IMPACT OF THE DIMENSIONS OF THE QUALITY OF INSTITUTIONS SUCH ON THE FLOW OF FOREIGN DIRECT INVESTMENT TO DEVELOPING ECONOMIES.

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ABSTRACT

The aim of this study was to examine the effect of the dimensions of the quality of institutions such as: economic quality, political risks, the quality of the financial sector, and the quality of transportation means on the flow of foreign direct investment (FDI) to developing economies. The study was conducted in the most developed 7 economies among the developing countries. In addition, the study also made a comparison between the 7 emerging economies to identify which of them were affected by the established quality determinants for the period from 2002 to 2017. The data were analyzed using the regression model. The results of the study indicate a negative impact of the economic freedom and the quality of the financial sector on the flow of FDI. The study did not indicate the existence of a statistically significant effect to the political risks and the quality of transportation on the flow of FDI.

keywords: *FDI Institutional theory, Political risk, Economic freedom, transportation*

INTRODUCTION

As found in OECD, FDI is referred as an investment that was generated by an organization in one economy aiming to holding an eve lasting interest in an organization that is existed in another country. The ownership that is referred here should be at least 10% of the voting right which shows the investors' authority and power (OECD).

Foreign Direct Investment flows are important for both developed and developing countries as they contribute to development, economic growth, the transfer of means of production and modern technology, job creation and increased competition in the host country (Saini and Singhania, 2018).

Investigating the literature on FDI has placed specific to the essence of organizations to attract FDI inflows, signifying various reasons why their quality may have interest. The previous studies identify various ways that to institutions in which they can impact FDI inflows. Foremost, the presence of respectable organizations that works to doing better productivity, which stimulates foreign investment. The development in productivity necessitates a deep research and development (R&D) system, the accessibility of financial institutions that are capable of funding large-scale scientific or technical projects, a flexible labour market, lower levels of restriction on businesses and having a stable political government. The development of productivity is intertwined with the development of organizations (Hodgson & Stoelhorst, 2014; Aziz, 2018).

The recent research has focused on the impact of enterprise quality through political and institutional factors such as political and economic risks, financial quality, and infrastructure (Economou F.2019; Uddin et al., 2019; Asongu et al., 2018 Aziz O, 2018; Moussa et al ., 2016).

The link between FDI attractiveness and institutional factors is commonly labeled through its good or bad effects, with factors such as democratic organizations, political stability, and the governance of law that work to attract FDI (e.g. Globerman & Shapiro, 2003; Loree & Guisinger, 1995; Sethi, Guisinger, Phelan, & Berg, 2003).

There are other factors such as financial sector quality, transportation quality and institutional distance (Economou F.2019; Ghazalian & Amponsem; Uddin et al., 2019; Asongu et al., 2018 Aziz, 2018; Moussa et al., 2016).

Such previous researches have provided beneficial results that lead to our grasping to the effect of institutional quality on the investment flow. However, they have offered reverse results. A number of studies such as (Hayat A.2019 & Aziz, 2018) confirmed that the recognized quality has a good effect on FDI inflows. In this matter, (Asongu et al, 2018) found that enterprise quality placed no significant effect on the flows of FDI.

Some scholars find that political stability is closely related to foreign direct investment (Loree & Guisinger, 1995; Sethi et al., 2003), while other scholars find that there is no relationship between the political situation and foreign direct investment (Kobrin, 19762003Globerman & Shapiro).

There was also an inconsistency between the results of studies related to political risks, while some studies indicated that there were negative effects to the political risks on FDI flows (Bailey, 2018: Bhasin N. and Garg S, 2019). Other studies have indicated that multinational companies show a degree of tolerance towards political risks and therefore they do not influence their decisions (Buckley et al., 2016 2016; Buckley and Munjal, 2017; Ramasamy et al., 2012; Li and Wan, 2016; Quer et al., 2012).

Some of the studies indicated that multinational companies tend to have a high degree of political risk seeking to take advantage of weak laws and regulatory controls in state institutions (Bhasin N. and Garg S, 2019).

Some variables also need more empirical studies such as the effect of the quality of the financial sector, and the effect of infrastructure quality, especially the effect of transportation on the flow of foreign investment as there are few studies that have addressed its impact on the flow of FDI (Marie et al., 2017; cai et al., 2019).

Considering the inconsistency between the results of previous studies regarding the effect of institutional quality on the flow of FDI, the current study will contribute to removing some ambiguities and identifying the reasons for inconsistency between the results of those studies. This study tries to examine the impact of the quality of institutions: political risks and economic freedom, the quality of transportation, and the growth of the financial sector on the flow of FDI to the host country in the 7 developed countries among emerging economies as the most attractive to investment. The World Investment Report 2013, which was published by UNCTAD, indicated that the developing countries receive increasing amounts of FDI up to 52% of the global FDI inflows in 2012. Rapidly growing economies such as Brazil, India and China were among the top 20 recipients of FDI (UNCTAD, 2013). In addition, the current study searches more deeply than previous studies as it made a comparison between the countries investigated by this study to clarify more concerning the impact of the quality of institutions and FDI flows.

THEORETICAL LITERATURE

Having reviewed a number of previous related literatures, it is found that the theoretical that illustrates the link between FDI and institutions is widely than economics perspective, viz. the costs that connected to selecting one host country over another. Concerning the impact of organizations, the policies and authorities and other institutional factors as

economic freedom, the quality of financial institute, trade openness and quality transportation can rise or decrease the costs, and ultimately impact productivity (Bailey, 2018).

The foreign investors are attracted by the presence of high quality institutions that guarantee efficiency in market jobs and low cost of doing business. The studies have indicated that positive impact of the World Bank's (WB) "Ease of Doing Business" (EDB) rankings on FDI inflows (Jayasuriya, 2011).

Therefore, the study's literature focused on the institutional factors determining FDI flows on political risks, economic freedom, financial quality, commercial openness and the quality of transportation (Economou, 2019; Uddin et al., 2019; Asongu et al., 2018 Aziz, 2018; Moussa et al., 2016).

FDI AND POLITICAL RISK:

Political risk of FDI actions refers to the possibility that might make the host government to alter the "rule of the game" and this negatively affected the interests of the investing company (Butler and Joaquin, 1998). There is a direct link that connects to the political and legal framework and its enforcement, political risk in a host country that is a main supervisory institutional force that can hinder FDI activities, as it makes doubt with foreign ownership and rises asset exposure in the event of eventual expropriation (Brouthers, 2002).

Consequently, those host countries are the most positive to attract FDI and that will offer, at a minimum, a stable political environment where market based institutions are dependable and foreseeable and public institutions that allow MNEs to exploit their home-country advantages, rise efficiency and thereby decrease costs (Bailey,2018).

Empirical studies have indicated that there are negative effects of political risks on FDI inflows; the higher the degree of political risk, the lower the attractiveness of the host country for investments (Bhasin and Garg 2019). In particular, corruption is the most important political risk factor that has a negative impact on the flow of foreign investment (Dutta et al. 2017). Despite this, empirical studies have indicated that multinational companies show a degree of tolerance towards political risks and therefore they do not affect their decisions (Buckley et al., 2016; Buckley and Munjal, 2017; Ramasamy et al., 2012; Li and Wan, 2016; Quer et al., 2012). In contrary, other studies indicated that multinational companies tend to have a high degree of political risk seeking to take advantage of weak laws and regulatory control laws in state institutions (Bhasin and Garg 2019). In this study, we see a potential negative impact of political risks on the flow of foreign direct investment.

ECONOMIC FREEDOM:

The effects of economic factors are reflected on the private ownership, government integrity, judicial effectiveness, tax burden, government spending, financial health, freedom of work, monetary freedom, and freedom of investment and then consequently reflected on investors' decisions. The investments flow are existed in countries where economic restrictions are often less, as well as the costs of taxes, employment, and capital formation (Economou F.2019; Aziz, 2018; Saini and Singhania, 2018; Dellis et al. 2017; Moussa et al., 2016).

As a result, there is a general tendency that investors prefer a host country with a strong regulatory institutional regime represented by a high level of economic freedom (Henisz and Zelner, 2005; Henisz and Delios, 2001).

However, there are studies that indicate a positive relationship between economic freedom and the flow of FDI. The investors prefer to take advantage of the economic facilities granted to them in particular and the exploitation of poor institutional quality to their interest (Kang, 2018; Bhasin & Garg, 2019).

This paper suggests that economic freedom contributes to reducing investment and production costs through the provision of cheap labor, low tax burdens and freedom to work without financial restrictions. This would facilitate the flow of foreign investment.

TRANSPORT SERVICES:

Several studies have found evidence that transport infrastructures have a significant impact on economic growth and as the advanced transportation systems reduce costs (Chakraborty and Nandi, 2011; Khandker and koolwal 2011).

Numerous empirical researches indicate that transportation infrastructure has a major impact on productivity and the cost structure of private firms (Aschauer, 1989; Morrison and Schwartz, 1996; Haughwout, 2001).

Studies indicate a positive impact of transportation services on both trade and foreign direct investment. In addition, more advanced national transportation systems are able to somewhat overcome the costs of distance. Noting that the nature of geographic distance costs (such as transportation costs) varies between trade and FDI. While the former relates to international transport and port infrastructure, the latter relies on inland transportation and is managed by land transport infrastructure (Halaszovich T. and Kinra A, 2018; Said, 2016). This research assumes a positive impact of transportation on FDI.

FINANCIAL SECTOR GROWTH:

Finance is the essence of the modern economy, and it is a major driver for boosting the economy of the country. Most current studies on this subject confirm that financial development is positively associated with economic growth; a good financial system that can help to convert savings into investments (Aibai et al., 2019).

Law and Singh (2014) Levine (2005) & (Pagano 1993) noted that an effective financial system can improve the provision of financial resources, reduce transaction costs for financial intermediation activities, and improve resource allocation efficiency as well as capital formation.

Accordingly, this paper assumes that the quality of the financial sector saves the costs of borrowing and capital formation that foreign investors may need in addition to reducing the costs of many financial services.

LITERATURE REVIEW:

An extensive empirical literature exists on macroeconomic impact of economic freedom and its components on FDI. For example Moussa et al. (2016) According to Blonigen (2005), Hayat (2019), foreign investors are attracted by having high quality institutions that guarantee efficiency in market functions and low cost of doing business.

Jayasuriya (2011) reported a positive impact on the World Bank (EB) "Ease of Doing Business" (EDB) on FDI inflows to 84 countries from 2006 to 2009.

The study of (Moussa et al., 2016) found a positive impact of economic freedom on FDI according to the model of fixed effects in the global situation through the analysis of a global and regional panel related to 156 countries during the period of 1995-2013 by testing random and fixed effects, as well as regression. Cai et al, (2019) analyzed the factors of FDIs in the emerging market countries and examined the role of sovereign credit assessments of both contributor and receiving countries in deciding the two-sided FDI flows from seventeen developing countries to seventy one receiving countries. The study found that sovereign credit assessments are significant factors of emerging market FDI. Donor sovereign credit ratings have a good link with FDI outflows, signifying that emerging market investors are more possibly to be involved in FDI activities when their own ratings reinforced.
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Ullah and Khan (2017) also studied the impact of institutional quality on FDI inflows in 17 Asian countries (divided into three groups) from 2002 to 2014. The authors constructed the Index of Economic Freedom using two components IEF (Business Freedom and Monetary Freedom) and reported mixed results for the countries under study.

Dellis et al. (2017) examined the impact of institutional factors on FDI inflows in 21 OECD economies between 2005 and 2014. The author has used the World Bank's Global Competitiveness Index, IEF and EFWI, as well as some sub-indicators (derived from the World Bank and the OECD in the economic factor that embodies the quality of specific policy areas by looking at one structural variable at a time. I found that the quality of economic structures had a positive impact on FDI flows.

Dutta et al. (2017) explored the interactive impact of corruption and human capital on FDI using expanded panel data according to system estimates - GMM. The results indicated that if the degree of corruption in a highly in corrupt country and becomes comparable to a low-corruption country, the flow of FDI will rise by almost 40 % to an equivalent rise in human capital.

The studies of (Halaszovich & Kinra 2018) aimed to highlight the importance of individual aspects of national transportation systems on FDI and trade patterns in the Asian Region. The results indicated that the elements of national transportation systems positively affect both trade and FDI.

The Kang (2018) study identified the interactive effects of the natural resources and the institutional influences on the choices of multinational companies in China for the host countries for direct investment. The pilot database for the study included (62) countries around the world hosting Chinese FDI activities. The results confirmed that the host country's attractiveness to natural resources depends on institutional constraints. In contrary, the political risks operate moderately on the direct correlation between natural resources and FDI, economic freedom and the institutional distance that are negatively moderate.

Economou (2019) emphasized the impact of the institutional environment, as embodied by the IEF on FDI inflows, taking into account the traditional FDI determinants (such as gross domestic product, unit of labor costs, and gross capital formation) in four Southern Europe Economies, namely Greece, Italy, Portugal and Spain, from 1996 to 2017.

The study of Uddin et al. (2019) examined the institutional determinants of FDI inflows in Pakistan as well as the relative importance of these factors. The study found that the size of the government, the legal structure and strong property rights, freedom of trade and civil freedom have a strong positive impact on FDI flows. It was found that the law is the most important element to influence the flow of FDI to Pakistan.

The study of Ghazalian & Amponsem (2019) examines the effects of Economic Freedom (EF) and its sub-components reflecting the Quality of Institutions (QIs) on FDI inflows, The results underline positive effects of EF on FDI inflows. They reveal that EF sub-components have varying impacts on FDI inflows, where rule of law, market openness, and less-restrictive regulatory environment stand out as the major FDI-promoting institutional factors. Also, there is an empiricalevidence that the effects of EF sub-components on FDI inflows exhibit variations through the economic characteristics of the host countries and across geo-economic regions.

Belkhodja et al., (2017) study addresses two questions: What are the determinants of foreign direct investment (FDI) location choice in China? What are the factors that determine investors' choice between 'Economic zones' in China on one hand, and 'other cities' of China on the other hand? the results of the binary logit regressions indicate that the protection of intellectual rights, agglomeration economies, investments in education and gross regional product affect the location choice of FDI in China. This choices, however, varies depending on the origin of the FDI. Policy makers can use these findings to channel FDI to targeted regions/ cities.

METHODOLOGY

Regression model is being used to identify the major determinants of FDI. The behaviors of several relevant independent variables are employed to explain the behavior of the dependent variable, which is FDI. Data collection is the first step of this methodology. The basic data set is outward FDI on the variables (E-freedom, Financial, openness, Political Risk, T-services) from the seven countries: (Brazil, China, Indonesia, India, Mexico, Russia, Turkey) in the 2002-2017 periods.

THE PANEL ANALYTIC MODELS:

The following are the three types of panel analytic models used: (1) Pooled regression model (2) Fixed effects model and (3) Random effects model.

1. Pooled Regression model

The model with $i = 1,...,N, \quad t = 1,...,T$ is

$$y_{it} = \beta_0 + x'_{it}\beta + \varepsilon_{it}$$

x_{it} is a K-dimensional vector of independent variables.

β_0 the intercept, is independent of i and t.

β a ($K \times 1$) vector, the slopes, is independent of i and t.

ε_{it} the error, varies over i and t.

Pooled regression model is one type of model that has constant coefficients, referring to both intercepts and slopes. For this model researchers can pool all of the data and run an ordinary least squares regression model

2. Fixed effects model, FE:

The model is

$$y_{it} = \beta_0 + x'_{it}\beta + \sum_{j=1}^{N}\alpha_j d_{it}^j + u_{it} \qquad u_{it} \sim iid(0,\sigma_u^2)$$

with dummies d^j, $d_{it}^j = 1 \ \ if \ i = j, \ and \ \ 0 \ else$.

The fixed effects model is the differences across cross-sectional units that can be captured in differences in the constant term and the intercept term of the regression model varies across the cross sectional units. In this model, α_j is the intercept term that represents the fixed country effect.

3. Random effects model, RE:

The model is

$$y_{it} = \beta_0 + x'_{it}\beta + \alpha_i + u_{it}$$

$\alpha_i \sim iid(0,\sigma_\alpha^2)$ and $u_{it} \sim iid(0,\sigma_u^2)$.

The $\alpha_i's$ are rvs with the same variance. The value α_i is specific for individual i.

As simple OLS does not take this specific error structure into account, so generalized least squares is used.

The random effect model, the individual effects are randomly distributed across the cross-sectional units and in order to capture the individual effects, the regression model is specified with an intercept term representing an overall constant term.

THE APPROPRIATE MODEL:

Which is the best among the three panel analytic models to fit the data? In this panel data study, only the cross sectional data on seven countries in the 2002-2017 periods is collected. We have two test in order to choose the best model among the above mentioned models.

First Stage: Comparison between Pooled and Fixed effects models

In order to compare between the Pooled and the Fixed effects models, the hypothesis of that is as follows:

H_0 : The pooled model is appropriate

H_a : The fixed effects model is appropriate

The F ratio for comparing the pooled with the Fixed effects model is

$$F = \frac{(SSR_{Pooled} - SSR_{FE})/(N-1)}{(SSR_{FE})/(NT-N-K)} \sim F_{N-1,\,NT-N-K}$$

where

SSR_{Pooled} : Residuals sum of squares of the pooled model

SSR_{FE} : Residuals sum of squares of the fixed effects model

And we decide that which model is better using p-value of F test such that if p-value < 0.05, then the fixed effects model is appropriate otherwise the pooled model is appropriate.

Second Stage: Comparison between Random and Fixed effects model

In order to compare between the Random and the Fixed effects models, the hypothesis of that is as follows:

H_0 : The random effects model is appropriate

H_a : The fixed effects model is appropriate

The Hausman test that proposed in (1978) for comparing the pooled with the Fixed effects model is

$$H = (\hat{\beta}_{FE} - \hat{\beta}_{RE})'(var(\hat{\beta}_{FE}) - var(\hat{\beta}_{RE}))^{-1}(\hat{\beta}_{FE} - \hat{\beta}_{RE}).$$

The H statistic is distributed asymptotically as chi-square with K - degrees of freedom.

And we decide that which model is better using p-value of H test such that if p-value < 0.05, then the fixed effects model is appropriate otherwise the random effects model is appropriate.

Variables:

Dependent variable: The dependent variable is the actual amount of realised FDI, measured by annual FDI flow to GDP %.

Independent variables:

1) Economic Freedom Index: It is defined as a compound variable with the measurement items that are emerged from the Index of Economic Freedom which was invented by the Heritage Foundation (2015). Such data source gives data concerning a wide spectrum of economic regulatory regime. It concentrates on the freedom of incorporates and individuals in a certain country to follow business interests; it is broadly used in literature. The innovative data cover 50 independent indicators, which are merged into 10 category items as follows: property rights, government integrity, judicial effectiveness, tax burden, government spending, fiscal health, business freedom, labor freedom, monetary freedom and trade freedom.

2) Financial Index: it is examined by Bank deposits to GDP %.

3) Political Risks: it is tested by a composite variable produced from multi-dimensional indicators assessing political governance, released by World Bank (2013). Five component dimensions were assumed to configure this variable, including: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality and Rule of Law. Contrary to literature, this study used all the component dimensions of Political Risk.

4) Transport Services: It is measured by Export % of commercial services export. The data collected from: WB data.

Duration of study: from 2002 to 2017.

The following tables shows the variables

Agent	Variables	Kind of variable
FDI flow to GDP %.	FDI	**Dependent variable**
The novel data include 50 free indicators, which are merged into 10 category items. ,property rights ,government integrity, judicial effectiveness, tax burden, government spending, fiscal health, business freedom, labor freedom, monetary freedom and trade freedom.	Economic Freedom Index	**Independent variables**
is measured by a composite variable generated from multi-dimensional indicators gauging political governance, published by World Bank (2013). Five component dimensions were	Political Risks	

approved to configure this variable, including: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality and Rule of Law. Contrary to the literature, the current study used all the component dimensions Political Risk.		
It is measured by Bank deposits to GDP %.	Financial Index	
It is measured by Export % of commercial services export. The data was gathered from: World Bank data	Transport Services	

RESULTS

Cross section (Countries): Brazil, China, Indonesia, India, Mexico, Russia, Turkey

Table (1): Descriptive results of the variables

Variable	Mean	Std Deviation
FDI	2.351596	1.068873
E-Freedom	56.72232	5.288126
Financial	40.22539	12.70043
Political Risk	-0.35798	0.240506
T-services	18.59056	8.280457

Table (1) shows the mean and the standard deviation of each variable such that mean (FDI) = 2.351596 and standard deviation (FDI) = 1.068873, mean (E-Freedom) = 56.72232 and standard deviation (E-Freedom) = 5.288126, mean (Financial) = 40.22539 and standard deviation (Financial) = 12.70043, mean (Political Risk) = -0.35798 and standard deviation (Political Risk) = 0.240506 and finally mean (T-services) = 18.59056 and standard deviation (T-services) = 8.280457.

First: (FDI with E-freedom)
1. **Pooled Model**

Table (2): Pooled model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.81636	1.096951	2.567444	0.0116*
E-freedom	-0.00819	0.019256	-0.42551	0.6713
R-square= 0.001643		**Adjusted R -Square**= -0.00743		
F-statistic= 0.181057		**Prob(F-statistic)**= 0.671298		

* Significant at $\alpha = 0.05$

Table (2) shows the pooled model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.671298 > 0.05, and the p-value of the independent variable (E-freedom) is greater than 0.05 that means the E-freedom is not significant. Also, the determination coefficient equals 0.001643 that means 0.1643% of the variability of FDI is explained by the variability of E-freedom and the remaining percent comes from other variables.

2. **Fixed Effects Model**

Table (3): Fixed effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	4.89761	1.825714	2.682572	0.0085*
E-freedom	-0.04489	0.032153	-1.39601	0.1657
R-square= 0.351384		**Adjusted R -Square**= 0.307728		
F-statistic= 8.048785		**Prob(F-statistic)**= 0.00000*		

* Significant at $\alpha = 0.05$

Table (3) shows the fixed effects model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.0000 < 0.05, and the p-value of the independent variable (E-freedom) is greater than 0.05 that means the E-freedom is not significant. Also, the determination coefficient equals 0.351384 that means 35.1384 % of the variability of FDI is explained by the variability of E-freedom and the remaining percent comes from other variables.

3. **Random Effects Model**

Table (4): Random Effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	4.291302	1.634864	2.624868	0.0099*
E-freedom	-0.0342	0.028405	-1.20388	0.2312
R-square= 0.013062		**Adjusted R -Square**= 0.004090		
F-statistic= 1.455891		**Prob(F-statistic)**=0.230174		

* Significant at $\alpha = 0.05$

Table (4) shows the random effects model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.230174 > 0.05, and the p-value of the independent variable (E-freedom) is greater than 0.05 that means the E-freedom is not significant. Also, the determination coefficient equals 0.013062 that means 1.3062 % of the variability of FDI is explained by the variability of E-freedom and the remaining percent comes from other variables.

4. **The appropriate model**

Table (5): Tests Results of choosing the appropriate model

Test	Test value	P-value
F	9.346336	0.00000*
Hausman	0.50347	0.478

* Significant at $\alpha = 0.05$

Table (5) shows that the p-value of F test equals 0.000 (significant) which means the fixed effects model is better than the pooled model. Also, the p-value of Hausman test equals 0.478 (not significant) which means the random effects model is better than the fixed effects model.

Second: (FDI with Financial)
1. **Pooled Model**

Table (6): Pooled model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.541985	0.337817	7.524729	0.00000*
Financial	-0.00473	0.008012	-0.59077	0.5559
R-square= 0.003163		**Adjusted R -Square**= -0.0059		
F-statistic= 0.349009		**Prob(F-statistic)**= 0.555886		

* Significant at $\alpha = 0.05$

Table (6) shows the pooled model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.555886 > 0.05, and the p-value of the independent variable (Financial) is greater than 0.05 that means the Financial is not significant. Also, the determination coefficient equals 0.003163 that means 0.3163 % of the variability of FDI is explained by the variability of Financial and the remaining percent comes from other variables.

2. **Fixed Effects Model**

Table (7): Fixed effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.846057	0.542011	5.25092	0.00000*
Financial	-0.01229	0.01331	-0.92356	0.3579
R-square= 0.344605		**Adjusted R -Square**= 0.300492		
F-statistic= 7.811857		**Prob(F-statistic)**= 0.00000*		

* Significant at $\alpha = 0.05$

Table (7) shows the fixed effects model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.0000 < 0.05, and the p-value of the independent variable (Financial) is greater than 0.05 that means the Financial is not significant. Also, the determination coefficient equals 0.344605 that means 34.4605 % of the variability of FDI is explained by the variability of Financial and the remaining percent comes from other variables.

3. **Random Effects Model**

Table (8): Random Effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.758091	0.548925	5.024535	0.00000*
Financial	-0.01011	0.011782	-0.85771	0.3929
R-square= 0.006696		**Adjusted R -Square**=-0.00233		
F-statistic= 0.741563		**Prob(F-statistic)**=0.391034		

* Significant at $\alpha = 0.05$

Table (8) shows the random effects model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.391034 > 0.05, and the p-value of the independent variable (Financial) is greater than 0.05 that means the Financial is not significant. Also, the determination coefficient equals 0.006696 that means 0.6696 % of the variability of FDI is explained by the variability of Financial and the remaining percent comes from other variables.

4. The appropriate model

Table (9): Tests Results of choosing the appropriate model

Test	Test value	P-value
F	9.030186	0.00000*
Hausman	0.124749	0.7239

* Significant at $\alpha = 0.05$

Table (9) shows that the p-value of F test equals 0.000 (significant) which means the fixed effects model is better than the pooled model. Also, the p-value of Hausman test equals 0.7239 (not significant) which means the random effects model is better than the fixed effects model.

Third: (FDI with Political Risk)
1. Pooled Model

Table (14): Pooled model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.56775	0.180801	14.20207	0.0000*
Political Risk	0.603816	0.419814	1.438293	0.1532
R-square= 0.018459		Adjusted R -Square= 0.009536		
F-statistic= 2.068688		Prob(F-statistic)= 0.15319		

* Significant at $\alpha = 0.05$

Table (14) shows the pooled model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.15319 > 0.05, and the p-value of the independent variable (political risk) is greater than 0.05 that means the political risk is not significant. Also, the determination coefficient equals 0.018459 that means 1.8459% of the variability of FDI is explained by the variability of political risk and the remaining percent comes from other variables.

2. Fixed Effects Model

Table (15): Fixed effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.462397	0.249353	9.875156	0.0000*
Political Risk	0.309518	0.655113	0.472466	0.6376
R-square= 0.340645		Adjusted R -Square= 0.296266		
F-statistic= 7.67571		Prob(F-statistic)=0.00000*		

* Significant at $\alpha = 0.05$

Table (15) shows the fixed effects model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.0000 < 0.05, and the p-value of the independent variable (political risk) is greater than 0.05 that means the political risk is not significant. Also, the determination coefficient equals 0.340645 that means 34.0645% of the variability of FDI is explained by the variability of political risk and the remaining percent comes from other variables.

3. Random Effects Model

Table (16): Random Effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.491205	0.341906	7.286222	0.0000*
Political Risk	0.389991	0.58827	0.662945	0.5088
R-square= 0.004013		Adjusted R -Square= -0.00504		
F-statistic= 0.443212		Prob(F-statistic)=0.50697		

* Significant at $\alpha = 0.05$

Table (16) shows the random effects model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.50697 > 0.05, and the p-value of the independent variable (political risk) is greater than 0.05 that means the political risk is not significant. Also, the determination coefficient equals 0.004013 that means 0.4013% of the variability of FDI is explained by the variability of political risk and the remaining percent comes from other variables.

4. The appropriate model

Table (17): Tests Results of choosing the appropriate model

Test	Test value	P-value
F	8.469736	0.0000*
Hausman	0.077917	0.7801

* Significant at $\alpha = 0.05$

Table (17) shows that the p-value of F test equals 0.000 (significant) which means the fixed effects models is better than the pooled model. Also, the p-value of Hausman test equals 0.7801 (not significant) which means the random effects model is better than the fixed effects model.

Fourth: (FDI with T-services)
   1. **Pooled Model**

Table (18): Pooled model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
Constant	2.49572	0.24984	9.989286	0.0000*
T-services	-0.00775	0.012285	-0.63103	0.5293
R-square= 0.003607		**Adjusted R -Square**= -0.00545		
F-statistic= 0.398203		**Prob(F-statistic)**=0.529328		

* Significant at $\alpha = 0.05$

Table (18) shows the pooled model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.529328 > 0.05, and the p-value of the independent variable (T-services) is greater than 0.05 that means the T-services is not significant. Also, the determination coefficient equals 0.003607 that means 0.3607% of the variability of FDI is explained by the variability of T-services and the remaining percent comes from other variables.

   2. **Fixed Effects Model**

Table (19): Fixed effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.702415	0.421483	6.411674	0.0000*
T-services	-0.01887	0.022211	-0.8496	0.3975
R-square= 0.343785		**Adjusted R -Square**= 0.299616		
F-statistic= 7.783506		**Prob(F-statistic)**=0.00000*		

* Significant at $\alpha = 0.05$

Table (19) shows the fixed effects model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.0000 < 0.05, and the p-value of the independent variable (T-services) is greater than 0.05 that means the T-services is not significant. Also, the determination coefficient equals 0.343785 that means 34.3785% of the variability of FDI is explained by the variability of T-services and the remaining percent comes from other variables.

   3. **Random Effects Model**

Table (20): Random Effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	2.635114	0.450998	5.842852	0.0000*
T-services	-0.01525	0.019156	-0.79614	0.4277
R-square= 0.005776		**Adjusted R -Square**= -0.00326		
F-statistic= 0.639046		**Prob(F-statistic)**=0.425779		

* Significant at $\alpha = 0.05$

Table (20) shows the random effects model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.425779 > 0.05, and the p-value of the independent variable (T-services) is greater than 0.05 that means the T-services is not significant. Also, the determination coefficient equals 0.005776 that means 0.5776% of the variability of FDI is explained by the variability of T-services and the remaining percent comes from other variables.

4.The appropriate model

Table (21): Tests Results of choosing the appropriate model

Test	Test value	P-value
F	8.985482	0.0000*
Hausman	0.103682	0.7475

* Significant at $\alpha = 0.05$

Table (21) shows that the p-value of F test equals 0.000 (significant) which means the fixed effects model is better than the pooled model. Also, the p-value of Hausman test equals 0.7475 (not significant) which means the random effects model is better than the fixed effects model.

Full Model: (FDI with E-freedom, Financial, openness, Political Risk, T-services)
   1. **Pooled Model**

Table (22): Pooled model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	6.021838	2.206164	2.729551	0.0074*
E-freedom	-0.04253	0.030168	-1.40968	0.1616
Financial	-0.00586	0.010776	-0.54357	0.5879
Political Risk	1.290278	0.481673	2.67874	0.0086*
T-services	-0.03334	0.015502	-2.15076	0.0338*
R-square= 0.101181		**Adjusted R -Square**= 0.058784		
F-statistic= 2.386504		**Prob(F-statistic)**= 0.042899*		

* Significant at $\alpha = 0.05$

Table (22) shows the pooled model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.042899 < 0.05, and the p-values of the independent variables (E-freedom, Financial and Openness) are greater than 0.05 that means the independent variables (E-freedom, and Financial) are not significant but the p-values of the independent variables (Political Risk and T-services) are lower than 0.05 that means the independent variables (Political Risk and T-services) are significant. Also, the determination coefficient equals 0.101181 that means 10.1181% of the variability of FDI is explained by the variability of the independent variables (E-freedom, Financial, Openness, Political Risk and T-services) and the remaining percent comes from other variables.

2.Fixed Effects Model

Table (23): Fixed effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	7.005603	2.298246	3.048239	0.0029*
E-freedom	-0.05173	0.03557	-1.45445	0.149
Financial	-0.03203	0.01493	-2.14545	0.0343*
Political Risk	0.044088	0.663631	0.066434	0.9472
T-services	-0.01627	0.02523	-0.64491	0.5205
R-square= 0.409881		**Adjusted R -Square**= 0.344968		
F-statistic= 6.314304		**Prob(F-statistic)**=0.0000*		

* Significant at $\alpha = 0.05$

Table (23) shows the fixed effects model coefficients estimation results such that the model is significant because of Prob(F-statistic) = 0.0000 < 0.05, and the p-values of the independent variables (E-freedom, Political Risk and T-services) are greater than 0.05 that means the independent variables (E-freedom, Political Risk and T-services) are not significant but the p-values of the independent variables (Financial) is lower than 0.05 that means the independent variables (Financial and Openness) are significant. Also, the determination coefficient equals 0.409881 that means 40.9881% of the variability of FDI is explained by the variability of the independent variables (E-freedom, Financial, Openness, Political Risk and T-services) and the remaining percent comes from other variables.

   2.   **Random Effects Model**

Table (24): Random Effects model coefficients estimation results

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	7.419021	2.180616	3.40226	0.0009*
E-freedom	-0.06198	0.031828	-1.9474	0.0541
Financial	-0.02621	0.013303	-1.96992	0.0515
Political Risk	0.225453	0.604294	0.373085	0.7098
T-services	-0.01866	0.02223	-0.83932	0.4032
R-square= 0.077516		**Adjusted R -Square**= 0.034002		
F-statistic= 1.781419		**Prob(F-statistic)**= 0.122878		

* Significant at $\alpha = 0.05$

Table (24) shows the fixed effects model coefficients estimation results such that the model is not significant because of Prob(F-statistic) = 0.122878 > 0.05, and the p-values of all independent variables are greater than 0.05 that means the independent variables are not significant. Also, the determination coefficient equals 0.077516 that means 7.7516% of the variability of FDI is explained by the variability of the independent variables (E-freedom, Financial, Political Risk and T-services) and the remaining percent comes from other variables.

   3.   **The appropriate model**

Table (25): Tests Results of choosing the appropriate model

Test	Test value	P-value
F	8.718583	0.00000*
Hausman	6.671627	0.2462

* Significant at $\alpha = 0.05$

Table (25) shows that the p-value of F test equals 0.000 (significant) which means the fixed effects model is better than the pooled model. Also, the p-value of Hausman test equals 0.2462 (not significant) which means the random effects model is better than the fixed effects model.

- Since the appropriate final model is the random effects model , so the Ordinary Least squares Methods (OLS) is not suitable to the estimate the coefficients of the model and the suitable method is called the generalized least Squares method (GLS).

Results of the final model:

Table (26): Random Effects model coefficients estimation using GLS

Variables	Coefficient	Std Error	t-Statistic	P-value
constant	9.539281	1.386224	6.881484	0.0000*
E-freedom	-0.074683	0.023650	-3.157819	0.0021*
Financial	-0.033043	0.014345	-2.303387	0.0233*
Political Risk	0.086420	0.389703	0.221758	0.8250
T-services	-0.013218	0.015645	-0.844874	0.4002
Brazil	-0.222227	0.443845	-0.500687	0.6177
India	-2.234943	0.447395	-4.995458	0.0000*
Indonesia	-1.994788	0.327419	-6.092469	0.0000*
Mexico	-1.284822	0.613987	-2.092589	0.0389*
Russia	-0.291362	0.341509	-0.853160	0.3956
Turkey	-2.308013	0.476906	-4.839551	0.0000*
R-square= 0.642259		**Adjusted R -Square**= 0.602907		
F-statistic= 16.32107		**Prob(F-statistic)**= 0.00000*		

* Significant at $\alpha = 0.05$

Table (26) shows that in general the random effects model is significant because p-value (F–Statistic)=0.00000 < 0.05, particularly, the independent variables (E-freedom, Financial) are significant but the other are not.

Generally, The final random effects model is

FDI = 9.539281- 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services) - 0.222227*Brazil - 2.234943*India - 1.994788*Indonesia - 1.284822*Mexico - 0.291362 *Russia - 2.308013* Turkey

Particularly,

1. If we want to get the model for Brazil: (Brazil= 1, others=0),
   Then, the model of Brazil:
   FDI = 9.317054 - 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services).

2. If we want to get the model for India: (India= 1, others=0),
   Then, the model of India:

FDI = 7.304338- 0.074683*(E-freedom) - 0.033043*(Financial)+ 0.086420*(Political Risk) - 0.013218*(T-services)

3. If we want to get the model for Indonesia: (Indonesia = 1, others=0),
   Then, the model of Indonesia:

FDI = 7.544493- 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services)

4. If we want to get the model for Mexico: (Mexico= 1, others=0),
   Then, the model of Mexico:

FDI = 8.254459- 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services)

5. If we want to get the model for Russia: (Russia= 1, others=0),
   Then, the model of Russia:

FDI = 9.247919 - 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services)

6. If we want to get the model for Turkey: (Turkey= 1, others=0),
   Then, the model of Turkey:
   FDI = 7.231268 - 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services)
7. If we want to get the model for China: (all countries=0),
   Then, the model of China:
   FDI = 9.539281- 0.074683*(E-freedom) - 0.033043*(Financial) + 0.086420*(Political Risk) - 0.013218*(T-services).

DISCUSSION

This study aimed to identify the impact of institutional quality on the flow of FDI among the developing economies. Regression model is being used to identify the major determinants of FDI. The behaviors of several relevant independent variables are employed to explain the behavior of the dependent variable, which is FDI. Data collection is the first step of this methodology. The basic data set is outward FDI on the variables (E-freedom, Financial, openness, Political Risk, T-services) from the seven countries: (Brazil, China, Indonesia, India, Mexico, Russia, Turkey) in the 2002-2017 periods.

The study was applied to developing economies as the countries that most attract FDI. In particular, the 7 developed economies as the most developed among the developing countries that were more attractive to foreign investment. The study was more in-depth than previous studies as it used all five variables of political risk, and all ten variables of economic freedom, in addition to conducting a deeper analysis to literature through a comparison between the countries of the study sample.

The study found that there is a negative impact of economic freedom on the flow of FDI. Although economic freedom contributes to reducing production and investment costs, the relationship was negative, which strengthens the results of the studies such as (Kang, 2018; Bhasin & Garg, 2019) that indicated that the investors search for countries where economic restrictions are weak to take advantage of their weak laws, rules and values. This could give them some special privileges such as tax deductions, customs exemptions and concessions related to deals. These concessions reduce a lot of financial burdens and cost of production.

Contrary to the findings of previous studies which confirmed a positive impact of the growth of the financial sector on the flow of foreign investment, the current study found a negative impact of the growth of the financial sector on the flow of foreign investment, and that the financial sector contributes to financing domestic investment, which is a substitute for FDI.

The impact of political risks on foreign investment was statistically significant. It is possible that this is due to the state of stability that all countries attracting foreign investment enjoy. Therefore, political risks do not affect investor's decisions in preference between one country and another for investment, due to the similarity between countries at the level of political stability. This is what applies to the quality of transportation services which have not had a significant impact and therefore it does not considered a factor of preference among the 7 most developed countries with regard to attracting foreign investment.

As for the comparison between countries, Mexico, Turkey, India, and Indonesia, respectively, were the countries that witnessed an impact of economic freedom and financial sector growth on foreign investment This is consistent with the results of many studies that have examined the impact of institutional quality on investment in these countries (Hayat A , 2019; Bhasin & Garg, 2019; Asongu et al., 2018) the reason could be due to the convergence of economic policies and political factors between these countries.

There was no effect in the rest of other countries such as China, which is consistent with the findings of studies that multinational companies are less responsive to risks compared to their western counterparts, and that the political risks operate moderately and have no impact on China (Kang Y, 2018; Kolstad and Wiig, 2012; Quer et al., 2012)

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