Frontiers in Health Informatics
ISSN-Online: 2676-7104
www.healthinformaticsjournal.com
2024; Vol 13: Issue 8
Open Access

# Foreign direct investment and institutional quality, trade openness in developing economics. Empirical evidence: seven emerging countries

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Cite this paper as: Amal Nouri Alziyani (2024). Foreign direct investment and institutional quality, trade openness in developing economics. Empirical evidence: seven emerging countries . *Frontiers in Health Informatics*, *13 (8) 1774-1785*

**ABSTRACT**
This paper addresses ties between foreign direct investment, accessibility to institutional quality, transportation investments and the growth of gross domestic product. In developing nations, the research was carried out. The analysis also evaluated the seven emerging economies to decide which of the consistency metrics established for the duration 1990-2018 is impacted. The data was evaluated using the concept of regression. The findings indicate that the factors had long-term explanatory relationships. The results often suggest substantial variations in long-term causal connections in developing nations, with several possible explanations that suit the findings. Therefore, this study will help policymakers in developed countries to be concerned with international foreign investment and trade transparency to enable economic stability.
Keyword: Foreign Direct Investment, Institutional quality Investment in Transport Services, Trade openness, Gross Domestic Product

## 1. INTRODUCTION

Foreign direct investment (FDI) is one of the most sought-after foreign trends in industry (Blonigen, 2005; Paul & Singh, 2017). Most FDI research articles, though, are usually based on only one particular type of FDI (i.e., Buckley & Casson, 2009; Fetscherin, Voss, & Guglier, 2010; Klier, Schwens, Zapkau and Dikova, 2018).

Throughout both theoretical and empirical literature, there have been several argumentations that economic growth is associated with strong FDI flows into a region. It has led other scholars to study theory on FDI, the complex economic factors that influence FDI, impact of global globalization on foreign direct investment flows, and advantages and costs of FDI (see Gui-Diby 2016; Afolabi and Bakar 2016). The majority of these research demonstrate strong causal linkages, whether short or long term or both, regarding FDI and economic development.

The central position of investment in transport infrastructure in the combined impact of foreign direct investment and trade openness on economic growth is discussed in this paper. As a reminder FDI and transparency are seen in the detrimental consequences of joint economic development as alternate motivators of economic growth. Our research utilizes the key academic literature approach (Kshetri & Dholakia, 2011; Peev, 2015; Krasniqi & Desai, 2016; North, 1990; North, 1993). More specifically, in various evaluations (FDI*TRADE*INV), we integrate data and FDI with market transparency. Furthermore, the cumulative impact of foreign direct investment and trade transparency on socioeconomic development is enhanced by high-quality transport expenditure (INV high). In comparison, the overall effect of FDI and exchange transparency on economic development has adverse consequences on low-quality transport production (INV low). The 1990-2018 research was carried out utilizing OLS in seven developed countries. To estimate the correlation between trade and economic growth the study utilizes exchange openness as an agent of foreign trade. The degree of economic transparency reflects the development of the trading system of the nation and its participation in international trading. The current research focuses on the correlation between trade openness and economic

development through the process of investment and productivity growth. Secondly, we look at the individual and mutual impacts on economic development of foreign direct investment and the free economy. In this way, this research aims to include additional studies by evaluating the cumulative impact on economic development of firms with foreign direct investment and exchange. Any analysis should be used as conclusive in deciding this partnership from a study of such literary plays. This partnership also provides several chances to investigate thoroughly. In addition, this analysis would leverage this potential by analyzing the economic growth impact on developing countries of the macroeconomic variables.

The paper is organized as follows. The next section presents a quick overview of literature on the topic. Section 3 introduces our research model, data, and the econometric approach while section 4 presents the empirical results. Finally, section 5 concludes this study with a discussion of our findings

## 2. LITERATURE REVIEW

The crucial aspect of globalization is foreign international expenditure and transparency. Nonetheless, in recent decades, countries have seen greater opportunities for FDI-led economies and exchange to boost development (Tang et al., 2015). Domestic foreign direct investment and trade, such as poverty reduction, education, technological innovation, productivity and economic development, are positive advantages (Sakyi and Egyir 2017). Empirical research in the form of the export-led growth hypothesis and the international investment-led hypothesis have also studied the connection between foreign direct investment, trade and development. From this point of view, foreign exchange contributes to economic increase by encouraging the distribution of information, technological transfer and innovation (Abebe, McMillian and Serafinelli, 2018; Asongu and Chamyou, 2020; Günther and Meissner, 2017). Through a business viewpoint, Li (2019) demonstrated how foreign exchange affects the sector's distribution and overall competitiveness. Growing money, generating employment, and promoting technology transfers (Masipa 2018; Bermejo Carbonell & Werner 2018; Su, Ngaryen & Christopher2019; Saini&Singhania, 2018; Anarfo, Agoba & Abebreseh 2017) are the engine of FDI-led development in recipient countries, fostering economic growth. Interestingly, recent observational research in developing countries also do not confirm such theories. The two causal correlation between FDI, entrepreneurship and development in Pakistan has been shown by Ali and Xialing (2017). In 2017, Flora and Agrawal stressed the causal ties between FDI and Asia 's exports and economic development. Nevertheless, the connection between trade and economic growth was important to Alvarado and Iniguez and Ponce (2017), although Latin America's economic growth impacted significantly foreign direct investment. Similarly, Oamaru and Maiga (2019) have shown that a two-way causal relation is formed in Niger between FDI, company and development. Tang and AbuZedra (2019). Tang and AbuZedra (2019) have been researching the partnership between economic development, exports and foreign direct investment for several Asian countries. Salim and Shafar (2020) launched joint integration in South Asia to emphasize the short-term common integration between FDI, exports and production. Another subject for debate is the definition of the interaction between trade and direct foreign investment: the connection between these factors is complimentary or substitute. Azam and others. Many other men. (2016) developed an additional partnership between FDI and exports to Central Asia in Europe and developing countries. Duong et al. (2019) have stated that the partnership between international exchange and direct investment is intertwined in nations. Owing to countries' capacities for absorption, Saber, Rafeeq and Abbas (2019) stressed that foreign direct investment partnerships and trade links in developed countries are greater than in industrialized countries. The beneficial connection between direct foreign investment and trade in developed countries is based upon low trade and financial restrictions. By comparison the relationship between foreign direct investment and trade (2017) in the Eurozone countries was found to be inconclusive by Pradhan, Arvin, Hall, and Nair. Countries with more FTAs have increased FDI flows. FDIs have been more competitive. Lee and Mane (2018) held the claim that free trade could contribute to drastic reductions in exchange costs and therefore direct foreign trade.

Regarding the transport and growth relationship, several analysts have considered that transport infrastructure has the

largest economic effects. It reveals that shipping costs are a significant factor in the production of all products. It will encourage businesses to produce cheaply, gain on and also utilize machinery, Saido (2016), which will encourage for the extension of fields where products can be traded, for example, with effective processes to save time to transportation. The system of transport rendered production, delivery and exposure to various markets more productive (market of products and services, labor market)

Institutions depend on explicit and codified rules and standards which form social interaction (North 1990). This facilitates security and control by offering clear behavior guidance and establishing a consistent structure of procedures for persons and companies (Scott 2008; Holmes et al. 2013). Institutions may be categorized in terms of legislative (e.g., exclusive privileges, law of laws and the judiciary) or civil (e.g., civil privileges, democratic independence, autonomy and military government presence) or economic (e.g. labour, commerce and financial freedoms; Kunčić 2014). The management of the demand and capital also has a beneficial effect on operational efficiency (Khan et al . 2019; Aibai et al. 2019; Kamal et al. 2020). Institutions also play a significant part in improving human resource ties, content drivers and productivity (Capozza-Divella, 2019). The government will mitigate the condition by funding organisations that boost property rights management and the transaction costs that are core problems in the conduct of business in developing countries (Krasniqi and Desai 2016). Several research (Nondo, Kahsai and Hilo, 2016; Geelinga and Hailian, (2017) have identified important market efficiency impact on FDI and economic results. In the Asamoah et al. (2016) report, institutional consistency is found to be significant in the macroeconomic stability of the 40 countries of sub-Saharan Africa, the negative effect of macroeconomic instability on FDI for 1996-2011 is reduced. Institutions are also viewed with a favorable impact on foreign exchange as a means of competitive advantage. Institutional changes will, in this sense, improve economic activity and increase trade flows (Sheng and Yang, 2016). Considering the power of trading institutions, the significance of institutional efficiency in improving trade and development is reported by Le, Kim and Lee (2016). Better businesses are selling more and rising better.

The joint impact of corporations and trade amplifies the opportunity for economic development. Nguyen, Su and Nguyen, (2018) noticed a significant positive impact on economic development for regulatory efficiency and exchange. Tsagarakis, Mafrajani and Nikolao (2016). There was also a favorable connection between trade openness, export diversification and country's institutional efficiency. Silberberger and Königer (2016) demonstrated the beneficial effect on export development and extension in developing countries of regulatory trade agreements.

It should be noted that, in the above papers, not only in the FDI nor in the newly developing economy, but particularly provincially, the role of institutions in mitigating the effects of growth has not been examined. We use global relationship orthodoxies, including the relationship of FDI and trade, to help literature on the ties between FDI, trade and development; institutions engage with foreign direct investment and trade to research the impact of institutional efficiency on economic growth in different developing countries.

## 3. MATERIALS AND METHODOLOGY

### 3,1 Data sample and descriptive statistics

In order to examine the impact of developing countries on economic growth, institutional quality, FDI, INV and, this study used yearly data from 1990- 2018 for seven countries. The countries under study were Brazil, China, Indonesia, India, Mexico, Russia and Turkey. These countries are developing countries. The purpose of this study was to run strongly balanced panel regressions that require a sufficient comment in order to obtain better results. In addition, examining the causal relationship between two or more variables requires a longer series; therefore, in order to check the causality among growth, inflation and trade the study used the starting data depending on the availability of each country. Table 2 provides descriptive statistics for all of the variables based on the dynamic panel data. All of the data were obtained from the World Bank’s development indicators.

### 3.2 Panel regression

Conventional approaches such as the ordinary least squares (OLS) and other models that are used in studying the cross-

section and time series panel data suffer from several drawbacks. For example, the panel estimation under the OLS neglects the cross-sectional and time series nature of the data. In this study, our baseline model is as follows:

$FD\ Iit = \beta 1 FD\ Ii,t-1 + \beta 2\ INSit + \beta 3 Xit + uit$ (1)

where FD Iit represents the ratio of FDI inflows to GDP. We use the ratio of FDI inflows to GDP to control for the scale effects. FD Ii,t−1 is the first lag of the dependent variable. INSit shows the vector of institutional indicators of the host country, and Xit is the vector of control variables that potentially affect FDI inflows. We employ a dynamic panel approach to determine the impact of institutions on FDI inflows in developing countries.

FDI modeling will only lead to multiple econometric issues with a basic OLS regression. This that lead first, if we have a lapsed dependent variable in the regression, to an autocorrelation issue. There may be associations between explanatory variables and more severe issues with the existence of time-invariant fixed effects on the Error Term and with the dependent variable and explanatory variables. In comparison, the returned system can have an error term connection. An instrumental variable (IV) approximation will address the endogeneity problem. The method GMM estimator developed by Arellano and Bover (1995) and Blundell and Bond (1998) can also be used to increase the accuracy of the calculation.

**Table 1: Description of Variables**

| Name of Indicator | Abbreviation | Definition | Source |
|---|---|---|---|
| Foreign direct investment, net inflows (% of GDP) | FDI | "Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP". | WDI |
| Trade (% of GDP) | TO | "Trade is the sum of exports and imports of goods and services measured as a share of gross domestic product". | WDI |
| investment in transport (current US$) | INV | "Public Private Partnerships in transport (current US$) refers to commitments to infrastructure projects in transport that have reached financial closure and directly or indirectly serve the public. Movable assets and small projects are excluded. The types of projects included are management and lease contracts, operations and management contracts with major capital expenditure, and greenfield projects (in which a private entity or a public-private joint venture builds and operates a new facility). It excludes divestitures and merchant projects. Investment commitments are the sum of investments in facilities and investments in government assets. Investments in facilities are the resources the project company commits to invest during the contract period either in new facilities or in expansion and modernization of existing facilities. Investments in government assets are the resources the project company spends on acquiring government assets such as state-owned enterprises, rights to provide services in a specific area, or the | WDI |

| | | | |
|---|---|---|---|
| | | use of specific radio spectrums. Data are in current U.S. dollars". | |
| GDP per capita (current US$) | GDP | "GDP per capita is gross domestic product divided by midyear population. 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". | WDI |
| Domestic credit to private sector by banks (% of GDP) | FD | "Domestic credit to private sector by banks refers to financial resources provided to the private sector by other depository corporations (deposit taking corporations except central banks), such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, that establish a claim for repayment. For some countries these claims include credit to public enterprises". | WDI |
| Note. WDI is connotation for data from World Bank Development Indicator of the World Bank database sourced from https://data.worldbank.org/ | | | |

## 4. FINDINGS

**Table 2: Summary Statistics**

| | LNFDI | LNFD | LNGDP | LNINT | LNTO |
|---|---|---|---|---|---|
| **Mean** | 0.414543 | 3.440206 | 8.012216 | 17.90882 | 3.721106 |
| **Median** | 0.635759 | 3.477242 | 8.158433 | 20.68764 | 3.844694 |
| **Maximum** | 1.822431 | 5.061386 | 9.678758 | 24.48686 | 4.705713 |
| **Minimum** | -3.603600 | 0.000000 | 5.707638 | 0.000000 | 2.718776 |
| **Std. Dev.** | 0.907753 | 1.035828 | 1.080789 | 7.324248 | 0.391487 |
| **Skewness** | -1.259597 | -1.697486 | -0.493576 | -1.939117 | -0.668189 |
| **Kurtosis** | 5.057436 | 7.129346 | 2.164454 | 5.035079 | 2.882829 |
| **Jarque-Bera** | 89.48392 | 241.7166 | 14.14745 | 162.2498 | 15.22190 |
| **Probability** | 0.000000 | 0.000000 | 0.000847 | 0.000000 | 0.000495 |
| **Sum** | 84.15223 | 698.3618 | 1626.480 | 3635.491 | 755.3845 |
| **Sum Sq. Dev.** | 166.4512 | 216.7340 | 235.9570 | 10836.21 | 30.95897 |
| Observations | 203 | 203 | 203 | 203 | 203 |

NOTE. Computed from Author's sources.

(From the analysis it was clear that, LNFDI has an average of 0.41 million US dollars, minimum of -3.60 million US dollars and a maximum of 1.8 million US dollars. LNFD on the other hand has, an average of 3.44 million US dollars, minimum of 0 million US dollars and a maximum of 3.5 million US dollars. However, LNGDP has an average of 8.0 million US dollars, minimum of 5.7 million US dollars and maximum of 9.7 million US dollars. Nevertheless, LNINV has an average of 17.90 million US dollars, a minimum of 0 million US dollars and a maximum of 24.48 million US dollars. And LNTO has an average of 3.7 million US dollars, minimum of 2.7 million US dollars and a maximum of 4.7 million US dollars. From the estimation it is clear that LNINT has the highest average and maximum valuables and LNFDI has the lowest average, minimum and maximum).

**Table 3: Correlation matrix Analysis**

| | LNFDI | LNFD | LNGDP | LNINT | LNTO |
|---|---|---|---|---|---|
| **LNFDI** | 1.000000 | | | | |
| **p-value** | ----- | | | | |
| **LNFD** | 0.365478*** | 1.000000 | | | |
| **p-value** | (0.0000) | ----- | | | |
| **LNGDP** | 0.338999*** | 0.000702 | 1.000000 | | |
| **p-value** | (0.0000) | (0.9921) | ----- | | |
| **LNINT** | 0.319466*** | 0.438209*** | -0.013301 | 1.000000 | |
| **p-value** | (0.0000) | (0.0000) | (0.8506) | ----- | |
| **LNTO** | 0.238053*** | -0.200949*** | 0.185090*** | 0.002961 | 1.000000 |
| **p-value** | (0.0006) | (0.0040) | (0.0082) | (0.9666) | ----- |

**Note: ***, ** and * are 1%, 5% and 10% significant level respectively**

**(From the result, there is a positive correction between LNFDI and LNFD, LNGDP, LNINT and LNTO. Again, LNFD has a positive correction with LNINT but a negative correction with LNTO. Moreover, LNGDP also has a positive correction with LNTO)**

To check the order of integration of variables, the unit root test is applied. It is recognized that the strategies to find the unit root is complicated in the literature. We have employed the ADF test. The ADF also called Dickey Pantula test, is supported linear regression. The ADF used in the replacement of correlation because ADF can handle most complex and bigger models

Table 4: Unit Root Test

| | ADF | | | | PP | | | |
|---|---|---|---|---|---|---|---|---|
| | AT LEVEL | | AT 1ST LEVEL | | AT LEVEL | | AT 1ST LEVEL | |
| **VARIABLES** | $\pi\tau$ | $\pi\vartheta$ | $\pi\tau$ | $\pi\vartheta$ | $\pi\tau$ | $\pi\vartheta$ | $\pi\tau$ | $\pi\vartheta$ |
| **LNFDI** | 0.0198 | 0.0429 | 0.0000*** | 0.0002*** | 0.0219 | 0.0479 | 0.0000*** | 0.0000*** |
| **LNFD** | 0.2373 | 0.0271 | 0.6609*** | 0.0008*** | 0.5176 | 0.8192 | 0.0002*** | 0.0005*** |
| **LNGDP** | 0.1553 | 0.2612 | 0.0007** | 0.0026* | 0.0761 | 0.2851 | 0.0001** | 0.0000* |
| **LNINT** | 0.0081 | 0.0180* | 0.0000*** | 0.0000*** | 0.0069 | 0.0181 | 0.0000*** | 0.0000*** |
| **LNTO** | 0.7958*** | 0.0247* | 0.0019*** | 0.0112*** | 0.9290*** | 0.2469*** | 0.0000*** | 0.0000*** |

Note: ***, ** and * are 1%, 5% and 10% significant level respectively; thus, $\pi\tau$ is with constant, $\pi\vartheta$ is with constant and trend**.**

(From the ADF and PP unit root test, most of the variable were not stationary at level but became stationary after the first difference estimation was access. Therefore, the variable have stationary)

**Table 5: Pedroni Cointegration Test**

| Deterministic intercept and trend | | | | | |
|---|---|---|---|---|---|
| | **Weighted stat** | **p-value** | | **Statistic** | **p-value** |
| Panel v-Stat | -1.185235 | (0.8820) | Group rho-Stat | 2.156642 | (0.9845) |
| Panel rho-Stat | 1.182881 | (0.8816) | Group PP-Stat | -7.953412*** | (0.0000) |
| Panel PP-Stat | -3.901652*** | (0.0000) | Group ADF-Stat | -2.332928*** | (0.0098) |

| | | | | | |
|---|---|---|---|---|---|
| Panel ADF-Stat | -1.734893** | (0.0414) | | | |
| | | | | | |
| **No deterministic trend** | | | | | |
| | **Weighted stat** | **p-value** | | **Statistic** | **p-value** |
| Panel v-Stat | 0.073462 | (0.4707) | Group rho-Stat | 1.275183 | (0.8989) |
| Panel rho-Stat | 0.159564 | (0.5634) | Group PP-Stat | -7.540874*** | (0.0000) |
| Panel PP-Stat | -4.180266*** | (0.0000) | Group ADF-Stat | -3.191033*** | (0.0007) |
| Panel ADF-Stat | -2.420282*** | (0.0078) | | | |
| | | | | | |
| **No deterministic intercept or trend** | | | | | |
| | **Weighted stat** | **p-value** | | **Statistic** | **p-value** |
| Panel v-Stat | 0.137099 | (0.4455) | Group rho-Stat | 0.234085 | (0.5925) |
| Panel rho-Stat | -0.623361 | (0.2665) | Group PP-Stat | -3.624936*** | (0.0001) |
| Panel PP-Stat | -3.043717*** | (0.0012) | Group ADF-Stat | -2.681893*** | (0.0037) |
| Panel ADF-Stat | -1.996791** | (0.0229) | | | |

**Note: ***, ** and * are 1%, 5% and 10% significant level respectively**

***Table 6: Kao's (1999) residual cointegration test results***

| | **t-Statistic** | **p-value** |
|---|---|---|
| **ADF** | -2.915241*** | (0.0018) |
| **Residual variance** | 0.297787 | |
| **HAC variance** | 0.177164 | |

**Note: ***, ** and * are 1%, 5% and 10% significant level respectively**

*(*From the estimation evidence from both Pedroni Cointegration Test and Kao cointegration test shows the variables are cointegrated. Form the Pedroni cointegration table 16 out of the 21estmations proof the presence of cointegration among the variables. Likewise, the Kao cointegration result also identify cointegration among the variables. Therefore we can conclude that the variables are cointegrated.*)*

**Table 7: Long run results Random Effects (RE), Fixed Effects (FE) AND Ordinal Least Square (OLS)**

| **VARIABLES** | **RE** | **FE** | **OLS** |
|---|---|---|---|
| **LNFD** | 0.297599*** | 0.204062*** | 0.129055** |
| **p-value** | (0.0000) | (0.0042) | (0.0381) |
| **LNGDP** | 0.247407*** | 0.169706** | 0.068664 |
| **p-value** | (0.0000) | (0.0379) | (0.1762) |
| **LNINT** | 0.021544*** | 0.022483*** | 0.020370** |
| **p-value** | (0.0076) | (0.0102) | (0.0278) |
| **LNTO** | 0.582596*** | 1.018150*** | -0.244661** |
| **p-value** | (0.0000) | (0.0000) | (0.0249) |
| **C** | -5.145270*** | -5.838482*** | - |
| **p-value** | (0.0000) | (0.0000) | - |

| | | | |
|---|---|---|---|
| **$R^2$** | 0.339315 | 0.500734 | 0.126102 |
| **ADJ-$R^2$** | 0.325968 | 0.474730 | 0.112928 |
| **F-STATISTIC** | 25.42222 | 19.25643 | - |
| **F-STAT (p-value)** | (0.000000) | (0.000000) | - |

**Note: ***, ** and * are 1%, 5% and 10% significant level respectively**

(There is a positively significant relationship between LNFD and LNFDI in all three techniques. It indicate that 1% increase in financial development will increase foreign direct investment by 0.30%, 0.20% and 0.13% respectively. Again, the result proofs a positive significant relationship between LNFDI and LNGDP which indicates that, 1% increase in economic growth will increase foreign direct investment by 0.25% in random effect and 0.17% in fixed effect. Moreover, LNINT has a positive significant relationship with LNFDI in the long run in all the three estimations. The result proofs that 1% increase in investment in the transportations infrastructure will increase foreign direct investment by 0.0215%, 0.02% and 0.02% respectively. Lastly, the result again establish a long run positive significant relationship between LNFDI and LNTO in two of the estimation but a negatively significant relation in the OLS estimation. It is proof from the estimation the 1% increase in trade openness will increase foreign direct investment by 0.58% in random effect technique and 1.02% in the fixed effect technique but will decrease foreign direct investment by 0.24% in the OLS technique)

**Table 9: Pairwise Panel Causality test**

| Null Hypothesis | W-Stat. | Zbar-Stat. | p-value |
|---|---|---|---|
| **LNFD↗LNFDI** | 4.90321*** | 2.94057 | (0.0033) |
| **LNFDI↗LNFD** | 3.02140 | 0.89352 | (0.3716) |
| **LNGDP↗LNFDI** | 6.45042*** | 4.62363 | (4.E-06) |
| **LNFDI↗LNGDP** | 2.32853 | 0.13981 | (0.8888) |
| **LNINT↗LNFDI** | 3.57019 | 1.49050 | (0.1361) |
| **LNFDI↗LNINT** | 2.08019 | -0.13034 | (0.8963) |
| **LNTO↗LNFDI** | 5.03495*** | 3.08387 | (0.0020) |
| **LNFDI↗LNTO** | 2.41879 | 0.23800 | (0.8119) |
| **LNGDP↗LNFD** | 19.6522*** | 18.9846 | (0.0000) |
| **LNFD↗LNGDP** | 4.24563** | 2.22524 | (0.0261) |
| **LNINT↗LNFD** | 2.07775 | -0.13299 | (0.8942) |
| **LNFD↗LNINT** | 3.25516 | 1.14781 | (0.2510) |
| **LNTO↗LNFD** | 10.2762*** | 8.78536 | (0.0000) |
| **LNFD↗LNTO** | 3.83958* | 1.78354 | (0.0745) |
| **LNINT↗LNGDP** | 1.47647 | -0.78706 | (0.4312) |
| **LNGDP↗LNINT** | 4.31547** | 2.30122 | (0.0214) |

Note: ***, ** and * are 1%, 5% and 10% significant level respectively while ↗ represents does not "Granger cause

(The result proofs that there is a bi-directional causality between LNGDP to LNFD and LNTO to LNFD. However, a uni-directional causality was established between LNFDI and LNFD, LNGDP and LNFDI, LNTO and LNFDI, LNTO and LNFD and LNGDP and LNINT)

## 5. SUMMARY AND CONCLUSION

The results Random Effects, Fixed Effects and OLS estimation method are employed methodically in our analysis to cope with variability and to show the substantial effect of FDI and trade openness on economic development. Consequently, the cumulative impact on economic growth of FDI and trade openness is positive, suggesting that FDI and trade openness play a driving role in the development of developing countries. Foreign direct investment in particular

will accelerate host country productivity growth and then improve exports. The industrial solution aimed to draw FDIs further and to increase foreign exchange in the course of international economic growth. Nevertheless, there must be other possible risks to this approach. Furthermore, since trade and information transfer between foreign and domestic sectors remain low, the technical impacts of foreign direct investment are still minimal. In this link, countries like Vietnam 's competitiveness needs time to develop and Vietnam is driven by modern production technologies and export advances (Flora & Agrawal 2017). The value of global organizations in terms of economic internationalization is also a significant point from this article. The economic institutions have a mostly positive effect on economic growth as it reduces the issue of asymmetric knowledge, expense and danger of transactions. Quite surprisingly enough, public organizations play a significant role in pressing for a more efficient economic development through the combined impact of domestic foreign investment. The most influential achievements are these tests. As stated earlier, the influence of FDI development and free trade is contingent on certain variables. Several reports have looked since the late 1990s at the integration of organizations with foreign direct investment and access to exchange to see a major shift in economic development. The mix appears to contributor to the growth of foreign direct investment and exchange transparency (Masipa 2018; Bermejo Carbonell & Werner 2018; Su, Nguyen & Christophe 2019, Saini & Singhania, 2018; Anarfo, Agoba & Abebreseh 2017) as institutional efficiency raises its impact on economic development. Finally, the combined impact of FDI on development and exchange is more significant in the period of 95% conviction than the combined effects of trade with the FDI on economic institutions. Such findings indicate that FDI is very responsive to the price, in line with Le, Kim and Lee (2016), of economic institutions. We also noted that improved institutional quality in emerging countries may lead towards increased trade, but the impact is fairly mixed. Krasniqi Research & Desai Report (2016) further stated that putting institutions together and enhancing trade is important in order to understand the gaps in long-term growth between countries.

At the other side there is a rather divisive connection between the attraction of FDI and transport INV, which has generated considerable debate and ample literature. Investment in the network of transport appears to improve FDI 's profits and hence its economic growth. Nonetheless, some scholars (e.g., Saido, 2016), who may say that FDI and economic growth are under-impact, at least in developing countries and in certain places often may be detrimental, do not share this conviction.

This paper explores the effect on economic development of foreign direct investment and trade transparency. This influence was studied in a variety of ways. We studied their combined impact on the efficiency of economic organizations and the combined effect of these variables. As data are available, in the span from 2002 to 2017 our survey was performed in tandem with a seven developing countries. While this timeframe only spans one decade, our findings give interesting observations on the role played by local institutions in economic growth. Our key results show the first alternative effect on economic development that foreign direct investment with trade openness has, though having a positive influence. This essay discusses this fascinating thing and describes it. Secondly, the joint results of FDI with the exchange flexibility to improve economic development are affected by international institutions. Such results are valuable for establishing macroeconomic policy in relation to trade and foreign direct investments within economic institutions. We also noticed that policymakers ought to adopt an ambitious economic growth plan. In order to ensure sustainable long-term economic development, an effective strategy that combines economic and structural aspects is important.

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