A REVIEW OF EMPIRICAL STUDIES ON FOREIGN DIRECT INVESTMENT DETERMINANTS

Junior Brevil,[1] Chijioke Nwachukwu, PhD, [2] Mary Shadrach Omofowa[3] & Shadrach Omofowa, PhD[4]

[1]DBA Department of Entrepreneurial Studies, Horizons University Paris France, Cap-Haitien, Haiti
bzennyjunior@gmail.com,

[2]Department of Human Resource Management University of Benin,
mary.omofowa@uniben.edu,
+2348034308512

[3]Horizons University Paris France Centre for Multidisciplinary Research and Innovation Abuja Nigeria
cesogwa@yahoo.com

[4]Department of Business Administration, Global Polytechnic Benin City,
shadrachomofowa@gmail.com
+2348035472362

Pages 269 - 286

ABSTRACT

This present paper aims to review the main determinants of Foreign Direct Investment (FDI) inflows by considering several theoretical and empirical studies conducted from 1990 to 2019. To achieve the purpose of this paper, a qualitative method based on the literature and document review research method has been used. Data are collected from journal articles, and reports from international institutions like World Bank and UNCTAD. According to the literature or the results, the determinants of FDI inflows are still the same from 1990 to 2021. However, the way that they affect the FDI inflows varies between regions and countries.

The main determinants found are market size, labour market, market growth, open trade, inflation, access to resources, etc. It is advisable to conduct future research should focus on how these determinants work in different economies around the world, considering COVID-19 and its impact on the global economy.

Keywords: *determinant, FDI*

Introduction

The world is divided into three groups or categories of economies: developed economies, emerging economies, and developing economies. All these three categories experienced the wellbeing of Foreign Direct Investment (FDI) through especially the multinational companies. Their emergence significantly impacts economic growth and development in many countries or economies in the world (Brown & Joseph, 2018). They can provide many benefits especially to a country such as: provide employment, source of tax revenue, etc. through multinational companies (Tirmba& Macharia, 2014). They do not bring only advantages but also have several disadvantages such as increased competition, transfer pricing, cultural degradation, elimination of Small and Medium Enterprises [SMEs], etc. (Onyewuchi&Obumneke, 2013). The present paper is based on the evolution of the determinants of FDI inflows around the world in the last decades.

It is often asserted with confidence that foreign direct investment is an essential source of finance for developing countries, but policymakers must minimize their risks (Ghahroudi& Chong, 2020). Indeed, for several decades, important changes have occurred in the FDI process. Previously, deciding to internationalize while investing in a country were motivated by macroeconomics factors. It is however observed a significant change in host government attitudes since 1990 toward incoming FDI switching from suspicious and barriers to FDI to a more attractive business environment based on liberalization and a more welcoming approach. Various theories have been developed to explain FDI. A large number of empirical studies have been conducted and published on the assessment of the key determinants that explain the investment of multinational companies in a given country or economy. This paper aims to analyse while making a summary of the main determinants of FDI inflows by considering academic journals and international organizations' databases. This paper will have two contributions. First, it will identify all determinants of FDI inflows, and second, it will attempt to trace and analyse by examining available data on how these determinants have been evolved. This paper is organized into four parts. The first part describes the background or the problem related to the research. The second part presents the methodological design using to carry out the research. The third part addresses the definition of foreign direct investment, and the last part presents the basics of the work, the theoretical and the empirical literature on determinants of FDI inflows.

Background

Conventional wisdom claims that FDI flows bring many benefits to host countries especially developing countries by bringing technical know-how, increasing productivity, generating local business, and creating better-paying jobs (World Bank, 2017). In this sense, countries try to make themselves attractive to potential investors. This review aims to analyse and synthesize the main determinants of FDI inflows and their evolution. Most searches conducted on the business environment and FDI inflows tried to study the impact of FDI on the business environment. It exists little of searches that traced how the FDI inflows have changed while taking into account of the challenges which face countries and the strategies that they used to overcome these challenges. The determinants can no longer be seen in the same way as they were some decades ago. To enter a market or to invest in an economy, investors take account or prioritize many important factors that could be considered important determinants for FDI inflows. Many searches address this question but as an element of a study and not at all. Developing countries were the main recipients of FDI flows. However, things are different for several decades. The developed countries become the largest recipients of FDI flows. This paper will try to answer the following questions: what are the main determinants of FDI inflows? Does the perception of favourable operating conditions for companies positively affect FDI flows? Are the determinants of FDI inflows still the same? An analysis of these questions and their answers is relevant because FDI is a viable alternative for financing development and innovations in a country.

Methodology

This paper aims to review the empirical studies on the determinants of foreign direct investment inflows. A review paper makes a summary and an analysis of the existing literature related to a key concept well-determined (Arlene, 2014). The literature and document review research method is adopted to carry out this study. It is refined by including papers based on empirical studies and official reports on FDI determinants. In this sense, the process of data collection and analysis was strictly planned and analysed by considering secondary sources. Data have been collected from papers based on empirical studies conducted by different authors in several countries but with a concentration on FDI flow determinants. These sources included various academic journals, professional publications, and books. Therefore, they are sources with a high degree of credibility and reliability. This paper adopted a qualitative method given the actual nature and the scope of the research.

What is Foreign Direct Investment?

Foreign direct investment can be defined as international interest in which a company from one country obtains a lasting interest to conduct business in another country or with a company resident in another country (Masuku & Dlamini, 2009). For Golub (2003), FDI is defined as an international economic integration that brings gains to both parent and filial companies according to the principle of comparative advantage. Returns of FDI might take several forms such as profits, expansion of business, market development, and innovations and they are linked to social, economic, political, financial, and cultural factors in the recipient country (Akhtar, 2001). Foreign Direct Investment (FDI) is defined, according to the International Monetary Fund [IMF] (1993) (Cited by United Nations Conference on Trade and Development [UNCTAD], 2002) as "an investment that involves a long-term relationship and reflects a lasting interest and control by a resident entity in one economy in an enterprise resident in an economy other that of the foreign direct investor" (p. 291). According to the previous definition, FDI involves both initial transactions that establish the relationship between investors and enterprises, and capital transactions between these actors and other affiliated enterprises (OECD, 1996). An investor may be a government, an individual, a corporate or incorporated private or public enterprise, a group of related individuals, etc.

FDI implies that the foreign investors have or exercise important control over the host enterprise management. Tutar, Altinoz, and Cakirogu (2014) suggest that managers must adopt a strong sense of management and leadership for better synergy with host countries. There are different kinds of foreign direct investment and each may have different economic, social, and environmental impacts including the factors that motivate investors. FDI accounted on average for 39% of external finance for developing countries between the period of 2013 and 2017 (UNCTAD, 2018).

Review of the Theoretical Literature on the Determinants of FDI

There is no unified theoretical frameworkto explain the determinants of FDI inflows. In other words, the origins of FDI are not fully understood. Although there are many schools of thought which have been used to explain this phenomenon, there is still no consensus on any superior or general theory of FDI (Makoni, 2015). However, in the literature, several theories try to explain why multinational companiesand foreign investors choose to invest in certain countries and not in other countries. The theory of FDI dates back to the first works of several authors, in particular Smith and Ricardo with their two theories related to internationalization (Makoni, 2015). This first section of the literature makes a review of the main theories that address clearest the FDI inflows determinants.

Dunning eclectic model

This model can be considered the most complete approach to FDI determinants. Starting from the concept of an imperfect market developed by several theorists (Hymer, KindlebergerelCoase), its global approach to the explanatory factors of direct investment makes him the pioneer of this paradigm (property, location, internationalization) in which he brings together three essential advantages, according to him, which push multinationals to set up abroad. Dunning (1993), describes his model by outlining for motives for a company to internationalize through this type of investment: access to resources, efficiency gains, access to markets, and acquisition of strategic assets. According to Dunning (1988), three factors may influence a firm's choice to internationalize in a given location. These factors are known as the OLI acronym: Ownership-specific Advantages, Locational-specific Advantages, and Internationalization-specific Advantages.

Table 1: Firm's specific advantages considered for internationalizing according to Dunning's eclectic model

Ownership-specific advantage	Location-specific advantage	Internalizing-specific advantage
• Tangible and intangible assets • Compensates for liability of foreignness • Continual reinvestment needed	• The Attractiveness of a market • The fit between the chosen market and the firm's strategy	• Benefits of retaining tangible and intangible assets within the firm • Can reduce transaction costs

Source: *Hermannsdottir (2008, p. 7)*

• The Ownership Advantages. This factor refers to the assets and skills of a firm. Dunning (1993) suggests that the assets of multinational firms are reflected in their size and multinational experiences, as well as their skills and ability to make their products competitive. It concerns strategic resources and the capacity of firms' vis-à-vis the external market to capture transactional benefits and ensure better competitiveness and growth in different countries (Li, Tallman and Ferreira, 2005).

• The Locational Advantages. This factor reflects the advantages of the host country.

According to Root (1987) and Dunning (1997), this factor shows how the host country is attractive while considering its market potential and investment risk. It also explains the points of similarities between the culture of the enterprise and that of the host country.

Tallman (1992) suggests, concerning the location advantages, that the determination of which kind of products to offer in which countries or markets are the main key strategic choice for firms. In this sense, the eclectic paradigm helps to answer the following questions: why production might take place in foreign countries? What are the main resources of the host countries? What is the level of adaptation by the foreign firm while considering the differences in culture, social, and economic? So, the host market potential plays a vital part when a company decides to internationalize.

• The Internationalization Advantages. This factor takes into account advantages related to the cost of choosing a hierarchical mode of operation over an external mode (Dunning, 1993).

For Williamson (1981), it refers to transaction costs. By explaining the benefits of internalization, the eclectic paradigm demonstrates why companies internalize markets in hierarchical forms with common ownership rather than other forms of entry modes such as exporting or licensing knowledge to access foreign markets (Li, Tallman, &Ferreire, 2005).

Although considered the most complete theory, several criticisms have been made of

Dunning's paradigm. An important review by Forssbaeck and Oxelheim (2008) questioned the subordinate role attributed to financial aspects in the decision on FDI. Boddewyn (1985), despite his much praise for Dunning's theory of explaining the initial decision of multinationals to FDI, criticizes the lack of explanation for subsequent increases in FDI, which perhaps require significant changes in some factors other than OLI factors. In addition to this, another researcher, Shin (1998), questions the applicability of the theory to LDCs that generally do not enjoy firm-specific monopoly advantages, such as high knowledge content. In addition, there is another criticism of the eclectic theory explaining that the theory takes into account too many variables which makes it operationally impractical because it does not provide a sufficient explanation of FDI at the enterprise level industry and country (Petrovic-Randelovic, Jankovic-Milic & Kostadinovic, 2017).

Capital Market Theory

This theory gives a clear idea of the internationalization of companies. It is also sometimes referred to as the “currency area theory”, which is considered one of the earliest theories which explained FDI (Makoni, 2015). It is based on the hypothesis of imperfect conditions of competition to explain the motives of foreign investment and makes it possible to take better account of the real situations encountered by firms; the idea of the imperfect oligopoly constitutes the richest case in the analysis of internationalization (Jacquemot 1990). In other words, this model postulated that foreign direct investment arose from market imperfections.

According to Nayak and Choudhry (2014), FDI is the result of differences between source and host country. Aliber (1970, 1971) noted that countries with weaker currencies have higher FDIattraction ability and are better able to take advantage of differences in the market capitalization rate, compared to stronger country currencies. However, this model is criticized for many reasons:

a) Lall (1979), highlighted that the capital market theory does not apply in the case of less developed countries with highly imperfect or non-existent capital markets and,
b) Nayak and Choudhury (2014) highlighted and explained by their side that this theory does not explain investment between two developed countries with similar strengths currencies, nor the way developing countries MNCs with weaker currencies can invest in developed countries with much stronger currencies (Makoni, 2015).

Product life cycle theory (PLC)

In some cases, this model is used to explain companies’ choices to invest in a foreign market. This model was introduced by Vernon (1966). According to this theory, firms go through four production cycles: innovation, growth, maturity and decline (Makoni, 2015). This theory helps explain why, once produced in developed countries, goods are ultimately manufactured cheaply in developing countries, and then exported to their countries of origin. According to this theory, multinationals or other investors choose to relocate part of their production to reduce the cost of production.

The PLC is not exempt from theories which have their strengths but also their limits.

Boddewyn (1985) by his side, has pointed out that the product life cycle was not tested empirically.

It also does not take into account all the determinants of FDI, in the sense that it explains, for example, only the localization aspects of manufacturing infrastructure, but not their ownership (Makoni, 2015).

Institution FDI fitness theory

This theory was developed by Wilhems and Witter (1998) and focuses on a country's ability to attract and retain FDI. In this sense, the term FDI fitness refers to a country's ability to adapt tothe internal and external expectations of its investors which gives this country the upperhand in attracting FDI inflows (Makoni, 2015). This theory explains the FDI determinants by resting on four fundamental pillars (Makoni, 2015):

• At the base, there are the socio-cultural factors that is the first pillar. According to Wilhems and Witter (1998), the socio-cultural factors are the oldest and the most complex of all pillars.

• Secondly, there is education above. Education enhances research and development and the capital human which help to create an attractive business environment for FDI (Wilhems&Witter, 1998). It is important to note that this pillar is highly significant for attracting better FDI.

• The third pillar refers to the economic and financial aspects of institutional FDI fitness. It describes the form of physical capital like machinery and financial capital like credit.

• The fourth and last pillar developed by Wilhems and Vitter (1998) is the government.

According to Wilhems and Vitter (1998), the government is responsible for adopting protective regulations to manage market fitness. Popovici and Calin (2014), note that government fitness is considered to include economic openness, a low degree of trade and exchange rate intervention, low corruption and greater transparency (Makoni, 2015; Nayak and Choudhry; 2014).

Empirical Literature on FDI Determinants

Many empirical studies have considered various host countries' characteristics allowing them to attract or influence FDI inflows. These are divided into two parts: non-policy and policy factors.It is important to note that the internationalisation process can be explained by internal and external factors related to a company. External factors refer to recipient FDI or host country factors.

According to Sahiti, Ahmeti and Ismajli (2018), FDI determinants are complex and multidimensional and can be understood from macro-economic and firm strategy considerations. This paper puts the focus on determinant factors related to recipients' FDI at several levels: socioeconomic, political and institutional. Several studies have sought to capture the link between some regulatory frameworks and trade facilitation measures and FDI inflows.

Here is a summary of several searches on the determinants of FDI inflows from 1990 to 2020 according to Sierra, Quijada and

Espiniola (2018) but adapted and expanded by the authors:

Table 2: Determinants of FDI inflows

Searches	Determinants
Singh and Jun (1996)	Sociopolitical instability/work hour lost (-)
Pfeffermann et al. (1999)	Unpredictability in judiciary (-); corruption (-); Tax rates (-) Inflation (-)
Wei (2000)	Tax rates (-); Wages(+)
Noorbakhshet al.(2001)	Years of schooling (+)
Nunnenkamp and Spatz(2002)	Corruption (-); Years of schooling (+); GDP per capita (+)
Globerman and Shapiro (2002)	Governance (+); Education expenditure (+); GDP growth (+)
Addison and Heshmati (2003)	Openness to trade (+)
Tuman and Emmert (2004)	Political instability (-); Property rights (+); Years of schooling (+) GDP per capita (+)
Desai et al. (2006)	Capital controls (-)
Biglaiser et al (2006)	Social conflict (-); Expropriation risk (-)
Mottaleb and Kalirajan (2008)	Business-friendly environment (+); High GDP growth rates (+); High proportion of international trade (+)
Demirhan and Masca (2008) Walsh and Yu (2010)	Infrastructure expenditure (+); Tax rates (-); Inflation (-) Independent judiciary (+); Infrastructure expenditure (+); Inflation (-); Openness to trade (+); Real exchange depreciation (+)
Biglaiser and Staats (2010)	Effective court system/rule of law(+)
Danciu and Strat (2014)	Infrastructure (+); Cheap raw material (+); Reduce teaxincentive(+); Labor market (+); Agglomeration factor (+); Cost Factor (+)
Hecock and Jepsen (2014)	Property rights (+)
Akiln et al. (2014)	Corruption (+)
Petrou and Thanos (2014)	Corruption (+)
Asongu and Nwachukwu (2015)	Political stability (+); Government effectiveness (+)
Saini and Singhania (2017)	Inflation (-); Trade openness; (+) Exchange rate (+)
Hintosova, et al. (2018)	Trade openness (+)
Asiamah, Ofori and Afful (2019)	Inflation rate (-); Exchange rate (-) Interest rate (-) GDP (+); electricity production (+); Telephone usage (+)
Aderemi, et al. (2020)	Market Size (+); exchange rate (+); growth rate (+); Inflation (-)

Adekunle (2020)	Trade openness (+); gross domestic product (+);
Kumari et al. (2021)	Economic growth (+)
Azam and Haseeb (2021)	Tourism (+); Market size (+); Trade (+); Renewable energy (+)
Kumari and Sharma (2022)	Market size (+), inflation (-), Research and development (+), Openness (+), Human Capital (+)

Source: adapted and expanded by the authors from Sierra, Quijada and Espiniola (2018)
Note: (+) is referred to positive determinants and (–) referred to negative determinants on FDI inflows.

Macro-economic Determinants

Before 1990, previous works emphasized several macroeconomic variables. According to several searches (Walsh & Yu, 2010; Addison &Heshmati, 2003; Tuman & Emmert, 2004; Schneider & Frey, 1985; Asongu& Nwachukwu, 2015), macro-economic conditions of countries are very important to understand the attractively of FDI from abroad. These searches outline many factors or determinants such as low inflation, the potential and the degree of openness of the host market, the income level, economic growth, real GNP, the quality of institutions, GDP per capita, GDP rowth, economic stability, the degree of openness of the host economy, and the level of development. Besides,there exist many other determinants such as political stability that are very important to attract investment (Singh and Jun, 1996) because, according to Schneider and Frey (1985), the contrary significantly reduces the inflow of FDI. Wheeler and Mody (1992), found a strong correlation between economic and political stability and flows of investment. Even though some studies such as Jaspersen et al. (2000), Husmann and Fernandez-Aris (2000) have found no relationship between political risk and FDI flows. Many countries experience political instability but attract many multinational companies because they own rich natural resources (Demirhan&Masca, 2008). Economou et al. (2017), in recent research, found that labour cost is one of the most important determinants of FDI. Charkrabarti (2001), arrived at the same conclusion.

Tsai (1994) reported a strong relationship between cheaplabour over the period 1983 to 1986 with FDI flows. Based on a comparative discussion focusing on why some countries are successful in attracting FDI, Mottaleb and Kalirajan (2010) have highlighted several factors or characteristics of the most attracting countries such as a higher proportion of international trade, a larger GDPs, a higher GDP growth rates, and a more business-friendly environment. In developed and developing countries, the hypothesis of market size, as an explanatory variable of inward foreign direct investment flows, is supported by numerous empirical studies such as Resmini (2000), Aderemi, et al. (2020), Bevan and Eastrin (2000) related to the subject. Many of them found a significant relationship between market size and FDI inflows. In fact, according to Artige and Nicolini (2005), the market size as measured by the GDP or GDP per capita is considered the most relevant and robust FDI determinant in econometrics studies. Wheeler and Modi (1992) taken from Schmitz and

Bieri (1972) and Lunn (1980) also found a statistically significant effect of market size in determining the inflow of US foreign direct investment into the EEC. Kravis and Lipsey (1982) assert that the size of the host country's market had a decisive influence on the decision to locate American multinationals in the 1960s. Applying the econometric analysis of a single equation model using aggregate sectoral data on US multinational investment in 42 countries during the period 1982-1988, Wheeler and Mody (1992) showed that the size of the market is a very important factor in the attractiveness of foreign direct investment in both developing and industrialized countries. Many other studies have also shown a strong correlation between foreign direct investment and the size of the market in developing countries as host countries. In Nigeria Gabriel, Chigozi and Awara (2016) examined the influence of market size on foreign direct investment and found that the size of the economy and the size of the population have a positive and significant effect on foreign direct investment. Also by applying the econometric analysis of a model of nonlinear simultaneous equations using aggregate data pooled for 62 countries over the period 1975-1978 and for 51 countries over the period 1983-1986, Tsai (1994) found a higher GDP per capita is associated with a higher level of inward foreign direct investment.

This result is also supported by other studies that were carried out later such as that of Billington (1999), and Pistoresi (2000). Aderemi, et al. (2020) conducted research aimed to investigate the critical macroeconomic variables that determine the inflows of FDI in Nigeria over the period of 1990 to 2017. They summarized the principal determinants of FDI in Nigeria are past FDI inflows, market size, exchange rate and growth rate.

Logically, cheap labour is considered an important factor to increase the benefits of a company. In this sense, plenty of studies were conducted with the purpose of determining the relationship between labour and FDI inflow. In general, the hypothesis predicts that market labour affects positively FDI inflows. Many researchers have affirmed the evidence supporting the cost seeking or a positive relationship such as Sheneider and Frey (1985), Janicki &Wunnava (2004),

and Vijayakumar et al. (2010). Eckel (2003) argued that the search for lower production costs is one of the basic motives behind the FDI. Tsai (1994) obtained a strong relationship between cheaplabour over the period 1983 to 1986 with FDI flows. Bevan and Eastrin (2000) have found, by analysing the determinants of FDI in the CEEs, that country risk and size, labour cost, and distance are important determinants for attracting FDI. However, Rield (2010) through his research on eight EU member states, found the impact of labour cost was negative on the attractiveness of FDI.

Besides, many other studies (Chakrabarti, 2001) found no robust relationship between labour cost and FDI. However, the relationship between labour cost and FDI is positive in some sectors and weak in other sectors (Bayraktar-Saglam and Boke, 2017).

The degree of openness is an important factor or determinant of FDI. One of the basic hypotheses of capitalism is that free-exchange increases trade between regions. So, a country's degree of openness to international business should be a relevant factor in the attractiveness of FDI.

Janicki (2004) studied the determinants of FDI in nine EU countries: Bulgaria, Estonia, Hungary,

Romania, Ukraine, etc. He found in this research that trade openness was the most important determinant of FDI. A large number of studies (Addison &Heshmati, 2003; Demirhan&Masca, 2008; Edwads, 1990; Walsh & Yu, 2010; Saini & Singhania, 2017; Hintosova, et al., 2018; Kumari and Sharma, 2022; Parletum, 2008) have found a significant relationship between openness and rising of FDI inflows. According to Wheeler and Mody (1992), a strong relationship between trade openness and FDI inflows in the manufacturing sector and at the same time a weak relationship in the electronics sector. It is also important to note that the impact of openness may be strong insome sectors and weak in others.

Institution Framework

Many researchers paid attention toinstitutional frameworks that play a significant role in shaping suitable business environments for foreign and private investment (Sierra, Quijada & Espinola, 2018). Some important variables are outlined by several studies (Biglaiser&DeRouen, 2006; Singh &Jun, 1996; Globerman& Shapiro, 2002) such as corruption, sociopolitical instability, work hours lost, social conflict, expropriation risk, unpredictability judiciary can impact negatively the FDI inflows.

Political stability is very important to attract investment (Singh &Jun, 1996) because, according to Schneider and Frey (1985), the contrary significantly reduces the inflow of FDI. Wheeler and Mody (1992), found a strong correlation between economic and political stability and flows of investment. Even though some researchers such as Jaspersen et al. (2000), Husmann and Fernandez-Aris (2000) have found no relationship between corruption n political risk and FDI flows. Because many are countries in political instability situation but that attract many multinational companies because they own rich natural resources (Demirhan&Masca, 2008).

Economou et al., (2017), in recent research, have found that labour cost is one of the most important determinants of FDI.

Corruption was traditionally seen as a phenomenon typically found in underdeveloped or developing countries, but today it is a very serious problem and a major challenge even for developed countries (Castro and Numes, 2013). By adopting a resource perspective to explore a non-linear relationship between corruption and two measures of bank engagement in the foreign market, invested capital and equity, Patrou and Thanos (2014) have found that a u-shaped relationship provides evidence from the grab-the-hand point view at low to moderate levels of corruption and support the grab hold point of view at high levels of corruption. According to a search conducted on the corruption perception index for 73 countries in the world, countries which attract more FDI have low levels of corruption except for some countries such as Brazil, Russia, China and

Italy which had an average high levels of corruption and important FDI inflows (Castro & Nunes, 2013). Helmy (2012) submit that FDI varies positively with corruption.

Macro-economic determinants and Factor Endowments

In the literature on the determinants of FDI inflows, there are many microeconomic regulations to consider. According to many studies (Pfefferman, Kisunko&Sumlinki 1999; Wei, 2000; Demirhan&Masca, 2008; Sierra, Quijada &Espinola, 2018), plenty of microeconomic regulations related to public policies on production cost and revenues, tax rates and capital controls have a significant impact on investor decisions. Helmy (2012) has concluded by employing several panel settings with various econometric specifications on 21 MENA countries between 2003 and 2009, that FDI varies negatively with the tax and homicide rates.

Infrastructures including many dimensions that range from ports, roads, railways and telecommunication systems, etc., are significant for FDI inflows. Vijayakumar et al. (2010) have found strong evidence between good quality infrastructure and FDI. However, the conclusions of the Overseas Development Institute (ODI, 1997) about the such subject are that infrastructure issues can be considered not only as an obstacle but as an opportunity too for foreign investment (Demirhan&Masca, 2008). In general, "factor endowments, i.e. natural, physical, and human stocks are fundamental to assess a country's potential long-term growth and expected investment profitability" (Sierra, Quijada &Espinola, 2018, p. 3). Many studies and reports note that an abundance of natural resources in a country has naturally a close link to high forward FDI because raw materials are the main elements used to make products.

Access to resources also remains one of the most important factors and advantages that attract FDI or other types of investment in the world. Several searches and reports from researchers and international organizations confirm the relationship between access to resources and FDI inflows. According to Dunning (1993) his eclectic model outline access to resources as one of the four motives for a company to internationalize. Azam and Haseeb (2021) highlighted several important determinants but two of them catch our attention. On the one hand, there is tourism is often ignored by many scholars but that could be considered an important attractive source of FDI.

On the other hand, there are renewable energies that attract operational investments but which also foster the transfer of technology.

Implications for Research

This subject is an important debated topic in the business world. The goal of this paper is to review the empirical studies on the determinants of foreign direct investment inflows. This paper presents a body of research that provides detailed data on the determinants of FDI. The first major contribution of this paper is that it provides much-needed empirical studies that trace and highlight the most important determinants of FDI inflows from 1990 to 2019. It shows that FDI determinants are still the same since 1990 but the context to face them is different depending on the region. Every country has their own characteristics and determinants to attract FDI flows.

So as an implication for research, this paper makes available significant data including researchwith theories, authors, paradigms and schools relating to FDI determinants. In sum, this research highlights important FDI determinants such as inflation, labour work, education, GDP, political and economic stability, market size, etc. In this sense, this study raises some opportunities for future research that will be based on challenges for multinational corporations to go abroad and how to overcome these challenges. The paper informs multinational companies of country-specific determinants and enables them to formulate and implement effective internationalisation strategies.

This research is valuable in terms of data for the other researchers, in particular for the new scholars interested in this field. Finally, it reinforces results and points of view of certain theories and research that were been conducted in the field.

Conclusion

The factors that determine FDI inflow are important to policy-makers, multinational companies, investors, the banking industry, and the public. This paper aims to make a review of the FDI inflows determinants by considering the theoretical and empirical literature. This study implemented a qualitative method based on the documentation review. To collect data, several sources have been selected by considering the following criteria: published by a journal or an international institution like World Bank UNCTAD, and IMF; and address the topic of determinants of FDI inflows between 1990 and 2022.According to the literature on the determinants of FDI inflows, the main determinant FDI variables used in economic research are location or pull factors such as the degree of openness of an economy, the size of the market and the growth rate of Gross Domestic Product (GDP), the economic stability, several institutional variables, and push factors, relating to conditions in the source country (Castro & Nunes, 2013). The literature shows that FDI inflow determinants have always been the same since 1990. Some of the determinants found were more attractive and important than others. However, it is important to note that the attractiveness and the importance of a determinant depend on the area. In some regions, we observed that the relationship between some determinants and the FDI inflows is positive and strong, but weak in some other regions and vice versa.

This article takes into account articles or empirical reports on developed, transition, and developing countries from 1990 to 2022. However, it does not take into account the determinants of FDI flows relating to each of these categories of countries or economies. Future research will be very useful on the determinant of FDI in 2022, especially because of COVID-19. The current global economy is in great turmoil and looks more uncertain than ever. Therefore, analyzes of the evolution of the determinants of FDI in the revival of the world economy are very crucial.

References

Adekunle, O., E. (2020). The short and long run determinants of foreign direct investment in Nigeria. *Management & Economics Research Journal*, 2(4), 45-65.

Aderemi, T., A. et al. (2020). The determinants of Foreign Direct Investment Inflows in Nigeria: An empirical investigation. *Business Administration and Business Economics*, 16(3), 131-142.

Addison, T., &Heshmati, A. (2003). *The new global determinants of FDI flows to developing countries: The importance of ICT and democratization.* WDER working Paper series.

World Institute for Development Economic Research (UNU-WIDER). Akhtar, M., H. (2001). The determinant of foreign determinants in Pakistan: An econometric analysis. *The Lahore Journal of Economics*, 5(1), 1-22.

Aliber, R., Z. (1971) .The multinational enterprise in a multiple currency world. *The multinational enterprise,* 49-56.

Aliber, R., Z. (1970). A theory of direct foreign investment. *The international corporation*, 17-34.

Arlene, F . 2014). Conducting research literature reviews: from the internet to paper. 4th ed., Thousand OAKS: CA SAGE.

Artige, L., &Nicolini, R. (2005). *Evidence on the determinants of foreign direct investment: The case of Three european regions*. Retrieved from: http://pareto.uab.es/wp/2005/65505

Asiamah, M., Offori, D., &Afful, J. (2019). Analysis of the determinants of foreign direct investment in Ghana. *Journal of Asian Business and Economic Studies*, 26(1), 56-75.

Asiedu, E. (2006). Foreign direct investment in Africa: The role of natural resources, marketSize government policy, institutions and political instability. *World Economy*, 29 (1), 63 - 77.

Asongu, S., & Nwachukwu, J., C. (2015). Drivers of FDI in Fast Growing Developing Countries: Evidence from Bundling and Unbundling Governance. *Working Papers of the African Governance and Development Institute,* 15(001).

Azam, M., & Haseeb, M. (2021). Determinants of foreign direct investment in BRICS- dos renewable and renewable energy matter? *Energy Strategy Reviews*, 35,

Bayraktar-Saglam, B., & Boke, S., S. (2017). Labor costs and foreign direct investment: A panel VAR approach. *Economies*, *5*(4), https://doi.org/10.3390/economies5040036

Bevan, A., &Estrin, S. (2000). *The Determinants of Foreign Direct Investment in Transition Economies*. London: Centre for New and Emerging Markets, London Business School.

Biglaiser, G., &DeRouen, K., R. (2006). Economic Reforms and Inflows of Foreign Direct Investment in Latin America. *Latin American Research Review*, 41(1), 51-75.

Biglaiser, G., &Staats, J., L. (2010). Do Political Institutions Affect Foreign Direct Investment? A Survey of U.S. Corporations in Latin America. *Political*

Research Quarterly. https://doi.org/10.1177%2F1065912909331428

Billington, N. (1999). The Location of Foreign Direct Investment: An Empirical Analysis. *Applied Economics*, 31, 65-76.

Brown, E., D., & Joseph, U., G. (2018). Impact of multinational corporations on economic growth in Nigeria. *International Journal of Scientific and Education Research*, 2(2), 84 - 90.

Boddewyn, J., J. (1985). Theories of foreign direct investment and divestment: A classificatory Note. *Management International Review*, 57-65.

Castro, C., & Nunes, P. (2013). Does corruption inhibit foreign direct investment? *Revista de CienciaPolitica*, 51(1), 61-83.

Charkrabarti, A. (2001). The Determinants of Foreign Direct Investment: Sensitivity Analyses of Cross-Country Regressions. *Kyklos*, 54(1), 89-114.

Chakrabarti, A. (2003). A theory of the spatial distribution of foreign direct

investment. *International Review of Economics and Finance*, 12, 149-169.

Danciu, A., R., & Strat, V., A. (2014). Factors influencing the Choice of the Foreign Direct Investments Locations in the Romanian Regions. *Procedia-Social and Behavioral Science*, 109, 870-874.

Demirhan, E., &Masca, M. (2008). Determinants of foreign direct investment flows to developing countries: a cross-sectional analysis. *Prague Economic Papers*, (19) 4, 356 369.

Dunning, J. (1993). *Multinational Enterprises and the Global Economy*. Addison Wesley.

Eckel, C. (2003). Fragmentation, efficiency-seeking FDI, and employment. *Review of International Economics*, 11, 317–31.

Economou, F., Chiristis, H., Nikoloas, P., & Mike, T. (2017). Foreign direct investment

determinants in OECD and developing countries. *Review of Development Economics*, 21: 527–42.

Edwards, S. (1990). Capital Flows, Foreign Direct Investment, and Dept - Equity Swaps inDeveloping Countries. Working Paper No. 3497 ed.: NBER

Forssbæck, J., & Oxelheim, L. (2008). Finance-specific factors as drivers of cross-border Investment: An empirical investigation. *International Business Review*, 17 (6), 630-641.

Gabriel, O., M., Chigozie, A., O., &Awara, E., F. (2016). Foreign Direct Investment in Nigeria:

Reassessing the Role of Market Size. *International Journal of Academic Research in Business and Social Sciences*, 6(2), 95-104.

Ghahroudi, M., R., & Chong, L., C. (2020). The macroeconomic determinants and the impact of sanctions on FDI in Iran. *EconomicsandBusiness*, 34, 15-34.

Globerman, S., & Shapiro, D. (2002). Global Foreign Direct Investment Flows: The Role of Governance Infrastructure. *World Development*, 30(11), 1899-1919.

Golub, S. (2003). *Measures of restrictions on inwards foreign direct investment for OECD countries*. Paris: OECD, Economics Department Working papers 357.

Hausmann, R., & Fernández-Arias, E. (2000). *Foreign Direct Investment: Good Cholesterol*?, Washington: Inter American Development Bank, Working Paper No. 417.

Hecock, D., & Jepsen, E., M. (2014). The Political Economy of FDI in Latin America 1986 - 2006: A Sector-Specific Approach. *Studies in Comparative International Development*, 49(4), 426-447.

Helmy, H., E. (2013). The impact of corruption on FDI: is MENA an exception? *International Review of Applied Economics*, 27(4), 491-514.

Hermannsdottir, A. (2008). Theoretical underpinnings of the internationalization process. *Institute of Business Research*, Working Paper Series, ISSN 1760-7168.

Hintošová, B., A., Bruothová, M., Kubíková, Z., &Ručinský R. (2018). Determinants of foreign direct investment inflows: A case of the Visegrad countries. *Journal of International Studies*, 11(2), 222-235. doi:10.14254/2071- 8330.2018/11-2/15 Jacquemot, P. (1990). *La firmemultinationale: une introduction économique*. Economica,

Kumari, R., et al. (2021). An empirical analysis among foreign direct investment, trade openness And economic growth: evidence from the Indian economy. *South Asian Journal of Business Studies*. ISSn: 2398-628X.

Kravis, I., I., & Lipsey, R. (1982). The location of overseas production and production for export by U.S. multinational firms. *Journal of International Economics*, 12(3-4), 201-223.

Lall, S. (1979). Multinationals and market structure in an open developing economy: The case of Malaysia. *WeltwirtschaftlichesArchiv*, 115 (2), 325- 350.

Li, S., Tallman, S., B, and Ferreira, M., P. (2005). Developing the eclectic paradigm as a model of global strategy: An application to the impact of the Sep. 11 terrorist attacks on MNS performance levels. *Journal of International Management*, 11, 479-496.

Lunn, J. (1980). Determinants of U.S. Direct Investment in the E. E. C.: Further Evidence. *European Economic Review*, 13, 93-101.

Janicki, H., &Wunnava, P., V. (2004). Determinants of foreign direct investment: Empirical evidence from EU accession candidates. *Applied Economics*, 36, 505–9.

Makoni, P., L. (2015). An expensive exploration of theories of foreign direct investment. *Risk Governance & Control: Financial Markets & Institution*, 5(2), 77-83.

Masuku, M., B., & Dlamini, T., S. (2009). Determinants of foreign direct investment inflows in Swaziland. *Journal of Development and Agriculture Economics*, 1(5), 177-184.

Mottaleb, K., A. & Kalirajan, K. (2010). Determinants of foreign direct investment in developing countries: A comparative analysis. *Margin – the Journal of Applied economic Research*, 3(4), 365-408.

Nayak, D., & Choudhury, R. (2014). A selective review of foreign direct investment theories. *Asia-Pacific Research and Training Network on Trade*, WORKING PAPER.

OECD. (1996). *Benchmark Definition of Foreign Direct Investment (3rd ed.)*. Paris.Onyewuchi, O., G., &Obumneke, E. (2013). Multinational Corporations and the Nigerian Economy. *International Journal of Academic Research in Business and Social Sciences*, 3(4), 359-369.

Parletum, J. (2008). *The Determinants of FDI: A Regional with Focus on Belarus*. University Essay: Lunds University.

Petrou, A., P., &Thanos, J., C. (2014). The grabbing Hand or the helping hand view of corruption: Evidence from bank foreign market entries. *Journal of Word Business*, 49(3), 444-454.

Petrovic-Randelovic, M., Jankovic-Milic, V., &Kostadinovic, I. (2017). Market size as a determinant of the foreign direct investment inflows in the western Balkans countries. *Economics and Organization*, 14(2), 93-104.

Pferfferman, G., Kisunko, G., V., &Sumlinski, M. (1999). *Trends in Private Investment in Developing Countries: Statistics for 1970-97*. IFC Discussion Paper No. 37, Washington, DC.

Pistoresi, B. (2000). Investmentidirettiesteri e fattori di localizzazione: L'America Latina e il Sud Est asiatico. *Rivista di PoliticaEconomica*, 90, 27-44.

Popovici, O., C., & Călin, A., C. (2014). FDI theories. A location-based approach. *Romanian Economic Journal*, 17 (53), 3-24.

Resmini, L. (2000). The determinants of Foreign Direct Investment in the CEECs. *Economics of Transition*, 8 (3), 665–89.

Riedl, A. (2010). Location factors of FDI and the growing services economy. *Economics of Transition*, 18(4), 741-761. doi: https://doi.org/10.1111/j.1468-0351.2010.00391.x

Sahiti, A., Ahmeti, S., &Ismajli, H. (2018). A review of empirical studies on FDI Determinants.

Baltic Journal of Real State Economics and Construction Management, 6, 37-47.

Saini, N., & Singhania, M. (2017). Determinants of FDI in developed and developingcountries: A quantitative analysis using GMM. *Journal of Economic Studies*, 45(2), 348-382.

Schmitz, A., &Bieri, J. (1972). EEC tariffs and U.S. direct investment. *European Economic Review*, Elsevier, 3(3), 259-270.

Schneider, F., & Frey, B., S. (1985). Economical and political determinants of foreign direct investment. *World Development,* 13(2), 161-175.

Shin, S. (1998). A Critical Review of the FDI Theories. *아태연구,* 5, 179-211.

Sierra, J., D., Quijada, J., A., & Espinola, N. (2018). *FDI flows to Paraguay: What do investors prioritize?* Inter-American development Bank.

Singh, H., & Jun, K., W. (1996). *Some New Evidence on Determinants of Foreign Direct Investment in Developing Countries*. World Bank Policy Research Working Paper No. 1531.

Tallman, S., B. (1992). A strategic Management Perspective on Host Country Structure of

Multinational Enterprises. *Journal of Management*, 18(3), 455-471.

Tirimba, O., I., & Macharia, G., M. (2014). Economic impact of MNCs on development of Developing nations. *International Journal of Scientific and Research Publications*, 4(9), ISSN 2250-3153.

Tsai, P. (1994). Determinants of Foreign Direct Investment and its Impact on Economic Growth.

Journal of Economic Development, 19(1), 137-163.

Tuman, J., P., & Emmert, F., C. (2004). The Political Economy of U.S. Foreign Direct Investment in Latin America: A Reappraisal. *Latin American Research Review*, 39(3) 9- 28.

UNCTAD. (2002). *Trade and development report for 2001*. Geneva: United Nations Conference on Trade and Development.

UNCTAD. (2018). *World investment report 2018*. New York and Geneva: United NationsConference on Trade and Development.

Vernon, R. (1966). International investment and international trade in the product cycle. *The Quarterly Journal of Economics*, 190-207.

Vijayakumar, N., Sridharan, P., & Rao, K., C., S. (2010). Determinants of FDI in BRICS

countries: A panel analysis. *International Journal of Business Science and Applied Management*, 5(3), 1-13.

Walsh, J., P., & Yu, J. (2010). *Determinants of Foreign Direct Investment: A Sectoral and Institutional Approach*. IMF Working Paper 10/187.

Wei, S.-J. (2000). How taxing is corruption on international investors? *Review of Economics and Statistics*, 82(1), 1-11.

Wheeler, D., &Mody, A. (1992). International Investment Location Decisions: The Case for U.S. Firms. *Journal of International Economics*, 33, 57-76.

Wilhelms, S., K., & Witter, M., S., D. (1998). *Foreign direct investment and its determinants in emerging economies*. United States Agency for International Development, Bureau for Africa, Office of Sustainable Development.

World Bank. (2017). *GlobalInvestment Competitiveness Report: Foreign Investor Perspectives and Policy Implications.* World Bank.

Back to the Contents Top of Current Article