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Economic, Social and Technological Determinants of Foreign Direct Investment Inflows: A Worldwide Analysis

Abstract. *Governments and the business environment are constantly motivated to attract foreign direct investment (FDI) due to its catalytic impact on innovation, economic and human development. The existing consistent literature of the domain reveals an impressive variety of factors that influence FDI. This study investigates the impact of several categories of economic, social and technological determinants on FDI, for 101 countries around the world, between 1990 and 2022. A combination of static and dynamic panel methods (system GMM) was applied in accordance with the data properties. The results reveal the contribution in attracting FDI of economic growth, government expenditure, ICT value added and urbanisation. In contrast, countries facing increases in unemployment and inflation are less desirable for investors, who are more interested in economically and socially stable areas. Also, states with high gross national income per capita seem to be discouraging for investors, who prefer emerging markets with higher growth potential. In this case, the public authorities should implement public policies aimed to enhancing the economic, social and technological landscape, in order to increase the confidence in the national economy and mitigating risks for investors.*

Keywords: *foreign direct investment FDI, economic growth, information and communication technology ICT, government expenditure, urbanisation, panel data model.*

JEL Classification: O11, F21, C33.

1. Introduction

Currently, the capital provided by foreign direct investment (FDI) plays a vital role in the economy of countries, from major economic power to a developing nation, all aiming to attract a large volume of investments with a significant role in development. Considering foreign investments as an important instrument to strengthen their own economy, highly developed economic countries, such as China, attract FDI inflows, ranking one of the first places worldwide in this regard, especially in times of external financial crisis that are approached as an opportunity to increase investor confidence (Su et al., 2022). Even if the goal is the same, that of having foreign capital, motives are completely different when it comes to a developing state, the assimilation of FDI being in this case a necessity, sometimes even the only option to obtain the capital necessary for economic growth. Recent research emphasises that, in this case, investor interest may be enhanced by evidence that as the share of FDI in the total gross fixed capital increases, there will be a significant growth in investment efficiency (Dao et al., 2024; Fafurida et al., 2023).

Prior literature provides significant evidence on the complex determinants that can explain FDI flows from different geographical areas or from various historical periods. A synthesis of the factors influencing the FDI is a difficult undertaking to achieve, given their complexity and significant number. In addition to the traditional approaches built on the background of classical economic theories, which put key macroeconomic factors at the forefront of the FDI link, there are studies that expand the area of determinants, appealing to other categories of economic, social, human, technological, political, legal, governance, environmental or global factors.

This study aims to examine how several economic, social and technological factors influence foreign direct investment net inflows. The objective of the research is to explore the impact of these determinants and to ascertain how they might either increase or diminish a state's capacity to attract investors and to balance the flow of capital in a way that favours the foreign investments attracted, despite the outflows from a country.

The following research question will be addressed to achieve the established objective: How the foreign direct investment net inflows are impacted by several economic, social and technological determinants? Although there is a consistent literature that clarifies the mechanisms behind the attraction of foreign direct investment by nation states, our research presents several contributions in studying a sizable conglomerate of states around the world (101) over a considerable period of time, from 1990 and 2020, including the years impacted by the international financial crisis that started in 2007, as well as the one impacted by the COVID-19 pandemic. Also, the econometric analysis methods used, both static and dynamic panels techniques (such as system GMM), have the potential to generate robust and reliable estimates. By incorporating a complex set of factors impacting foreign direct investment net inflows, we capture complex aspects that can guide investment attraction mechanisms, but we are also aware that the variety of determinants is notable, and our study addresses only a few limited categories of interactions.

The rest of the research implies that in the next section we present a review of related results existing in the specialised literature. Section 3 details data and methodology, while results and discussion are structured in Section 4. The final part contains conclusions arising from our research, limits and further directions.

2. Literature review

The attractiveness of FDI to the government contributes to ensuring sustainable and efficient absorption for the benefit of the host country and convinces investors that they can manage risks and enhance their investment performance (Hakim and Budi, 2024). The development of long-term economic and political collaboration between countries contributes to superior performance of FDI, strategic allocation of resources, step-by-step investments, ultimately yielding greater economic benefits and stability for the nations involved (Yim, 2023).

Foreign direct investments can have a positive effect on a country's economy, by accelerating the development of productive sectors, the acquisition of modern means of production, new equipment and technologies, the capitalisation of local resources, through the occurrence of multinational companies through which cooperation between local and foreign companies is stimulated, or by opening to foreign trade, favouring its economic stability and sustainable development (Fafurida et al., 2023). However, it should be emphasised that the relationship between FDI inflows and economic growth strongly depends to a large extend on the context of individual policies in each country, so that in some cases the positive effects of FDI may be temporary, for short periods due to considerable shares of the profit repatriated (Pea-Assounga et al., 2025). The reciprocal dependence between FDI inflows and economic policy uncertainty requires centralised monitoring of these two indicators by each country, thus a high level of economic policy uncertainty affecting foreign investors' decision could be counteracted by certain measures, such as developing monetary and fiscal stimulus policies, announcing additional legislative changes early or ensuring the predictability of specific economic factors involved (Su et al., 2022).

A complex mix of macroeconomic factors appears to be contributing to FDI flows (Falisová and Glova, 2025; Badea et al., 2018; Roman and Padureanu, 2012). Previous research indicates that the bidirectional relationships between FDI inflows and macroeconomic indicators, such as economic growth or financial performance metrics, exhibit a long-term prevalence. This contrasts with findings from shorter analytical periods, suggesting that a comprehensive understanding of these dynamics requires extended temporal analysis (Lee and Chang, 2009).

Although there is no consensus in the literature on the meaning of economic growth influence on FDI, a significant number of studies claim the positive effect that GDP growth has on FDI flow (Güz et al., 2025). Recognising that the development of a beneficiary country is fundamental for attracting FDI, it is noteworthy that gross national income per capita – an indicator of economic performance and income distribution (Manta et al., 2023) – often goes unexamined in analysis of investor behavior. This oversight is significant, as gross national income has the potential to

encapsulate key factors such as labour costs, regulatory environment and economic stability, all of which substantially influence FDI (Chowdhury, 2019).

Likewise, macroeconomic performance strongly depends to a large extend on the inclusion of modern technologies in the productive field, expressed by the share of medium and high-tech manufacturing value added in manufacturing value added, as long as new technologies bring with them the development of human capital skills, increased labour productivity, added value, innovation, increased competitiveness or strategic cooperation between firms (Guo et al., 2025; Aneja and Arjun, 2021; Nunes et al., 2012).

Government final consumption expenditure (GFCE) is an instrument of a country's macroeconomic policies through which funds are allocated for public goods and services essential to improving the socio-economic environment, economic growth, and supporting the competitiveness of the national economy in the global economic landscape (Xiu, 2025; Li et al., 2024; Bădîrcea et al., 2022; Arvin et al., 2021). For low or middle-income countries, which often possess significant natural resources, government expenditure can facilitate the profitable exploitation of these resources while simultaneously investing in the qualification and professional training of human capital (Adebayo, 2025; Collazos-Ortiz and Wong, 2024; Williams, 2024). In less developed or developing countries, factors such as general government final consumption expenditure or unemployment reduction policies can influence investors' decisions (Voumik et al., 2023).

According to (Udemba and Keles, 2022) there is a unidirectional causal relationship from urban population to FDI inflows, analysed within the context of economic growth and minimising negative environmental effects. While foreign investments generally benefit the labour force (Chaudhuri and Banerjee, 2010; Chen et al., 2024), research on the newest member states of the European Union indicates mixed causal relationship between unemployment and FDI inflows, some of them suggesting that a higher unemployment rate can attract more foreign investments (Strat et al., 2015). Countries experiencing inflationary macroeconomic conditions are associated with an unstable and investment no friendly environment, discouraging FDI (Kumar et al., 2025).

3. Model specification

3.1 Model Description and Hypothesis

The challenge of understanding how states are interconnected through foreign direct investment showed in the prior section the existence of studies addressing the complex influences of a wide range of economic, social and technological factors on FDI. Given the previously literature review, the following hypothesis are configured:

H₁: Annual percentage growth rate of GDP and general government final consumption expenditure positively influence the foreign direct investment net inflows.

H$_2$: The advancement of medium and high-tech industry has a positive impact on the foreign direct investment net inflows.

H$_3$: Urbanisation is a catalyst for foreign direct investment net inflows.

H$_4$: Countries with lower gross national income per capita values attract foreign direct investment net inflows.

H$_5$: Unemployment and inflation negatively affect foreign direct investment net inflows.

To explore the influence of economic, social and technological factors on foreign direct investment inflows, we employ a worldwide panel data consisting of 101 countries between 1990 and 2022. Data are retrieved from the World Bank - the World Development Indicators (WDI) section (World Bank, 2025). The dependent variable is represented by the foreign direct investment (FDI), net inflows (BoP, billion current US$) and the explanatory variables belong to the mentioned categories: *economic* (GDPG - GDP growth (annual %), GOVEXP - General government final consumption expenditure (current LCU), INFLA - Inflation, consumer prices (annual %)), *social* (URBAN - Urban population (% of total population), GNIPP - GNI per capita (current LCU), UNEM - Unemployment, total (% of total labour force) (modeled ILO estimate)) and *technological* (ICTVALUE - Medium and high-tech manufacturing value added (% manufacturing value added)).

To discover the contribution of economic, social and technological factors to foreign direct investment net inflows from all over the world, between 1990 and 2022, we employ the following dynamic panel data model:

$$FDI_{i,t} = \alpha_0 + \alpha_1 \, FDI_{i,t-1} + \alpha_2 \, GDPG_{i,t} + \alpha_3 \, GOVEXP_{i,t} + \alpha_4 \, ICTVALUE_{i,t} + \alpha_5 \, URBAN_{i,t} + \alpha_6 \, GNIPP_{i,t} + \alpha_7 \, UNEM_{i,t} + \alpha_8 \, INFLA_{i,t} + u_{i,t} \qquad (1)$$

where i represents the country, t is the period (years), FDI is the dependent variable, while GDPG, GOVEXP, ICTVALUE, URBAN, GNIPP, UNEM and INFLA are the explanatory variables above described, α_0 is constant (intercept), α_{1-8} are the coefficients of the estimated parameters and $u_{i,t}$ is the error term.

For model specification, several preliminary tests are performed, starting with the testing of the classical assumptions of linear regressions, in terms of stationarity, multicollinearity, heteroscedasticity, autocorrelation, cross-sectional dependency, cointegration and endogeneity. Based on the results of these tests, the econometric methods of static and dynamic panel techniques are selected, in a progressive approach meant to provide evidence regarding the robustness and reliability of the estimates.

First, to determine the fundamental benchmarks for the relationships among the variables examined and to outline the initial context of the interactions, the results from applying the Pooled OLS method are presented. The next estimate of results is based on the Robust regression method, as it utilises the Huber iterations that are computationally efficient to handle data with outliers and noise (Tao and Wang, 2024). To obtain more accurate estimates, several static panel methods are performed: to manage heteroscedasticity, the Feasible Generalised Least Squares

FGLS technique is used (Miller and Startz, 2019) and the Panel Corrected Standard Errors PCSE method is applied due to its ability to generate more efficient outcomes when dealing with cross-sectional correlation and heteroscedasticity (Bailey and Katz, 2011).

As the problem of endogeneity is often overlooked in economic studies, but can generate inaccurate biased estimates, we apply the instrumental variables regression methods 2SLS and GMM (Hruschka, 2023; Iuga and Socol, 2024). Endogeneity can arise from dynamic endogeneity, variables that have a reverse causal relationship or omitted variables in the models (Ben Mimoun et al., 2025; Socol and Iuga, 2025).

Finally, to address the issues of heteroscedasticity, serial correlation, and endogeneity within our model, we implement the system GMM approach (Roodman, 2009; Blundell and Bond, 1998; Arellano and Bond, 1991), recognised for its ability to yield reliable and efficient estimates in these mentioned scenarios (Kumar et al., 2023; Gerged et al., 2023). Econometric data was processed using STATA.

3.2 The analysis

The data sample consists of a panel with 101 countries between 1990 and 2022 and on which no data interpolation or winsorisation processing was carried out. For some countries and years, the sample does not benefit from complete data, due to low availability of information. The large number of analysed states and the inclusion of countries from all development categories create premises for the representativeness of the sample analysed.

The descriptive statistics of the variables (Table 1) reveal notable differences between the states studied, otherwise expected, as long as the sample captures a global panel of data.

Table 1. Panel descriptive statistics

Variable	Obs.	Mean	Std. dev.	Min.	Max.
FDI	3265	13.306	43.792	-290	730
GDPG	3322	3.257	5.360	-50.338	86.826
GOVEXP	3288	25.578	3.175	10.851	37.103
ICTVALUE	3332	25.977	16.220	0.248	83.727
URBAN	3333	62.607	21.746	6.271	100
GNIPP	3320	11.060	2.642	-3.416	20.905
UNEM	3231	7.508	5.292	0.1	34.007
INFLA	3279	19.175	194.436	-11.686	7481.66

Source: Authors' processing, based on data source (World Bank, 2025).

In the econometric analysis, GOVEXP and GNIPP were used in their logarithm forms, to create the premises of normal distributions and to improve the quality of the regression models used. Foreign direct investment (FDI) indicates a very wide range of values and provides the framework to investigate the factors that cause such significant variations among countries. The levels of the explanatory variables are also inscribed in the period and states studied in a broad variety of values and present

extended fluctuation ranges, which emphasise the heterogeneous character of the analysed data (Table 1).

4. Results and discussion

We start data analysis by first testing the properties of the variables and of the developed model. Based on the Fisher Phillips-Perron test, we conclude that data is stationary, while the premises of the long-term relationship between variables are identified according to the cointegration tests. The analysis of cross-sectional dependence, based on the Pesaran test, indicates strong evidence of cross-sectional dependence between the variables (Table 2).

Table 2. Data stationarity, cross-sectional dependence and cointegration

Variables	Phillips-Perron-Fisher test	Pesaran test	Cointegration Kao test	Cointegration Pedroni test	Cointegration Westerlund test
FDI	594.283***	125.905***	(MDF) 0.656	(MPP) 5.858***	(VR) -4.803***
GDPG	2034.046***	122.327***	(DF) -2.202**	(PP) -15.483***	
GOVEXP	1107.706***	266.519***	(ADF) 2.978***	(ADF) -14.770***	
ICTVALUE	481.706***	33.483***	(UMDF) -31.381***		
URBAN	1726.753***	197.789***	(UDF) -18.742***		
GNIPP	1371.018***	275.442***			
UNEM	272.061***	16.894***			
INFLA	1599.832***	94.681***			

Source: Authors' processing. Notes: ***, ** and * denote significance at 1, 5 and 10 percent level respectively.

Skewness and kurtosis tests for normality reveal that the variables are not normally distributed (except GNIPP). Our model exhibits heteroscedasticity, according to the White's and the Breusch-Pagan tests. Data displays serial correlation, as the results of the Wooldridge test show (Table 3).

Table 3. Data heteroscedasticity and autocorrelation

Breusch-Pagan test	White test	Wooldridge test
3474.21***	282.62***	100.323***

Source: Authors' processing. Notes: ***, ** and * denote significance at 1, 5 and 10 percent level respectively.

The correlation matrix and the values of variance inflation factor denote that the variables are not correlated (Table 4).

Table 4. Data multicollinearity

Variables	FDI	GDPG	GOVEXP	ICTVALUE	Variance Inflation Factor VIF
FDI	1.000				2.2 (mean)
GDPG	0.004	1.000			1.03
GOVEXP	0.152	0.061	1.000		4.74
ICTVALUE	0.299	-0.045	0.207	1.000	1.63
URBAN	0.188	-0.087	-0.075	0.439	1.48
GNIPP	-0.006	0.104	0.861	0.029	4.42
UNEM	-0.072	-0.096	-0.110	-0.095	1.09
INFLA	-0.022	-0.137	-0.100	-0.002	1.02

Variables	URBAN	GNIPP	UNEM	INFLA
URBAN	1.000			
GNIPP	-0.017	1.000		
UNEM	0.147	-0.113	1.000	
INFLA	-0.001	-0.147	-0.010	1.000

Source: Authors' processing.

Analysing the correlation matrix, we observe positive relationships between foreign direct investments (FDI), government expenses (GOVEXP), medium and high-tech manufacturing value added ICTVALUE) and urbanisation degree (URBAN) and negative relationships between foreign direct investments (FDI), unemployment (UNEM), inflation (INFLA) and gross national income per capita (GNIPP). We observe also a week relationship between foreign direct investments and GDP growth.

To achieve reliable regression results, we develop several models suitable for our data, starting with classical regression and static panel methods (Table 5), whose results confirm significant relationships between the studied variables and consistently from one model to another.

Given the conceptual relations existing between the analysed variables, we address endogeneity through instrumental-variables regressions (2SLS, GMM and LIML models) with regressors endogenously determined (Table 6). Overall, for the studied model, given the nature of the explanatory variables used, corroborated with the instrumental model analysed, we cannot exclude the endogeneity of the data, so the tested models will take this into account. After the preliminary basis for estimates, the next phase of research is to employ models that can efficiently manage heteroscedasticity, serial correlation and endogeneity.

We develop both static panel methods, as well as a dynamic approach, represented by system GMM techniques (Table 6), using explanatory variables as instruments, in an endogeneity management judgement and instruments represented by the independent variables and their lags. System GMM reports results of two-step system GMM, based on xtabond2 Stata command, with orthogonal (to use the forward orthogonal deviations transform instead of first differencing), collapse (to create one instrument for each variable and lag distance, rather than one for each

period, variable and lag distance) and robust (with Windmeijer's finite-sample correction for two-step covariance matrix) options.

Table 5. The effect of economic, social and technological factors on FDI (classical regressions and static panel models)

Dependent variable FDI	Pooled OLS	Robust regression	FGLS regression	PCSE regression
GDPG	0.231*	0.039***	0.087***	0.231**
	(0.126)	(0.008)	(0.030)	(0.106)
GOVEXP	8.265***	0.516***	2.706***	8.265***
	(0.778)	(0.027)	(0.156)	(0.737)
ICTVALUE	0.280***	0.050***	0.102***	0.280***
	(0.048)	(0.003)	(0.011)	(0.046)
URBAN	0.414***	0.028***	0.151***	0.414***
	(0.039)	(0.002)	(0.009)	(0.036)
GNIPP	-9.140***	-0.419***	-2.699**	-9.140***
	(0.874)	(0.033)	(0.185)	(0.856)
UNEM	-0.681***	-0.033***	-0.170***	-0.681***
	(0.096)	(0.007)	(0.035)	(0.093)
INFLA	-0.018**	-0.001***	-0.001	-0.018***
	(0.008)	(0.001)	(0.002)	(0.004)
Constant	-125.54***	-9.285***	-44.686***	-125.54***
	(11.077)	(0.465)	(2.316)	(10.175)
R-squared	0.167	-	-	-

Source: Authors' processing. Notes: Standard errors in parentheses; ***, ** and * denote significance at 1, 5 and 10 percent level respectively.

To evaluate the validity of the system GMM model, the results of the Sargan and Hansen tests indicate that the instruments used are valid and are not correlated with the error term, as well as the overidentifying restrictions are valid. Additionally, the analysis of serial autocorrelation in the errors shows that the second-order no-autocorrelation hypothesis AR(2) is not rejected, while the first-order autocorrelation AR(1) is significant. Furthermore, the Wald test is significant, reinforcing the overall validity and reliability of the model developed.

Our evaluation exposes several important results. The research demonstrates the dynamic persistence of foreign direct investment net inflows, based on the positive significant relationship between FDI in the previous period and the current FDI. The dynamic nature of FDI can be explained primarily by their inertia, given the significant costs that would involve giving up existing investments.

Once investments are made, they generate premises for new investments from reinvested and non-repatriated profits or from new sources of capital. A trend of clustering new investments in areas where there are already incipient investments (with adequate infrastructure, regulations and workforce) can also be distinguished, which may explain the results obtained, based on the spillover effects. In addition, the risk aversion of new investors is mitigated when they choose destinations where there are already operational investments and specific policies in place (Pea-Assounga et al., 2025).

Table 6. The effect of economic, social and technological factors on FDI (static and dynamic panel models)

Dependent variable FDI	Instrumental variables 2SLS regression	Instrumental variables GMM regression	Instrumental variables LIML regression	System GMM
L.FDI	-	-	-	0.610*** (0.037)
GDPG	0.263* (0.150)	0.284** (0.133)	0.263* (0.150)	0.218* (0.118)
GOVEXP	8.860*** (0.601)	8.484*** (0.909)	8.862*** (0.601)	2.411** (0.999)
ICTVALUE	0.182** (0.076)	0.215*** (0.067)	0.181** (0.076)	0.103** (0.049)
URBAN	0.546*** (0.079)	0.496*** (0.071)	0.546*** (0.079)	0.166*** (0.056)
GNIPP	-9.747*** (0.690)	-9.355*** (1.003)	-9.748*** (0.690)	-2.446** (1.161)
UNEM	-0.773*** (0.151)	-0.732*** (0.109)	-0.773*** (0.151)	-0.236* (0.138)
INFLA	-0.018** (0.007)	-0.018** (0.008)	-0.018** (0.007)	-0.008** (0.003)
Constant	-139.205*** (11.142)	-132.161*** (14.384)	-139.238*** (11.148)	-41.652*** (14.894)
R-squared	0.164	0.166	0.164	-
Postestimation	Sargan / Basmann test 1.999 1.995	Hansen test 1.397	Anderson-Rubin / Basmann test 2.000 1.995	AR(1) test (p-value) 0.034 AR(2) test (p-value) 0.204
	Durbin / Wu-Hausman test 3.711* 3.705*	GMM C statistic 3.309*	-	Sargan / Hansen tests (p-value) 0.000 0.062

Source: Authors' processing. Notes: Standard errors in parentheses; ***, ** and * denote significance at 1, 5 and 10 percent level respectively.

For **H₁ hypothesis**, the findings based on estimated static and dynamic panels demonstrate that GDP growth and government expenditure positively impact on foreign direct investment (Güz et al., 2025; Falisová and Glova, 2025; Xiu, 2025), which confirms this first hypothesis. The advancement of medium and high-tech industry leads to higher levels in foreign direct investment (Guo et al., 2025; Aneja and Arjun, 2021; Nunes et al., 2012), which reinforces the second hypothesis – **H₂ hypothesis** – could be accepted. Obtaining positive and significant correlation coefficients between the degree of urbanisation and foreign direct investment (Udemba and Keles, 2022) confirms **H₃ hypothesis**. States with rising gross national income per capita values attract lower levels of foreign direct investment (Chowdhury, 2019), which proves **H₄ hypothesis**. The higher national economies

experience unemployment and inflation, the lower the chances of attracting foreign direct investment (Kumar et al., 2025; Strat et al., 2015), which validates H_5 *hypothesis*.

In terms of the core economic proxy, GDP growth has a significant positive influence on FDI, which shows that a growing GDP is frequently linked to expanding economies that could provide abundant benefits to investors. GDP growth can have a positive impact on a country's FDI net inflows, for several reasons. In countries with economic growth, there are also increased demand values, which makes these markets attractive to expanding investors targeting new markets. Economic growth is most often associated with environments characterised by economic stability, in which investment risk is low and contributes to the decrease of risk aversion of investors, tempted to make capital infusions in areas with low levels of economic fluctuations. Economic growth characterises in particular states that have adequate general transport infrastructure and utilities, as well as technological innovations, attractive to investors. The labour market in countries with economic growth most often benefits from a trained workforce, amid spending on education, which attracts foreign investors. As the regulations of destination countries play an important role in attracting foreign direct investment, there are premises for shaping clear and predictable public policies in countries with high economic growth values, which stimulate investment.

As for the contribution of government expenditure to attracting foreign direct investments, we demonstrate a positive relationship with the dependent variable. Public policies and the vision of governments in setting priorities for directing government spending towards vital infrastructure projects for investors are essential in creating the framework for attracting foreign direct investment. Directing public spending to transport infrastructure, utilities, industrial parks, etc. can contribute to the desirability of those states for investors, who thus benefit from the premises of adequate supply chain and supporting infrastructure. Public spending on education can help increase the quality of human capital, which makes the country a more attractive destination for investors. Also, public expenditures directed towards public services and quality institutional governance structures contribute to attracting foreign direct investment.

A country's involvement in information and communication technology ICT activities contributes to foreign direct investment increase inflows, due to the improvement in efficiency and productivity of business environment, as well as e-governance ecosystem based on favorable regulatory environment. Also, ICT facilitates the creation of an adaptable and highly qualified workforce, capable of meeting contemporary requirements.

The result of the positive impact of urbanisation on foreign direct investments lies in the potential of urban areas to coagulate proper infrastructure, skilled and educated individuals and substantial consumer markets. The existing urban areas in the destination countries of foreign direct investment contribute to attracting investors looking for synergies and efficiency.

Macroeconomic instability with great rates of unemployment and inflation discourages investors. High unemployment rates have a negative impact on foreign direct investment inflows, as investors may feel discouraged by high unemployment rates, associated with economic instability, social problems and a labour market with limited opportunities and a possibly insufficiently trained or unadaptable workforce. On the other hand, inflation erodes the value of investments and returns, increasing the investor uncertainty and making them hesitant to access such areas.

5. Conclusions

This study examines several economic, social and technological determinants of foreign direct investment (FDI) net inflows in a worldwide static and dynamic panel approach using data for 101 countries and 33 years (1990-2022). From the dynamic panel data model, estimated with System GMM, we prove the persistence of FDI and a significant positive correlation between past and present FDI levels. This persistence is largely attributed to the inertia of investments, as the substantial costs associated with divesting existing assets discourage withdrawal. Once established, these investments pave the way for further capital influx through reinvesting profits and external funds. Notably, a pattern emerges where new investments tend to cluster in regions with existing investments, benefiting from established infrastructure, regulatory framework and skilled labour force.

Our findings indicate that the proxies employed have distinct influences on foreign direct investment, offering valuable insights for host countries in formulating policies aimed at attracting foreign direct investment. Among the various economic determinants analysed, general government final consumption expenditure emerges as a main factor significantly enhancing FDI levels. Also, as expected, the economic growth has a positive effect on FDI, but of a lower intensity than that of government consumption and approximately equal to the influence of the technological determinant, medium and high-tech manufacturing value added. Conversely, the social determinant represented by GNI per capita exerts a negative effect on FDI. Urbanisation exerts a positive influence on FDI, while both unemployment and inflation negatively impact FDI, which demonstrate that macroeconomic instability destroys the essential framework for attracting foreign direct investment.

From a policy perspective, the formulation of effective public policies, as well as the creation of the appropriate infrastructure, are essential for enhancing business environment of a country, thereby increasing investor confidence and mitigating risks associated with foreign direct investment.

The limitations of the study, including the use of a restricted number of states, the duration of analysis and the selected variables, may significantly impact the reliability and interpretation of the results. Although this study identifies significant relationships between the analysed variables and foreign direct investment, it only accounts for a limited number of factors. Incorporating additional determinants, such as political factors, governance, infrastructure, market size etc., could yield different results. Future research directions focus on integrating new indicators and expanding

the zone and period of analysis, including investigating distinct clusters of countries based on criteria such as income levels, the degree of economies openness etc.

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