

MARWA TROUDI

Faculty of Economics and Management of Tunis, Tunisia

THE IMPACT OF INSTITUTIONAL QUALITY ON INFLOWS OF FOREIGN DIRECT INVESTMENT IN EMERGING COUNTRIES

Abstract:

This study examines the impact of institutional quality on foreign direct investment flows of emerging countries. A study of 24 emerging countries between 1996 and 2016 with dynamic panel data, shows that good governance attracts multinationals to invest in host countries. In fact, FDI inflows increase with improved control of corruption in emerging countries, and political stability and freedom of expression positively impact the entry of international investors. Thus, the financial development, the inflation rate and the human capital play a positive and important role for the attractiveness of multinationals. On the other hand, the exchange rate and natural wealth have a smaller impact. Our results are in line with the new approach taken by emerging economies to promote their institutional quality and develop their financial markets.

Keywords:

Institutional quality , foreign direct investment , emerging countries

JEL Classification: F23, O16, C23