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INSTITUTIONAL FACTORS AND FOREIGN DIRECT INVESTMENT INFLOWS: EMPIRICAL EVIDENCE FROM LATIN AMERICAN AND CARIBBEAN COUNTRIES

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ABSTRACT

The objective of this study is to see the effect of institutional factors on Foreign Direct Investment inflows (FDI) in the sample of 24 Latin American and Caribbean (LAC) countries. This study uses panel data over the period of 1995-2015. The fixed-effect model after controlling for heteroscedasticity is used for empirical examination. The pragmatic result recommends that the countries can appeal more Foreign Direct Investment inflows if they improve their institutional factors despite lacking in a high level of human capital, trade openness and market size. However, the development of the country appears to have an equal significance as that of institutional factors and is significant at all levels in Latin American and Caribbean countries.

Disciplinary: Multidisciplinary (Financial Management, Statistical Analysis, Investment Analysis).

1. INTRODUCTION

Globalization makes the world a borderless territory, exchanges of goods and services are acquiring from all around the world. With the trending globalization, Foreign Direct Investment inflow (FDI) has been considered as an enormous factor that affects the development and growth of a country. Numerous changes are required not only in the economic policies of a country but countries should adopt liberal practices as well to attract more FDI. With the growing knowledge of FDI, countries try to provide an investment-friendly environment to foreign investors. Countries provide facilitations like better infrastructure, protection of intellectual property rights, low tax

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rates, easy licensing procedures, and property rights. FDI helps in the growth and development of a country by bringing investment, updated technology, employment opportunities, innovation, and research & development. Though FDI is important for both developed and developing countries but this study is focusing on developing countries, the Latin American and Caribbean region. In order to attain more FDI, these countries should facilitate and provide a better environment and place to foreign investors. Developing regions play an important role in the stability and growth of the global economy. As European commission mentioned that foreign investors are seeking a place i.e. more populated, having developed infrastructure and skilled workforce with the presence of foreign investors (Alegrìa, 2006).

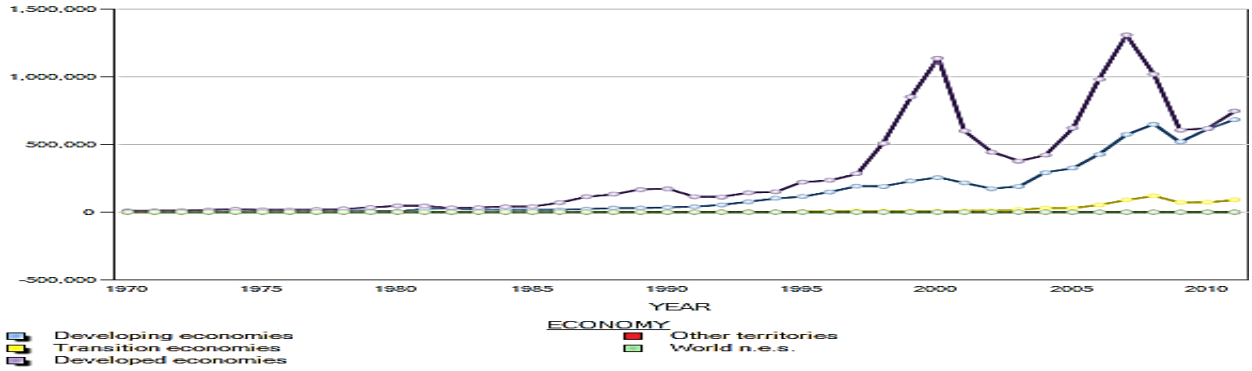
Foreign investors consider economic institution as a vital factor before investing outside. Therefore, the host country should propose sound policies for the facilitation of these investors to promote the investment-friendly environment. These regulations and policies for the investment-friendly environment will enhance the confidence of international investors. Narula & Dunning (2010) and Bevan et al. (2004) mentioned that existing traditional approaches like finding natural resources or opting low labor cost to locate capital has been changed. Investment globalization considers many other important factors of foreign investors like the quality of infrastructure, institutional quality, and knowledge-based assets. Institutional quality is an important factor because it will help in saving time and funds that have to consume in the existence of a poor system. Better institutions help in initiating and doing business in a new environment, helps in reducing the production cost by avoiding the bribes in the shape of permits, decreases the risk factors by giving the protection of property rights. It raises revenues and increases economic activities in order to attract more inward FDI. According to Davis (2006), it is essential to perform the following three functions by the economic institutions. 1) Facilitation in economic cooperation 2) Property rights protection 3) and Transaction facilitation.

To effective utilization of investment, Multinational Enterprises (hereafter MNE's) are in search of territory having a better economic and institutional environment but some MNEs are finding resources or cheap labor in developing countries (Dunning, 1998). Institutions that are weak can affect investment in two ways, firstly, it will increase the cost to start a business and secondly, weak property rights and enforcement of contracts will decline the returns of these investors (Daude & Stein, 2007). Weak institution increases the risk for foreign investors as it will cause a significant increase in sunk cost because of poor institutional and political structure (Bénassy, et al., 2007).

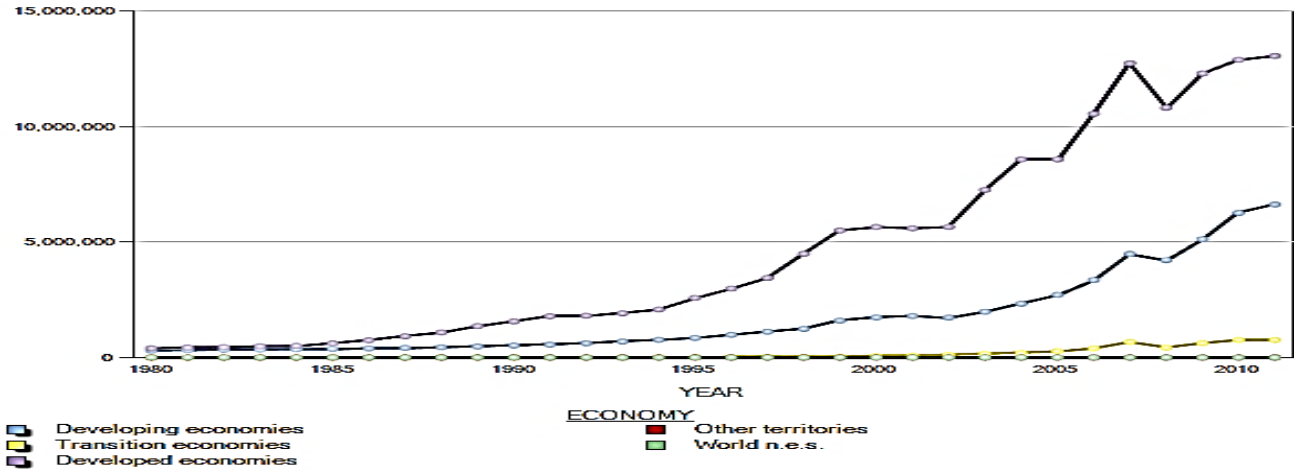
FDI inflow in LAC countries had not been always increasing regularly but it faces many highs and lows. One of the vital reasons in choosing LAC countries is the record inflow of FDI in this origin with an amount of more than 153.4 billion U.S. dollars that is around 10 percent of the world's total FDI. Before 2011, the highest level of FDI was recorded in the year 2008 with 137 billion U.S. dollars whereas in 2009 this amount decreased up to 81.59 U.S. dollars due to the global economic crisis but in the coming year this figure increased to the level of 120.88 billion U.S. dollars. Amongst the LAC region, few countries hold around 80 percent of FDI of this region while the rest of the countries hold a very minimal proportion. Among the major FDI holder countries, Brazil holds 66.66 billion U.S. dollars, Mexico holds 19.44 billion U.S. dollars, Chile holds 17.29 billion U.S. dollars, Columbia holds 13.23 billion U.S. dollars, Peru holds 7.66 billion

U.S. dollars, Argentina holds 7.23 billion dollars (Economic Commission for Latin American and Caribbean Countries; 2012 Secretary, Secretary, Division, & Division, n.d.).

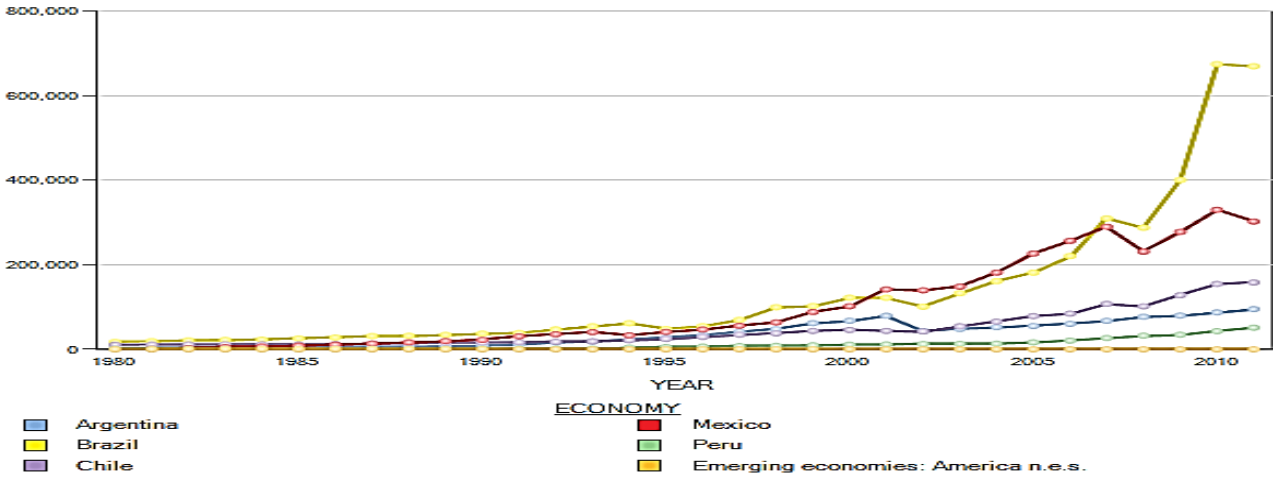
Figure 1 shows the level of FDI inflows and FDI stocks in developing countries.



(A) FDI INFLOWS ($ Million).



(B): FDI STOCKS INWARD ($ Millions)



(C): FDI INFLOWS LAC COUNTRIES ($ Millions).

Figure 1: FDI inflows and FDI stocks in developing countries (Source: UNCTAD (2012)).

The rationale of the research is to inspect the relationship of institutional factors on FDI inflows

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in the Caribbean and Latin American region. These regions are selected because they are not just developing rapidly but a record number of FDI is seen in these regions in the past years despite the whole world was facing a global financial crisis. As a result of this crisis, the FDI level declined around 15 percent worldwide in the same time period.

2. LITERATURE REVIEW

Institutional factors and FDI are found in one of the substantial research areas for many researchers. (Asiedu, 2006) mentions that good infrastructure, low inflation rate, an endowment of natural resources and an efficient legal system are significant positive factors whereas corruption and political instability negatively affect FDI. Data set for the study covers the 22 SSA countries and the time period was from 1984 to 2000. Further research findings suggest that countries that lack natural resources can focus on the improvement of the quality of institutions in order to increase FDI inflow.

Du (2012) mentioned in their research that fortified institutional factors are one of the vital factors to attract FDI inflows. U.S. based multinational organizations are more tend to invest in the countries having less political and government influence in the business sector, enforcement of contracts and protection of property rights. For the purpose of this study, data obtained from 6288 U.S. multinational firms investing in China. Bénassy-Quéré et al. (2007) find that better institutional factors encourage FDI inflows independently from GDP per capita. Further, their results show that bureaucracy, corruption, and the quality of the legal system and financial sector are the main factors influencing FDI inflows. Tight labor laws, institutional divergence and low capital concentration negatively affect the inflows of FDI.

Pajunen (2008) finds that the choice of a country for investment is not influenced by a single factor but a combination of factors makes an origin attractive or unattractive for investment by using fuzzy method analysis. In this study, the sample is taken from 47 countries and he suggests that multiple factors like political stability, civil rights, political liberties, property rights, taxation policies, and corruption affect FDI. Ali et al. (2008) used data set of 107 countries for the period of 1981 to 2005 and finds that institutional factors like expropriation risk, rule of law and property rights are the key factors that significantly affect FDI.

Ali (2010) shows that institutional factors are an important determinant of Foreign direct inflows. Seyoum (2009) finds the association of Foreign direct investment inflows with the quality of institutions by using the dataset from 125 countries and results suggest that institutional quality has a positive association with FDI inflows in host country whereas inverse relationship exists if institutional distance increases between host and home country. When compared with other factors affecting FDI like infrastructure quality, tax levels. Other factors that affect FDI i-e tax shields, the stability of macroeconomic indicators, quality of infrastructure and market size, it has also been observed that intellectual property rights are taken as a significant influence by investors and if it is disregarded or controlled then the importance of other factors will become weaker. Furthermore, the quality of institutions affects more manufacturing and service FDI than primary FDI. Utilizing the data of 69 countries for the time period of 1981 to 2005, Walsh & Yu (2010) used Gaussian mixture model and examined the relationship of various macroeconomic factors and institutional factors of

FDI as well by using the data set of 27 countries from emerging and developed countries from the period of 1985 to 2008. FDI data for a particular study was distributed into the territory investment sector, primary investment sector and secondary investment sector. Results prove a minimal dependence by selecting specific determinants of FDI whereas territory based and secondary sectors are influenced by these determinants. Different macroeconomic factors such as inflation corruption and openness had less effect on the manufacturing sector than service sector whereas exchange rate had inverse influence and have strong effect on the manufacturing sector than the service sector. Therefore, this scenario increases the secondary sector FDI inflow.

Dutta & Osei-yeboah (2010) find that in the presence of better human capital, adequate civil freedom, political freedom, and strong public and economic institutions, countries are likely to attract more in those regions. In this study, panel data arranged for more than 76 developing countries for the period of 1980 to 2003 and reveals that FDI inflows became worse in the presence of weak economic institutions regardless of heavily investing in the human capital. Morris & Aziz (2011) study 57 countries from Asia and SSA regions from the period of 2000 to 2005 and find that there is a positive relationship between FDI inflow and ease for starting up a business in the host country at both combined levels and separately for Asia and SSA regions. Their work also reveals different factors for ease to start a new business for different regions like for Asia; across the border trading and contract enforcement capacity is found significant with FDI whereas protection of investors and availability of credit lines is significant for SSA region. On the other hand, multinational firms are more sensitive to market size and not influenced by the ease to start a business according to the findings of this research.

Azam et al. (2011) find that institutional quality and a good economic policy play an important role in attracting FDI inflows and they worked on 12 years of panel data of seven countries. At the same time, poor economic policy leads to the deterioration of the quality of institutes and negatively affects FDI. Paulo & Pinheiro-alves (2011) worked on 45 countries from the period of 2006 to 2008 and reveals the effects of economic, institutional and business aspects in FDI flows. Their findings suggest that ease to start a business, quality institutions, good economic performance, low political interference, and policy implication environment has a significant effect on FDI inflows. Moreover, they suggest that tax shields, market share, economic stability, investor protection, less interference from government, financial system independency, property rights, flexible labor-oriented environment economic liberalization, and freedom all have a significant impact on the inflows of FDI. Further findings suggest that independent financial systems, licensing procedures, and tax regimes are important factors that need reforms in Portugal.

Du et al. (2012) study cultural distance and institutional factors and its relationship with FDI inflows using 1993-2001data from China regions. The result show that regions that are culturally distant have more aversion to areas with low institutional factors. Existing evidence is stronger for fully owned enterprises than joint ventures. Different explanatory factors of institutional factors have a negative impact on FDI inflows whereas cultural distance has a positive impact. Interventions from Government or governmental influence are positively related to FDI inflows while having a negative effect on cultural distance. In cases where intellectual property rights found stronger also has a significant positive impact on distance culture and FDI inflows. The impact of

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corruption on cultural distance is surprisingly positive whereas it is negative with FDI inflows.

Tintin (2013) examines the effect of institutions on FDI inflows in central and. By using the panel least square technique on the of Eastern Europe countries for the period of 1996 to 2009, it is found that the relationship of the institutional variable by controlling traditional macroeconomic variables is positive with FDI. The rest of the institutional variables like civil rights and political liberties are less impacted. While studying the different factors of FDI, different sector divisions are taken in to account like services manufacturing and primary sectors and results show that these determinants are important only for the manufacturing sector. Mengistu & Adhikary (2011) finds that a positive relationship between governance and FDI inflows. Further factors like government quality, corruption control, peaceful environment and existence of rule of law also have a positive impact on FDI inflows while regulations have a negative impact on it. Sufficient human workforce, growth of GDP and quality of infrastructure have a positive and significant relationship with FDI inflows whereas data set for this particular study is taken from 15 Asian countries and covering the period of 1996 to 2007. Hashim & Alexiou (2011) reveals that the quality of institutions positively affects the growth of the country and for this study, they take panel data of 27 SSA countries for the period of 1984 to 2003. This study shows that the stability of the government and socioeconomic conditions of a country that are representing the factors of institutional quality have a positive impact on the economic growth of the countries whereas corruption is found as an insignificant but positive factor for the growth of countries. The countries just focusing on macroeconomic factors but lacking in institutional quality are not good in attracting FDI inflows. Other factors like local investment and trade have positive impact on FDI inflows but in case of local investment, results are insignificant while for trade results are significant. Growth of per capita GDP is also insignificant with FDI inflows. Furthermore, quality of institutions is negatively significant with FDI inflows.

Bissoon (2012) finds that institutional factors have a positive association with foreign direct investment inflows and he takes data of 45 countries from Latin America, Africa, and Asia. The research shows that the common effect of several institutions is a better and long-lasting measure than the advanced single measures that are affected by governance factors. Low fraudulent institutions that are also a proxy of the stable macroeconomic indicator also have a positive association with foreign indirect investment inflows. At the same time political stability, independent media, and fair regulatory background also have a positive relationship with FDI inflows. (Buchanan, Le, & Rishi, 2012b) use data set of 164 countries from all around the world for the period of 1996 to 2006 and finds that the quality of institutions has a positive impact on the FDI.

Azam & Hassan (2013) find that FDI positively affects the growth of a country whereas corruption negatively affects the growth of countries using five South Asian countries data and covers the period 1985-2011. Azam & Hassan (2013) find in one of his studies on nine Asian countries for the data from 1985 to 2012 that factors of bad governance like corruption and high inflation rates are negatively related to GDP. The findings of Azam & Ahmed (2015) reveal that human capital is one of the essential and has a significant role in the growth of a country and FDI plays a facilitating role in the promotion of economic growth in Commonwealth countries.

3. DESCRIPTION OF DATA AND METHODOLOGY

3.1 DATA SOURCES

Using the panel data from 1995-2015 the study has developed the model to see the effect of institutional factors on FDI inflows in LAC countries. The data used in the paper is taken from various sources that include UNCTAD, (Kaufmann, 2010), World Bank and from educational attainment 1950-2010 (Barro & Wha, 2013). Natural logarithm (ie., Ln(1+variable)) is used instead (Banassy-Quere et al., 2007) of a simple logarithm to solve the zero values problem. Table 1 describes the variable's list and their sources.

Table 1: Explanation of Variables and Sources of Data.

Variables	Explanation of the variables	Sources of data
FDI	FDI stock is used in the study because of its less volatile nature.	(UNCTAD) United Nations
Institutional factors	Voice & accountability and Regulatory quality are used as a proxy for Institutional factors.	Kaufmann et al (2015), World governance indicator 2015
Openness	Total imports+ Total Exports divide by GDP is a proxy for openness.	World Development Indicator (2015)
Market Size	Market size takes the proxy of the total population	
Human capital	Total education, as well as the primary, secondary and tertiary level of education, is a proxy for human capital	Barro and Lee
Development level	Per capita GDP is used as the development level proxy.	World Development Indicator 2015

3.2 SPECIFICATION OF MODEL

To examine the role of Institutional factors in attracting FDI inflows in a region, following Buchanan, Le, & Rishi (2012a), Gani (2007), Mengistu and Adhikary (2011), the model takes the functional form as

$$FDI_{jt} = f(Market\ size, Develpment\ level, Openness, Human\ capital, Institutional\ Economics) \quad (1),$$

where the dependent variable is the log of FDI stocks. Among the Independent variables, the variable of interest is Institutional factors and are taken from governance indicators and control variables following the literatures (Mengistu & Adhikary, 2011), (Buchanan et al., 2012a) and (Gani, 2007) include traditional variables that effects FDI and were chosen because of their natural association with FDI. Institutional factors along with the control variables are taken to see the effect of institutional factors on FDI inflows in LAC countries.

Symbol j=1, 2 …..n shows represents cross-sections; t shows time duration i.e. t=1, 2……T, from 1995s to 2015 and N denotes the number of countries where the model includes 24 countries.

Equation (1) shows the log-linear form of the model,

$$FDI_{jt} = \alpha_{\circ} + ln\beta_1 \text{population} + ln\beta_2 \text{GDPpc} + ln\beta_3 trade + ln\beta_4 \text{Education} + ln\beta_5 \text{RQ} + ln\beta_6 \text{VA} + \varepsilon_{jt} \quad (2),$$

where FDI_{jt} uses FDI stock as a proxy for FDI , RQ: Regularity Quality and VA: Voice & Accountability is used as a proxy for Institutional factors, Trade:Imports plus exports divide by GDP is used as a representation for openness, pop: uses Population as a substitution for market

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size, GDPpc: uses GDPpc as a development level proxy, education: Education is used as a substitution for human capital.

4. RESULT, ESTIMATION, AND DISCUSSION

4.1 DESCRIPTIVE STATISTICS

Table 2 signifies the descriptive statistic with the mean value of 21.218 for the FDI inflows having a sample range of 15.451 min value of 15.451 and 25.992 max value. This indicates that FDI inflows received are different in different countries under consideration and in the selected time framework i.e. around 80% of FDI inflows in countries that includes Brazil, Argentina, Chile, Mexico, Peru, Colombia, while the remaining 20% FDI inflows in the other remaining Latin American and Carrabin Countries (LAC Economic Commission 2012). Voice and Accountability and Regulatory quality are used as a determinant for Institutional factors. The mean value of regulatory quality is -0.265 with the minimum value of -3.985 and a maximum of 0.787. Less disparity in the maximum and minimum values shows that resemblance in the governments of the selected sample of countries in their policymaking and implementation regarding the improvement of the private sector. V&A having a mean of -0.0283 with the minimum and maximum values range between -2.465 and 0.787. This illustrates the similarity among the sample of countries in their ability to elect their governments, freedom of speech and media and has control over the government's actions. Trade is used as a proxy for Openness with a mean of 25.288, minimum 24.755 value and the maximum value is 32.625. Differences among these values show the variation in the exports and imports received by selected countries. The market size displays the mean of 16.773 with the minimum and maximum value ranges between 12.237 and 18.199. The mean value of development level is 7.875 with the minimum and maximum values range between 5.587 and 12.295. All the countries used in the sample are developing and have a little deviation in their development level so there is little variation between the values of minimum and maximum of development level. The mean of human capital is 2.532, the minimum value of 1.776 and the maximum value is 3.952.

Table 2: Descriptive Statistics

Variables	obs	Mean	Median	Variance	Skewness	Kurtosis	Min	Max
Log FDI	442	21.218	22.063	25.832	-3.156	13.789	15.451	25.992
Log of Pop	442	16.280	16.773	3.762	-0.683	2.832	12.237	18.199
Log of GDPpc	438	7.875	7.870	0.8613	0.781	5.161	5.587	12.295
Log of trade	442	25.288	28.336	28.222	-4.257	21.652	24.755	32.625
Log of Education	442	2.532	2.626	1.316	-1.423	3.816	1.776	3.952
Log of RQ	442	-0.265	0.00	0.4243	-2.682	13.974	-3.985	0.787
Log of V&A	442	-0.0283	0.00	0.323	-1.446	6.866	-2.465	0.883

4.2 CORRELATION

Table 3 shows the correlation between the variables used in the model. Table 3 describes that FDI has a positive relationship to population which is a proxy for market size, trade (openness), GDPpc (development level), education (human capital), and regulatory quality (institutional factors). However, FDI indicates a strong correlation with regulatory quality and development level (Institutional factors).

Table 3: Pearson Correlation Matrix

Variables used in the study	Log of FDI inflows	Log of pop	Log of GDPpc	Log of trade	Log of education	Log of RQ	Log of VA
Log of FDI inflows	1.000						
Log of pop	0.563*	1.000					
Log of GDPpc	0.200*	-0.086	1.000				
Log of trade	0.482*	0.524*	0.217*	1.000			
Log of Education	0.658*	0.543*	-0.077	0.336*	1.000		
Log of RQ	0.186*	-0.067	0.431*	0.164*	-0.126*	1.000	
Log of V&A	-0.108*	-0.523*	0.441*	-0.167*	-0.313*	0.558*	1.000

**Significant at 0.05 level of significance*

4.3 REGRESSION RESULTS AND DISCUSSION

Generally, the results are logical because the explanatory power of R^2 is fairly high, there is no serious multicollinearity problem as most of the coefficients are statistically significant and F-ratio further reveals that all regressors together affect the response variable during the period under this study. The Breusch-Pagan test describes the issue of heteroscedasticity in the model as the probability is greater than 0.000 i.e. Probability > 0.000. The robust option is used to control for the problem of heteroscedasticity. Hausman test indicates the p-value of 0.345 i.e. Rest of the other assumptions are not having a significant impact on panel regression, mandatory assumptions are tested and controlled already. we are unable to reject H_0 and accept alternate H_1, and (Hausman, 1978) suggests the use of random over fixed effect. Table 4 express the outcomes after running the regression and controlling for heteroscedasticity. The results are based on random effect according to (Hausman, 1978) test (due to space limitation these results are not given in the paper).

Model 1 shows the results of the market size and has shown the positive and statistical relation of market size with FDI inflows. Market size seems to have an essential factor in attracting the variations in FDI inflows. Paulo & Pinheiro-alves (2011), Sekkat (2007), Tintin (2013), Trevino (2012) and Ali (2010) shows similar literature regarding the association of market size and FDI inflows.

In **Model 2,** we demonstrate the results of development level along with market size. GDPpc is a proxy for the development level. The result indicates the positive and significant relationship of development level with FDI inflows at 1%. The population is also along with GDPpc is also significant at 1%. Better development level and larger population make the countries attractive for FDI inflows because investors are interested in both the number of people and their ability and power of buying.

Model 3 includes trade along with other controlling variables as population and GDPpc in the model. (Gani, 2007) , (Tintin, 2013) and (F. A. A. Ali, 2010) in their studies show that the more open the country is for trade the more it attracts FDI. However, our result of trade with FDI inflows is statistically insignificant at this level.

Model 4 includes another variable i.e. Education with other variables. Different proxies including, primary, secondary and tertiary education and literacy rate to find the relation of human capital with foreign direct investment inflows. However, for the selected range of countries, secondary education is statistically and positively significant at 1%. Tertiary level education is also

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positive and statistically significant, however, primary education and literacy rate shows insignificant relation. (Bengoa & Sanchez-Robles, 2003) and (Mengistu & Adhikary, 2011) in their studies show the significance of human capital in enticing FDI inflows.

Model 5 includes RQ a proxy for Institutional factors. The results clearly demonstrate the statistically positive and significant association of regulatory quality with FDI inflows at 1 %. The results show that by adding the Regulatory Quality (a proxy for Institutional factors), the market size loses its importance however the development level and human development along with better institutions facilities will provide a feasible and attractive environment for increases the level of FDI inflows. (Daude & Stein, 2007)and (Gani, 2007) in their study shows a positive and significant association of RQ with Foreign direct investment inflows.

Model 6 includes we use Voice and Accountability instead of regulatory Quality as a proxy for Institutional factors to additionally see the association of Institutional factors and FDI inflows in Latin American and Caribbean countries. controlling variable Trade which is a proxy for openness here becomes positively significant at 10%. The result demonstrates that more openness, high level of development, educated human capital and better institutional factors attract the FDI inflows in the selected sample of LAC countries. However the market size losses its importance in the presence of better intuitional economics. (Daude & Stein, 2007), (Mengistu & Adhikary, 2011) and (Gani, 2007), shows a significant association of Voice & Accountability with FDI inflows.

Table 4: Results with Fixed Effect

Variable	Proxy	1	2	3	4	5	6	7	8	9
Market Size	LnPopulation	4.319*** -6.6177	1.588*** -2.0647	1.397* -1.8204	0.698 -0.7298	1.445*** -2.1002	0.491 -0.6995	1.228* -1.7315	0.695 -1.0612	0.596 -0.878
Development Level	LnGDPpc		1.3946*** -4.2964	1.4781*** -4.9369	1.5048*** -5.1872	1.4560*** -5.0155	1.3149*** -4.258	1.347*** -3.800	1.301*** -4.405	1.315*** -4.488
Openness	Lntrade			0.0278 -1.5706	0.0267 -1.5523	0.0291* -1.7321	0.0255* -1.7	0.0259 -1.6188	0.0223 -1.5274	0.0264* -1.6815
Human Capital	Lnliteracy				1.7799 -1.1231					
	Lnprimary					-0.3001 (-0.7145)				
	Lnsecoundry						0.9508*** -2.008		0.985*** -2.1672	0.9223** -1.9331
	Lntertiary							0.8532* -1.6902		
Economic institutions	LnRQ								0.2174*** -2.773	
	LnVA									0.260*** -2.4299
Observations (n)		441	437	437	437	437	437	437	437	437
R^2		0.4117	0.6153	0.6292	0.6347	0.6339	0.6571	0.6425	0.6671	0.6658

Note: ***, **, *shows significance at 1, 5 and 10 % respectively. Values in brackets are t-statistics values.

5. CONCLUSION

The paper demonstrates the role of institutional factors in attracting FDI inflows. Using the sample data of 24 LAC countries from 1995 -2015, the paper shows that institutional factors play a vital role in attracting FDI and the results are consistent with different control variables. So we can say that Institutional factors are the robust factor of FDI inflows. Along with other variables used like, human capital, market size, and trade, Institutional factors seem to have a greater effect in attracting FDI Inflows. However the results show GDPpc the proxy for development level seems as

equally significant as institutional factors, that is in the existence of high GDPpc intuitional economics enhances the role in receiving FDI inflows. Therefore, we can conclude from the empirical results that institutional factors are a significant factor that is considered by the investors when they invest abroad.

Along with the academic significance of the finding of this paper, the results provide suggestions for improving institutional factors in attracting FDI inflows. As shown in previous literature (Mengistu & Adhikary, 2011) provides insignificant relation of RQ with FDI inflows while (Gani, 2007) and (Daude & Stein, 2007) in their studies show a significant and positive association of regulatory quality with FDI inflows. Daude & Stein (2007), Gani (2007) and Mengistu & Adhikary (2011) reveals the insignificant association of voice and accountability with FDI inflows.

The results provide a conclusion about the role of voice and accountability and regulatory quality, which are, used as a proxy for institutional factors in the facilitation of attracting the FFDI inflows in LAC countries. Countries, if they want to attract FDI inflows in their regions, need to focus on providing a sustainable and feasible environment for the investors. The sustainable environment can be in various forms like the ease in starting a business, reducing the cost related to licensing procedures, making easy financing procedures for investors, attractive policies in the private sector for the investors and not only to make such policies but also try to implement these policies. Institutions and the political will of the people should be free and fair and people can have the right to control the actions of their governments.

6. AVAILABILITY OF DATA AND MATERIAL

Data can be made available by contacting the corresponding author.

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