



The Impact of Foreign Direct Investment (FDI) on Institutional Quality and Economic Growth in Tunisia: An Economic Analysis

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Abstract: This study aims to analyze the impact of Foreign Direct Investment (FDI) on institutional quality and economic growth in Tunisia using statistical analysis via SPSS software. A purposive sample of 300 participants was selected, including investment officials, representatives of governmental bodies, economic experts, and academics. The study relied on primary data collected through surveys, in addition to secondary data from official sources such as the World Bank and the National Institute of Statistics in Tunisia. Various statistical tools were used, including frequency analysis, Pearson correlation test, and multiple regression analysis to examine the relationship between the variables.

The results indicated a strong positive relationship between FDI and institutional quality in Tunisia, with a correlation coefficient of 0.72 ($p < 0.01$), indicating a significant positive effect. Furthermore, FDI was found to have a positive impact on economic growth, with the multiple regression analysis showing an effect size of 0.65 ($p < 0.05$). When institutional quality was included as an intermediary variable, the effect size increased to 0.79, reinforcing the role of institutional quality in enhancing the impact of FDI on economic growth in Tunisia.

Keywords: Foreign Direct Investment (FDI), Institutional Quality, Economic Growth, Governance, Transparency, Legal Stability, SPSS, Multiple Regression Analysis, Pearson Correlation Coefficient, Tunisia.

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Introduction

Foreign Direct Investment (FDI) is a pivotal factor influencing economic development in developing countries, as it contributes to capital inflows, technology transfer, and enhanced productive efficiency. In recent decades, Tunisia has experienced significant growth in FDI inflows, particularly after the economic reforms aimed at improving the business environment and strengthening institutional governance. However, questions remain regarding the impact of these investments on institutional quality and economic growth, especially amidst the political and economic challenges faced by the country.

Improving institutional quality is a fundamental pillar for attracting foreign investments and maximizing their benefits. Studies indicate that countries with strong institutional frameworks benefit more from FDI flows compared to those with weak governance and

transparency (Acemoglu & Robinson, 2022). Effective institutions ensure the protection of investors' rights, reduce corruption, and promote economic stability, which positively impacts economic growth rates (World Bank, 2023). In contrast, institutional weakness can diminish the effectiveness of foreign investments, limiting their contribution to economic development (IMF, 2023).

In this context, this study aims to analyze the relationship between FDI, institutional quality, and economic growth in Tunisia by exploring the perceptions of economic actors on the impact of FDI on the institutional environment and macroeconomic performance. The study also seeks to test the role of institutions as an intermediary between FDI and economic growth, providing recommendations for policymakers to enhance the investment climate and achieve sustainable economic development.

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1. Definition of Key Terms

A. Foreign Direct Investment (FDI)

Foreign Direct Investment (FDI) is defined as a long-term investment made by a foreign investor in a particular country with the goal of establishing or expanding economic projects, which leads to the transfer of capital, technology, and managerial knowledge. According to the International Monetary Fund (IMF, 2023), FDI is characterized by control or managerial influence over the target project, as opposed to financial investments, which are limited to purchasing shares without direct managerial impact.

B. Institutional Quality

Institutional quality refers to the efficiency and independence of governmental, legal, and economic institutions within a country, which is a key factor in enhancing economic growth and attracting investments. Institutional quality includes elements such as the rule of law, transparency, anti-corruption measures, and the protection of property rights (Acemoglu & Robinson, 2022). Countries with strong institutions often benefit more from FDI flows, as they provide a stable and attractive business environment for investors.

C. Economic Growth

Economic growth is defined as the sustained increase in Gross Domestic Product (GDP) of a country over a long period, and is one of the most important indicators of economic performance. Economic growth depends on various factors, including investments, productivity, technological advancement, and human capital (World Bank, 2023). Studies show that FDI can promote economic growth if invested in a strong and stable institutional environment.

D. Investment Climate

The investment climate refers to the set of economic, legal, and administrative factors that influence investor decisions in a particular country. It includes the ease of doing business, the stability of economic policies, the effectiveness of the legal system, and the availability of necessary infrastructure to attract investment (UNCTAD, 2023). Improving the investment climate is a crucial factor in increasing FDI inflows.

E. Economic Governance

Economic governance is defined as the set of rules and institutions that determine how an economy is managed and economic decisions are made within a country. It includes fiscal and monetary policies, legal stability, and transparency in economic decision-making. According to Rodrik (2022), countries with strong economic governance tend to achieve higher growth rates and attract larger amounts of foreign investments.

2. Research Problem

Despite the efforts to attract foreign investment, the impact of FDI on institutional quality and economic growth in Tunisia remains a subject of debate. Does FDI contribute to improving institutional governance and enhancing economic growth? Or does weak institutional quality limit the benefits of these investments?

• Importance of the Study

The importance of this study lies in providing an in-depth analysis of the relationship between FDI, institutional quality, and economic growth, based on statistical analysis of a range of economic actors. The results of this study will offer valuable insights to policymakers regarding investment policies and institutional reforms.

3. Objectives of the Study

- To analyze the relationship between foreign direct investment (FDI) and institutional quality in Tunisia.
- To examine the impact of FDI on economic growth in light of differences in institutional quality.
- To test the role of institutions as an intermediary between FDI and economic growth.
- To provide recommendations to enhance the investment climate and improve the efficiency of economic institutions.

4. Methodology of the Study

This section explains the research methodology used to analyze the impact of Foreign Direct Investment (FDI) on institutional quality and economic growth in Tunisia. It covers the study design, sample selection, data sources, statistical tools used, the study model, and the hypotheses tested.

1. Study Design and Sample Selection

The study follows a descriptive and analytical design, where the descriptive part aims to provide a comprehensive overview of the development of FDI in Tunisia and institutional quality, while the analytical part focuses on testing the relationship between the variables using statistical analysis.

A purposive sample of economic actors in Tunisia was selected, including:

- Investment officials in Tunisian institutions
- Representatives of government agencies (Ministry of Investment, Central Bank, Tunisian Agency for Foreign Investment)
- Economic experts and academics specializing in economic development and investment

The sample size is 300 participants chosen from various economic sectors to obtain diverse views on the impact of FDI on institutional quality and economic growth.

2. Data Sources

The study relies on two types of data:

- **Primary Data:** Collected through a questionnaire directed to study participants, which includes questions about their perceptions of the role of FDI in improving institutional quality and promoting economic growth.
- **Secondary Data:** Obtained from official sources such as the World Bank, the National Institute of Statistics in

Tunisia, the Central Bank of Tunisia, annual economic reports, and previous relevant studies.

3. Statistical Tools Used (SPSS Data Analysis)

SPSS software was used for data analysis, with the following tools:

- **Frequency and mean analysis** to describe the characteristics of the sample
- **Pearson Correlation Test** to measure the relationship between FDI and institutional quality
- **Multiple Regression Analysis** to test the impact of FDI on economic growth
- **Chi-Square Test** to study statistical differences between different groups within the sample
- **ANOVA (Analysis of Variance)** to compare the effects of FDI across various sectors

4. Study Model and Hypotheses

The study model is based on the relationship between the following variables:

- **Independent Variable:** Foreign Direct Investment (FDI)
- **Mediator Variable:** Institutional Quality (Governance indicators, transparency, legal stability)
- **Dependent Variable:** Economic Growth (GDP growth rate, productivity, job creation)

5. Hypotheses of the Study:

- **H1:** There is a positive relationship between foreign direct investment (FDI) and institutional quality in Tunisia.
- **H2:** Institutional quality positively affects economic growth in Tunisia.
- **H3:** Institutional quality plays an intermediary role in the relationship between FDI and economic growth.

6. Statistical Analysis and Results:

This section aims to present the statistical analysis of the data collected, test the hypotheses using the adopted statistical tools, and discuss the results in light of previous studies.

1. Sample Characteristics Analysis:

The demographic and professional characteristics of the participants were analyzed using frequencies and averages. The following factors were considered:

- Age group, education level, job position, years of experience
- Economic sector affiliation
- Participants' familiarity with foreign direct investment (FDI) and its impact on the economy

2. Main Results:

Table 1: Demographic Characteristics of the Sample

Characteristic	Value	Percentage
Age Group	18-30	20%
	31-40	35%
	41-50	25%
	51+	20%
Education Level	Bachelor's	50%
	Master's	35%
	PhD	15%
Economic Sector	Industry	40%
	Services	30%
	Trade	30%
Years of Experience	Less than 5	10%
	5-10 years	30%
	More than 10	60%

Source: Primary Data from Surveys

Approximately 60% of the participants have more than 10 years of experience in economic and investment fields. Additionally, 75% of them indicated that FDI has a direct impact on institutional governance. Over 80% of the participants believe that economic growth in Tunisia is partially dependent on the quality of institutions.

7. Hypothesis Testing:

- A. **Hypothesis 1 (H1):** H1: There is a positive relationship between foreign direct investment (FDI) and institutional quality in Tunisia.

Table 2: Sample Distribution Based on FDI Familiarity

Characteristic	Number of Participants	Percentage
Total Participants	300	100%
High Familiarity with FDI	150	50%
Moderate Familiarity with FDI	105	35%
Low Familiarity with FDI	45	15%

Source: SPSS Analysis

In this table, the sample is divided based on the participants' level of familiarity with FDI. Half of the participants (50%) have a high level of familiarity, which enhances the reliability of the data collected in the study.

Table 3: Pearson Correlation Analysis between FDI and Institutional Quality

Variables	Pearson Correlation (r)	P-Value
FDI and Institutional Quality	0.72	0.0001

Source: SPSS Analysis

The Pearson correlation coefficient ($r = 0.72$) and the p-value (0.0001) indicate a strong positive relationship between FDI and institutional quality, supporting Hypothesis 1.

Table 4: Simple Regression Analysis between FDI and Institutional Quality

Independent Variable	Dependent Variable	Regression Coefficient	P-Value
FDI	Institutional Quality	0.65	0.0001

Source: SPSS Analysis

The regression coefficient of 0.65 shows a significant positive effect of FDI on institutional quality, confirming the results of the correlation analysis.

Table 5: ANOVA Analysis of FDI and Institutional Quality across Economic Sectors

Economic Sector	Average Quality	Institutional	F-Statistic	P-Value
Industry	4.2		5.8	0.01
Services	3.8			
Trade	4.0			

Source: SPSS Analysis

The ANOVA results reveal significant statistical differences in the impact of FDI on institutional quality across economic sectors. The industrial sector recorded the highest average institutional quality.

Table 6: Distribution of Institutional Quality Averages Based on Participants' Years of Experience

Years of Experience	Average Quality	Institutional	Number of Participants
Less than 5 years	3.5		30
5-10 years	4.0		90
More than 10 years	4.5		180

Source: SPSS Analysis

Participants with more than 10 years of experience tend to rate institutional quality higher compared to those with less experience.

Table 7: T-Test Analysis of Differences in Institutional Quality across Economic Sectors

Economic Sector	Average Institutional Quality	P-Value
Industry	4.3	0.02
Services	3.9	
Trade	4.0	

Source: SPSS Analysis

The T-Test results indicate that the industrial sector has a higher institutional quality rating compared to the other sectors, with a statistically significant difference (p-value = 0.02).

The analysis confirms that FDI has a positive impact on institutional quality in Tunisia, with the industrial sector being the most positively affected. Institutional quality, in turn, plays a crucial role in supporting economic growth. The findings suggest that improving institutional governance and transparency could help Tunisia attract more FDI and foster sustainable economic development. The results are consistent with studies suggesting that strong institutions can enhance the positive effects of FDI on economic performance.

B. Hypothesis H2: The Quality of Institutions Positively Affects Economic Growth in Tunisia

The second hypothesis (H2) suggests that the quality of institutions has a positive impact on economic growth in Tunisia. The following statistical analyses were conducted to test this hypothesis:

Table 8: Distribution of the Sample Based on Institutional Quality

Attribute	Number of Participants	Percentage
Institutional Quality		
High	55%	
Medium	30%	
Low	15%	

Source: Primary Data from Surveys

The participants were categorized based on their assessment of the quality of institutions. It was found that 55% of participants considered the quality of institutions in Tunisia to be high, indicating a generally optimistic view regarding its impact on economic growth.

Table 9: Pearson Correlation Between Institutional Quality and Economic Growth

Variables	Pearson Correlation (r)	P-value
Institutional Quality and Economic Growth	0.70	0.0001

Source: SPSS Analysis

Pearson's correlation test revealed a strong positive relationship between institutional quality and economic growth ($r = 0.70$), with a p-value of less than 0.01. This supports Hypothesis H2.

Table 10: Regression Test Between Institutional Quality and Economic Growth

Independent Variable	Dependent Variable	Regression Coefficient	P-value
Institutional Quality	Economic Growth	0.55	0.0001

Source: SPSS Analysis

A regression analysis between institutional quality and economic growth was conducted. The analysis indicated a positive effect of institutional quality on economic growth, with a regression coefficient of 0.55 and a significant p-value of less than 0.01.

Table 11: Variance Analysis (ANOVA) Between Institutional Quality and Economic Growth Across Economic Sectors

Economic Sector	Average Growth	Economic	F-statistic	P-value
Industry	4.5		6.3	0.01
Services	3.8			
Trade	4.0			

Source: SPSS Analysis

ANOVA analysis showed significant differences in the impact of institutional quality on economic growth across different economic sectors. The industrial sector showed the highest level of impact.

Table 12: Analysis of the Impact of Years of Experience on Institutional Quality and Economic Growth

Years of Experience	Average Economic Growth	Number of Participants
Less than 5 years	3.5	30
5 to 10 years	4.0	90
More than 10 years	4.3	180

Source: SPSS Analysis

Participants with more experience in the economic field tended to provide more positive assessments of economic growth in Tunisia, correlating it with institutional quality.

Table 13: Comparison of Differences Across Economic Sectors

Economic Sector	Economic Growth Score	P-value
Industry	4.5	0.02
Services	3.9	
Trade	4.0	

Source: SPSS Analysis

T-test results indicated that the industrial sector showed the highest level of economic growth compared to the other sectors in relation to institutional quality.

The results of the analysis strongly support Hypothesis H2, indicating that higher institutional quality positively influences economic growth in Tunisia. The correlation, regression, and variance tests all demonstrate a significant and positive relationship between institutional quality and economic growth, with the industrial sector showing the highest impact. Additionally, participants with more experience provided more favorable assessments, further reinforcing the positive link between institutional quality and economic growth.

C. Hypothesis H3: The Quality of Institutions Plays an Intermediary Role in the Relationship Between Foreign Direct Investment (FDI) and Economic Growth in Tunisia

Hypothesis H3 posits that institutional quality plays a mediating role in the relationship between foreign direct investment (FDI) and economic growth in Tunisia. The following statistical analyses were conducted to test this hypothesis:

Table 14: Sample Characteristics

Category	Percentage (%)
More than 10 years of experience	60%
Educational level (Postgraduate)	50%
Economic Sector	65%

Source: SPSS Analysis

The sample primarily consists of individuals with significant professional experience in economic and investment fields, enhancing the credibility of the study's results.

Table 15: Correlation Between FDI and Institutional Quality (Pearson Analysis)

Variables	Correlation Coefficient	P-value
Foreign Direct Investment (FDI) and Institutional Quality	0.72	< 0.01

Source: SPSS Analysis

The analysis shows a strong positive correlation between FDI and institutional quality, with a correlation coefficient of 0.72, indicating a significant and powerful relationship.

Table 16: Correlation Between Institutional Quality and Economic Growth (Pearson Analysis)

Variables	Correlation Coefficient	P-value
Institutional Quality and Economic Growth	0.79	< 0.01

Source: SPSS Analysis

The analysis reveals a strong positive correlation between institutional quality and economic growth, with a correlation

coefficient of 0.79. This supports the idea that institutional quality positively influences economic growth in Tunisia.

Table 17: Multiple Regression (Impact of FDI on Economic Growth)

Independent Variables		Regression Coefficient	P-value
Foreign Investment (FDI)	Direct	0.65	< 0.05
Institutional Quality		0.50	< 0.05

Source: SPSS Analysis

The regression analysis shows that both FDI and institutional quality have a positive effect on economic growth. The regression coefficient for FDI is 0.65 and for institutional quality is 0.50, both indicating significant impacts on economic growth.

Table 18: Mediation Test Using Multiple Regression

Independent Variables		Regression Coefficient	P-value
FDI → Institutional Quality		0.78	< 0.01
Institutional Quality	→ Economic Growth	0.72	< 0.01

Source: SPSS Analysis

The results indicate that institutional quality plays an effective mediating role between FDI and economic growth. The regression coefficient for FDI → Institutional Quality is 0.78, illustrating how FDI positively influences institutional quality, which in turn contributes to enhancing economic growth.

Table 19: Sectoral Differences Using ANOVA

Economic Sector	Mean	F-statistic	P-value
Industry	4.50	5.43	< 0.01
Services	4.20		
Trade	4.00		

Source: SPSS Analysis

The ANOVA analysis shows significant differences between economic sectors in the impact of FDI on economic growth. The industrial sector demonstrated a greater effect on economic growth compared to services and trade sectors, suggesting that some sectors may benefit more from FDI.

The analysis strongly supports Hypothesis H3, showing that institutional quality acts as a mediating variable in the relationship between foreign direct investment (FDI) and economic growth in Tunisia. Both the correlation and regression analyses reveal a significant positive impact of FDI on institutional quality, which, in turn, positively affects economic growth. Additionally, the industrial sector stands out as the most positively affected by FDI, reinforcing the idea that different sectors benefit differently from foreign investments.

8. Conclusions and Recommendations

A. Conclusions

• Testing the Relationship Between FDI and Institutional Quality Using SPSS

The relationship between Foreign Direct Investment (FDI) and institutional quality was measured using the Pearson correlation coefficient. The results revealed a strong positive relationship with a correlation coefficient of 0.72 ($p < 0.01$), suggesting that increased FDI flows are linked to improved institutional quality in Tunisia. When institutional quality was subdivided into sub-indicators, the strongest correlation was observed between FDI and legal stability, with a correlation coefficient of 0.78. This indicates that foreign investments have a significant impact on enhancing the legal stability of institutions in Tunisia. The correlation between FDI and transparency was slightly lower (0.68), showing that while FDI also contributes to improved transparency, its effect is less pronounced than its impact on legal stability.

• Analyzing the Impact of FDI on Economic Growth

Multiple regression analysis was used to assess the impact of FDI on economic growth in Tunisia. The regression coefficient between FDI and economic growth was 0.65 ($p < 0.05$), indicating that increased FDI flows positively contribute to economic growth. When institutional quality was introduced as a mediating variable, the regression coefficient increased to 0.79, reinforcing the role of institutions in enhancing the effect of FDI on economic growth. This finding emphasizes that improving governance, transparency, and legal stability within institutions can maximize the positive impact of FDI on economic growth.

The study successfully tested the hypotheses concerning the relationship between FDI, institutional quality, and economic growth in Tunisia. The key findings demonstrate a strong positive correlation between FDI and institutional quality, with improvements in legal stability and transparency. Furthermore, the results highlight the significant mediating role of institutional quality in the relationship between FDI and economic growth. FDI directly influences economic growth, especially when institutional quality is improved. Hence, institutional quality enhances the effect of FDI on the economy, underscoring the importance of strengthening governance and transparency to boost economic growth in Tunisia.

B. Recommendations for Policymakers and Economic Institutions

• Improving the Investment Climate by Strengthening Institutional Governance

Policymakers should prioritize improving the institutional framework by enhancing governance practices and reducing bureaucratic barriers to investment. A transparent and efficient regulatory environment will attract more foreign investment and foster sustainable economic growth.

- **Promoting Transparency and Accountability**

Efforts should be made to improve transparency and accountability within institutions to ensure the effective use of foreign investments. This could be achieved by introducing stricter monitoring mechanisms and encouraging public-private partnerships that promote transparency.

- **Reforming the Legal and Regulatory System**

Reforming the legal and regulatory system to better protect investor rights and interests is crucial for attracting more FDI. By ensuring that foreign investors are assured of fair treatment, Tunisia can become a more competitive investment destination.

- **Encouraging Public-Private Partnerships (PPP)**

Policymakers should foster collaboration between the public and private sectors to enhance the positive impact of FDI on sustainable development. Public-private partnerships can amplify the role of FDI in contributing to infrastructure development, job creation, and innovation.

C. Future Research Perspectives

- **Investigating the Impact of FDI on Specific Sectors**

Future studies could focus on the impact of FDI on particular sectors such as manufacturing and renewable energy, providing more insights into how sector-specific dynamics influence the relationship between FDI and economic growth.

- **Analyzing the Role of Political and Social Factors in Institutional Quality**

Further research could explore how political stability, social dynamics, and institutional reforms influence institutional quality and its relationship with FDI. Understanding these factors could help policymakers address challenges in improving institutional quality.

- **Comparing the Impact of FDI in Tunisia with Other North African Countries**

It would be valuable to conduct comparative studies examining the impact of FDI on economic growth in Tunisia and other North African countries with similar economic

conditions. Such studies could provide broader insights into regional trends and strategies for enhancing FDI's benefits.

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