

The Moderating Role of Institutional Quality in the Relationship between Income Inequality and Foreign Direct Investment

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Abstract: This study examines how FDI inflows, institutional quality (IQ), and their relationships affect income inequality in 35 Asian countries between 2002 and 2020. The results demonstrate that FDI increases economic inequality and that, up to a certain IQ level, FDI improves income inequality by mitigating this detrimental effect. Meanwhile, higher FDI inflows exacerbate the favorable effect of greater institutional quality, which lowers income inequality. In particular, the domestic mechanisms of rule of law, political stability, government efficacy, and corruption control mitigate the impact of foreign direct investment on income inequality.

Keywords: FDI, Income Inequality, Institutional Quality, Moderating Effect