of Portfolio Investment on Current Account Balance (CAB) in ASEAN-6

Mankiw defines investment as a net addition to the available capital stock (net addition to existing capital stock) (Mankiw, 2005). Investment can also be known as capital

accumulation or capital formation. Sukirno (2003) states that portfolio investment is capital accumulation by buying financial assets such as bonds, company stocks, and government bonds. Todaro revealed that foreign funds could increase capital (Todaro & Smith, 2013). In line with this explanation, the following hypothesis can be put forward:

H2: Portfolio Investment has a positive and significant effect on the Current Account Balance (CAB)

Effect of Exchange Rates on Current Account Balance (CAB) in ASEAN-6

Mankiw's opinion about the exchange rate is that it is the price level agreed upon by citizens of two countries to trade with each other. The exchange value can impact countries in developing and developed countries, where domestic and foreign transactions and trade dominance occur (Mankiw, 2005). According to Purnomo's research (2003), the exchange rate transfer mechanism does not affect changes in the current account deficit. Still, the analysis carried out by the mechanism for changes in the current account deficit influences exchange rate shifts (Mahmudah, 2021). In contrast, Kartika et al. (2019) found that the current account deficit caused by the exchange rate is unaffected by the real effective exchange rate. The current account deficit and the real effective exchange rate are not affected in the short term by changes in the exchange rate that cause domestic economic instability. From this explanation, the following hypotheses can be drawn:

H3: The Exchange Rate has a positive and significant effect on the Current Account Balance (CAB)

Effect of Inflation on Current Account Balance in ASEAN-6

The law of economics states that prices will increase when there is greater demand than supply (Schumpeter & Keynes, 1936). The economic impact of inflation is very significant. Inflation has a big impact on currency exchange rates. The typical tendency of inflation is towards a decrease in foreign exchange value. In addition, imports usually increase because domestic costs are higher than international prices due to inflation. Inflation can also increase the cost of exported goods, which has an impact on declining exports. In addition, if inflation is low, more foreign financial capital will enter the country, causing an increase in the current account deficit (Altayligil & Çetrez, 2020).

If a country's inflation rate is higher than that of its trading partners, the value of exports will decrease, and the value of imports will increase, resulting in a deficit account balance. So, it directly affects the current account balance (Paramitha, 2017). With this excess import, the

current account deficit will widen or increase. From this explanation, the following hypotheses can be drawn:

H4: Inflation has a positive and significant effect on the Current Account Balance (CAB) Effect of the Corruption Perception Index (CPI) as a moderating variable on Current *Account Balance (CAB)*

According to Jack Bologne's GONE Theory, corruption results from several variables, including Greed, Opportunities, Needs, and Exposure (Bologne, 1999). In addition to the theory, there is also an explanation from Mauro (1995), which says that perceptions of corruption can affect a country's economic activity regarding investment and others. By making CPI a moderating variable, of course, it is also based on several previous studies that made CPI a moderating variable. This research was conducted by researchers (Khairi, 2019). Based on these data, it can be concluded that one of the GDP variables has a significant effect moderated by the CPI. Further research was carried out by Lala (2021), who found that CPI can moderate GDP and exports. The latest research conducted by Moustafa (2021) shows that CPI has a positive relationship with FDI. The positive association can be explained by several factors, such as the cross-interdependence between rent-producing assets and perceptions of corruption and the use of FDI data based on the balance of payments, which has increased financial flows.

The reason for the researcher to make the Corruption Perception Index (CPI) a moderating variable in this study is because, economically, corruption will certainly slow down the income and wealth creation rate. Consequently, the emergence of corruption will attract predators. In addition, corruption harms economic growth and hinders current investment flows. As a result, when corruption is rampant, investment and economic growth will be hampered, affecting the country's balance of payments (Andini, 2018). From this exposure, the following hypotheses can be drawn:

H5: The Corruption Perception Index (CPI) can moderate the independent variables on Current Account Balance (CAB)

Research Framework

Based on interpreting the understanding, the researcher describes the research framework chart as follows:
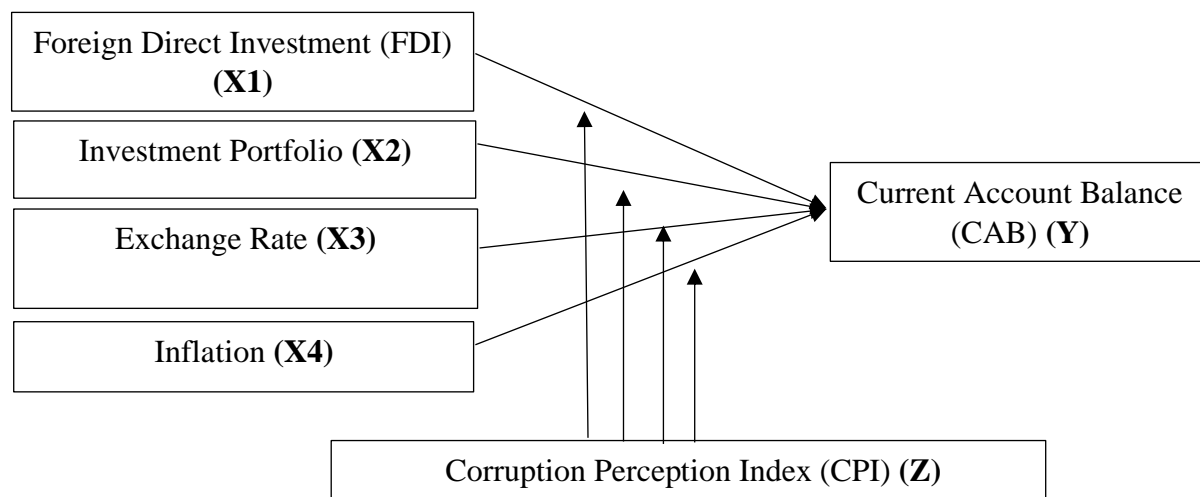

Figure 3. Research Framework

Source: Researcher's Illustration, 2023

C. RESEARCH METHOD

Analysis Tool

This research uses panel data to determine the relationship between research variables. The analytical tools used to test the hypothesis consist of moderate regression analysis (MRA), selection of estimation models such as the Chow test, Hausman test, and Lagrange Multiplier (LM) test, and also, in this study, hypothesis testing consisting of the F-test (simultaneous), t-test (partial), and coefficient of determination (R^2), which will be explained in more detail in the next point.

Population and Sample

This study uses secondary data from The World Bank and Transparency International (TI). Reports on the balance of payments in the ASEAN-6 countries (Singapore, Malaysia, Indonesia, Vietnam, Thailand, and the Philippines) are the research population. The research sample consists of the balance of payments reports for ASEAN-6 countries, which only take certain reports such as Foreign Direct Investment (FDI), Portfolio Investment, Interest Rates, Exchange Rates, Inflation, and the Corruption Perception Index (CPI) with annual data from 1995 to 2022 so that the research sample totaled 168 samples.

Research Variable

1. Independent Variable

Foreign Direct Investment (FDI)

The Foreign Direct Investment (FDI) data used in this study is from annual statistics released by The World Bank, with units of billions of USD from 1995–2022.

Portfolio Investment

The portfolio investment data used in this investigation are annual statistics released by The World Bank, with units of billions of USD from 1995–2022.

Exchange Rate

The data exchange rates or exchange rates used in this investigation are annual statistics released by The World Bank, with units of billions of USD for the period 1995–2022.

Inflation

Inflation statistics in this study come from annual data provided by The World Bank in units of percent (%) from 1995–2022.

2. Dependent Variable

The annual data released by The World Bank is the source of the Current Account Balance (CAB) data used in this study, with units of billions of USD during the period 1995–2022.

3. Moderation Variable

The Corruption Perception Index (CPI) data used in this study is based on annual data provided by Transparency International (TI), with units of scores for the period 1995–2022.

Data Analysis Technique

Moderated Regression Analysis (MRA)

This interaction test is called Moderated Regression Analysis (MRA). The regression equation contains the multiplication of two or more independent (interaction elements) (Sakanko, 2020). The illustration is the effect of the Corruption Perception Index (CPI) on the relationship of Foreign Direct Investment (FDI), Portfolio Investment, Exchange Rates and Inflation to the Current Account Balance (CAB). The MRA equation is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 Z + \beta_1 X^* Z_1 + \beta_2 X^* Z_2 + \beta_3 X^* Z_3 + \beta_4 X^* Z_4 + e$$

Where:

Y   = Current Account Balance (CAB)

α   = Constant

X_1 = Foreign Direct Investment (FDI)

X_2 = Portfolio Investment

X_3 = Exchange Rates

X_4 = Inflation

Z   = Corruption Perception Index (CPI)

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficient

e   = Error

Panel Data Regression Analysis

Cross-sectional and time series data are both panel data components. The cross-sectional data in this study are from ASEAN-6 countries, while the time series data spans 28 years (1995–2022). thus producing 168 (one hundred and sixty-two) observations. The panel data regression equation formed is as follows:

$$Y_{it} = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4\ \varepsilon_{it}$$

Where:

Y   = Current Account Balance (CAB)

α   = Constant

X_1 = Foreign Direct Investment (FDI)

X_2 = Portfolio Investment

X_3 = Exchange Rate

X_4 = Inflation

$\beta_1, \beta_2, \beta_3, \beta_4$ = Regression Coefficient

e   = Error

i   = Cross Section

t   = Time Series

Hypothesis Testing

F-test (Simultaneous)

If the significant value is greater than 0.05, it is decided to accept H0, or the independent variable has no significant effect on the dependent variable (Basuki, 2016).

t-test (Partial)

The significance value must meet the test criteria of < 0.05. The independent variable considerably influences the dependent variable if the estimated probit value is < 0.05, and vice versa (Basuki, 2016).

Coefficient of Determination (R^2)

The coefficient of determination measures how well the model can explain the variation in the study's independent variables (Widarjono, 2013).

D. RESULTS AND DISCUSSION

Results

Results Moderated Regression Analysis (MRA)

Table 1. Moderated Regression Analysis (MRA) Test Results

Model	Coefficient	Adj R-Square (before)	Adj R Square (after)	Prob	Status
X1Z	-0.016979	0.120116	0.370706	0.0000	Strengthen
X2Z	-0.003695	0.525810	0.598770	0.0471	Strengthen
X3Z	-23585.96	-0.004290	0.264175	0.0020	Strengthen
X4Z	-70811651	-0.005970	0.291771	0.0000	Strengthen

Source: Processed data with Eviews version 12, 2023

Table 1 shows that the moderating variable used, namely the Corruption Perception Index (CPI), is proven to be able to moderate the four independent variables: Foreign Direct Investment (FDI) (X1), Portfolio Investment (X2), Exchange Rate (X3), and Inflation (X4), with information that can strengthen the relationship to the Current Account Balance (CAB) variable (Y).

Estimation Model Selection

To select the best model, there are three methods to evaluate model estimation: the Chow test, the Hausman test, and the Lagrange Multiplier (LM) test. The appropriate CEM or FEM was selected for the study using the Chow test.

Table 2. Chow Test

Effects Test	Statistic	d.f.	Prob.
Cross-section F	6.865021	(5,157)	0.0000
Cross-section Chi-square	33.218356	5	0.0000

Source: Processed data with Eviews version 12, 2023

Table 2. The Chow test shows the value of the Prob Cross-section F < (0.05), indicating that H0 is rejected and also because FEM is a better choice for estimating panel data than CEM. In addition, Hausman testing was carried out to see whether panel data regression should be carried out using the REM or FEM approach.

Table 3. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	0.000000	5	1.0000

Source: Processed data with Eviews version 12, 2023

Table 3 shows that when the Prob Chi-square value is > 0.05, H0 is accepted, so REM is a better choice in estimating panel data than FEM. Because REM was chosen before moving on to the Lagrange Multiplier (LM) test, it can be concluded from the Chow and Hausman test results that it is more appropriate to use REM than CEM and FEM.

Table 4. Lagrange Multiplier (LM) Test

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	8.209483	0.829905	0.039388
	(0.0042)	(0.3623)	(0.0026)

Source: Processed data with Eviews version 12, 2023

Table 4 displays the value of Both < (0.05), indicating that the decision H0 is rejected and REM is better for estimating panel data than CEM. The results of the Chow, Hausman, and Lagrange Multiplier (LM) tests prove that REM is more suitable to be applied than CEM and FEM.

F Test (Simultaneous)

The probability value of the F-statistic for panel data regression using FEM is 0.00 < 0.05. These findings prove that the dependent variable is influenced by the independent variables, namely Foreign Direct Investment (FDI), Portfolio Investment, Exchange Rates, and Inflation.

t-test (Partial)

Table 5. t Test Results

Variable	Coefficient	Probability	Results
FDI (X1)	-0.455439	0.0000	H1 Accepted
Portfolio Investment (X2)	0.806356	0.0000	H2 Accepted
Exchange Rate(X3)	-229480.6	0.5935	H3 Rejected
Inflation	195006559	0.9237	H4 Rejected

Source: Processed data with Eviews version 12, 2023

Based on the results of the random effect model (REM) panel data regression, it can be seen that two variables influence the Current Account Balance (CAB). These variables are Foreign Direct Investment (FDI) (X1) and Portfolio Investment (X2), in addition to the variable that has no effect.

Coefficient of Determination (R^2)

Table 6. Test Results for the Coefficient of Determination (R^2)

R-squared	0.375554
Adjusted R-squared	0.356282

Source: Processed data with Eviews version 12, 2023

The results of the REM panel data regression show that the value of R^2 (Adjusted R squared) is worth 0.3562821 (35%), indicating that the variables Foreign Direct Investment (FDI), Portfolio Investment, Exchange Rates, and Inflation can explain the Current Account Balance (CAB) variable (Y), with the remaining 65% explained by factors outside the study.

Discussion

Effect of Foreign Direct Investment (FDI) on Current Account Balance (CAB)

The test results show that Foreign Direct Investment (FDI) significantly negatively affects the Current Account Balance (CAB), indicating that increasing foreign investment can cause a current account deficit. The reason is that, in principle, a country will benefit from a surplus. In the short term, the current account will earn income through loan interest from foreign investment. However, in the long term, it will cause losses caused by passive foreign

investment, resulting in reduced domestic supply, thereby causing the balance deficit to widen in the future.

FDI harms CAB; of course, this proves that FDI is needed only to produce imported goods (import substitutes), but the imported components to produce import substitutes are still dominant. As a result, the current account value in ASEAN-6 decreased and reached a current account deficit. In addition, the factor affecting the current account imbalance is foreign direct investment because international trade gives investors the freedom to invest in a country. The relationship is that an increase in foreign direct investment will cause the current account balance to become a deficit because it requires the destination country to pay profits to the country of origin, thereby increasing capital outflows.

The findings of this study are in line with previous findings, which were conducted by Ali et al. (2019), Feriyanto (2020) and Aimon et al. (2020) obtaining research results showing that Foreign Direct Investment (FDI) has a significant negative effect on the Current Account Balance (CAB).

The Effect of Portfolio Investment on Current Account Balance (CAB)

The test results show that portfolio investment significantly affects the Current Account Balance (CAB). These results indicate that increased portfolio investment can cause a current account surplus. This result aligns with Todaro's explanation that the inflow of foreign funds can increase capital (Todaro & Smith, 2013). In addition, because portfolios can be used to maximize the diversification of investment instruments, the portfolio's characteristics should not be ignored to generate maximum returns and reduce the risks that arise—capital container, so that losses can be minimized by not investing all funds in one investment vehicle.

This study's findings align with previous findings, which were conducted by Mahmudah (2021) that show portfolio investment has a significant positive effect on Current Account Balance (CAB).

Effect of the Exchange Rate on Current Account Balance (CAB)

The test results show that the exchange rate does not affect the Current Account Balance (CAB), contradicting the predicted results that researchers expect and also contradicting theory. Because the exchange rate should have a positive relationship to the Current Account Balance (CAB), a trade deficit will theoretically weaken the currency exchange rate. When there is a balance deficit, imports exceed exports. Weak exports will affect the exchange rate, and strong imports will inevitably result in high demand for foreign currency due to weak exports. In addition, the exchange rate is one of the most important factors in an open economy because it

significantly impacts the current account balance and other macroeconomic indicators (Mahmudah, 2021). The results of this study are in opposition to the research by Lapian et al. (2018), who suggest that the exchange rate has a positive and statistically significant effect on the current account balance in the short and long term.

However, according to the researchers, the lack of effect of the exchange rate on CAB in this study could be due to uncertainty in the exchange rate itself and fluctuations in currency exchange rates that cause domestic economic instability, preventing a short-term relationship between the current account deficit and the effective exchange rate. The findings of this study are consistent with research by Kartika et al. (2019) showing that the exchange rate does not affect the Current Account Balance (CAB).

Effect of Inflation on Current Account Balance (CAB)

The test results show that inflation does not affect the Current Account Balance (CAB). These results are contrary to the researchers' predictions and theory because, in principle, the general tendency of inflation is to reduce the exchange rate. In addition, imports increase because domestic costs are higher than international prices due to inflation. Inflation can also increase the cost of exported goods, which has an impact on declining exports. Thus causing a current account deficit. If a country's inflation rate is higher than that of its trading partners, the value of exports will decrease, and the value of imports will increase (Paramitha, 2017).

The effect of inflation that is not too large in the short term can be one of the factors that prevent inflation from impacting CAB in this study and will have an impact in the long term, but this is a weakness in this study because the researchers did not conduct specific tests to see the long-term effect. Short or long-term, this is what researchers say because one of the studies conducted by Lapian et al. (2018) results in the fact that the current account balance is not statistically significantly affected by inflation in the short term but has a negative and statistically significant effect in the long term.

Effect of the Corruption Perception Index (CPI) as a Moderating Variable on Current Account Balance (CAB)

The test results show that the moderating variable used, the Corruption Perception Index (CPI), significantly negatively affects the four independent variables. In other words, the moderating variable used, the CPI, weakens the effect of the independent variables on the dependent variable used in this research. Thus, if corruption is rampant, investment and economic growth will be hampered, later impacting a country's balance of payments. Corruption, in principle, has become one of the most inhibiting factors in the business world.

Increasing corruption in a country can drastically reduce its competitiveness. In addition, investments critical to economic progress may be hampered by corruption, increasing the costs of production and distribution of goods and resulting in high-priced economies. It could be argued that corruption acts as a roadblock, undermines market integrity, and makes good governance more difficult. In addition, corruption is detrimental to the country and is a barrier to investment, trade, and development (Anhar, 2020). The findings of this study support the findings of previous studies conducted by researchers who found that the Corruption Perception Index (CPI) can moderate the independent variables on the dependent variable (Khairi, 2019; Lala, 2021; Moustafa, 2021).

E. CONCLUSION

This research was conducted to re-examine the effect of Foreign Direct Investment (FDI), portfolio investment, exchange rates, and inflation on the Current Account Balance (CAB) with the Corruption Perception Index (CPI) as a moderating variable for the 1995–2022 period in ASEAN-6. The findings in this study indicate that the Current Account Balance (CAB) can be influenced by Foreign Direct Investment (FDI) with a significant negative effect, which indicates that increased foreign investment can cause a current account deficit because, in principle, a country will benefit from the current account surplus only in the short term by obtaining income in the form of loan interest from foreign investment. However, in the long term, it will incur losses caused by passive foreign investment, resulting in reduced domestic supply, thereby causing a deficit. The balance sheet will widen in the future.

This study also shows that the Current Account Balance (CAB) can be affected by portfolio investment with a significant positive effect. These results indicate that an increase in portfolio investment can cause a current account surplus, following what Todaro explained: that foreign fund flow entries can increase capital (Todaro & Smith, 2013).

The findings in this study also show that for the two independent variables used in this study, namely the exchange rate and inflation, the results obtained do not affect the Current Account Balance (CAB). From the exchange rate aspect, it shows that fluctuations in currency exchange rates cause instability in the domestic economy, thus hampering the short-term relationship between the current account deficit and the effective exchange rate. Meanwhile, what causes inflation not to affect CAB could be that due to the inflation that occurs, the effect is not too significant in the short term and will affect the long term. This result aligns with what the researchers said because one of the studies conducted by Lapian et al. (2018) found that the

current account balance is not statistically significantly affected by inflation in the short term but has a negative and statistically significant effect in the long term.

The Corruption Perception Index (CPI), which was used as a moderating variable, has been shown to have a significant negative effect on the four independent variables. In other words, the Corruption Perception Index (CPI), which was used as a moderating variable, weakens the effect of the independent variables on the dependent variable in this study. Thus, if corruption is rampant, investment and economic growth will be hampered, later impacting a country's balance of payments.

Some suggestions for future research include adding or replacing other variables in addition to those included in this study. Future research can also expand the scope of research and increase the research period so that the results obtained are more consistent.

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