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Government Governance Moderate Foreign Direct Investment and Debt Stock on Tax Revenue

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Abstract
Purpose: This study aims to determine the effect of foreign direct investment (FDI) and debt stock on tax revenue, which is moderated by government governance variables.
Methodology/approach: This research is quantitative research that uses a purposive sampling method to take samples. The samples taken were all from the population in South Asia, namely India, Sri Lanka, Nepal, Afghanistan, Maldives, Bangladesh, Bhutan, and Pakistan, resulting in 76 observations. The data analyzed were in the form of panel data in the form of secondary data obtained from the World Bank database. Panel data have the advantage of allowing a cross-sectional analysis of data on the same units over several time periods.
Results: The research results show that variable foreign direct investment has a significant positive influence on tax revenue, while the debt stock variable has a significant negative influence. After adding the government governance moderation variable, the results are found that the foreign direct investment and debt stock variables have a significant positive influence.
Limitations: The limitation of this research is that it uses a small population of research objects, so that it can be added to the number of countries used as research objects.
Contributions: This research will have a good contribution to the development of knowledge in the fields of financial accounting and taxation.
Keywords: *Debt Stock, Foreign Direct Investment, Good Government Governance, South Asia, Tax Revenue*
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1. Introduction

The government is responsible to society in improving welfare and living standards, protecting lives and property, providing public services, enforcing the law, and encouraging sustainable economic development (Anwar & Wijaya, 2023). To fulfill these responsibilities, the government needs income from various sources. One of the biggest sources of income for a country is taxes (Madani et al., 2023). One example is income tax which is a contribution from individuals or companies based on the income they earn (Listikarini, 2024). This tax revenue is used to fund government programs to improve community welfare (Minh Ha et al., 2022). For example, spending by the Nigerian government in the form of capital goods can encourage production in the manufacturing sector (Joseph et al., 2023). This is useful in increasing per capita income and providing more jobs for the community so that it can contribute to increasing a country's taxes (Utama et al., 2023).

Countries that collect less than 15% of GDP in taxes must increase their revenues to meet the basic needs of citizens and support businesses (Arisanti et al., 2021). This level of taxation is a critical point for the sustainability and growth of a country. Ease of paying taxes can increase competitiveness, while a complicated tax system can result in tax avoidance, a large informal economy, corruption, and lack of investment. Therefore, a modern tax system must prioritize optimal tax collection by minimizing the burden on tax payers (The World Bank, 2024d). Based on data presented on the International Monetary Fund website, tax revenues in South Asia from 2011 – 2020,The country that received the highest tax revenue in a row was India with an average of 16.9% of GDP, followed by the Maldives which has increased consistently since 2012 with an average of 15.3% of GDP. Then the lowest averages are Afghanistan and Bangladesh with an average of 8% and 8.8% of GDP. Followingis a graph of South Asia's tax revenues obtained from the International Monetary Fund website (Manurung, 2022).

Picture1. Tax Revenue in Percent of GDP South Asia 2011 - 2020 Period
Source :Data Processed

In South Asia, the challenge of increasing tax revenues is closely related to economic, social, political and ethnic issues, such as uneven population growth and chronic poverty. Poor governance and corruption hinder investment and the efficiency of tax administration (Devarajan, 2013). A narrow tax base and inefficient tax administration, together with the dominance of the agricultural and service sectors and minimal development of the financial sector, contribute to low tax revenues (Anjarningsih et al., 2022). Wide tax exemptions and tax holidays add complexity to the tax system, making it difficult to reform (World Economic Forum, 2015). However, this is different from the conditions in other countries which show that comprehensive tax reform can reduce complexity, limit exceptions, and broaden the tax base can increase revenue. The combination of administrative and tax policy reforms, such as those carried out in Guyana, Liberia, and Georgia, has the effect of increasing tax compliance, fairness and efficiency, while building public trust. This means that it is important to carry out reforms to increase tax revenues in South Asia, support sustainable economic growth and reduce existing disparities (International Monetary Fund, 2018).

The government cannot rely on tax revenues alone for spending, especially for developing countries that have limited capital. Therefore, the government can establish economic relations with other countries to receive foreign investment through Foreign Direct Investment (Pratiwi, 2022). Foreign Direct Investment (FDI) is direct foreign investment that can contribute to job creation, technology transfer, economic growth and sustainable development in a country (Minh Ha et al., 2022). Foreign Direct Investment contributes to the financial sector of a country which indirectly increases competitiveness and increases tax revenues (Gaspareniene et al., 2022). Research conducted by (Minh Ha et al., 2022) that the role of FDI had a significant positive effect on countries in Southeast Asia in 2017 with the result that every 1% increase in FDI inflows could increase the tax revenue ratio by 0.256% in that country (Manan & Hasnawati, 2022). Therefore, it can be concluded that FDI can help the government in realizing a country's tax targets. However, this is different from research conducted by (Gaspareniene et al., 2022). The role of FDI was significantly negative for countries in the European Union in 1999 – 2019 that a 1% increase in inward FDI (FDIINSTOCK) caused a decrease in tax revenues of 0.03%.

If the tax revenue target is not achieved, the government needs to look for additional funding sources to meet a country's needs, namely by borrowing from international financial institutions to cover the budget deficit that occurs due to a lack of tax revenue that does not reach a country's tax revenue target (Rusli, 2021). Based on the data obtained, the average debt-to-GDP ratio in South Asia has increased to around 86 percent. This figure is higher than the global average of 60 percent, indicating potential fiscal vulnerability. Rising debt levels could hinder government investment in health, education and infrastructure. Additionally, a high debt profile increases a country's vulnerability to global economic shocks, which can have a major impact on its population (Dhungel, 2023). Research conducted by (Casalin et al., 2020) that foreign debt has a significant negative effect on tax revenues in the United States from 1792 - 2012. This is different from research conducted by (Olamide & Maredza, 2023) that foreign debt in Fiji in 1980 - 2018 had a significant positive effect on tax revenues.

Good Government Governance practices can increase trust and shape people's behavior in following applicable rules (Jameel et al., 2019). Good governance includes legitimacy, transparency, accountability, rule of law, responsiveness and effectiveness (Puck, 2018). The phenomenon that occurs in Bangladesh is that poor governance can slow down foreign direct investment. Several countries in South Asia score poorly on corruption. More fiscal resources are used for government spending and maintenance as well as obtaining external financial assistance to increase health and education spending (Devarajan, 2013). Research conducted by (Mohammed & Sanusi, 2020) Governance indicators of control of corruption and voice accountability have a significant positive effect on tax revenues. However, Regulatory quality is not significant on tax revenues. Then research conducted by (Johnson & Omodero, 2021) indicators of political stability and absence of violence have a significant positive effect on tax revenues, while the rule of law is not significant on tax revenues. Government effectiveness has a significant positive effect on tax revenue (Aizenman et al., 2019).

Based on the phenomena that occur, researchers are interested in researching Government Governance Moderating Foreign Direct Investment and Debt Stock on Tax Revenue in South Asia for the 2011 - 2020 Period.

2. Literature review and hypothesis development

2.1 Neoclassical Economic Growth

Economic growth is expected to develop in line with a linear or parallel increase in savings. Economic growth (Y) as a function of capital (K) and labor (L) (Solow, 1956). High economic growth, driven by investment and increased employment, can increase national income and tax revenues. Investments in capital and increased production also contribute to tax revenues in the investment sector. Increased consumption due to economic growth can also increase tax revenues from goods and services consumed (Anwar, FM, & Wijaya, S., 2023). Economic growth can be achieved through capital accumulation which is expected to increase through investment based on savings, while decreasing due to depreciation and population growth. The investment level still depends on the savings rate, so a low savings rate can hinder intensive economic growth (Gaspareniene et al., 2022). This theory can see how debt stock can influence capital accumulation through investments funded by debt. However, too high debt levels can pose risks to economic stability and the sustainability of long-term growth. Then the impact of debt stock on tax revenues can be influenced by the efficiency of debt management and the use of funds generated from the debt (Makun, 2021).

2.2 Institutional Theory

How organizations experience change toward uniformity in structure, practices, and policies (Dimaggio & Powell, 1983). The concepts of isomorphism, institutional logics, and organizational strategic thinking support an understanding of how state governance influences tax policy. Countries with strong governance tend to have tax policies that are transparent, effective, reliable, increasing taxpayer compliance and tax revenues (Kisworo & Shauki, 2019). In contrast, countries with weak governance face challenges in implementing effective and sustainable tax policies. The relationship between taxes and tax policy reflects the pressure that companies experience to adapt to high levels of taxation and regulation. Isomorphism causes companies to tend to adopt informal practices to avoid the impact of high taxes and minimize the impact of regulations (Arora & Chong, 2018).

2.3 Foreign Direct Investment

Foreign Direct Investmentis expected to directly fill the gap between domestic savings and actual investment demand to achieve the expected level of economic growth (Pratomo, 2020). Foreign Direct Investment has the potential to increase tax revenues by increasing productivity in the host country. Companies that receive FDI flows will experience increased output leading to higher profits (Anwar & Wijaya, 2023). Foreign Direct Investment reflects a country's competitiveness and economic partnerships in international markets which have the potential to increase the financial sector and tax revenues (Gaspareniene et al., 2022). This potential for increasing tax revenue can help meet economic challenges in a country (Binha, 2020).

H1: Foreign Direct Investment has a positive effect on Tax Revenue

2.4 Debt Stock

State spending drives aggregate demand which then increases economic activity and creates jobs so that it can increase tax revenues. Government spending that is higher than the budget can increase tax revenues through economic stimulus which can increase the risk of state finances, namely the occurrence of a deficit and an increase in a country's debt (Arvin et al., 2021). Excessive investment in foreign debt affects state tax revenues. If more resources are allocated to paying debt interest, it could reduce the country's ability to finance public services and government programs (Makun, 2021).

H2: Debt Stock has a positive effect on Tax Revenue

2.5 Good Government Governance

The effectiveness of good governance can increase tax revenues by minimizing corruption, increasing government effectiveness, creating quality regulations and strengthening the influence of Foreign Direct Investment (FDI) on state tax revenues (Rahayu et al., 2023). Better governance can increase the public debt threshold, thereby strengthening the influence of debt on tax revenues. This means showing the importance of governance in maintaining debt at a level that can be managed well and avoiding problems that can arise due to uncontrolled debt. The formation of a sustainable and effective fiscal policy can support stable economic growth (Butkus & Seputiene, 2018).

H3: Good Government Governance can strengthen the influence of Foreign Direct Investment on Tax Revenue

H4: Good Government Governance can strengthen the influence of Debt Stock on Tax Revenue

2.6 Research Model

The following is a conceptual framework model in this research:

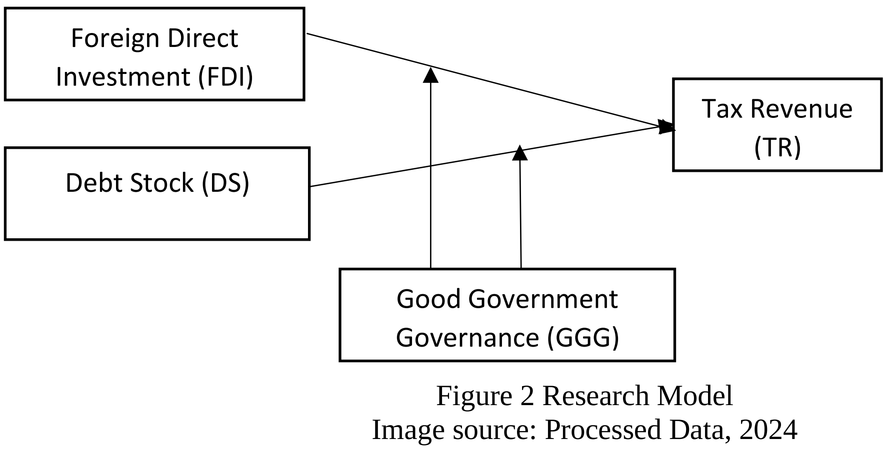

Figure 2 Research Model
Image source: Processed Data, 2024

3. Research Methodology

3.1 Types of research

This research is quantitative research that uses a purposive sampling method in taking samples. The samples taken were all objects from the population in South Asia, namely India, Sri Lanka, Nepal, Afghanistan, Maldives, Bangladesh, Bhutan and Pakistan, covering the period 2011 to 2020, resulting in 76 observation data. The data analyzed is in the form of panel data in the form of secondary data obtained from the World Bank database for Foreign Direct Investment and Debt Stock data, International Monetary Fund for Tax Revenue data, and World Governance Indicators for Good Government Governance data. Panel data has the advantage of allowing cross-sectional analysis of data on the same units over several time periods. Panel data can significantly increase samples, are suitable for understanding the dynamics of change, and allow the study of more complex behavioral models (Gujarati & Porter, 2009).

3.2 Variables and Operational Definitions of Variables

In this research, Tax Revenue is used as the dependent variable, Foreign Direct Investment (FDI) and Debt Stock as independent variables, with Good Government Governance as the moderating variable.

3.3 Tax Revenue (TR)

Tax revenues refer to mandatory transfers to the central government for public purposes. Certain mandatory transfers such as fines, penalties, and most social security contributions are excluded. Refunds and corrections of incorrectly collected tax revenues and treated as negative income (The World Bank, 2024c). Using the weighted average aggregation method per year, it is formulated is (Anwar & Wijaya, 2023):

$$\text{Tax Revenue} = \frac{\text{Central Tax Revenue}}{\text{GDP}} \text{ x } 100\%$$

3.4 Foreign Direct Investment (FDI)

Foreign direct investment is a net inflow of investment to acquire a continuing management interest (10 percent or more of voting stock) in a company that operates in an economy different from that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows minus disinvestment) in an economy reported from foreign investors, and divided by GDP (The World Bank, 2024b). Using the weighted average aggregation method per year, it is formulated is (Anwar & Wijaya, 2023; Sabir et al., 2019)**:**

$$\text{FDI} = \frac{\text{FDI Inflow to The Country}}{\text{GDP}} \text{ x } 100\%$$

3.5 Debt Stocks (DS)

Total foreign debt is debt paid to non-residents which can be paid in the form of currency, goods or services. Total foreign debt is the sum of government long-term debt guaranteed by the government, and unsecured private long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt that has a maturity of one year or less and interest arrears on long-term debt (The World Bank, 2024a). Using the weighted average aggregation method per year, it is formulated is (Agyapong & Bedjabeng, 2019a; Amoh & Adom, 2017; Mohsin et al., 2021):

$$\text{Debt Stocks} = \frac{\text{Total External Debt Stocks}}{\text{GNI}} \text{ x } 100\%$$

3.6 Good Government Governance (GGG)

The resulting GGG composite measure uses the Unobserved Components Model to produce a weighted average of each indicator for each source. This composite measure is in standard normal distribution units, with a mean of zero, a standard deviation of one that ranges from -2.5 to 2.5. A higher score means better governance (Kaufmann et al., 2010). Consists of six indicators, namely:

1) Voice and Accountability
This indicator measures the extent to which citizens can participate in choosing their government, as well as freedom of expression, freedom of association, and freedom of the media. This indicator uses metrics such as voter turnout, civil liberties and media independence.
2) Political Stability and absence of violence
This aspect measures the likelihood of political instability and/or violence, including terrorism. This aspect includes variables such as frequency of riots, number of political protests, and incidents of political violence or terrorism.
3) Government effectiveness
This indicator assesses the quality of public services, the capacity of the civil service and its independence from political pressure, as well as the quality of policy formulation and implementation. Measures can include the efficiency of government services, the quality of the bureaucracy, and the effectiveness of the health system and education system.
4) Regulatory quality
This indicator assesses the government's ability to provide good policies that enable and encourage private sector development. This indicator can measure freedom of business, labor market efficiency, and ease of starting a business.
5) Rule of law
This indicator measures the extent to which business actors trust and comply with community rules. This ranges from contract enforcement, police effectiveness, and judicial independence to property rights. Factors such as crime rates, contract enforcement, and an independent justice system are often taken into account.
6) Control of corruption
This indicator measures the extent to which public power is used for private gain, including petty and grand forms of corruption, as well as the "capture" of the state by elites and of the state by elites and private interests. Measurements often include perception surveys and indices related to corruption and transparency.

All Good Government Governance indices obtained by each country each year are averaged as follows is (Islam et al., 2020) :

$$\mathrm{GGG} = \frac{\mathrm{VA, PS, GE, RQ, RL, CC}}{6}$$

3.7 Analysis Techniques

The analytical methods that will be used include descriptive statistical analysis, classical assumption tests, panel data estimation tests, and hypothesis testing using multiple linear regression as the main method. The data analysis process was carried out using Microsoft Excel and Stata version 17.
Regression Equation Model:

Regression Equation Model:
Model 1: $TR_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 DS_{i,t} + \beta_3 GGG_{it} + \varepsilon_{it}$
Model 2: $TR_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 DS_{i,t} + \beta_3 GGG_{it} + \beta_4 FDI{*}GGG_{i,t} + \beta_5 DS{*}GGG_{i,t} + \varepsilon_{i,t}$

Note:

TR	= Ratio of central tax revenue to GDP
β_0	= Constant parameter (Intercept)
β_1 to β_5	= Regression coefficients
FDI	= Ratio of Foreign Direct Investment Inflow to the Country to GDP
DS	= Ratio of Debt Stock to GNI
GGG	= Average score from Index of Good Government Governance per year
FDI*GGG	= Foreign direct investment moderated by Good Government Governance
DS*GGG	= Debt Stock to GNI moderated by Good Government Governance
ε	= Error terms.

4. Results And Discussion

4.1 Research Result

This research uses a sample of countries in South Asia that uploaded data on the World Bank, WGI and IMF websites for 10 years (2011 to 2020). These countries include Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka with a final sample size of 76 and produce unbalanced panel data because each entity has a different number of observations (Gujarati & Porter, 2009). All data that is outside the limits has been processed using the winsorizing technique, namely replacing values that are too extreme with values that are less extreme (3 times the standard deviation of the average for each variable). This treatment produces normally distributed data, meeting the assumptions of normality (Arieftiara & Mariana, 2018). Descriptive statistics for all research variables can be seen in Table 1 below:

Table 1. Descriptive statistics

Variable	Mean	Min	Max	St. Deviation	Skewness
TR	13.1577	6.5974	20.1522	3.8096	0.1262
FDI	2.0383	0.1244	10.9503	3.1389	2.1556
DS	38.5773	12.3049	131.1916	30.6612	1.5089
GGG	-0.5598	-1.7285	0.5829	0.5745	-0.0667
FDI*GGG	-0.8503	-4.7157	0.2527	1.2503	-2.1683
DS*GGG	-8.1840	-37.1874	72.8564	22.2792	2.0839
Notes: TR: Ratio of central tax revenue to GDP; FDI: Ratio of FDI inflow to the country to GDP; DS: Ratio of Debt Stock to GNI; GGG: Average score from index of good government governance per year; FDI*GGG: Foreign direct investment moderated by Good Government Governance; DS*GGG: Debt stock to GNI moderated by Good Government Governance.					

Source: Processed data (2024)

The TR value means that all countries in South Asia have an effective taxation system in collecting taxes to support government spending in the region even though they have not yet reached the World Bank's minimum indicator of 15% of GDP. The FDI and DS values mean that most countries in South Asia have relatively low FDI and DS. This can be seen from the data distribution which tends to skew to the right (high positive skewness). The GGG value has moderate variations (close to 0.5), this means that the GGG score for all countries in South Asia is still within a predictable range, not too stagnant but also not experiencing drastic changes. The value of FDI*GGG as a moderating variable means that improving government governance along with increasing FDI produces negative changes in the value of this variable, indicating that the combination of the two variables is interrelated. The value of DS*GGG as a moderating variable shows that when government governance increases along with the level of debt stock in the country, it produces greater negative changes in the moderated variable compared to FDI*GGG.

This research uses panel data to test hypotheses. The initial step includes carrying out the Chow test, Hausman test, and Langrangian Multiplier test for both models. Model 1 is a multiple linear regression test that does not involve a moderating variable, while model 2 is a multiple linear regression test that involves moderation between independent variables. The purpose of this test is to determine the best estimation model in panel data processing, whether using the Pooled Least Square Test, Fixed-Effect Model Test or Random Effect Model Test. After getting the best estimation model, the classical assumption test is then carried out using the Pooled model. This Pooled model was chosen with the assumption that there are no differences between countries, individuals or companies in the panel data (Islam et al., 2020). Where the results in model 1 show that there is no multicollinearity in all variables (VIF value < 10) while in model 2 almost all variables do not occur multicollinearity except for the FDI variable which is 10.99. The heteroscedasticity test in both models produces a p value > 0.05, which means there is no heteroscedasticity in the two models. Test results for models 1 and 2 can be seen in table 2 below. Autocorrelation testing was not carried out because panel data has a more varied model and there are repeated cross-section observations (Gujarati & Porter, 2009).

Table 2. Summary of Regression Test Results

Model 1:

$TR_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 DS_{i,t} + \beta_3 GGG_{it} + \varepsilon_{it}$

Model 2:

$TR_{i,t} = \beta_0 + \beta_1 FDI_{i,t} + \beta_2 DS_{i,t} + \beta_3 GGG_{it} + \beta_4 FDI*GGG_{i,t} + \beta_5 DS*GGG_{i,t} + \varepsilon_{i,t}$

	Model 1			Model 2		
Variable	Sign Expectations	Coef.	Sig.	Sign Expectations	Coef.	Sig.
FDI	+	0.4874	0,000***	+	1.2015	0,000***
DS	+	-0.0563	0,000***	+	-0.0667	0,000***
GGG	+	5,752	0,000***	+	4.1891	0,000***
FDI*GGG				+	1.7013	0.011**
DS*GGG				+	0.0339	0.090*
Constant		17.5567	0,000		17.3529	0,000
	Model	Pooled			Pooled	
	Hettest	0.2244			0.0667	
	Adj R-sq	59.89%			62.08%	
	Prob F(Stat)	0.0000			0.0000	
	N	76			76	

Notes:

TR: Ratio of central tax revenue to GDP; FDI: Ratio of FDI inflow to the country to GDP; DS: Ratio of Debt Stock to GNI; GGG: Average score from index of good government governance; FDI*GGG: Foreign direct investment moderated by Good Government Governance; DS*GGG: Debt stock to GNI moderated by Good Government Governance.

***Significant at the 1% level; **Significant at the 5% level; *Significant at the 10% level.

Source: Processed data (2024)

Based on the table above from the results of the one tailed test, the two models (model 1 and model 2) succeeded in explaining the dependent variable in each model well as indicated by the Prob F Statistics value of 0.000 (significant at the 1% level). Both models were estimated using a pooled model, with the Adj R-sq value for model 1 being 59.89% and for model 2 being 62.08%. In table 2 it can be seen that the consistent results for the FDI coefficient in models 1 and 2 are positive and significant at the 1% level. This means that every 1% increase in FDI inflows can increase the tax revenue ratio by 1.2015% in the country. This indicates that when there is more foreign investment entering a country, the government manages to collect more taxes. Therefore, Hypothesis 1 is accepted.

Furthermore, there are consistent results that the DS coefficient in models 1 and 2 is negative and significant at the 1% level. This means that every 1% increase in foreign debt (Debt Stock) can reduce the tax revenue ratio by 0.0667% in that country. This indicates that when debt increases occur, the tax revenue obtained by the government has not reached the target and reflects a decline in economic efficiency, a decline in fiscal management and a decline in economic activity. Therefore, Hypothesis 2 is rejected. There are consistent results that the GGG coefficient in models 1 and 2 is positive and significant at the 1% level. This means that every 1% increase in Governance causes an increase in the tax revenue ratio of 4.1891%. This indicates that good governance can increase the effectiveness of tax management, transparency in public financial management, strict supervision, and increase public trust so that it can increase tax revenues.

The FDI*GGG variable in this test shows that the results in model 2 are significant at the 5% level, the results of which can be seen from the sig value by 1.1%. This means that Good Government Governance can strengthen the influence of Foreign Direct Investment on Tax Revenue. This indicates that by creating a stable, efficient and profitable investment environment for all parties involved, it is supported by the implementation of good governance. Therefore, Hypothesis 3 is accepted. The DS*GGG variable in this test shows that the results in model 2 are significant at the 10% level, the results of which can be seen from the sig value by 9%. This means that Good Government Governance strengthens the influence of Debt Stock on Tax Revenue. This indicates that good governance has the potential to increase tax revenues by creating a more efficient, transparent and sustainable financial management environment so that it can increase investor and creditor confidence in the country. Therefore, Hypothesis 4 is accepted.

4.2 Research Discussion

a. The Influence of Foreign Direct Investment on Tax Revenue in South Asia
   Based on the research results, Hypothesis 1 is accepted, meaning that Foreign Direct Investment (FDI) has a significant positive effect on Tax Revenue in line with research conducted by (Anwar & Wijaya, 2023; Minh Ha et al., 2022; Wahyuni & Wijaya, 2023) that FDI is an important source of capital to fill a country's investment capital shortage and contribute to economic growth so that it can increase a country's tax revenues. The results of this research are relevant to the Neoclassical Economic Growth Theory which was popularized by (Solow, 1956). That FDI can increase economic growth in destination countries by increasing the volume and/or efficiency of investment (Jamsheed, 2024). Increased productivity occurs as a result of FDI in most countries that apply corporate income tax to profits earned by industry so that it can increase Tax Revenue, and the government also obtains tax revenues from Personal Income Tax through various types of taxes related to workers' wages (Binha, 2020; Wahyuni & Wijaya, 2023). Apart from direct taxes, Pakistan receives indirect tax revenues from Value Added Tax and Sales Tax. The role of FDI for Pakistan can increase economic growth and income levels resulting from an increase in aggregate demand and economic activity resulting in increased transactions in the economy (Mahmood & Chaudhary, 2013).
   In India GDP is influenced by FDI inflows and supporting Information and Technology Infrastructure (ICT) so that it can contribute to economic growth, labor force participation and technology flows. Having advanced infrastructure can provide logistical support and increase the country's attractiveness for foreign direct investment (Sinha et al., 2020). In opening up opportunities for foreign investment (FDI) in a country, it is necessary to carry out an investment opportunity analysis that includes the advantages of natural or human resources owned by that country. Maldives tries to attract foreign investment by providing convenience in the form of 100% foreign ownership rights, investment guarantees and other incentives. Many well-known international brands have invested in the Maldives, especially in the tourism sector, thanks to its vast marine natural resource potential and dynamic young workforce (High commission of the Republic of Maldives, 2020). Apart from the Maldives, land prices in Nepal which are still affordable in rural areas can provide potential yields. Apart from that, the tourism sector is also promising, especially with the rapid growth of the tourism market from India and China. Investments in the form of hotels, travel agents, and tourism infrastructure. Then in the renewable energy sector, it focuses on hydroelectric power plants. Lastly, outsourcing opportunities in Nepal in the field of programming as well as the quality of healthcare services are high and the costs are relatively affordable compared to developed countries (Ministry of Foreign Affairs Nepal, 2015).
b. The Effect of Debt Stock on Tax Revenue in South Asia
   Based on the research results, Hypothesis 2 is rejected, meaning that Debt Stock has a significant negative effect on Tax Revenue, in line with research conducted by (Casalin et al., 2020) that when a country experiences unexpected events such as war or other events resulting in a substantial increase in public spending so that the country prefers to go into debt rather than increase tax revenues, this is because of political resistance and the government's limited ability to collect tax revenues. This statement is relevant to the Neoclassical Economic Growth Theory which was popularized by (Solow, 1956). If there are structural problems in debt management and the allocation of economic resources, it can hamper long-term economic growth if the debt is used for consumption or unproductive spending (Makun, 2021). A country can experience increasing debt while its tax revenues decrease due to several factors, including the country experiencing a structural budget deficit for years and not having emergency funds during an economic recession (Worthington, 2020). Therefore, if the Debt Stock increases, the government must allocate a large portion of tax

revenue to pay debts, which can reduce the portion of payments for development and public services, thereby causing a decrease in tax revenue available for other expenditures (Omar & Ibrahim, 2021). A strategy that can be used to overcome an increase in a country's debt profile is to increase taxes (Azolibe, 2022). A rapid increase in debt could raise concerns about debt sustainability, transparency and fiscal stability in the country. However, there are still many obstacles in several countries in South Asia. For example, Sri Lanka is experiencing a high increase in debt due to the government's failure to manage expenditure wisely and efficiently which is not matched by an increase in tax revenue. This occurs due to political resistance to tax increases, lack of efficiency in the tax system and fiscal policy which causes budget deficits and increased government debt. Sri Lanka is also faced with a hobson's choice of paying interest on foreign debt or importing food to feed its people (Coomaraswamy & Wignaraja, 2023). Bangladesh is experiencing an increase in Debt Stock due to infrastructure gaps, low tax to GDP ratio hindering the government in funding domestic development spending (Khatun, 2024). Excessive government spending coincides with a push to increase taxes in Bangladesh so it is not surprising that people are reluctant to pay taxes and look for ways to avoid taxes (Chowdhury & Aman, 2023).

c. The Effect of Foreign Direct Investment on Tax Revenue in Moderating Good Government Governance

Based on the research results, Hypothesis 3 is accepted, meaning that Good Government Governance strengthens the influence of Foreign Direct Investment on Tax Revenue in line with research conducted by (Rahayu et al., 2023; Shabir Jan et al., 2019) that a country that has good government effectiveness can create a good government structure so that it can minimize corruption in a country which has an impact on tax revenues. Foreign investors tend to invest their capital with low business costs, stable political conditions and legal certainty. With these supportive conditions, FDI can influence a country's financial development so that it can increase state tax revenues due to greater and more efficient economic activity which ultimately results in more profits and transactions that can be taxed (Agyapong & Bedjabeng, 2019b). In the Maldives, it is easy for foreign investors to invest with supportive regulations and relatively easy visa requirements (High commission of the Republic of Maldives, 2020). Apart from the Maldives, India also implements good government governance, namely the principle of transparancy through adoption technology and Information Infrastructure (ICT). The massive use of the internet allows the people of host countries to increase the transparency of various activities so as to reduce corruption and reduce barriers to FDI entry in the country (Mote et al., 2016).

Institutional Theory which was popularized by (Dimaggio & Powell, 1983) supports the research results in hypothesis 3, that countries adopt uniform structural and policy practices with other countries in their environment to achieve harmonious legitimacy and efficiency. Developing countries in South Asia, a subcontinental region, are facing the problem of a lack of cash flow for investment due to a deficit in government spending. In these circumstances, countries tend to rely on Foreign Direct Investment (FDI) to increase employment, per capita income and people's living standards (Shabir Jan et al., 2019). However, this can increase pressure for foreign investors to conform to applicable tax and regulatory rules and influence their decision to invest in the country. With government regulations providing large tax incentives and aggressive behavior related to transfer pricing, it can reduce a country's tax revenues, so it is necessary to enforce a strong legal framework (Anwar & Wijaya, 2023). Apart from the emphasis on the quality of regulations that support business, for example in Afghanistan there has been destruction of infrastructure over the years due to war and a political situation that is very unsupportive in attracting foreign investors to invest in that country. Hence the Afghan government it is necessary to design effective and rational tax policies, with reasonable tax rates and a fair tax system. Good tax policies can encourage greater contributions from the economic sector and society, thereby increasing the tax revenue ratio (Faqeerzai & Samad, 2020).

d. The Effect of Debt Stock on Tax Revenue in Good Government Governance Moderation

Based on the research results, Hypothesis 4 is accepted, meaning that Good Government Governance strengthens the influence of Debt Stock on Tax Revenue in line with research conducted by (Butkus & Seputiene, 2018) that governance is able to maintain debt at a well-managed level and avoid problems that can arise from uncontrolled debt. The research results confirm the Institutional Theory which was popularized by (Dimaggio & Powell, 1983). Although in practice each country has its own challenges in realizing good governance, this is due to social, economic and cultural conditions related to the six indicators of a country's governance. Pressure from regulators in the form of fiscal policy that is expected to be transparent to ensure that if there are governance challenges, the country will maintain its primary balance over time (Coomaraswamy & Wignaraja, 2023; Halkos et al., 2020). As in Sri Lanka, there is still a need to strengthen the tax administration system and the formation of independent institutions in debt management which will help the government achieve fiscal stability and financial sustainability when government governance conditions are weak (Coomaraswamy & Wignaraja, 2023).

South Asia is struggling to increase its tax to GDP ratio. The loan funds provided need to be used optimally because state spending influences tax avoidance behavior. This is because the government tries to encourage accountability, political stability, management efficiency, quality of government, supremacy of law, and eradicate corruption, so the public will believe that the government truly protects their interests, thereby encouraging the public to pay more taxes (Dhungel, 2023). This statement is supported by a survey conducted by (Finnigan, 2019) that the population of Bangladesh, India, Nepal and Sri Lanka are in Q2, which means that even though government performance is low and government governance is poor, the people in these countries still have a high level of trust in government institutions. The increase in global debt in South Asia has increased the potential for debt pressure for governments as evidenced by the increase in multilateral and bilateral loans, thus indicating greater dependence on foreign loans which can affect fiscal policy and state governance. In addition, limited data on domestic debt issuance shows a lack of transparency in debt management and the rapid increase in debt levels raises concerns about debt sustainability, transparency and fiscal stability in the region, which can indicate a country's governance problems (Samal & To, 2024).

5. Conclusion

5.1 Conclusion

The importance of policies that support sustainable investment in South Asia by focusing on increasing productive projects and quality infrastructure is a strategic step to increase economic competitiveness. Reducing levels of corruption is also important because corruption can hinder investment and damage investor confidence. In addition, increasing exports of finished goods can help increase state income. Stable political conditions are very necessary to create a conducive investment environment. Effective management of foreign aid and investment funds is also key in ensuring that these investments have maximum impact on the economy. Rapid and sustainable structural reforms are also needed to create a strong and sustainable economic foundation. Efforts to reduce corruption in government projects and tax authorities should be a priority as this can help increase tax revenues and reduce the country's debt burden.

5.2 Suggestion

With the research results that variable foreign direct investment has a significant positive influence on tax revenue, while the debt stock variable has a significant negative influence. After adding the government governance moderation variable, the results are found that the foreign direct investment and debt stock variables have a significant positive influenceIt is hoped that the government can consider these variables as state tax revenue, while future researchers can add other variables that can influence tax revenue and add research objects.

5.3 Limitation

The limitation of this research is that it uses a small sample of research objects so that it can be added to the number of years used as research objects. The findings of this study only apply to South Asian countries and cannot be generalized to other countries.

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