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# Role of Institutions, Investment Policies, and Macroeconomic Conditions on Attracting Foreign Investments

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## Introduction

Investments, particularly foreign direct investments (FDIs), play an important role in an economy. They fill the gaps between the savings and investments needs/plans of a country, transfer technology from developed to developing economies, increase productivity, and reduce unemployment (Jiao 2016; Sabir, Rafique, and Abbas 2019). During crises, such as the COVID-19 pandemic, FDIs can play the important roles of financially and technically supporting their local and foreign business affiliates and their host countries (OECD 2020b).

Formally defined, FDI is “a category of cross-border investment in which an investor in one economy establishes a lasting interest in and a significant degree of influence over an enterprise in another economy” (OECD iLibrary 2021). These are the “large, physical investments foreign businesses bring into a country,” in contrast to foreign portfolio investments that are said to be more fluid in nature (Jiao 2016). FDI has the following components: (1) equity capital, (2) reinvested earnings, or (3) intracompany debt. Equity capital often involves “new investments,” including greenfield investments (overseas-based subsidiaries) or mergers and

acquisitions; hence this component is of great importance to economies. Reinvested earnings, on the other hand, are the proportion of earnings that the parent company uses to fund its affiliate/s. This component is noted to be the least volatile. Lastly, intracompany debt is said to be the “most volatile component” of FDIs and is “often driven by . . . short-term financing needs” instead of a “larger . . . macroeconomic phenomenon[on]” (OECD 2020a).

Even before the pandemic, FDI flows were already dwindling globally. In 2019, the recorded FDI flows were lower than any of those recorded from 2010 to 2017, continuing the general decline in FDIs since 2015. Despite the declining FDI flows, the United States and China remain to be the major FDI recipients. On the other hand, Japan and the United States were notably the leading sources of FDI worldwide at that time (OECD 2020a). With the current pandemic, FDI flows are expected to decline sharply. Reductions in equity capital and reinvested earnings are predicted to significantly account for this fall because multinational businesses will be reducing, postponing, or even halting their investments and reinvestments. This effect, however, will not be true for all. While we expect industries and countries to generally lag, certain types of industries and countries may thrive. On the one hand, the manufacturing,

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transportation, and other primary sectors are said to see large drops in their earnings. On the other hand, information services, technology, healthcare, and e-commerce, among others, are said to be the new trend, possibly recording growth. Moreover, developing countries are said to be affected worse than developed countries. This is because the former have a larger proportion of FDIs in badly hit sectors while the latter have more FDIs in rising industries. Also, developing economies have limited capacity to effectively battle the pandemic as compared to developed countries (OECD 2020a, 2020b; Taylor-Strauss and Koenig 2020/2021; UNCTAD 2021).

To attract FDIs, countries need to consider three factors: (1) macroeconomic characteristics and conditions, (2) trade policies, and (3) the quality of institutions. Macroeconomic characteristics and conditions of a country include natural resource endowment, human capital (e.g., labor force, population, education), infrastructure (e.g., physical and digital infrastructure), cultural systems, inflation, and economic growth, among others. Trade policies, on the other hand, include government policies on trade (e.g., tariffs, nontariff barriers, taxes, incentives), trade openness, trade/investment treaties, among others. Lastly, vital dimensions of institutions that attract FDIs include “voice and accountability,” “political stability,” “government effectiveness,” “regulatory quality,” “rule of law,” and “control of corruption,” among others (Kaufmann and Kraay 2021).

In general, based on several studies, countries with favorable macroeconomic characteristics and conditions (e.g., better economic growth, infrastructure, education, and market size), accommodating trade policies (e.g., more liberalized business environments and more trading partners), and good quality institutions (e.g., better regulatory and legal frameworks, stable political environment, transparent rules and regulations, and prevention of corruption) attract more and better quality FDIs (Ambashi 2017; Brooks and Sumulong 2003; Bruinshoofd 2016; Buitrago and Barbosa Camargo 2021; Karimi, Yusop, Hook 2009; Peres, Ameer, Xu 2018; Sabir, Rafique, and Abbas 2019; Ullah and Khan, 2017; UNCTAD 2011; World Bank 2017, 2021).

Various studies showed the importance of governance in attracting FDIs. Khan et al. (2019)

concluded that “institutional factors” help in securing many FDIs, and that India was able to “attract more [FDIs] due to good governance” (1256). FDIs are positively correlated to good governance (McCloud and Delgado 2021) and sustainability reporting (Chipalkatti, Le, and Rishi 2021). Alternatively, corruption negatively affects foreign investments (Brada et al. 2019; Tinatin 2019). Some research shows a nonlinear relationship between corruption and FDI. “[H]ighly transparent nations attract the most foreign investment” but “extremely corrupt countries attract more investment than moderately corrupt countries” (Hu et al., 2018, 164; Brada et al. 2019). Egger and Winner (2005) argued that corruption is a stimulus for FDI as it allows for circumventing of regulatory and administrative restrictions.

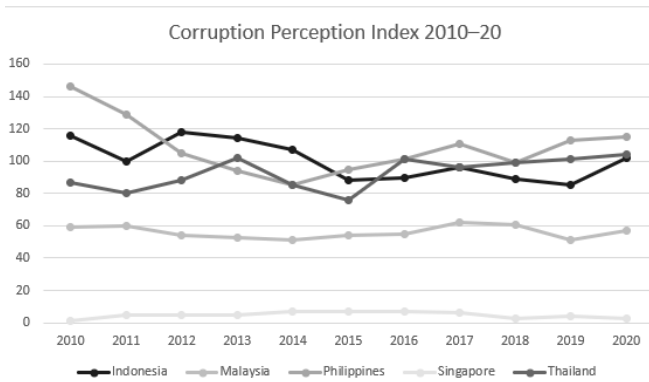
This is, however, not an endorsement of corruption but an argument in favor of eliminating corruption that “allow[s] government officials to share in the profits from foreign investment” (Egger and Winner 2005, 949). Countries like the Philippines “with insignificant or low returns to FDI may benefit substantially from reducing corruption” (Delgado, McCloud, and Kumbhakar 2014, 298). Similarly, weak states discourage foreign investments. Weak policies on intellectual property rights (IPR) discourage R&D investments and can distort the availability of technologies in the country (Albino-Pimentel, Dussauge, and El Nayal 2022). Political uncertainty can also reduce FDIs (He, Huang, and Fang 2021). “Financial development, International Financial Reporting Standards (IFRS), and rule of law” are also important for foreign investments (Akisik 2020).

Given this context, we aim to (1) identify some key issues, strategies, and trends on domestic and foreign investment mobilization; (2) investigate the role of institutions, macroeconomic conditions, and trade policies in attracting investments; and (3) outline pathways forward for the Philippines to attract investments. We attain these goals by presenting (1) the concise context on the investment climate (presented above), (2) trends on various governance indices of the Philippines and of some neighboring countries, and (3) statistical runs that examine the role of good governance, macroeconomic conditions, and trade policies on investment mobilization using world governance and development indicators.

## Recent institutional trends in the Philippines

The recent trends in the institutional state of the Philippines may bring some challenges to the next administration if, indeed, institutions play a significant role in mobilizing FDI.

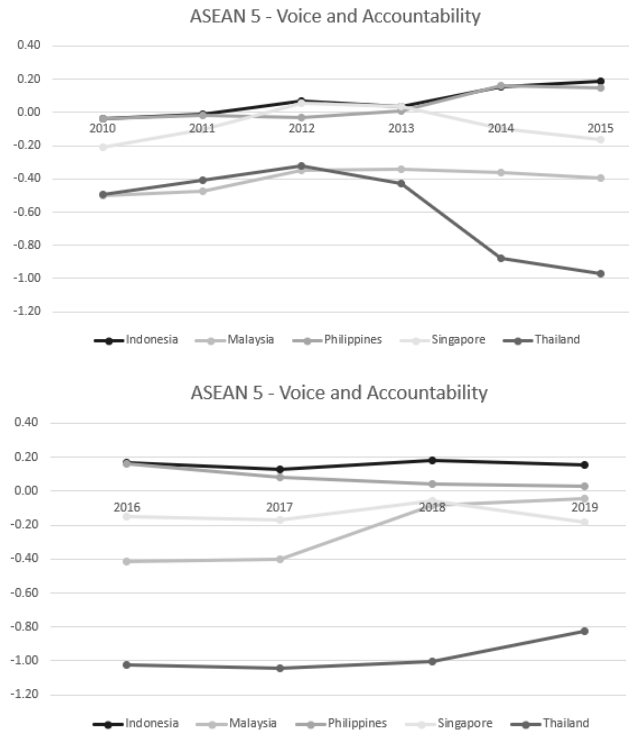
One of the most cited indicators of perceived corruption is the Corruption Perception Index (CPI) by Transparency International. The organization ranks 180 countries according to the levels of public sector corruption. The higher the rank, the higher the risk of perceived corruption in the country (Transparency International 2021). The country’s ranking in the CPI has improved since 2010. From being ranked 146th in 2010, we have improved to rank 85th in 2014. However, recent trends show an increase in perceived corruption in the country bringing us back to rank 115th in 2020. Notably, our country is the worst-performing country among the ASEAN-5 in terms of the CPI for most of the period from 2010 to 2020.



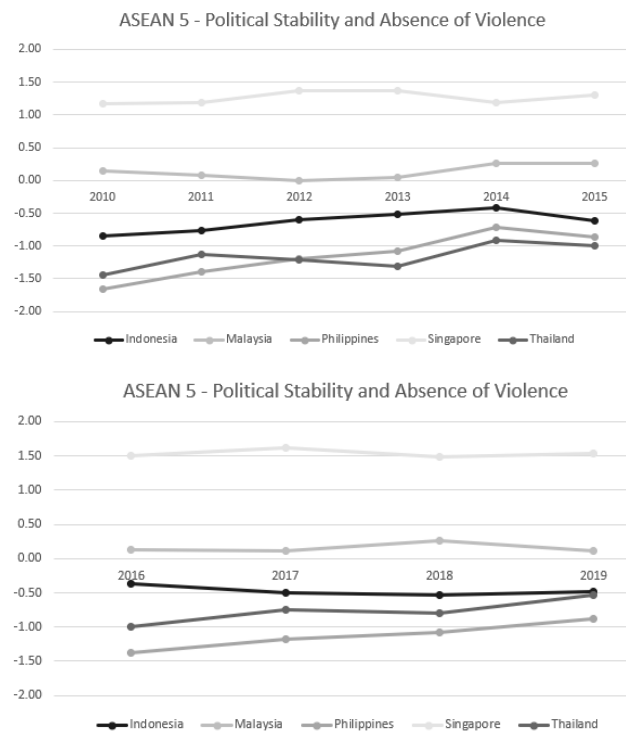
**FIGURE 1.** Corruption Perception Index of the ASEAN 5  
SOURCE: Transparency International 2021.

We also look at the scores in the Worldwide Governance Indicators of the ASEAN-5. The indicators have “six broad dimensions of governance” based on different data sources capturing governance perceptions on (a) “voice and accountability,” (b) “political stability and absence of violence/terrorism,” (c) “government effectiveness,” (d) “regulatory quality,” (e) “rule of law,” and (f) “control of corruption.” The values range from -2.5 to +2.5, with a higher score indicating that a country has better governance (Kaufmann, Kraay, and Mastruzzi 2010).

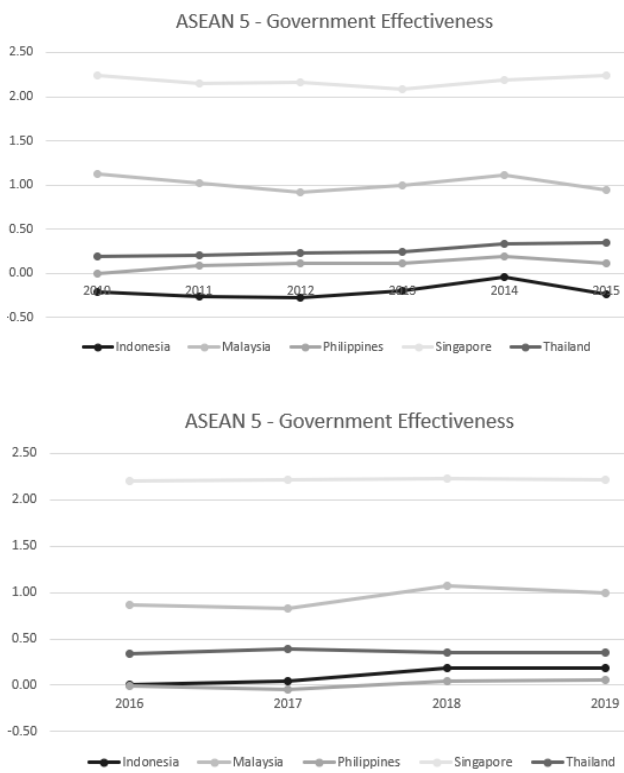
These figures show the Philippines trailing behind its ASEAN-5 neighbors in institutional quality. Except for voice and accountability, our country is



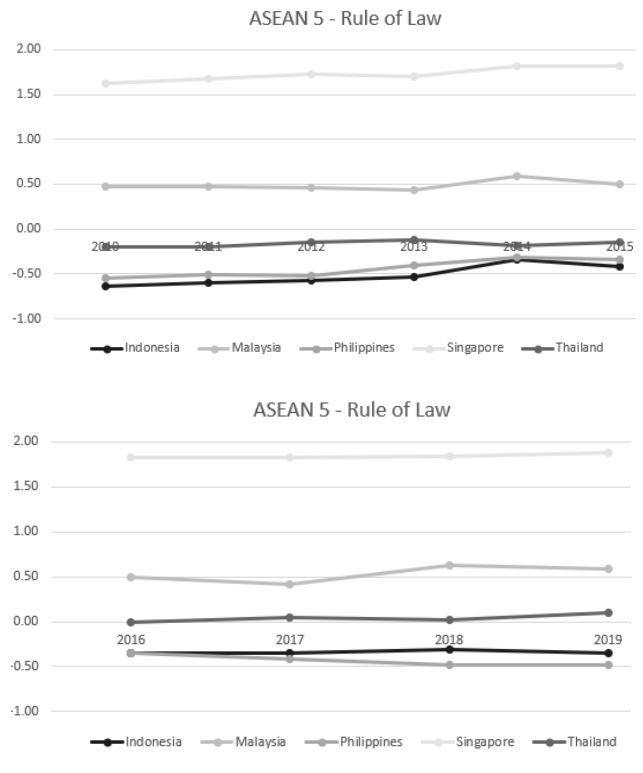
**FIGURE 2.** Voice and accountability index of the ASEAN-5  
Source: Kaufmann and Kraay 2021.



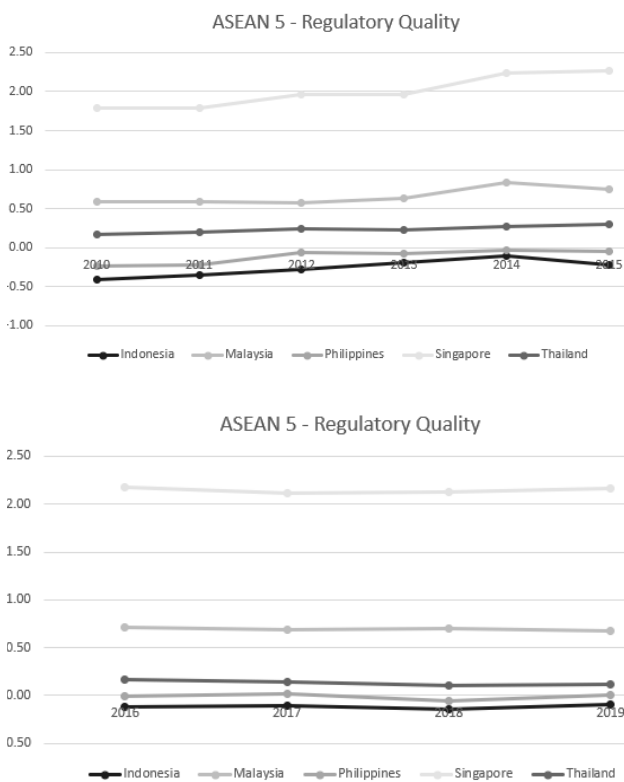
**FIGURE 3.** Political stability and absence of violence index of the ASEAN-5  
SOURCE: Kaufmann and Kraay 2021.



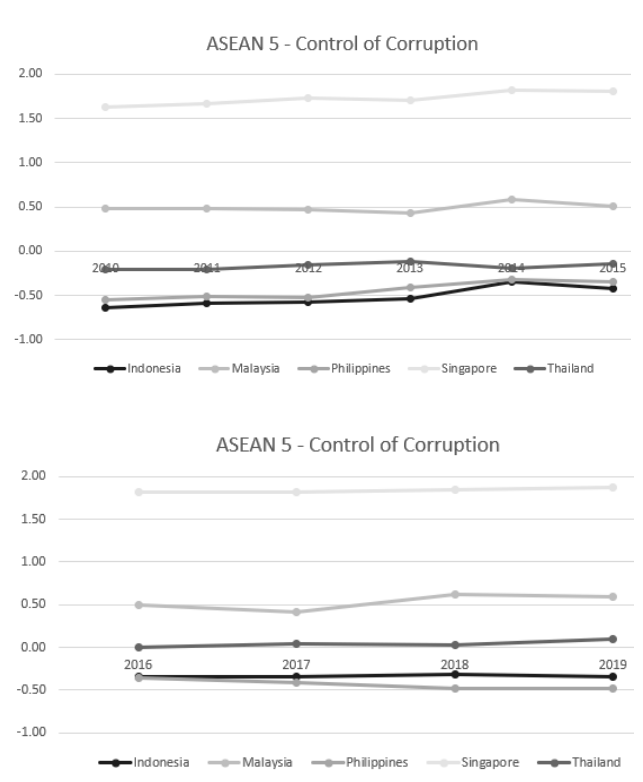
**FIGURE 4.** Government effectiveness index of the ASEAN-5  
SOURCE: Kaufmann and Kraay 2021.



**FIGURE 6.** Rule of law index of the ASEAN-5  
SOURCE: Kaufmann and Kraay 2021.



**FIGURE 5.** Regulatory quality index of the ASEAN-5  
SOURCE: Kaufmann and Kraay 2021.



**FIGURE 7.** Control of corruption index of the ASEAN-5  
SOURCE: Kaufmann and Kraay 2021.

consistently at the bottom two in terms of the other dimensions of governance for both periods (2010–2015; 2016–2019). Moreover, from the graphs, we can see that there are apparent declines or stagnation in the quality of institutions in the Philippines during the period between 2016 and 2019. These trends make our

country the worst-performing country on four of these dimensions among the ASEAN-5.

The freedom-in-the-world scores of the Philippines have indicated similar patterns of deteriorating political rights and civil liberties over the years.

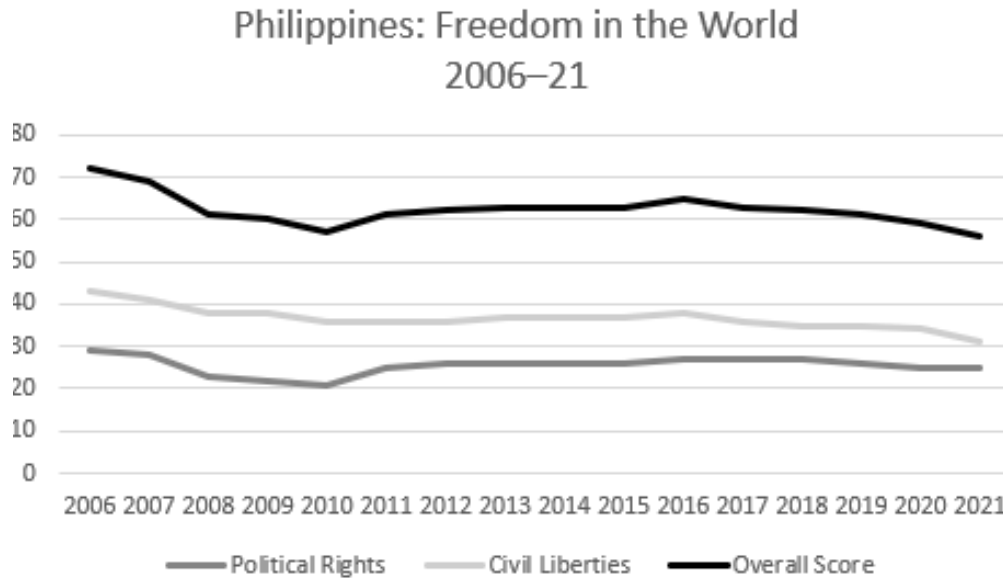


FIGURE 8. Freedom in the World scores of the Philippines  
SOURCE: Freedom House 2022.

### Regression Analysis—Data, Methodology, and Model

We investigated how macroeconomic characteristics and conditions, trade policies, and institutions affect FDI using data of 126 countries starting from 1996 to 2019 (the coverage of the dataset is limited by the availability of data on all variables

utilized). Data for macroeconomic characteristics/conditions and trade policies all came from the World Development Indicators (World Bank 2022), while indices of institutional quality come from the Worldwide Governance Indicators (Kaufmann and Kraay 2021). From these, we will estimate the following model:

$$\ln(FDI_{it}) = \beta_0 + \beta_1 institution_{it} + \beta_2 gdppc_{it} + \beta_3 mobile_{it} + \beta_4 inf_{it} + \beta_5 gfcf_{it} + \beta_6 lf_{it} + \beta_7 lifeexp_{it} + \beta_8 schoollifeexp_{it} + \beta_9 pop_{it} + \beta_{10} merchandisetrade_{it} + \beta_{11} \ln(FDI)_{lag_{it}} + v_i + u_{it}$$

where  $i$  represents country  $i$ ,  $t$  represents year  $t$ ,  $\ln(FDI_{it})$  is the natural logarithm of FDI net inflows (in current US dollars),  $institution_{it}$  corresponds to an institutional dimension,  $gdppc_{it}$  is the gross domestic product (GDP) per capita (in constant 2010 US dollars),  $mobile_{it}$  is the number of mobile subscriptions per 100 people,  $inf_{it}$  is the inflation rate,  $gfcf_{it}$  is the gross fixed capital formation (expressed as a percentage of GDP),  $lf_{it}$  is the labor

force participation rate,  $lifeexp_{it}$  is the life expectancy at birth,  $schoollifeexp_{it}$  is the expected number of years of schooling,  $pop_{it}$  is the total population,  $merchandisetrade_{it}$  is the sum of merchandise exports and imports (expressed as a percentage of GDP, in current US dollars),  $\ln(FDI)_{lag_{it}}$  is the one-year lag of  $\ln(FDI_{it})$ ,  $v_i$  is the time-invariant country fixed effect,  $u_{it}$  is the error term that varies across time and space.

The institutional dimensions we considered for this analysis are (1) voice and accountability (*vae*), (2) political stability and absence of violence (*pve*), (3) government effectiveness (*gee*), (4) regulatory quality (*rqe*), (5) rule of law (*rle*), and (6) control of corruption (*cce*). These six dimensions were summed to generate an aggregate governance index (*gov*), consistent with

the method of Peres, Ameer, and Xu (2018). Table 1 shows the correlation matrix of the institutional variables. We can see that the indices have a high correlation between them, which may cause some estimation problems. Hence, we run these institutional indices separately along with the other control variables.

**TABLE 1.** Correlation matrix of institutional variables

	<b>vae</b>	<b>pve</b>	<b>gee</b>	<b>rqe</b>	<b>rle</b>	<b>cce</b>	<b>gov</b>
<b>vae</b>	1						
<b>pve</b>	0.6798	1					
<b>gee</b>	0.7501	0.6999	1				
<b>rqe</b>	0.7738	0.6528	0.9344	1			
<b>rle</b>	0.8174	0.7778	0.9334	0.9051	1		
<b>cce</b>	0.7741	0.7411	0.9233	0.8666	0.9421	1	
<b>gov</b>	0.8705	0.8263	0.9514	0.9317	0.9759	0.9526	1

SOURCE: Author

The variables *gdppc*, *mobile*, *inf*, *gfcf*, *lf*, *lifeexp*, *schoollifeexp*, and *pop* all describe the macroeconomic conditions and characteristics of a country. *gdppc*, *mobile*, and *inf* capture a country's level of development, infrastructure, and macroeconomic instability and tension, respectively (Sabir, Rafique, and Abbas 2019). *gfcf* represents the country's domestic investment climate (Ullah and Khan 2017). *pop* captures the country's market size (Peres, Ameer, and Xu 2018). *lf*, *lifeexp*, and *schoollifeexp*, on the other hand, all describe the quality of human capital in a country. The last two mentioned variables are used in the computation of the Human Development Index.

The variables merchandise trade and  $\ln(FDI)_{lag_{it}}$ , on the other hand, can describe a country's trade policies. merchandise trade is our proxy for trade openness (Sabir, Rafique, and Abbas 2019), while  $\ln(FDI)_{lag_{it}}$  accounts for how previously attracted FDI affect current FDI inflows (Peres, Ameer, and Xu 2018).

Our dependent variable  $\ln(FDI_{it})$  is the natural logarithmic transformation of the total direct investment equity flows in the reporting economy. Tables 2 and 3 present the descriptive statistics of the variables for the developing and developed countries, respectively.

TABLE 2. Descriptive statistics of developing countries

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
$\ln(FDI)$	3,066	17.6358	2.7213	2.3026	24.6474
<i>vae</i>	1,726	-0.6543	0.7461	-2.3134	1.1751
<i>pve</i>	1,716	-0.6690	0.9189	-3.3149	1.4227
<i>gee</i>	1,718	-0.7970	0.5331	-2.4751	0.8295
<i>rqe</i>	1,719	-0.7737	0.5609	-2.6450	0.4714
<i>rle</i>	1,726	-0.7543	0.5853	-2.6064	1.0442
<i>cce</i>	1,722	-0.7133	0.5424	-1.9052	1.6484
<i>gov</i>	1,712	-4.3875	3.2018	-14.6963	3.7828
<i>gdppc</i>	3,288	1301.2250	923.9613	164.3366	4830.1850
<i>mobile</i>	3,566	20.9261	36.1799	0.0000	161.1017
<i>lf</i>	933	58.2003	13.8254	17.9900	94.3000
<i>gfcf</i>	2,797	34.9294	529.5785	-18.1086	23773.1300
<i>merchandise trade</i>	2,654	21.6691	10.1132	-2.4244	93.5475
<i>lifeexp</i>	3,289	51.0039	28.3277	4.9094	244.8881
<i>schoollifeexp</i>	3,930	57.1153	9.5171	18.9070	76.9780
<i>pop</i>	4,000	30,000,000	114,000,000	51,142	1,380,000,000
$\ln(FDI)_{\log}$	3,066	17.6358	2.7213	2.3026	24.6474

SOURCE: Author

TABLE 3. Descriptive statistics of developed countries

Variable	Observation	Mean	Standard Deviation	Minimum	Maximum
$\ln(FDI)$	4,594	19.9029	2.9452	9.2103	27.3215
<i>vae</i>	2,719	0.3824	0.9288	-2.2592	1.8010
<i>pve</i>	2,694	0.3880	0.8158	-3.1808	1.9651
<i>gee</i>	2,661	0.4697	0.9038	-2.0886	2.4370
<i>rqe</i>	2,660	0.4544	0.9137	-2.3632	2.2605
<i>rle</i>	2,725	0.4348	0.9243	-2.3461	2.1297
<i>cce</i>	2,671	0.4180	0.9760	-1.8158	2.4700
<i>gov</i>	2,625	2.5084	4.9542	-11.7805	11.8174
<i>gdppc</i>	5,291	19725.4000	22740.3000	228.5154	209224.5000
<i>mobile</i>	5,781	42.7193	55.6471	0.0000	345.3245
<i>lf</i>	3,238	59.9898	9.1084	19.9300	91.8100
<i>gfcf</i>	4,586	20.2181	166.7291	-17.6404	7481.6640
<i>merchandise trade</i>	4,309	23.2041	6.5929	0.7345	64.0087
<i>lifeexp</i>	5,144	69.7211	56.8724	4.9218	957.7840
<i>schoollifeexp</i>	5,853	71.7490	6.4686	39.8480	85.4171
<i>pop</i>	6,984	24,200,000	106,000,000	5,707	1,400,000,000
$\ln(FDI)_{\log}$	4,594	19.9029	2.9452	9.2103	27.3215

SOURCE: Author

We estimated the model above using the fixed effects panel data estimation method to remove the time-invariant country fixed effects that may adversely influence our analysis. In addition, we analyzed developed (i.e., if country is classified as high-income and upper-middle income) and developing (i.e., low-income and lower-middle income) countries separately since the independent variables, particularly the institutional dimensions, are said to have different effects on these distinct groups (Peres, Ameer, and Xu 2018; Sabir, Rafique, and Abbas 2019).

## Regression Analysis—Results and Discussion

From the results (Tables 4 and 5), we can see that institutional quality, indeed, has the great potential to attract FDI, which is true for both developing and developed countries. This is evidenced by the statistically significant positive coefficients of several dimensions of institutional quality (i.e., political stability and regulatory quality for developing countries; voice and accountability for developed

countries). For both developing and developed countries, infrastructure (as proxied by mobile subscriptions), the domestic investment climate (as proxied by gross fixed capital formation), the expected number of years of schooling, and lagged FDI all help in attracting FDI. These are consistent with the results of Ullah and Khan (2017), Peres, Ameer, and Xu (2018), and Sabir, Rafique, and Abbas (2019).

On the other hand, a country's level of development (as proxied by GDP per capita) and trade openness (as proxied by merchandise trade) only attract FDI for developed countries. For developing countries, life expectancy and surprisingly, inflation, help attract FDI. These results somehow differ from those of the previously mentioned papers. We can see that the statistically significant positive coefficients of the institutional dimensions have the largest magnitude among other significant independent variables, followed by lagged FDI and/or school life expectancy. This provides evidence that institutional quality is a pivotal determinant of FDI, along with other macroeconomic characteristics/conditions and trade policies of a country.

TABLE 4. Regression results for developing countries

	vae	pve	gee	rqe	rle	cce	gov
	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)
Institutional dimension	-0.33574 (0.22)	0.44680*** (0.14)	0.12147 (0.30)	0.63471** (0.31)	-0.14519 (0.32)	-0.02096 (0.30)	0.08504 (0.06)
<i>gdppc</i>	0.00019 (0.00)	0.00011 (0.00)	0.00014 (0.00)	0.00016 (0.00)	0.00014 (0.00)	0.00014 (0.00)	0.00014 (0.00)
<i>mobile</i>	0.00336 (0.00)	0.00542** (0.00)	0.00312 (0.00)	0.00318 (0.00)	0.00258 (0.00)	0.00292 (0.00)	0.00373 (0.00)
<i>lf</i>	-0.00173 (0.01)	0.00071 (0.01)	-0.00071 (0.01)	0.00003 (0.01)	-0.00109 (0.01)	-0.00097 (0.01)	-0.00001 (0.01)
<i>inf</i>	0.02042* (0.01)	0.01973* (0.01)	0.01882* (0.01)	0.01914* (0.01)	0.01846* (0.01)	0.01881* (0.01)	0.01866* (0.01)
<i>gfcf</i>	0.05722*** (0.01)	0.04639*** (0.01)	0.05642*** (0.01)	0.05550*** (0.01)	0.05705*** (0.01)	0.05697*** (0.01)	0.05369*** (0.01)
<i>merchandisetrade</i>	-0.0004 (0.01)	0.0014 (0.01)	0.0001 (0.01)	0.00028 (0.01)	0.00001 (0.01)	0.00015 (0.01)	0.00065 (0.01)
<i>lifeexp</i>	0.08827** (0.04)	0.05851 (0.04)	0.07932* (0.04)	0.04628 (0.04)	0.09462** (0.04)	0.08715** (0.04)	0.05993 (0.04)
<i>schoollifeexp</i>	0.22415*** (0.08)	0.27020*** (0.08)	0.24424*** (0.08)	0.31279*** (0.08)	0.22704*** (0.08)	0.23356*** (0.08)	0.27169*** (0.08)
<i>Pop</i>	-0.00 (0.00)	0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	0.00 (0.00)



$\ln(FDI)_{log}$	0.13951*** (0.05)	0.11348** (0.05)	0.13950*** (0.05)	0.13695*** (0.05)	0.14522*** (0.05)	0.14144*** (0.05)	0.13236*** (0.05)
Constant	6.84577*** (2.23)	9.25514*** (2.28)	7.46710*** (2.48)	9.09883*** (2.43)	6.43755** (2.59)	6.95909*** (2.50)	8.75438*** (2.56)
R2 overall	0.15	0.09	0.16	0.15	0.16	0.16	0.14
R2 within	0.62	0.63	0.61	0.62	0.61	0.61	0.62
R2 between	0.03	0	0.03	0.02	0.03	0.03	0.01
Observation	240	240	240	240	240	240	240
Groups	44	44	44	44	44	44	44
Average Group Size	5	5	5	5	5	5	5
* p < 0.10	** p < 0.05,	*** p < 0.01					

SOURCE: Author

**TABLE 5.** Regression results for developed countries

	vae	pve	gee	rqe	rle	cce	gov
	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)	b/(rob. se)
Institutional dimension	0.40494** (0.18)	-0.04396 (0.10)	-0.1079 (0.15)	0.05368 (0.15)	-0.01338 (0.17)	0.07403 (0.14)	0.00986 (0.03)
gdppc	0.00002** (0.00)	0.00002* (0.00)	0.00002* (0.00)	0.00002* (0.00)	0.00002* (0.00)	0.00002* (0.00)	0.00002* (0.00)
mobile	0.00373*** (0.00)	0.00381*** (0.00)	0.00389*** (0.00)	0.00370*** (0.00)	0.00379*** (0.00)	0.00376*** (0.00)	0.00375*** (0.00)
lf	-0.00574 (0.01)	-0.00378 (0.01)	-0.00348 (0.01)	-0.00482 (0.01)	-0.00417 (0.01)	-0.0048 (0.01)	-0.00465 (0.01)
inf	-0.00674 (0.01)	-0.00844 (0.01)	-0.00868 (0.01)	-0.0079 (0.01)	-0.00822 (0.01)	-0.0077 (0.01)	-0.00789 (0.01)
gfcf	0.03524*** (0.01)	0.03617*** (0.01)	0.03587*** (0.01)	0.03554*** (0.01)	0.03586*** (0.01)	0.03533*** (0.01)	0.03560*** (0.01)
merchandise trade	0.00620*** (0.00)	0.00654*** (0.00)	0.00663*** (0.00)	0.00650*** (0.00)	0.00651*** (0.00)	0.00648*** (0.00)	0.00647*** (0.00)
lifeexp	-0.04097 (0.03)	-0.04227 (0.03)	-0.03958 (0.03)	-0.04021 (0.03)	-0.04046 (0.03)	-0.04167 (0.03)	-0.04077 (0.03)
schoollifeexp	0.08716** (0.04)	0.07657* (0.04)	0.07605* (0.04)	0.07660* (0.04)	0.07632* (0.04)	0.07883** (0.04)	0.07747* (0.04)
Pop	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)	-0.00 (0.00)
$\ln(FDI)_{lag}$	0.38169*** (0.03)	0.38386*** (0.03)	0.38417*** (0.03)	0.38390*** (0.03)	0.38396*** (0.03)	0.38338*** (0.03)	0.38373*** (0.03)
Constant	13.85168*** -2.33	14.20352*** -2.34	14.06329*** -2.33	14.05965*** -2.33	14.08718*** -2.34	14.13242*** -2.33	14.08136*** -2.33
R2 overall	0.39	0.44	0.41	0.45	0.44	0.46	0.44
R2 within	0.37	0.36	0.36	0.36	0.36	0.36	0.36
R2 between	0.36	0.44	0.39	0.46	0.43	0.46	0.44
Observation	1002	1002	1002	1002	1002	1002	1002
Groups	82	82	82	82	82	82	82
Average Group Size	12	12	12	12	12	12	12
* p < 0.10	** p < 0.05,	*** p < 0.01					

SOURCE: Author

Our results on the effects of institutional quality somehow differ with Peres, Ameer, and Xu (2018) and Sabir, Rafique, and Abbas (2019), where they found that developed countries are more benefitted by good institutions. In our case, developing countries seem to be better benefitted than developed countries by good institutions (i.e., developing countries are positively affected by two dimensions of institutional quality as opposed to developed countries who are only affected by one dimension). This is a welcome result since developing countries may have a fighting chance to catch-up with developed countries.

## Conclusion

Our study validated previous studies (Peres, Ammer, and Xu 2018; Sabir, Rafique, and Abbas 2019) that showed that institutional quality is a significant determinant of FDI flows along with macroeconomic conditions and trade policies of the country. This is true for both developing and developed countries. As we also presented, the quality of our country's institutions have deteriorated in the past years. The much-needed boost in the flow of FDI and even domestic investment will depend on how the next administration will improve accountability, transparency, elimination of corruption, enforcement of the rule of law, regulatory quality, political stability, government effectiveness, along with achieving good macroeconomic conditions and improved trade policies. Attracting these investments will be of great support in boosting our economy, especially with the onslaught of the COVID-19 pandemic.

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