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DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN DEVELOPING ECONOMIES: COMPREHENSIVE ANALYSIS

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ABSTRACT

This study explores the main factors influencing foreign direct investment (FDI) in 96 developing economies over the period 2003-2023. Using a multiple linear regression model based on country-level averages, the analysis examines the effects of GDP growth, GDP per capita, inflation, trade openness, exchange rate changes, external debt, industrial value added, and political stability.

The results show that GDP per capita is a strong positive determinant of FDI, highlighting the importance of market size, income level, and purchasing power in attracting investors. Inflation also has a positive effect, suggesting that moderate and predictable price growth often reflects stable economic reforms and rising domestic demand. In contrast, the growth rate of industrial value added is negatively related to FDI, indicating that highly industrialized economies may face saturation or stronger local competition that limits new foreign entry.

Robustness checks confirm that GDP per capita plays a central role, while removing exchange rate variables does not alter the results.

Overall, the findings suggest that long-term structural conditions, rather than short-term economic fluctuations or currency movements, are the most consistent drivers of FDI in developing economies. Policy recommendations include maintaining price stability, managing external debt responsibly, improving trade and logistics systems, ensuring regulatory predictability, and strengthening local production capacity and skills to attract sustainable investment.

Keywords: *FDI, external debt, trade openness, developing economies, regression analysis*

1. INTRODUCTION

Foreign direct investment (FDI) plays an important role in shaping the economic landscape of developing countries. Over the past two decades, FDI has emerged as a critical driver of economic growth, technological advancement, and industrial development in these economies.

The UNCTAD's World Investment Report (2025) reveals a growing annual investment gap for developing countries striving to achieve the Sustainable Development Goals (SDGs) by 2030. This gap has expanded to approximately $4 trillion per year, a significant increase from the $2.5 trillion gap in 2015 when the SDGs were adopted.

To solve such issues, understanding the factors that attract or deter FDI inflows has become a subject of importance for policymakers, economists, and researchers alike. A significant number of researchers, such as Sijabat (2023), Hossain and Masih (2018), Bayoumi et al. (1996), Tanna et al. (2018), Donghui et al. (2018), Busse and Hefeker (2007), and others, have proposed their points of view on the determinants of successful FDI inflows to developing economies (DEs). Nevertheless, this issue remains relevant due to the changing economic environment and methods applied to the analysis.

This article embarks on a comprehensive analysis aimed at unravelling the multifaceted relationship between FDI and a spectrum of economic indicators across a diverse set of developing countries. The period under scrutiny, spanning from 2003 to 2023 and covering 96 developing economies, holds particular significance as it integrates macroeconomic, structural, and institutional variables within a single framework. It also encompasses substantial global economic fluctuations, shifts in policy paradigms, and dynamic geopolitical contexts.

The objective of this research is to analyze the determinants that significantly influence FDI trends in developing economies during this period by employing regression analysis. Through this investigation, the article aims to provide empirical insights that can support evidence-based policy decisions, facilitate a deeper understanding of the dynamics surrounding FDI, and contribute to the ongoing discourse on economic development in the developing world.

The structure of this paper is as follows: Section 1 presents the introduction, Section 2 provides a comprehensive review of relevant literature, Section 3 outlines the methodology employed and data collection process, Section 4 offers an FDI analysis, Section 5 presents the research findings, Section 6 discusses and interprets the findings and Section 7 finalizes the conclusions of the research.

2. LITERATURE REVIEW

The literature on FDI in developing countries has witnessed significant growth and evolution over the last 20 years. This chapter provides an overview of the key empirical findings that have shaped our understanding of the determinants of FDI in developing countries. Since FDI is a critical driver of economic growth and development, it is imperative to explore the factors influencing FDI inflows into these economies.

According to neoclassical investment theory, real output growth drives investment by signaling rising demand for goods and services (Jorgenson, 1967). Empirical studies confirm a positive two-way link between FDI and GDP – with each reinforcing the other (Sijabat, 2023). This “accelerator effect” shows that faster economic growth stimulates higher investment, while strong investment further boosts production. Although FDI is widely viewed as a catalyst for economic growth, its effects vary across countries. Studies focusing on South Asia, including India and its neighbors, show mixed evidence on the FDI-GDP relationship, with outcomes shaped largely by national economic policies. Overall, while patterns of inflows differ, FDI often emerges as an important contributor to economic growth when supported by favorable policy environments (Sengupta and Puri, 2018). Evidence from studies using U.S. data, for instance, suggests that FDI exerts a unidirectional influence on GDP in both the short and long run, as shown through vector error correction models (VECM) and nonlinear causality tests (Makris and Stavroyiannis, 2019). In sum, this underscores the positive correlation between FDI and GDP growth (Frimpong and Marbuah, 2010; Jongwanich and Kohpaiboon, 2008).

High inflation often signals macroeconomic instability and weak policy management, creating an unfavorable climate for investment. Thus, domestic inflation tends to have an inverse relationship with foreign direct investment (FDI). Inflation raises uncertainty for long-term projects, shortens loan maturities, and distorts price signals, discouraging both investors and lenders. Essentially, inflation reflects a government's ability to manage the economy. Persistent high inflation indicates a loss of control over macroeconomic policy, reducing investor confidence and deterring FDI (Fischer, 1993).

The findings of Hossain and Masih (2018) tend to indicate that there is a nonlinear cointegration between FDI and inflation and that the relationship is symmetric in the short run but asymmetric in the long run. Research by Agudze and Ibhagui (2021) indicates that inflation thresholds differ markedly across economies, being substantially higher in developing than in industrialized countries. While inflation reduces FDI once the threshold is exceeded in advanced economies, its effect in developing economies is negative even below the threshold. Such findings suggest that the often mixed evidence on the inflation-FDI relationship may be clarified by accounting for threshold effects. Tsaurai (2018) suggests that maintaining low inflation alongside strengthening financial systems is critical for sustaining FDI inflows in the region. Additionally, in developing countries, GDP was found to influence FDI in the short run (Hong and Ali, 2020; Yordanova & Hristizov, 2025).

Earlier empirical work by Bayoumi et al. (1996) has found that capital inflows in developing economies are generally associated with exchange rate depreciations, which is consistent with the idea that wealth and cost channels predominate. A depreciation of the domestic currency can lead to foreign acquisitions of certain domestic assets (Froot and Stein, 1991; Ivanova Koleva, 2025). Contrary to the abovementioned, Khursanaliev and Turanboyev (2022), Boburmirzo and Boburjon (2022) show that there is no significant influence of exchange rate on the FDI of CIS countries.

Some authors (Gholami et al., 2006) suggest that there is a causal relationship from information and communication technology (ICT) to FDI in developed countries, indicating that a higher level of ICT investment leads to an increased inflow of FDI. Additionally, the ICT services export and import demonstrated a correlation with GDP for economies with lower GDP per capita (Oliinyk, 2023; Oliinyk et al., 2023). Taking into account the positive correlation between GDP and FDI identified in previous analysis, the ICT services export or import is suggested to have positive impact on FDI.

A major cause of FDI volatility in developing economies is exchange rate overvaluation. When exchange rates fluctuate, the domestic prices of foreign-priced goods change, increasing demand for foreign currency beyond available supply. This shortage makes it difficult to import essential investment goods such as machinery, fuel, and spare parts. Observations by Aryeetev (1994) highlight how the swift depreciation of the local currency contributes to a pervasive sense of uncertainty in the business environment. This uncertainty acts as a significant hindrance to private sector investment, which is essential for bolstering productivity. Ironically, this challenge arises at a time when the development of the private sector is considered a prime driver of economic growth. Asante and Addo (1997) reinforce this point by underscoring how the manufacturing sector's production capabilities are stifled by the limited availability of imported inputs. This underscores the fact that a substantial number of businesses in DEs heavily rely on imported materials, machinery, and equipment for their investment initiatives. Evidence from developing countries shows that FDI responds significantly to real effective exchange rate volatility, with effects appearing after three quarters and persisting up to six (Huong et al., 2021). In this context, a high exchange rate introduces an element of unpredictability, ultimately diminishing the level of FDI.

High external debt is another source of macroeconomic instability. It diverts future investment returns to debt repayment, signaling heavy reliance on foreign credit and raising doubts about policy sustainability. This uncertainty undermines investor confidence. Beyond a certain threshold, high indebtedness constrains economies from reaping growth benefits of FDI as they seek to reduce their debt levels. Increasing financial development can mitigate the negative influence of high external debt on the FDI–growth nexus (Tanna et al., 2018).

High debt hinders investment in several ways. First, it diverts domestic output toward debt repayment, creating a "debt overhang" that discourages new investment (Krugman, 1988). Second, it weakens a country's creditworthiness, leading to credit rationing – especially harmful in Sub-Saharan Africa, where low savings increase reliance on foreign capital. Finally, high external debt heightens macroeconomic uncertainty and vulnerability to shocks such as commodity price and exchange rate fluctuations, further threatening debt repayment (Ofosu-Mensah Ababio et al., 2018).

Empirical evidence showed that increase in trade openness would be a better option for achieving more and sustained FDI inflows in the long run, while also improving the welfare of developing countries (Donghui et al., 2018). Results indicate that FDI and international trade are indeed important determinants of growth. Policymakers may need to liberalize their economies and reduce or remove trade barriers to encourage foreign trade and FDI inflows if they aim to achieve strong and sustainable economic growth.

Lien (2021) proves that trade openness positively influences FDI inflows, with current FDI significantly shaped by past FDI levels, accounting for 74% of its variation in South Asian countries, such as Vietnam. The study suggests that enhancing trade openness and maintaining strong international economic ties are essential for boosting FDI in Vietnam.

Political risk encompasses factors such as political instability, political liberty (freedom), and policy uncertainty (Servén, 2003). Political instability, which is assessed based on fluctuations in political freedom, exerts a detrimental influence on FDI. Additionally, policy uncertainty, quantified by variations in government capability, also exerts a negative effect on FDI. This conclusion is confirmed by Busse and Hefeker (2007), who find that government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and the quality of bureaucracy are highly significant determinants of foreign investment inflows.

The review of existing research highlights the multifaceted nature of FDI determinants in developing economies, ranging from macroeconomic factors such as GDP growth, inflation, exchange rates, and external debt, to structural drivers including trade openness, ICT development, and institutional quality. While these studies provide valuable insights, several limitations remain, underscoring the relevance of the present research.

First, much of the existing literature examines the determinants of FDI in isolation or within narrowly defined regional or country-specific contexts. For instance, numerous studies focus primarily on GDP growth, inflation, or exchange rate volatility, often neglecting the simultaneous influence of external debt, technological development, and political stability. As a result, the evidence remains fragmented and, at times, contradictory, particularly concerning the role of exchange rate fluctuations and debt burdens in attracting or deterring FDI.

Second, earlier empirical work frequently relies on shorter time horizons or limited datasets, which constrains the ability to capture the evolving dynamics of FDI in response to globalization, financial crises, and structural reforms. The absence of long-term, broad-based analyses reduces the generalizability of findings across the diverse group of developing economies.

Third, while the literature acknowledges the importance of trade openness, debt sustainability, and institutional stability, relatively few studies integrate these determinants into a comprehensive regression framework that allows for cross-country comparison. In particular, the interaction between external debt and FDI inflows remains underexplored, despite its growing significance for highly indebted developing economies.

This study advances the FDI literature by integrating macroeconomic (GDP growth, CPI, exchange rate), structural (GDP per capita, trade openness, industry value added), and institutional (political stability) determinants into a single empirical model covering 96 developing economies over the period 2003-2023. Unlike most prior studies focused on narrow regional samples or isolated factors, this research provides a comprehensive cross-country perspective.

3. FDI ANALYSIS

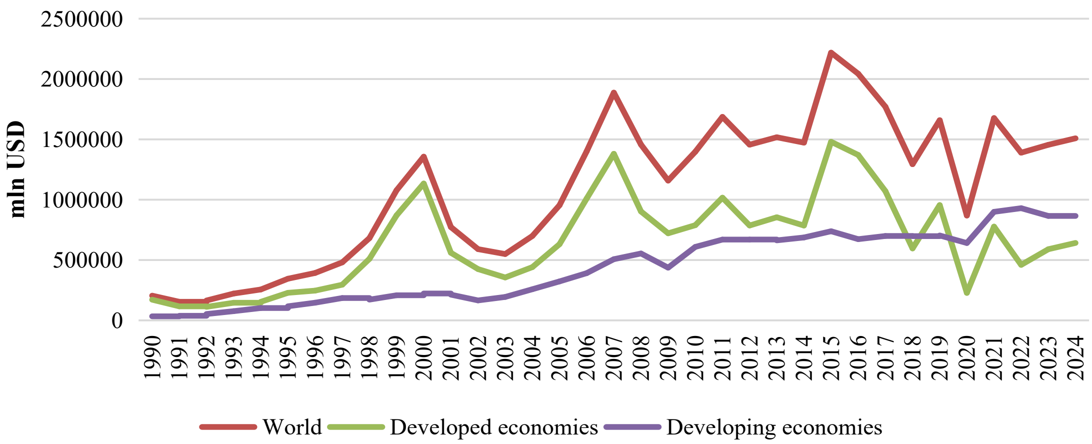
FDI inflows globally have experienced significant growth over the years, with occasional fluctuations. In 1990, the global FDI inflow was approximately 204.9 billion USD, and it reached a peak of 1,356.7 billion USD in 2000 (Figure 1). There was a notable drop in FDI during the global financial crisis in 2008, followed by a recovery and further growth.

Developed economies consistently attracted more FDI compared to developing economies throughout the period due to their established infrastructure, stable political environments, and market maturity. In 1990, developed economies received around 171.3 billion USD, while developing economies received 33.6 billion USD. This gap persisted but fluctuated over time. The gap between FDI inflows in developed and developing economies narrowed in the early 2000s, with both experiencing growth. The 2008 financial crisis had a more significant impact on developed economies, causing a sharp decline in FDI inflows. Developing economies became more attractive to investors post-crisis, with FDI inflows often surpassing those in developed economies. The size of the market in developed economies often makes them attractive to investors, but developing economies offer growth potential. The 2008 financial crisis had a profound impact on FDI flows, shifting investment preferences. Similarly, the COVID-19 pandemic in 2020 affected FDI globally.

In 2024, global foreign direct investment (FDI) reached 1.51 trillion USD, marking a recovery after the turbulence of 2020 and the rebound observed in 2021. Yet, this upturn unfolded amid a series of global crises, including the conflict in Ukraine, surging food and energy prices, growing recession risks, and rising debt burdens across many countries, all of which weighed on overall investment flows. Cross-border mergers and acquisitions (M&As) and international project finance were hit hardest, constrained by tighter financing conditions, higher interest rates, and persistent uncertainty in financial markets. In 2022, the value of project finance deals fell by 25%, while cross-border M&A activity registered a 4% decline (World Investment Report, 2025).

FDI inflows into developed economies dropped sharply by 37%, amounting to 459.92 billion USD in 2022. According to UNCTAD, this contraction was mainly the result of one-off transactions and financial flows, although new project announcements signaled some resilience. By contrast, developing economies recorded a 4% increase, with inflows rising to a historic 929.61 billion USD in 2022 and stabilizing at 867.16 billion USD in 2024. A major driver of this growth was the surge in greenfield projects: the number of announcements rose by 37%, while their combined value more than doubled. Renewable energy accounted for much of this momentum, with five of the ten largest global projects concentrated in this sector (World Investment Report, 2025).

Figure 1. Foreign direct investment inflows by economy, data for 1990-2024

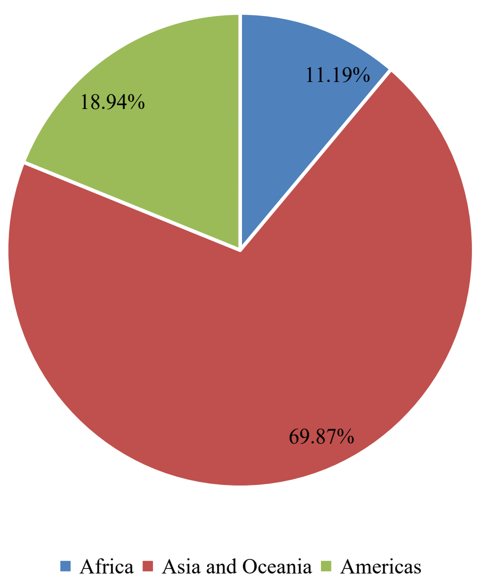


Source: World Investment Report (2025)

The analysis of FDI inflows into developing countries by region in 2024 demonstrates that Asia and Oceania received the highest FDI inflows, totaling 605.87 billion USD (Figure 2). This indicates Asia's attractiveness as a destination for foreign investment, likely driven by its large and diverse economies, including China, India, and Southeast Asian nations. North and Latin America, along with the Caribbean, received the second-highest FDI inflows, amounting to 164.26 billion USD, which is caused by its valuable natural resources and emerging markets. Africa received 97.03 billion USD in FDI inflows, which is lower than Asia and the Americas. However, it suggests growing interest in Africa as an investment destination due to its vast resources and potential for economic development.

Collectively, developing countries accounted for more than two-thirds of the global FDI, up from 60% recorded in 2021. Nevertheless, multifaceted crises, particularly those affecting food and energy, along with financial and debt-related pressures, disproportionately impacted investment flows to the world's most economically challenged nations. In this regard, FDI into the least developed countries (LDCs) declined by 16%, highlighting that they continue to represent only a 2% share of the global FDI landscape (World Investment Report, 2025).

Figure 2. FDI flows of developing economies by regions, data for 2024



Source: World Investment Report (2025)

4. METHODOLOGY

The research algorithm in the article involves the use of multiple linear regression to analyze the determinants of FDI in developing economies. The methodology includes comprehensive data collection for developing economies (DEs), depending on data availability.

The research consists of the following stages: data collection, country set definition, data preparation, multilinear regression modeling, and robustness checks.

4. 1. DATA COLLECTION

The data collection for the research consists of (Table 1):

1. Dependent variable. The dependent variable for this research is foreign direct investment (FDI) as a net inflow of investment to acquire a lasting interest or management control in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvested earnings, other long-term capital, and short-term capital, as shown in the balance of payments. Foreign direct investment (net) shows the net change in foreign investment in the reporting country.
2. Independent variables. The study uses a variety of determinants:
   2.1. GDP growth (GDP), which is aimed at measuring economic growth and measured in percent. Data are collected from World Bank Open Data (2024).
   2.2. GDP per capita (GDPpc), which is measured in current USD and is taken from World Bank Open Data (2024).
   2.3. Consumer price index (CPI). This is a standard variable in the economic model used to control price changes due to inflation. The indicator shows an annual rate of consumer price change. Data are collected from UNCTADstat (2024).
   2.4. Trade openness (TO). It is suggested that international trade is positively correlated with FDI. This indicator is formed as a sum of trade in goods and services measured as a share of GDP in %. Data are collected from UNCTADstat (2024).
   2.5. Exchange Rates (ER). ER is calculated as an annual change in the exchange rate of national currency per 1 US Dollar, according to the IMF (2024).
   2.6. Total external debt stocks to gross national income (ED). Total external debt is debt owed to non-residents, repayable in currency, goods, or services. Total external debt is the sum of public, publicly guaranteed, and private nonguaranteed long-term debt, use of IMF credit, and short-term debt. Short-term debt includes all debt having an original maturity of one year or less and interest arrears on long-term debt. GNI (formerly GNP) is the sum of value added by all resident producers plus any product taxes (less subsidies) not included in the valuation of output, plus net receipts of primary income (compensation of employees and property income) from abroad. This indicator is formed as the share of total external debt stocks in GNI for each country, in % (World Bank Open Data, 2024).
   2.7. The value added of industry (VAI). Annual growth rate for industrial value added based on constant local currency. Aggregates are based on constant 2010 U.S. dollars. Industry corresponds to ISIC divisions 10-45 and includes manufacturing (ISIC divisions 15-37). It comprises value added in mining, manufacturing (also reported as a separate subgroup), construction, electricity, water, and gas. Value added is the net output of a sector after adding all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources. The origin of value added is determined by the International Standard Industrial Classification (ISIC), Revision 3 (World Bank Open Data, 2024).

2.8. Political stability (PS). It is expected that in countries and periods with high government change, FDI will be lower. To control this change, Political Stability and Absence of Violence/Terrorism (Political Stability) were added to the model as an independent variable. This variable ranges from -2.5 (the lowest political stability) to 2.5 (the highest political stability). Data are collected from World Bank Open Data (2024).

Table 1. Data description

Variable name	Unit of measurement	Symbol	Source of data
Foreign direct investment, net inflows in reporting economy, % GDP (dependent variable)	Annual % of GDP	FDI	World Bank Open Data (2024)
GDP growth (independent variable)	Annual %	GDP	World Bank Open Data (2024)
GDP per capita (independent variable)	Current US$	GDPpc	World Bank Open Data (2024)
Consumer price index (independent variable)	Annual %	CPI	UNCTADstat (2024)
Trade openness (independent variable)	Annual % of GDP	TO	UNCTADstat (2024)
Exchange rates (independent variable)	Annual % change	ER	IMF (2024)
Total external debt stocks to gross national income (independent variable)	Annual % of GNI	ED	World Bank Open Data (2024)
Industry (including construction), value added (independent variable)	% of GDP	VAI	World Bank Open Data (2024)
Political Stability and Absence of Violence/ Terrorism (independent variable)	Percentile Rank From 0 to 100	PS	World Bank Open Data (2024)

Source: Authors' compilation

4. 2. COUNTRY SET DEFINITION AND DATA PREPARATION

After data collection, the set of countries was defined. In this research, the number of observed developing countries (economies) is 96 due to data availability: Albania, Algeria, Angola, Armenia, Azerbaijan, Bangladesh, Belarus, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Burkina Faso, Burundi, Cabo Verde, Cambodia, Cameroon, the Central African Republic, Chad, China, Colombia, Comoros, the Democratic Republic of the Congo, the Republic of the Congo, Costa Rica, Côte d'Ivoire, Djibouti, Dominica, the Dominican Republic, Ecuador, El Salvador, Eswatini, Ethiopia, Fiji, Gabon, the Gambia, Georgia, Ghana, Guatemala, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, the Islamic Republic of Iran, Jamaica, Jordan, Kenya, the Kyrgyz Republic, the Lao People's Democratic Republic, Lebanon, Lesotho, Madagascar, the Maldives, Mali, Mexico, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Nepal, Nicaragua, Niger, Nigeria, North Macedonia, Pakistan, Papua New Guinea, Paraguay, Peru, the Philippines, Rwanda, Samoa, Senegal, Serbia, Sierra Leone, the Solomon Islands, South Africa, Sri Lanka, Sudan, the Syrian Arab Republic, Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Tunisia, Türkiye, Uganda, Ukraine, the Republic of Yemen, and Zambia.

For this study, all variables were aggregated as the mean values of the data series for 2003-2023.

4. 3. MULTILINEAR REGRESSION MODELING

In this study, the historical data series for all variables were normalized to make all indices comparable. For normalization, the average variables for the 2003-2023 period were calculated for each country. For the purpose of this study, we utilized a multiple linear regression. The multiple linear regression method simply aims to predict the outcome of a response variable. The equation used is as follows:

$$FDI = \beta_0 + \beta_1 GDP + \beta_2 GDP_{pc} + \beta_3 CPI + \beta_4 TO + \beta_5 ER + \beta_6 ED + \beta_7 VAI + \beta_8 PS + \epsilon \quad (1)$$

where, for $i = n$ observations: FDI represents foreign direct investment net flows, β_0 is the intercept, β_1 represents GDP, β_2 represents GDPpc, β_3 represents CPI, β_4 represents TO, β_5 represents ER, β_6 represents ED, β_7 represents VAI, and β_8 represents PS. β_1–β_8 are the coefficients representing the impact of each independent variable, and ε represents the error term (also known as the residuals).

Multiple linear regression analysis allowed to estimate the relationships between the dependent and independent variables. We employed suitable statistical software (Data Analysis of Excel) to estimate regression models and conducted diagnostic tests to ensure model fit and validity.

5. RESULTS

5. 1. DESCRIPTIVE AND AUTOCORRELATION ANALYSIS

Table 2 provides descriptive statistics for the economic variables included in the regression model, based on a sample of 96 developing economies over the period 2003-2023. The results illustrate considerable variation across indicators, highlighting structural and macroeconomic differences among the observed countries.

The average GDP growth rate was 4.01% with a relatively modest dispersion (standard deviation of 2.02), suggesting stable but heterogeneous growth patterns across developing economies. The minimum value of -1.02% points to occasional recessions, while the maximum of 10.25% reflects high-growth emerging markets. GDP per capita averaged USD 3,220.56, but the range was strikingly wide – from USD 205.68 to nearly USD 10,000 – underlining sharp income disparities among developing economies. The positive skewness (0.89) confirms that a small number of higher-income countries raise the average, while the majority remain at lower levels.

Inflation (CPI) averaged 7.31% with a high standard deviation of 7.49, reflecting persistent macroeconomic volatility. The high kurtosis (19.26) and skewness (3.88) indicate that a few extreme inflationary episodes – well above the mean – drive the distribution. Exchange rate volatility is also visible: the mean annual change was 4.40%, ranging from -1.39% (currency appreciation) to 48.18% (sharp depreciation). Both kurtosis (14.67) and skewness (3.49) confirm the presence of exchange rate shocks in several economies.

External debt averaged 50.85% of GNI, with some economies carrying very high burdens (maximum of 198.81%). This is consistent with the growing debt sustainability concerns highlighted in the literature. The distribution is right-skewed (1.91), suggesting that while many countries manage moderate debt levels, a subset faces excessive exposure. Trade openness averaged 58.03% of GDP, but with wide disparities across countries (range 21.95%-131.02%). Some developing economies remain relatively closed, while others – particularly small, trade-dependent states – show very high levels of openness.

The share of value added from industry (VAI) averaged 26.29% of GDP, ranging from 10.41% to 54.30%. This reflects both resource-based industrial structures and more diversified manufacturing economies. Political stability, measured on a 0-100 percentile scale, averaged 33.13, indicating relatively weak institutional environments across the sample. The range (3.04-87.43) suggests significant differences, with some economies facing chronic instability while others maintain relatively secure environments.

FDI inflows were low on average (0.04, or 4%), with a narrow distribution (standard deviation of 0.04). However, the skewness (2.75) and kurtosis (11.15) point to a few exceptional cases where inflows were disproportionately high relative to GDP. This reflects the tendency for large-scale investment projects to dominate FDI figures in certain smaller economies.

The descriptive statistics reveal that developing economies exhibit high heterogeneity in income, trade integration, debt sustainability, and institutional quality. Inflation and exchange rate volatility remain key macroeconomic challenges, consistent with earlier empirical findings on their deterrent effect on investment. The relatively low and uneven FDI-to-GDP ratios highlight both the untapped potential and vulnerability of developing economies in attracting stable and sustained foreign investment.

Table 2. Descriptive statistics of economic variables for the observed economies, n=96 countries, data for 2003-2023

Indicator	GDP	GDPpc	CPI	TO	ER	ED	VAI	PS	FDI
Mean	4.01	3220.56	7.31	58.03	4.40	50.85	26.29	33.13	0.04
Standard Error	0.21	255.06	0.76	2.48	0.81	3.27	0.97	1.99	0.00
Median	3.89	2561.16	5.27	53.01	2.64	41.58	25.25	31.40	0.03
Standard Deviation	2.02	2499.05	7.49	24.27	7.92	32.03	9.52	19.47	0.04
Sample Variance	4.07	6245234.13	56.14	588.91	62.81	1026.16	90.54	379.03	0.00
Kurtosis	0.70	0.00	19.26	0.07	14.67	5.59	0.80	0.54	11.15
Skewness	0.10	0.89	3.88	0.80	3.49	1.91	0.88	0.80	2.75
Range	11.28	9789.64	51.35	109.07	49.56	194.95	43.88	84.38	0.28
Minimum	-1.02	205.68	1.38	21.95	-1.39	3.85	10.41	3.04	-0.01
Maximum	10.25	9995.32	52.73	131.02	48.18	198.81	54.30	87.43	0.27
Sum	384.78	309173.31	701.52	5570.75	422.08	4881.74	2524.02	3180.29	3.88
Count	96	96	96	96	96	96	96	96	96

Source: Authors' calculations

In the analysis in Table 3, no direct measures of autocorrelation (correlation of variables with themselves over time) are presented.

Table 3. Correlation analysis of variables, n = 96 countries, data for 2003-2023

	GDP	GDPpc	CPI	TO	PS	VAI	ER	ED	FDI
GDP	1.00								
GDPpc	-0.15	1.00							
CPI	-0.23	-0.06	1.00						
TO	-0.03	0.21	-0.13	1.00					
PS	-0.03	0.33	-0.30	0.33	1.00				
VAI	0.11	0.16	-0.01	0.25	-0.14	1.00			
ER	-0.31	-0.06	0.92	-0.11	-0.30	0.00	1.00		
ED	0.01	0.04	0.14	0.37	0.27	-0.19	0.12	1.00	
FDI	-0.02	0.12	0.34	-0.04	-0.02	-0.25	0.27	0.25	1.00

Source: Authors' calculations

5. 2. REGRESSION ANALYSIS

Table 4 presents the regression model summary for the determinants of FDI in 96 developing economies over the period 2003-2023. The model yields a Multiple R of 0.50, indicating a moderate correlation between the predicted and observed FDI values. The R Square of 0.25 suggests that approximately 25% of the variation in FDI inflows can be explained by the included independent variables. While this indicates a relatively modest explanatory power, it is consistent with the complexity of FDI, which is influenced by both measurable economic factors and unobserved institutional or geopolitical conditions.

The Standard Error (0.0367) shows that prediction errors are small in magnitude relative to the dependent variable's scale. The F-statistic (3.72) and its significance level ($p < 0.001$) confirm that the overall model is statistically significant, meaning the independent variables jointly have explanatory power over FDI inflows.

In sum, the regression results demonstrate that while the model captures only part of the variability in FDI, it provides statistically significant evidence of the role of macroeconomic, structural, and institutional determinants in shaping investment inflows to developing economies.

Table 4 reports the results of the multiple linear regression analysis for 96 developing economies covering the period 2003-2023. The coefficients, standard errors, t-statistics, and significance levels provide insights into which macroeconomic, structural, and institutional factors are most relevant in explaining the variation in FDI inflows across countries.

Table 4. Regression statistics for the model (1), n = 96 countries, data for 2003-2023

Multiple R	R Square	Adjusted R Square	Standard Error	*F*	*Significance F*
0.5049	0.2549	0.1864	0.0367	3.7199	0.00088

Source: Authors' calculations

GDP growth exhibits a positive but insignificant relationship with FDI (coefficient = 0.0018, p = 0.396). This finding suggests that short-term growth dynamics alone are not a strong predictor of foreign investment inflows, supporting the argument that investors weigh structural and institutional conditions more heavily than temporary growth performance. By contrast, GDP per capita shows a positive and statistically significant effect (coefficient ≈ 0.00000, p = 0.036). Although the coefficient is small, it indicates that economies with higher income levels tend to attract more FDI, likely due to stronger domestic markets, greater purchasing power, and improved infrastructure (Table 5). This aligns with neoclassical investment theory and previous studies emphasizing market size as a key determinant of FDI.

The CPI has a positive and significant effect on FDI inflows (coefficient = 0.0029, p = 0.036). While traditionally high inflation is viewed as a deterrent to investment due to increased risk and macroeconomic instability, this result may reflect a threshold effect. Moderate inflation in fast-growing economies could signal robust domestic demand, thereby attracting foreign capital. The finding is consistent with earlier evidence (Hossain and Masih, 2018; Agudze and Ibhagui, 2021) suggesting that inflation-FDI dynamics are nonlinear and context-dependent.

Trade openness shows an insignificant relationship with FDI (p = 0.987). Although the coefficient is close to zero, this result does not negate the importance of openness but rather suggests that its effect may be mediated by other factors such as institutional quality, infrastructure, or regional integration agreements. The absence of statistical significance contrasts with studies (Donghui et al., 2018; Lien, 2021) that found openness critical, highlighting the heterogeneity of developing economies.

Political stability has a negative but insignificant coefficient (-0.00018, p = 0.457). This suggests that, while stability is important conceptually, it may not emerge as a direct determinant when controlling for macroeconomic and structural factors. In some cases, foreign investors may even enter politically unstable environments if economic incentives are strong, particularly in resource-rich economies. This result echoes mixed evidence in the literature regarding the role of institutions and governance in shaping FDI inflows.

The value added of industry is negative and statistically significant (-0.00116, p = 0.012). This counterintuitive result indicates that more industrialized economies attract relatively less FDI, while less industrialized economies receive more inflows. One explanation is that investors seek untapped opportunities in under-industrialized markets, aiming to establish new industries, benefit from lower labor costs, and access new consumer bases. Alternatively, it may reflect the crowding-out effect, where strong domestic industries reduce the relative profitability of foreign entry.

The coefficient for exchange rate changes is negative (-0.00117) but not significant ($p = 0.368$). While exchange rate depreciation can lower asset values and attract investment, excessive volatility may create uncertainty and offset potential gains. The lack of significance suggests that exchange rate effects are complex and may vary depending on country-specific macroeconomic frameworks, echoing the mixed findings in the literature (Froot and Stein, 1991; Khursanaliev and Turanboyev, 2022).

External debt shows a positive but insignificant coefficient (0.00021, $p = 0.140$). This result is noteworthy given that the correlation analysis indicated a moderate positive association. It implies that while debt levels may support investment indirectly by financing infrastructure or improving credit access, their direct effect on FDI diminishes when other macroeconomic controls are introduced. This aligns with the "debt overhang" literature (Krugman, 1988; Tanna et al., 2018), which emphasizes that debt's influence on FDI is nonlinear and often dependent on sustainability thresholds.

The regression results suggest that FDI inflows to developing economies are most strongly shaped by structural indicators such as income level (GDP per capita), macroeconomic signals like inflation, and the stage of industrial development. In contrast, short-term growth, trade openness, political stability, exchange rate changes, and external debt do not appear as statistically significant determinants once other factors are controlled for. These findings highlight the nuanced and context-dependent nature of FDI, underscoring that no single variable explains inflows comprehensively. Instead, a combination of structural readiness, market potential, and macroeconomic dynamics interacts to determine investment attractiveness.

Table 5. Regression analysis results for the model (1), n = 96 countries, data for 2003-2023

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95.0%	Upper 95.0%
Intercept	0.03169	0.01803	1.75823	0.08223	-0.00413	0.06752	-0.00413	0.06752
GDP	0.00176	0.00206	0.85367	0.39563	-0.00234	0.00586	-0.00234	0.00586
GDPpc	0.00000	0.00000	2.13552	0.03553	0.00000	0.00001	0.00000	0.00001
CPI	0.00288	0.00135	2.13079	0.03593	0.00019	0.00557	0.00019	0.00557
TO	0.00000	0.00019	0.01580	0.98743	-0.00038	0.00038	-0.00038	0.00038
PS	-0.00018	0.00024	-0.74686	0.45716	-0.00065	0.00029	-0.00065	0.00029
VAI	-0.00116	0.00045	-2.56013	0.01219	-0.00206	-0.00026	-0.00206	-0.00026
ER	-0.00117	0.00130	-0.90458	0.36819	-0.00375	0.00141	-0.00375	0.00141
ED	0.00021	0.00014	1.48794	0.14038	-0.00007	0.00049	-0.00007	0.00049

Source: Authors' calculations

5. 3. ROBUSTNESS CHECK

In the research, a robustness check was conducted to test the stability of the results when potential multicollinearity or overfitting issues may bias coefficient estimates. Two variables in the baseline model raised concerns. The correlation analysis revealed an extremely high correlation between ER and CPI (0.92), indicating multicollinearity. Including both in the same model risks inflating standard errors and obscuring the true effects. Excluding ER helps to determine whether the explanatory power of the model depends disproportionately on exchange rate volatility or whether CPI alone can adequately capture inflation-exchange rate dynamics. In this case, the following equation will be applied:

$$FDI = \beta_0 + \beta_1 GDP + \beta_2 GDP_{pc} + \beta_3 CPI + \beta_4 TO + \beta_5 ED + \beta_6 VAI + \beta_7 PS + \epsilon \quad (2)$$

where, for $i = n$ observations: FDI represents foreign direct investment net flows, β_0 is the intercept, β_1 represents GDP, β_2 represents GDPpc, β_3 represents CPI, β_4 represents TO, β_5 represents ER, β_6

represents ED, β_7 represents VAI, and β_8 represents PS. β_1–β_8 are the coefficients representing the impact of each independent variable, and ε represents the error term (also known as the residuals).

While GDPpc was statistically significant in the baseline model, it is closely tied to GDP growth and may introduce redundancy when assessing market size and economic performance. Excluding GDPpc tests whether the model's predictive power is overly dependent on this structural variable or whether other determinants (GDP growth, CPI, debt, openness, industrial development, political stability) retain explanatory capacity. In this case, the following equation will be applied:

$$FDI = \beta_0 + \beta_1 GDP + \beta_2 CPI + \beta_3 TO + \beta_4 ER + \beta_5 ED + \beta_6 VAI + \beta_7 PS + \epsilon \quad (3)$$

where, for $i = n$ observations: FDI represents foreign direct investment net flows, β_0 is the intercept, β_1 represents GDP, β_2 represents GDPpc, β_3 represents CPI, β_4 represents TO, β_5 represents ER, β_6 represents ED, β_7 represents VAI, and β_8 represents PS. β_1–β_8 are the coefficients representing the impact of each independent variable, and ε represents the error term (also known as the residuals).

These robustness checks allow us to confirm whether the core findings – particularly the significance of inflation and industrial value added – are stable across alternative model specifications.

The robustness checks confirm the stability of the model's key results (Table 6). Excluding ER has little effect on model performance, reinforcing concerns that its inclusion creates multicollinearity without adding explanatory value. By contrast, excluding GDP per capita significantly reduces model fit, underscoring its central role as a structural determinant of FDI in developing economies.

Table 6. Regression statistics for the model (2) excluding ER and model (3) excluding GDPpc, n = 96 countries, data for 2003-2023

Model	Multiple R	R Square	Adjusted R Square	Standard Error	*F*	*Significance F*
(2) Excluding ER	0.4979	0.2479	0.188	0.0366	4.143	0.00056
(3) Excluding GDPpc	0.4646	0.2158	0.153	0.0373	3.4599	0.0026

Source: Authors' calculations

Removing the exchange rate reduces multicollinearity with CPI. GDP per capita remains significant ($p = 0.032$), CPI becomes more strongly positive ($p = 0.002$), and industrial value added (VAI) remains negative and significant ($p = 0.011$). Other variables remain insignificant (Table 7).

Without GDP per capita, the model fit weakens. GDP growth becomes insignificant ($p = 0.616$), while CPI ($p = 0.029$) and VAI ($p = 0.034$) remain significant. This confirms that GDPpc is a structural determinant and more important than short-term GDP growth.

Overall, CPI, GDPpc, and VAI are the most robust predictors of FDI. Excluding ER has little impact, while excluding GDPpc reduces explanatory power, underscoring its key role (Table 7).

Table 7. Regression analysis results for the model (2) excluding ER and model (3) excluding GDPpc, n = 96 countries, data for 2003-2023

	(2) Excluding ER				(3) Excluding GDPpc			
	Coefficients	Standard Error	t Stat	P-value	Coefficients	Standard Error	t Stat	P-value
Intercept	0.03257	0.01798	1.81125	0.07351	0.03444	0.01834	1.87774	0.06373
GDP	0.00228	0.00198	1.15271	0.25215	0.00104	0.00208	0.50318	0.61610
GDPpc	0.00000	0.00000	2.18453	0.03158				
CPI	0.00177	0.00057	3.11734	0.00247	0.00305	0.00138	2.21583	0.02928
TO	0.00000	0.00019	-0.02454	0.98048	0.00003	0.00019	0.13748	0.89097
PS	-0.00017	0.00024	-0.69833	0.48681	-0.00001	0.00023	-0.06479	0.94849
VAI	-0.00117	0.00045	-2.58761	0.01130	-0.00098	0.00045	-2.14779	0.03448
ED	0.00021	0.00014	1.50157	0.13679	0.00019	0.00014	1.36148	0.17684
					-0.00131	0.00132	-0.99020	0.32479

Source: Authors' calculations

The robustness checks confirm the stability of the key findings. CPI, industrial development, and GDP per capita emerge as the most consistent determinants of FDI inflows in developing economies, while exchange rate dynamics add little independent value once inflation is accounted for.

6. DISCUSSION

The study aimed to examine the relationship between foreign direct investment (FDI) and various independent variables across 96 developing countries for the period of 2003-2023. In this chapter, the findings, drawing insights from the empirical results and their implications for understanding the determinants of FDI in developing countries are discussed and interpreted.

The research provides an important refinement of the neoclassical "accelerator effect" (Jorgenson, 1967) and the bilateral FDI-GDP relationship reported in earlier studies (Sijabat, 2023; Sengupta and Puri, 2018; Makris and Stavroyiannis, 2019; Frimpong and Marbuah, 2010; Jongwanich and Kohpaiboon, 2008; Sadraoui et al., 2025). In developing economies, the results suggest that structural market depth, captured by income level, plays a more decisive role in shaping investment attractiveness than temporary growth fluctuations. Higher GDP per capita reflects stronger domestic demand, greater purchasing power, more developed infrastructure, and institutional maturity – all of which enhance profitability expectations and reduce operational risk for foreign investors.

Conversely, short-term output growth may reflect cyclical or externally driven booms that do not necessarily translate into sustained improvements in investment fundamentals. Without concurrent progress in productivity, infrastructure, and governance, such growth episodes fail to signal credible long-term opportunities for investors. The predominance of GDP per capita over GDP growth in this study thus reconciles the mixed empirical evidence observed across countries: FDI tends to respond more robustly to policy-driven, durable gains in income and capacity than to transient growth spurts.

From a methodological perspective, the use of country-average data over 2003–2023 emphasizes persistent, structural differences across developing economies rather than short-term fluctuations. In this context, GDP per capita serves as a proxy for broader absorptive capacity – including labor skills, supply-chain integration, and institutional quality – that determines both the scale and sustainability of foreign investment inflows. This underscores that long-term improvements in income-related fundamentals and market infrastructure constitute stronger and more credible signals for FDI attraction than short-term macroeconomic acceleration.

The positive CPI coefficient fits the threshold/asymmetry narrative in Hossain and Masih (2018) and Agudze and Ibhagui (2021), rather than the classic linear deterrence view (Fischer, 1993). Our interpretation is consistent with reform episodes in developing economies, where moderate, temporary inflation can accompany liberalization and demand expansion that draw foreign entrants. This supports Tsaurai's (2018) emphasis on macroeconomic credibility, while cautioning that the CPI-FDI link is context-dependent.

The negative and statistically significant coefficient of industrial value added (VAI) provides a nuanced insight into the structural composition of host economies and extends the discussion of structural determinants of FDI. This finding suggests that foreign investors tend to channel capital toward less industrialized developing economies, where the potential for establishing new production capacity, exploiting cost advantages, and capturing untapped market segments is greater. In such environments, the relative scarcity of domestic competitors, lower entry barriers, and availability of inexpensive labor or natural resources create favorable conditions for greenfield investment and market penetration.

At the same time, this negative contemporaneous association does not contradict the long-term developmental role of FDI. In more industrialized economies – those with higher VAI shares – foreign investors may perceive reduced marginal returns from additional capacity expansion or face intensified competition from established domestic firms. Consequently, while such economies may continue to attract efficiency-seeking or technology-intensive FDI, the overall share of inward FDI relative to GDP tends to decline, reflecting a process of industrial saturation or crowding out.

Furthermore, VAI is closely intertwined with broader structural characteristics such as GDP per capita, trade openness, and infrastructure development. These variables often capture similar dimensions of economic maturity and investment readiness. When included simultaneously in the regression, their overlapping explanatory content can reduce the independent statistical weight of VAI, resulting in a negative partial correlation even when industrial strength itself supports FDI in absolute terms. This interplay indicates that FDI inflows respond less to the current scale of industrialization and more to the potential for industrial expansion and integration into global value chains.

Hence, the negative VAI coefficient should not be interpreted as evidence that industrialization deters FDI, but rather as an indication that the marginal attractiveness of additional foreign investment declines as domestic industrial sectors mature. This interpretation adds a novel dimension to the FDI literature by highlighting the nonlinear relationship between industrial development and investment inflows, suggesting that FDI may initially rise with industrial takeoff but taper off as economies approach structural maturity.

The insignificance of ER once CPI is included is coherent with the literature's mixed findings (Froot and Stein, 1991; Bayoumi et al., 1996; Huong et al., 2021; Khursanaliev and Turanboyev, 2022). Our robustness checks (excluding ER) confirm that ER contributes little independent information when inflation already captures macro-price dynamics – directly addressing concerns raised in the review about ER volatility against level effects.

While ED is positive but insignificant in the full model, this is compatible with the non-linear/threshold perspective (Krugman, 1988; Tanna et al., 2018; Ofosu-Mensah Ababio et al., 2018). Moderate borrowing may be complementary to FDI via infrastructure financing, whereas high debt can deter investment through overhang and risk premia. Our separate high-debt analysis, as noted in the abstract, is consistent with this state-contingent view.

The insignificance of TO and PS contrasts with the positive roles emphasized by Donghui et al. (2018), Lien (2021), Busse and Hefeker (2007), and Servén (2003). The divergence likely reflects (i) measurement limitations (trade/GDP conflates size with policy; PS percentile aggregates diverse risks), and (ii) mediation through market size, logistics, and sector-specific rules.

The review's call for more granular indicators (e.g., tariffs/NTBs, logistics performance, rule-of-law dimensions) is therefore reinforced by our results.

Our baseline and robustness models show that political stability (PS) is not a statistically significant predictor of FDI once other controls are included. This does not mean that stability is irrelevant; rather, its unique marginal effect is hard to identify given the data and specification. PS is moderately correlated with variables already in the model – GDP per capita (0.33), trade openness (0.33), and CPI/ER (-0.30 each) (Table 3). If stability mainly works through higher income, better macroeconomic policy, and openness, then its direct coefficient shrinks once these channels are controlled. In other words, PS improves the investment climate, but that improvement is already captured by GDPpc, CPI, and TO. We use the WGI percentile averaged over 2003-2023. Time-averaging compresses within-country variation and attenuates relationships (classical measurement error biases coefficients toward zero). PS is also broad (bundling conflict risk, terrorism, crime, and governance shocks); such aggregation can dilute the particular risk dimensions most salient to investors in specific sectors. In developing economies, a large share of inflows is resource-seeking or infrastructure-linked. These projects can proceed in lower-stability contexts when expected returns are high or when contracts include stabilization clauses. Moreover, our dependent variable is net FDI inflows (% GDP) (mixing greenfield, reinvested earnings, and intra-firm loans). Components tied to tax/financial optimization are less sensitive to PS, weakening the average PS-FDI link.

The study also has limitations. Using long-run averages compresses within-country dynamics and may attenuate coefficients; the dependent variable – net FDI as % of GDP – pools greenfield, reinvested earnings, and intra-firm flows, potentially masking heterogeneous responses; several constructs (openness, institutions, exchange rate) are measured parsimoniously (trade/GDP, WGI percentile, nominal ER change). These choices were necessary for broad coverage but likely contribute to the insignificance of some variables and to the modest explanatory power ($R^2 \approx 0.25$).

Based on the findings, policymakers and stakeholders in developing countries can consider several implications for promoting FDI:

1. Beyond tariff reductions, priority should be directed towards trade facilitation (risk-based customs, digital single windows), logistics performance, and backbone infrastructure to lower transaction costs and render the economy credibly accessible to foreign investors.
2. Maintaining transparent, medium-term debt anchors and favorable maturity structures so that external borrowing complements – rather than substitutes for – FDI by financing connective infrastructure without creating debt-overhang risk.
3. Deepening regulatory quality, reducing administrative burdens, and enhancing legal certainty through effective contract enforcement and investor-protection frameworks; macroeconomic credibility (low, predictable inflation) should be treated as a core dimension of the investment climate.
4. Although political stability was not statistically significant in our specification, it remains a foundational precondition for attracting and retaining FDI; efforts to improve governance, rule of law, and policy predictability should continue.
5. Broadening the productive base to reduce sectoral concentration risk and expanding the range of viable investment opportunities, thereby increasing the likelihood of attracting both market-seeking and efficiency-seeking FDI.
6. Sequence reforms to raise durable absorptive capacity – skills, infrastructure, and supplier networks – so that FDI supports sustained growth, structural transformation, and productivity upgrading rather than short-lived inflow spikes.

7. CONCLUSION

This study examined the determinants of foreign direct investment (FDI) across 96 developing economies using country averages for 2003-2023 and a multiple linear regression framework.

This literature review highlighted key empirical findings on the determinants of FDI. It is assumed that FDI and GDP exhibit a positive mutual relationship. High inflation adversely affects FDI in the long term, signaling macroeconomic instability. Exchange rate depreciation attracts FDI but introduces uncertainty, impacting essential imports. High external debt diverts resources and diminishes creditworthiness, hindering FDI and economic stability. Open trade policies promote FDI, creating a conducive environment for economic growth. Political factors, including instability and policy uncertainty, influence FDI, with political freedom encouraging investment and instability discouraging it.

The comprehensive data collection process included both dependent and independent variables, ranging from FDI and economic growth indicators to inflation rates, trade openness, exchange rates, external debt, industrial value added, and political stability.

After data collection, 96 developing countries were defined as the observed set, and data were meticulously prepared, aggregating values over specific periods. The researched applied multilinear regression modeling, where historical data were normalized, and a regression equation was employed to analyze the relationships between FDI and the chosen independent variables.

Three core results emerge. First, structural market depth, proxied by GDP per capita, is a positive and statistically significant correlate of FDI, while short-run GDP growth is not. Second, macroeconomic price credibility matters: CPI enters positively and significantly, consistent with threshold or reform-episode interpretations rather than a purely linear deterrence view. Third, the industrial composition of output, captured by industry value added (VAI), is negatively and significantly associated with FDI inflows, suggesting crowding/saturation or sectoral composition effects in contemporaneous cross-country averages.

The findings carry three implications for the literature. First, they qualify neoclassical accelerator intuitions by showing that enduring market capacity (income level) is a more reliable location signal than transient growth spurts in developing settings. Second, they help reconcile mixed evidence on price variables: investors appear to respond more to the credibility and predictability of the price environment (for which CPI is a proxy) than to nominal exchange-rate changes. Third, the negative VAI coefficient highlights the importance of sectoral composition and saturation in cross-sectional analyses of FDI and suggests that the quality and stage of industrialization shape marginal foreign entry.

Policy implications follow directly. Sustained inflows are most likely where governments raise structural capacity (infrastructure, skills, urban connectivity), anchor macroeconomic credibility (low, predictable inflation; prudent debt), and translate “openness” into lower practical trade and regulatory costs (facilitation, logistics, rule of law). For countries with low VAI, creating investable sites and supplier ecosystems can convert “room to build” into greenfield FDI. Where VAI is high, upgrading toward more sophisticated manufacturing and services – and enabling quality M&A – can avoid crowding effects and raise the developmental quality of inflows.

Based on the findings, policymakers and stakeholders in developing countries can consider several implications for promoting FDI. These include continuing open trade policies, prudent debt management, improving the overall investment climate, ensuring political stability, exploring economic diversification, and adopting a long-term perspective in attracting FDI to achieve sustainable economic growth and development.

Further research could explore additional determinants of FDI, such as the quality of institutions, infrastructure development, and specific sectoral analyses. Case studies of individual countries or regions can provide deeper insights into the dynamics of foreign investment in developing economies.

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