**Introduction**

In the dynamic age of liberalization, privatization and globalization, foreign direct investment (FDI) which consists of flow of capital, expertise and technology into the host country, has significantly increased in the developing world during the past few decades.

Foreign direct investment (FDI) and, more particularly, their effects on the host economy, have attracted much research. Economic theorists and policy makers often stress alleged benefits of foreign direct investment. Strict empirical test was less abundant (Carbonell and Richard, 2018). Most studies examine the impact of FDI on developing economies, but FDIs are mostly received from developed countries (Lucas 1990, Gourinchas and Jeanne 2013).

Statistical analysis and macroeconomic studies that account for groups of developed countries often report either a negative impact on growth (Mencinger 2003; Carkovic and Levine 2005; Johnson 2006; Türkcan, Duman, and Yetkiner 2008; Herzer 2012) or an inconclusive effect (De Mello 1999). By contrast, several macro-based articles on both developed and developing countries indicate a positive effect of FDI inflows (Olofsdotter 1998; Reisen and Soto 2001), albeit differing by country, and indicating the importance of host economy characteristics (Alfaro et al. 2004; Li and Liu 2005; Batten and Vo 2009).

The empirical literature seems to agree that any positive effect of FDI on growth is largest among developed countries, since they have the absorptive capacity to benefit from foreign investments.

This study, through a random effects panel, examines the interaction between foreign direct investment, economic growth, employers and institutional variables (Control of Corruption, Government Effectiveness, and Rule of Law) in MINT countries. Compared to strong fluctuations in relation to these aspects, these countries are the largest annoying problems that need to be solved, this document applies time series data from 1996 to 2017.

By conducting an empirical analysis, the results reveal satisfactory about the evidence of a positive and significant impact of foreign direct investment on economic growth and infrastructures in the countries; regarding to institutional variable, government effectiveness and role of the law are an positive and significant impact too.

To this end, the rest of this paper is organized as follows: Part Ⅱ examines a summary of empirical studies that have analysed as previous scholars regarding this problem. Part Ⅲ discusses the model and the data. Part Ⅳ presents the empirical results. Part Ⅴ provides results and discussion.

# Theoretical Background and Research Hypotheses

The theory of ‘comparative advantage’ attributed to David Ricardo (1817) can be traced as fundamental to the international capital flows. The underlying assumption of this theory is that international transactions are more likely to take place in countries that exhibit lower relative production costs. This theory also coincides with the general theory of ‘costbenefits’, and ‘financial rate of return’ in that a rational investor feels interested to supply capital only if he finds reasonable returns on the cost of his investment. The above theories assume risk neutrality and focus on marginal productivity of capital or physical investment (A.A. Mengistua, B. K. Adhikary, 2011).

FDI can be defined as an investment involving a long-term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) to an enterprise resident in another country (FDI enterprise) (Ngô Vi Dũng, Đào Thị BíchThủy & Nguyễn NgọcThắng, 2018).

The potential determinants of FDI inflows in DEEs identified by prior studies are numerous but they can be classified into two groups: economic and non-economic factors. Economic factors that can be mentioned include market size and growth, macroeconomic conditions (exchange rate, inflation, etc.), return on investment, labour (cost, quality and quantity), infrastructure and natural resources. Non-economic factors comprise government incentive policies (tax, profit, investment, etc.), culture, institutions (economic governance, corruption, etc.), network and agglomeration (i.e. cluster, industrial linkages) and risk (political, financial and economic) (Ngô Vi Dũng, Đào Thị BíchThủy & Nguyễn NgọcThắng, 2018).

With regard to last variables, in this paper we focused on purely institutional analyzing country risk understood as the probability that country-specific, governmental events or measures will adversely alter the perceived value of the international firm. For instance, a host government may limit profit remittances by subsidiaries to their parent companies. Investors are likely to be concerned with the potential negative impact of a country’s economic, social and political instability on their planned and existing projects. It is expected that such risks are negatively related to inward FDI. Therefore, the greater the degree of host-country risk relative to that of the home country, the less attractive the host country will become to inward FDI. Further, political stability and risk generally affect the decision whether to invest or not in a particular location (Dunning 1993; Moosa 2002). Jun and Singh (1996) further, suggest that the riskiness of the economic environment within the host country may deter investment in emerging markets.

The presence of further variables, beyond the purely economic ones, is of fundamental importance because, in terms of statistical analysis, Nonnemberg (2004), stated that there is a simultaneous causality between Foreign Direct Investments and economic growth or market size. However, it is opportune not to categorically state that an increase in the level of activity causes foreign investments. Despite there is a reasonable argument, which states that economic growth allows investors to project greater profitability. Given the current broad debate about the causal relationship between Foreign Direct Investments and the GDP, Nonnemberg has performed a causality test between FDI and GDP. This test led to the conclusion that there is evidence of the existence of causality between GDP leading to increase in Foreign Direct Investments, but not the inverse relationship. This is represented, for example, from China, whose economy, which is the largest economy on the way development in the world, with one of the highest levels of growth rates of the last years, has certainly contributed to be one of the major recipients of the foreign capital.

A long-term investment does not depend only from the market potential, but also from future expectations of growth of the market itself (Bende-Nebede, 2002). Many studies (Asiedu, 2003; Lemi and Asefa, 2003) have shown that FDI tend to increase in the big markets. This, therefore, shows the relationship between FDI and economic growth. Empirical studies have indicated an important statistical impact of the market size, as a determining variable of FDI. Therefore, the expected sign between the market size and the FDI’s inflow is positive; therefore, the first empirical hypothesis for this study is:

*H1: GDP is* [*statistically significant*](http://context.reverso.net/traduzione/inglese-italiano/statistically+significant) *and it is positively related to FDI.*

The most important reason why countries try to attract FDI is perhaps the prospect of acquiring modern technology, interpreted broadly to include product, process, and distribution technology, as well as management and marketing skills (Blomstro¨m and Kokko, 1998). But, as noted Aitken and Harrison (1999), the entry of local market-oriented foreign firms can draw demand from local firms, leading them to cut production. Thus the productivity of local firms would fall as they are forced back up their average cost curves. As a result, net local productivity can decline. Equally, Kersan and Zubin (2009) determined the impact of foreign direct investment on macroeconomic indicators (GDP, employment and Export) of the Croatian economy. The results indicate that the foreign direct investment has a negative effect on employment. The decrease in production leads to the closure of many firms; compare to this, as the number of the employed decreases, also the amount of the the number of entrepreneurs and self-employed workers also reduces.

Consequently, according to these theory, the following is that,

*H2: Between FDI and Employment there is a negative relationship.*

Vijayakumar et al (2010), have shown that the infrastructure is an important factor that attracts FDI. Infrastructure can be analyzed through telecommunications, transport and electricity. Hymer has suggested that companies make such investment decisions to gain an advantage, such as low associated business costs infrastructure. Subsequently, Asiedu (2002) discovered that there is one positive relationship between fixed telephone subscriptions and the FDI’s inflow in line with previous studies. The very same variable has been employed by Bougheas et al. (2000) and Li and Liu (2005) to several countries and by Asiedu (2002) to African economies. The relationship between infrastructure and FDI must be positive, as more firms feel attracted to the state’s physical capacity, presumably due to lower operating costs. Three other measures were used: can be interpreted as the total length of the state’s interstate road network (kilometers). Moreover, it is possible to understand the infrastructures as the total length of the state’s paved secondary roads (kilometers); the third measure, infrastructures can be interpreted as the total square kilometers of the state’s paved routes. Theoretical work in Martin and Rogers (1995) distinguished between domestic and international infrastructure. General public administration and transport infrastructure that facilitates domestic trade can be classified as domestic infrastructure, while the building of harbors, international airports or the improvement of international communications system are interpreted as international infrastructure. Only the infrastructure measured by fixed telephone subscriptions appears to be robust in the estimations.

Thus, the third empirical hypothesis expected for this study is:

*H3: Infrastructure is statistically significant and positively related to FDI.*

Rammal and Zurbruegg (2006) examine the impact of changes in the quality of government regulatory efficiency and governance practices on the direction of external FDIs. The results show that excellent effectiveness and application of investment regulations, such as price controls and good regulatory control in foreign trade and business development, have a positive effect on FDI and are significant. This aspect, analyzed through the government effectiveness, indicates the freedom and quality of public and civil services and the quality of the government to formulate policies and implement them.

According to this theory, in our study we assume that:

*H4: Government effectiveness is positively related to FDI.*

Globerman and Shapiro (2003) report that the quality of ‘governance infrastructure’ (i.e. legislation, regulation and legal systems) is a key determinant of FDI. Lee and Mansfield (1996), conducted one of the first empirical investigations of the possible linkage between a developing country’s Intellectual Property Right (IPR) protection system and the volume and composition of US FDI in that country, and conclude that the strengthening of IPR protection has a positive effect on FDI (A.A. Mengistua, B.K. Adhikaryb, 2011). To perform these aspects the role of law has been used. This indicator includes: an effective, impartial and transparent legal system that protects property and individual rights; public institutions that are stable, credible and honest; and government policies that favour free and open markets. These conditions encourage FDI and presumably private domestic investment as well, by protecting privately held assets from arbitrary direct or indirect appropriation (A.A. Mengistua, B.K. Adhikaryb, 2011).

As regard to, we affirm that:

*H5: Role of law is statically significant and positively related to FDI.*

# Metodology

The main objectives of this research work are, in the first analysis, to identify the exact constraints of the Gross Domestic Product, the employer l, the level of infrastructures and the institutional variables on the foreign direct investments.

In order to test the set up hypotheses, a random regression model has been performed. The panel data scrutiny has a benefit of covering the info essential to arrangement with both the intertemporal dynamics and independence of the units being inspected (Riaz N, Riaz S., 2018).

## Description

Panel data from 1996 to 2017 for Indonesia, Mexico, Nigeria and Turkey has been taken by World development Indicator (WDI). In the analysis data of Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Employment and Infrastructure have been used. All data has been collected by World development Indicator (WDI) published by World Bank.

As dependent variable has been used to evaluate the influence of corporate internationalization the FDI, which refers to direct investment equity flows in an economy. It is the sum of equity capital, reinvestment of earnings, and other capital. Direct investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a direct investment relationship. This series shows net outflows of investment from the reporting economy to the rest of the world, and it is divided by GDP (WDI, World Bank, 2018).

As regard to the independent variables, the following has resulted. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used (WDI, World Bank, 2018). Instead, infrastructure is measured by fixed telephone subscriptions refers to the sum of active number of analogue fixed telephone lines, voice-over-IP (VoIP) subscriptions, fixed wireless local loop (WLL) subscriptions, ISDN voice-channel equivalents and fixed public payphones (WDI, World Bank, 2018).

Regarding to institutional variables, control of corruption captures perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests (World Bank, 2018). The second institutional variables, government effectiveness, measures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies (World Bank, 2018).

Finally, rule of law, captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. These three estimate variables give the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from approximately -2.5 to 2.5.

# Empirical Model Background

The study identifies the impact of GDP, Employers, Infrastructure and Institutional variable on FDI in MINT countries.

The panel data scrutiny as it has a benefit of covering the info essential to arrangement with both the intertemporal dynamics and independence of the units being inspected.

The model takes both the cross-section dimension and the time-series dimension into consideration. In line with this, a test for heteroskedasticity is conducted using the Breusch-Pagan test and the White test, and hence the null-hypothesis of homoskedasticity is rejected at 1% and 10% significance levels, respectively. This implies that there is evidence of heteroskedasticity in which the error variance is not constant. Consequently, a test for serial correlation for error terms is conducted using the Wooldridge test for autocorrelation in panel data, the result yields a p-value of 0.5761, which implies there is no evidence of serial correlation (first order autocorrelation) and hence, the error terms are not correlated. Moreover, though the stationary test for panel data is a recent phenomenon, this study employs the Levin-Lin-Chu test for stationarity and confirms that the nullhypothesis of non-stationarity is rejected at the1% significance level, i.e. the data is stable with a constant mean, variance and standard error.

A specification test is conducted to determine which estimation methods would be more appropriate for this particular study. According to Gujarati (2003), there is a formal test called the ‘Hausman test’ that helps to choose between fixed effect model (FEM) and random effect model (REM).

Evaluating a Prob > chi2 value[[1]](#footnote-1) = 0.1227, it is possible to declare that the Random Effects model is fit as is indicated by the probability value of Hausman test.

A simple formulation of Random Effects model is:

(3) Yi,t = βXit-1 + α + uit-1 + eit-1

In this analysis, run the Random Effects model first as it is accommodated with an advantage of assuming that an individual entities error term is uncorrelated with the regressor which qualifies the time invariant variables to be treated as predictors. However, engrossed with some bias, it is tedious to choose among fixed or random effects model at random. Thus, the Hausmann test declares the model fit for the analysis. The Hausman test testifies whether the unique errors are correlated with the regressors or not (Rahaman N., Rahaman M. N., 2018).

Regarding to specific formulation of Random Effects model, we have:

In addition to the independent, control and treatment variables, in both functions we find:

− μi e ηt, that represent fixed effects respectively of enterprise and temporal ones;

− ei,t-1 that is an independent and identically distributed disorder.

# Results and Discussion

## A. Descriptive Statistic and Correlation Matrix

Table 1 reports the descriptive statistics for the mean, standard deviation, minimum and maximum, while Table 2 regards correlation values associated with the study variables.

*Table 1*

As regards descriptive statistics, all the indicators have been calculated following the panel setting of the dataset. In fact, the three types of analysis are present: overall, between and within. As it follows from the analysis, the low dispersion values are confirmation of the lack of outliers. The only higher values are due to the "infrastructure" variable due to the more marked evolution that this has had in the last period precisely following the increase in foreign direct investments(WDI, World Bank, 2018). Nevertheless, the analyzed sample doesn’t show any kind of anomalies. About correlation matrix, in accordance with what was stated in our research hypotheses, most estimated correlation coefficients is significant under 5% significant level. The lack of excessively high correlation values confirms the absence of multi-collinearity problems.

*Table 2*

## B. Panel regression results

We report the results of the random effect model analyses in Table 3.

*Table 3*

Furthermore, from Table 3, it is clear that the inflows of foreign direct investment are strongly influenced by the GDP of the four MINT countries in the affirmative and substantial sense; furthermore, this variable results statistically significant with a p-value < 0,01. In this way, is possible to affirm that the first hypothesis - *H1:“GDP is* [*statistically significant*](http://context.reverso.net/traduzione/inglese-italiano/statistically+significant) *and it is positively related to FDI*” - is verify*.* As regards Employers, also the hypothesis linked to it - *H2: Between FDI and Employment there is a negative relationship –* is verify as it results to be highly performed (p-value < 0,05) with a negative impact equal to -0,0115.

Infrastructure is statistically significant. It should be stressed that, unlike what is stated in the literature on the identification of infrastructures as "impediment" for countries to attract foreign direct investment (Cleeve, 2012), in the MINT’s case infrastructures appear to have a positive contribution. Also in this case, the research hypothesis - *H3: Infrastructure is statistically significant and positively related to FDI -* results verify.

Regarding to institutional variables, this study has found tangible evidence that the control of corruption, government effectiveness and rule of law are the key elements of ‘good governance’ that are crucially important for stimulating FDI inflow in the host country. This implies that a country that can enhance rule of law, quality of public and civil services, and ensure a low level of corruption is likely to attract more foreign investors despite offsetting deficiencies in other dimensions of good governance (A.A. Mengistua, B.K. Adhikaryb, 2011).

In according to this theory, *H4: Government effectiveness is positively related to FDI* and *H5: Role of law is statically significant and positively related to FDI* are verify.

# Conclusion

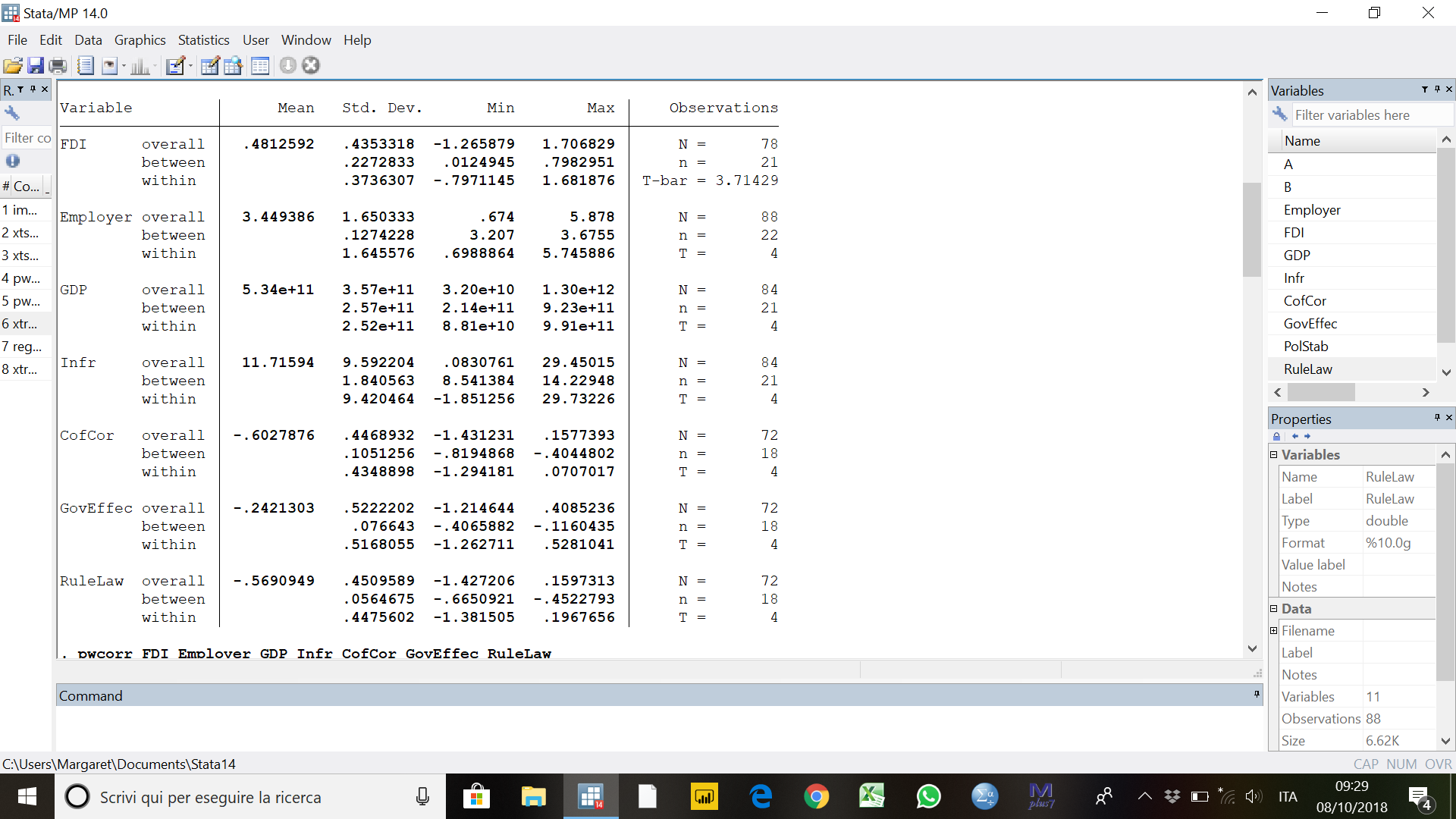
It is widely argued that a country’s economic performance over time is determined to a great extent by its political, institutional and legal environment (OECD 2001). As FDI has been shown to promote host country growth, and the governance environment of the host country affects both domestic and foreign investors, it is a natural extension of the literature to consider the impact of governance infrastructure on cross-country differences in FDI flows.

In particular, this paper concentrates much on the interaction between foreign direct investment, economic growth employmers and institutional aspects based on panel model. Via empirical analysis, some conclusions are obtained as following: MINT has surpassed a majority of leading economies in garnering FDI Inflows since last decade. Also, in comparison with other regional groups, it has, with its export and FDI led growth strategy acquired great amounts of foreign capital. Being an amalgamation of countries with varying economic development, economic size, institutional set up etc., the aftereffect of FDI on GDP is bound to vary when taken in lone context. However, the present research takes the congery for the ascertainment of FDI Inflows impingement on its GDP as one economic entity. As delivered by analytical outcome, FDI Inflows do impinge GDP of MINT Countries in the positive direction thus manifesting the majority view of FDI encouraging GDP. The major conclusion that draws from the analysis is that these countries must follow up a policy of greater FDI inflow in order to achieve greater economic growth.

Another important result concerns employers. the negative impact of foreign direct investments on this variable demonstrates that employees and employers are not only affected by the non-competitiveness of the company. As a result this leads to a reduction in the number of local companies.

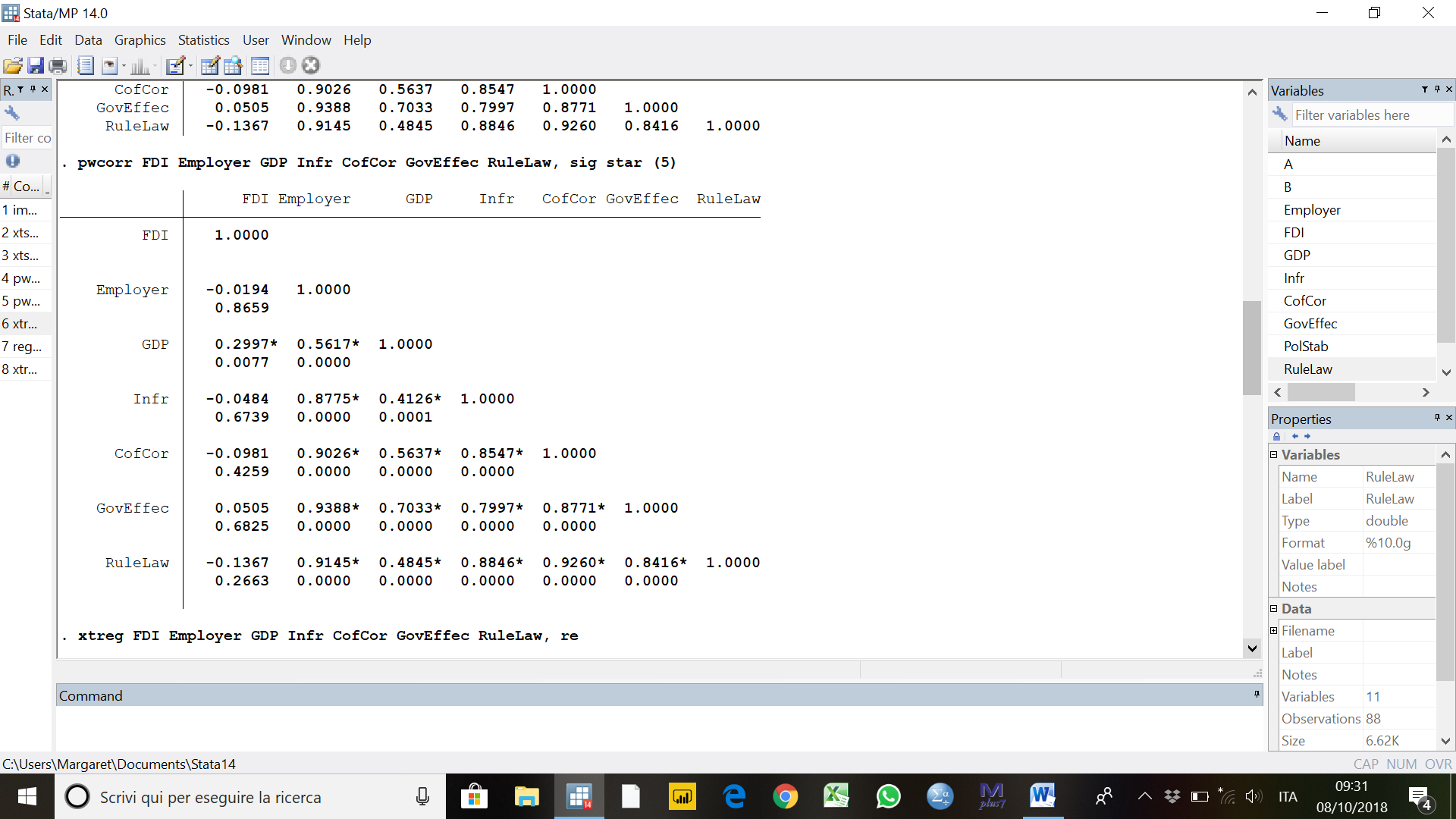
Furthermore, the empirical results of this study confirmed what is good the governance infrastructure, in general, exerts a significant and positive influence on FDI inflows. More specifically, among the three of the six good governance indicators defined by Kaufmann et al. (1999, 2009), rule of law, the control of corruption and the effectiveness of the government are considered determining factors attract a high level of foreign direct investment.

Table 1. Descriptive statistics



# Source: Author calculations.

Table 2. Correlation matrix



*Notes:* These are the notes applicable to the table.

\*Index of Correlation is at least 0,05 significant

*Source:* Author calculations.

Table 3. Ramdom Effect Gls Model - Dependent Variable: FDI

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | | Random-effects GLS regression | | |  |  |  | Number of obs = | **68** | | Group variable: **B** | |  |  |  |  | Number of groups = | **18** | |  |  |  |  |  |  |  |  | | R-sq: |  |  |  |  |  | Obs per group: |  | |  | within = | **0.1785** |  |  |  | min = | **3** | |  | between = | **0.2434** |  |  |  | avg = | **3.8** | |  | overall = | **0.1873** |  |  |  | max = | **4** | |  |  |  |  |  |  | Wald chi2 (5) = | **.** | | corr (u\_i, X) = 0 (assumed) | | |  |  |  | Prob > chi2 = | **.** | | | | | | | | | |  |  |  |  |  |
|  | | | | |  | | | |  |  |  |  |  |
| FDI | Coef. | Std. Err. | z | P>|z| | | [95% Conf. Interval] | |
| Employer | **-0,0115** | **-0,0002** | **0,0200** | **0,9820** | | **-0,3171** | **0,2973** |
| GDP | **0,0000** | **0,0000** | **3,3000** | **0,0020\*\*\*** | | **0,0000** | **0,0000** |
| Infr | **0,0162** | **0,0726** | **4,4800** | **0,0000\*\*\*** | | **-0,0149** | **0,0472** |
| CofCor | **-0,2584** | **-0,0103** | **0,0400** | **0,9700** | | **-1,0126** | **0,5120** |
| GovEffec | **0,1863** | **0,6948** | **3,7300** | **0,0010\*\*\*** | | **-0,5760** | **0,9398** |
| RuleLaw | **-0,5109** | **-1,4203** | **2,7800** | **0,0080\*\*\*** | | **-1,2656** | **0,2281** |
| \_cons | **-0,3310** | **-2,1219** | **6,4100** | **0,0000\*\*\*** | | **-1,6624** | **0,9903** |
| sigma\_u | **0,0674** |  |  |  | |  |  |
| sigma\_e | **0,4438** |  |  |  | |  |  |
| rho | **0,0225** | (fraction of variance due to u\_i) | | | |  |  |

*Notes:* These are the notes applicable to the table.

*Source:* Author calculations.

\*\*\* Significant at the 0,1 percent level.

\*\* Significant at the 1 percent level.

\* Significant at the 5 percent level.

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1. The Hausman test hypotesys are:

   b = consistent under Ho and Ha; obtained from xtreg;

   B = inconsistent under Ha, efficient under Ho; obtained from xtreg

   Test: Ho: difference in coefficients not systematic - chi2(2) = Prob > chi2 = 0.1227 [↑](#footnote-ref-1)