

## **ABSTRACT**

*Foreign Direct Investment (FDI) plays a crucial role in development, yet its flow often defies neoclassical predictions, a phenomenon known as the Lucas Paradox. This study aims to empirically analyze the influence of political institutions and economic institutions on Greenfield FDI per capita inflows. This research uses panel data from 132 countries for the 2004-2022 period. Institutional quality is measured using the Worldwide Governance Indicators (WGI), grouped into political and economic institution indices, while FDI data is sourced from UNCTAD. Using the Two-Way Fixed Effects (TWFE) method, baseline results find that political institutions have a positive and significant relationship with Greenfield FDI. Heterogeneity analysis reveals that political institutions act as the primary determinant across all income levels (LIC, MIC, and HIC). While economic institutions show significance in developing economies, their impact tends to be less consistent compared to political institutions, which remain a robust predictor of investment inflows. The results proved robust across various sensitivity tests. Overall, this study confirms that institutional quality plays a critical role in attracting Greenfield FDI, with political stability acting as a fundamental prerequisite for long-term investment commitments.*

*Keywords: Foreign Direct Investment, Greenfield FDI, Institutional Quality, Political Institutions, Economic Institutions, Lucas Paradox, Panel Data, Fixed Effects Model*

*JEL Classification: F21, O43, P16, P48*

