

## **Abstract**

The correlation between the quality of institutions and foreign direct investment (FDI) has been a prominent area of interest in academic theoretical research. This thesis takes 26 EU countries as research objects, aiming to study the impact of institutional quality (IQ) on FDI inflows. This thesis combs through the relevant concepts and basic theories of FDI, institutional quality and their interrelationships. In addition, the development history of FDI in the EU region and the basic status quo of institutional quality and FDI in EU countries are described and analyzed in a panoramic way. This strengthens the theoretical foundation for empirical analyses and provides support for empirical research. On this basis, this thesis uses the panel data of 26 EU countries from 2004 to 2021 as a sample for variable selection, data characterization, model construction and hypothesis inference. It adopts the ordinary least squares method, GMM model and other econometric methods to carry out benchmark regression, robustness test, endogeneity control, moderating effect test, heterogeneity analysis and other work. This thesis draws the following conclusions through empirical analyses from multiple perspectives: First, there is a positive correlation between IQ and FDI inflows. Second, abundant natural resources have no significant effect on the correlation between IQ and FDI inflows. However, trade openness has a significant positive moderating effect on the relationship between IQ and FDI. Specifically, the positive impact of better IQ on FDI growth increases when market openness increases. Third, the relationship between IQ and FDI is heterogeneous, and it is more pronounced in CEE countries. In response to the findings, the thesis also provides targeted policy recommendations on capturing institutional quality factors in FDI activities at the EU country level.

## **Keywords**

Institutional quality, foreign direct investment, EU countries, CEEC, WE