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Determinants of Location of Foreign Direct Investment: The Impact of Determinants of Location Considering the Distinctive Features of the Investment

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Master's Degree in Management

Supervisor:
PhD, Nuno Miguel Pascoal Simões Crespo, Associate Professor with Habilitation
Iscte - Instituto Universitário de Lisboa

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BUSINESS
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Resumo

O Investimento Direto Estrangeiro (IDE) desempenha um papel crucial no paradigma global, uma vez que promove o crescimento económico, a partilha de tecnologia e a difusão de conhecimento. O entendimento dos fatores que estimulam o IDE é essencial para os diversos intervenientes que pretendam maximizar os benefícios provenientes destes investimentos internacionais. Do ponto de vista governamental, o conhecimento dos determinantes de localização do IDE, permite-lhes criar ambientes propícios ao investimento e estimular a economia dos países, enquanto, do ponto de vista empresarial, permite selecionar estrategicamente localizações que proporcionem as melhores condições para alcançar sucesso a longo prazo. Assim, a presente dissertação tem como objetivo a compreensão do impacto dos vários determinantes de localização do IDE que são tidos em consideração pelas empresas nos processos de decisão de investimento. A pesquisa encontra-se dividida em dois ângulos que consistem na evolução da importância dos diversos fatores de localização no período entre 1960 e 2023 e na análise dos diferentes impactos que esses determinantes detêm consoante o tipo de investimento. A metodologia utilizada na obtenção dos resultados são dois tipos de revisão de literatura sistemática, nomeadamente, a narrativa e a rápida. Estas abordagens permitiram uma síntese das conclusões de um leque extensivo de estudos académicos, proporcionando uma visão abrangente dos determinantes de localização do IDE ao longo das décadas, realçando o impacto que as mudanças económicas, políticas e institucionais têm na localização dos investimentos empresariais, bem como a tipologia de cada IDE pode responder de forma diferente a esses fatores.

Palavras-chave: Investimento Direto Estrangeiro, Determinantes de Localização, Empresas Multinacionais

Classificação JEL: F21, F23

Abstract

Foreign Direct Investment (FDI) plays a vital role in the global economy, fostering economic growth, technology transfer and knowledge diffusion. Understanding the factors that drive FDI is crucial for many different stakeholders that seek to maximize the benefits from these international investments. For governments, the knowledge of the location determinants of FDI permits the creation of favourable environments for investment and the stimulation of the country's economy, while in turn, for businesses, it allows them to strategically select locations that offer the best conditions to achieve long-term success. Therefore, the purpose of this dissertation is to obtain an understanding of the impact of the various determinants of location of FDI that companies have in consideration during their investment decisions. The research is divided into two different scopes, those being the understanding of the evolution of the importance of the many location factors between the period of 1960 and 2023, and an analysis of the different impacts those determinants have depending on the type of the foreign investment. The methodologies used to fulfil the goal of the present paper are a narrative and a rapid literature review. These approaches allowed a synthesis of the findings from a wide range of academic studies, providing a comprehensive overview of FDI location determinants over the decades, highlighting how economic, political, and institutional changes have influenced enterprises' investment location and how each type of FDI can respond differently to those factors.

Keywords: Foreign Direct Investment, Location Determinants, Multinational Enterprises

JEL Classification: F21, F23

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List of Abbreviations

FDI – Foreign Direct Investment

OECD – Organization for Economic Cooperation and Development

FPI – Foreign Portfolio Investment

M&As – Mergers and Acquisitions

MNEs – Multinational Enterprises

R&D – Research and Development

GDP – Gross Domestic Product

GNP – Gross National Product

EEC – European Economic Community

EU – European Union

NAFTA – North American Free Trade Agreement

AFTA – Association of Southeast Asian Nations Free Trade Area

ESG – Environmental and Social Governance

CSR – Corporate Social Responsibility

1. Introduction

1.1 Context

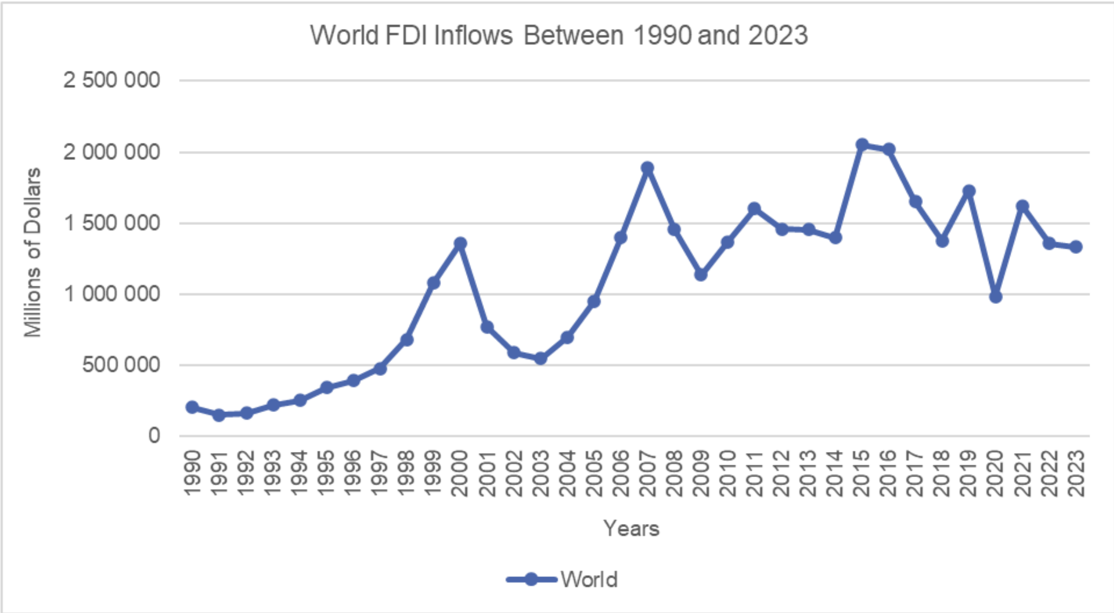
In the era of globalization, physical and intellectual resources flow across the world daily. An important asset that is repeatedly transferred among agents and nations is financial capital, a resource that has migrated between borders since the dawn of the first era of globalization. One form of financial capital is Foreign Direct Investment. According to the Organization for Economic Cooperation and Development (OECD), foreign direct investment can be defined as “a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor” (OECD, 2008, p.17).

It is important to make a distinction between FDI and another type of capital flow, that one being the Foreign Portfolio Investment (FPI). A crucial difference between the two is the amount of voting rights or shares that the investment acquires. For an investment to be considered FDI, it must result in at least 10% of the ordinary shares or voting rights, otherwise, any investment made that obtains less than the 10% benchmark of voting rights will only be considered FPI (Humanicki et al., 2013). Additionally, while FDI implies the transfer of assets and intermediate products, such as financial capital, values and norms, management and organizational knowledge, and technology, FPI is solemnly the movement of financial capital (Dunning & Lundan, 2008).

Although globalization enabled the emergence of FDI, in turn, FDI accelerated the phenomenon of globalization, facilitating a faster and stronger global economic integration. Therefore, since 1960 until nowadays, FDI has attracted a substantial amount of attention due to its importance to the global economy. This importance stems from the association that is commonly made between FDI and economic growth, due to the transference of important assets between countries. These assets can be better technology, managerial skills, knowledge, financial capital, human capital, or even better market access (Pegkas, 2015). Many policymakers, especially the ones from developing nations, project their policies and actions intending to attract more foreign investment to their countries, as FDI is often a synonym for increased labor productivity and economic efficiency, and also sturdy economic growth. Notwithstanding the advantages that FDI might pose for the economies of the host country, it also brings benefits for the companies investing in international territory such as better access to foreign markets, avoiding trade barriers and tariffs, and higher profits due to lower costs, among many others.

Figure 1.1

Global FDI Inflows Between 1990 and 2023



Note. From World Investment Report 2024: Investment facilitation and digital government, by United Nations Conference on Trade and Development, 2024, United Nations.

This important financial flow has had a crucial stand in the world's economy and has been increasing over the past decades. Nonetheless, it has shown different trends and changes over the years, which can be observed in Figure 1.1. Following the liberalization of international financial transactions by countries in the decade of 1990-1999, FDI saw an exponential increase in that period. During this interval, the majority of capital transactions were made between developed countries, accounting for about two-thirds of global FDI. Despite the increase of FDI to developing nations that also occurred during this decade, it was still little when compared to the FDI towards developed countries (UNCTAD, 2000).

During the first decade of the 21st century, FDI did not follow the same path as it had in the previous decade, starting this period with a decline until mid-2005, followed by a substantial increase until the year of 2007, ending with a significant decrease after the year of 2008 (UNCTAD, 2010). Throughout the decade of 2010 to 2019, FDI has faced a period of stagnation. Despite the peak of FDI over the last 30 years being in 2015, the remaining years of the decade did not show a substantial change, ending the decade with almost the same values of FDI as it started (UNCTAD, 2020). However, one important aspect that should be noted is the shift that occurred in terms of FDI spatial distribution. Even though the majority of FDI was still going towards developed countries, the share of FDI going to developing nations, as a percentage of global FDI, began to steadily increase. In the years 2014 and 2018, the share of FDI going to developing countries was even bigger than the share going to developed nations (UNCTAD, 2019).

1.2 Research Problem

Following the increase in international capital movements and the desire of countries to attract foreign investment, many scholars became interested in studying the motivations of business enterprises to invest abroad and under which conditions these companies invest. Factors including labor cost and quality, labor market flexibility, and taxation may assume heightened significance for certain enterprises, while variables such as market size, openness to trade, and exchange rates may exert greater influence on investment determinations. For this reason, it is more important for stakeholders, such as local governments, to understand which factors are more compatible with the current situation of their countries and the determinants multinational companies are looking for when making their investment decisions. By knowing this, policymakers are able to change policies in order to attract more FDI.

Throughout time, many theories have been developed to explain why companies decide to invest internationally, at the same time that a multitude of theories emerged to analyze which determinants companies consider when making their investment decisions. Nevertheless, studies do not reach a unanimous conclusion on what location determinants are more important for companies, with some studies even having opposite opinions in terms of the significance of those determinants. This absence of universal consensus can be explained by the shifting of the underlying motivations of foreign investment depending on the prevailing academic theory, by the diversification of business enterprises in sectoral terms, and by the constant evolution of the world economies.

Having this in consideration, the purpose of this dissertation is to identify and analyze which location determinants have a greater influence on foreign investment decisions, taking into account the distinctive features of each business enterprise. Although there are already several research papers regarding the determinants of location of FDI, this dissertation emerges as a complement to the existing literature, aiming to assess the relationships between location determinants and the type of investment, while also studying the evolution of the importance of the determinants of location to multinational companies.

1.3 Research Questions and Objectives

Given the objective of this dissertation to investigate the pertinent location determinants of FDI considering the characteristics of the business enterprises, it aims to answer the following questions:

- How have the preferences of multinational companies evolved over time concerning location determinants?
- Depending on the type and purpose of the investment abroad, what are the determinants of location that companies have in consideration?

Furthermore, this paper intends to understand the evolutionary trajectory of the determinants of location across time and the current trends, while also intending to examine the location drivers that are more relevant to companies depending on the nature of the investment.

1.4 Dissertation Structure

Therefore, this dissertation is structured into six chapters. The present chapter, Chapter 1, is the introduction, outline the objectives and purpose of the study. It is followed by a literature review of the various theories of FDI in Chapter 2. Afterwards, Chapter 3 will delve into the concept of FDI, categorizing its types and motives, as well as assessing different location determinants that companies might have in consideration. Following that, Chapter 4 will outline the research methodology applied in Chapter 5, whose focus is on the research findings, mainly the analysis of the evolution of FDI location determinants over time and how these determinants vary depending on the type of the investment. Finally, Chapter 6 will conclude the dissertation with the key findings, the study's limitations, and suggestions for future research.

2. Literature Research

Following the rapid increase of globalization and FDI at the end of the 20th century, scholars started conducting empirical studies, trying to formulate theoretical models that explained the capital transactions between countries. Prior to 1950/1960, FDI was seen as an international movement of capital and, therefore, treated as being part of portfolio investment with the only reason for its existence being the differences in the interest rates between countries. With the clear distinction being made between FDI and FPI, researchers and economists focused their attention on trying to explain the reasons that lead firms to expand their activities across borders (Nayak & Choudhury, 2014). In this chapter, it will be presented the different theories of FDI that shaped the field over the years.

2.1 Early Explanations of FDI

According to Faeth (2009), the first theoretical model that was used to explain FDI belongs to the neoclassical trade theory, more precisely to the Heckscher-Ohlin model. This model considers that there is a general equilibrium between two countries, with two factors of production and two goods, where if one country were relatively more abundant in one factor, it would export the goods that were intensive in that factor (Baskaran et al., 2011). Therefore, this model's explanation for the existence of capital flows is the international factor price differentials, that is, the relative differences between countries regarding factor intensity and country endowments (Faeth, 2009).

Another model belonging to the neoclassical trade theory and to the perfect market competition theories, which is also used to explain FDI is the MacDougall-Kemp model. This model also considers two countries, where one is normally an investing country, with two factors of production, but only one good. It is considered that capital can move freely, albeit taxes imposed on international capital movements (Faeth, 2009). Hence, the explanation of FDI in this model is the movement of capital from one country that is capital-abundant to one that has a scarcity of capital, until the price of capital is equal between the two countries (Assunção et al., 2011).

2.2 Theories of Market Imperfections

According to Dunning and Lundan (2008), the first real contribution to the conceptualization of theoretical models for FDI was from Stephen Hymer. This author believed that the neoclassical trade theory was insufficient to explain the existence of FDI, as it sought to use the differences in interest rates in search of higher returns as the motive for companies investing abroad. However, companies were not only looking for higher returns but also to control foreign assets. Another author that also criticizes the previous theory was Charles P. Kindleberger, and both these authors made important contributions to the industrial organizational theory of Multinational Enterprises (MNEs) (Rugman, 2009).

Therefore, these authors believed that the reason why companies had the desire to invest abroad was that there had to be structural imperfections in the markets (Faeth, 2009). The reason for this lies in the fact that MNEs must have some advantage, an ownership advantage, one that is unique and only the company possesses, that offsets the disadvantages that MNEs face when entering a foreign country (Dunning & Lundan, 2008). These advantages can either have the form of product differentiation, managerial skills, technology, patents, economies of scale, or even government interference (Faeth, 2009). Hence, FDI happens because the benefits of having an ownership advantage in a foreign country are bigger than the additional costs of having activity across borders (Kurtishi-Kastrati, 2013).

For Hymer (Hymer, 1976), there are two determinants of FDI, those being the existence of specific advantages for the firm to use internationalization when the opportunities of investment in the home country become worn-out, and the removal of conflicts in foreign markets by trying to obtain the market first than other companies or by sharing the market with other companies. As for Kindleberger (Kindleberger, 1969), this author states that monopolistic advantages motivate companies to invest across borders instead of potentially sharing those benefits with competitors and the higher the probability of gaining monopolistic profits, the higher will be the motivation to directly invest in foreign countries.

There are other authors who also use structural market imperfections and ownership advantages as the motive for FDI. Richard E. Caves studied the process of internationalization regarding whether FDI was horizontal, vertical, or diversified (Ietto-Gillies, 2019). Caves' contribution to horizontal FDI was based on product differentiation. The author believed that the firm must possess some assets that give an advantage in the meantime that the firm must also satisfy two conditions in order to invest abroad (Caves, 1971). The first condition is that the “asset must partake of the character of a public good within a firm, such as knowledge fundamental to the production of a profitable saleable commodity” (Caves, 1971, p.5) and the second is that “the return attainable on a firm’s special asset in a foreign market must depend at least somewhat on local production” (Caves, 1971, p.6). These two conditions together lead to product differentiation as a necessary condition for FDI to occur. Regarding vertical investment, the primary reason for firms investing in foreign countries was to avoid the uncertainty related to oligopolies and avoid the entry barriers of new rivals (Caves, 1971).

2.3 Product Life Cycle and Behavior Theory

Raymond Vernon saw FDI as a response to the firms' fear of losing market share as products mature in their lifecycle or as the costs of factors of production change (Vernon, 1966). Vernon explained FDI using the Product Life Cycle theory by linking the type and location of FDI with the product's life stage. As products move through their life cycle, that is, through the phases of introduction, growth, maturity, and decline, and as the products require less specialization and technology, companies switch from exporting to other countries to start directly investing in them (Assunção et al., 2011):

- When products are in the introduction and growth phase, companies locate their production in their home countries, in order to have the flexibility to solve problems or adapt to customer preferences
- As products move on to the maturity stage and players enter the market and start producing imitations, the price becomes a key factor for firms to have in consideration, and the concern about production costs replaces the concern regarding products' characteristics. In this phase, demand in the home country starts spreading at the same time that demand in other countries will also spread. At first, the home company may export to foreign countries, but as demand evolves, the company might change its strategy in order to lower costs, avoid possible trade barriers, or prevent rival companies from starting imitations in the foreign country
- During the decline stage, the product becomes more standardized, and competition increases as it is easier to imitate the product. Therefore, there is a greater need to reduce costs, so the company moves the production to developing countries where production costs are lower and there is the possibility of taking advantage of the local markets (Ietto-Gillies, 2019).

Therefore, for Vernon, the determinants for foreign investment were the search for lower production costs and market proximity in developing countries.

Furthermore, Frederick T. Knickerbocker's contribution uses the theory of oligopolistic reaction, where FDI is a result of MNEs being active in oligopolistic markets. Knickerbocker makes a distinction between aggressive investment, where firms establish the first subsidiary of a certain industry in a certain country and defensive investment when firms establish a series of subsequent subsidiaries to complete the first one (Knickerbocker, 1973). As firms operate in oligopolistic markets, there is a certain interdependence between them that leads to action and reaction behavior. Therefore, firms create a strategy with a mix of aggressive policies to improve their competitive advantage while implementing defensive policies to offset their competitors' aggressive policies (Ietto-Gillies, 2019). Hence, for Knickerbocker (1973), the motive behind FDI is a strategic and reactive decision to other market players, either as a "follow-the-leader" strategy or as a defensive reaction when foreign firms enter the home market or other important markets.

For Yair Aharoni (1966), FDI was viewed as a part of the investment decision process. For the author, there had to be an initial force stimulating investment that gains the attention of the decision-makers, which is then followed by a reviewing process. Although the reviewing process is limited by the number of investment opportunities (Miller & Weigel, 1972), competition factors such as "suggestions made by government institutions, the fear of losing competitiveness, the follow-the-leader effect and foreign firms starting to compete in the domestic market" (Faeth, 2009, p.168) act as initial forces that explain why companies engage in FDI.

2.4 Currency Areas and Internationalization Theory

Robert Z. Aliber used currency areas as the base for his explanation of foreign market sourcing. His work focuses on the three types of internationalization, in the sense that analyzes how foreign markets are sourced through exports of domestic production, local production due to licensing agreements, or FDI. Aliber's explanation consists of looking for factors that define the country and its boundaries. Such country-specific factors are the currency and traditions that distinguish a particular area or country from others. Considering the currency and customs, when there are multiple custom areas, this will have an impact on the price of exportations, while the existence of many currency areas will influence the interest rates of securities, which in turn will lead to different risks (Ietto-Gillies, 2019).

When firms have what the author refers to as a "patent", a monopolistic advantage, they can choose one of the three types of internationalization. Nevertheless, the income provided by this advantage will be different depending on the type of internationalization that the company opts to implement. When there are multiple custom areas, there will be a point where firms sourcing foreign markets will benefit more than producing directly in that country, either through FDI or licensing, rather than exporting the local production. And when there are multiple currency areas, countries with strong currencies will be the sourcing countries while weak currency countries are more likely to receive FDI. Aliber's explanation of the spatial pattern of FDI is the different interest rates linked to the different currencies (Ietto-Gillies, 2019).

2.5 General Explanations of FDI

During the decades of 1970 and 1980, scholars concluded that the previous theories could not fully explain the foreign value-added activities of FDI. Therefore, three new theories emerge from the previous ones to aggregate different topics that the preceding theories tried to explain. Those new theories are the internalization theory, the eclectic paradigm, and the new trade theories of FDI (Dunning & Lundan, 2008).

2.5.1 Internalization Theory

Starting with the internalization theory, this can be divided into two streams of thought. One of them belongs to Peter J. Buckley and Mark C. Casson, that focuses on market inefficiencies as the reason for FDI, and the other one remotes to Jean-François Hennart, who makes a distinction between the reasons for horizontal and vertical FDI given the internalization advantages (Rugman, 2009).

Buckley and Casson introduced the internalization theory during the 1970s using Ronald Coase's concept of internalization applied to FDI and MNEs as a way to combine the former FDI theories. The authors believed that intermediate products' markets, usually composed of component parts and production, marketing, and managerial skills, were not only imperfect, but also had a substantial risk and uncertainty inherited from them that led to high transaction costs, that is, high information, negotiation, and enforcement costs. Hence, companies engage in FDI when transaction costs are higher than the internalization costs associated with internal communication and organization. Nevertheless, the authors consider that the internalization decision is dependent on industry-specific, region-specific, nation-specific, and firm-specific factors. As follows, some industry-specific factors are market structure and economies of scale; distance and cultural differences are considered region-specific factors; while financial and political determinants are nation-specific; and firm-specific factors can be internal skills of the company such as management techniques (Faeth, 2009).

The authors used the internalization theory as the explanation of FDI in the sense that the theory explained why MNEs activities were concentrated in knowledge-intensive innovative industries and also that were difficult to measure in terms of quality and quantity of raw materials and components, and given the nature of these types of activities, cross-border activities were preferred to licensing (Casson, 2015).

To understand Hennart's contribution to the theories of FDI, it is important to understand Oliver Williamson's view on firms and their internalization. For Williamson, the goal of obtaining economies of transaction costs dictates the business. The author states that the internalization process of a firm brings advantages to the firm, such as higher productivity and efficiency when compared to operations within the market, and the author explains this using three concepts: bounded rationality, opportunistic behavior, and assets specificity (Ietto-Gillies, 2019).

Bounded rationality is the concept that people and organizations function under bounded rationality constraints, that is, people and institutions try to make intended rational decisions but due to imperfect information regarding the environment that they are part of (Ietto-Gillies, 2019), they face a higher difficulty to acknowledge and solve complex issues (Slater & Spencer, 2000). The higher the degree of internalization, the better will be the level and quality of information. The opportunistic behavior concept refers to the firm protecting its internal resources and knowledge from the opportunistic behavior of third parties due to asymmetric information between agents. When firms have internal transactions, they are better protected against this type of behavior as they have a higher informational level. The assets specificity concept means that it is more profitable and efficient for the firm to combine the use of assets and skills developed through time, as they tend to fit each other, rather than use it separately. Therefore, asset specificity represents the higher productivity that comes from using the resources internally (Ietto-Gillies, 2019).

It is from the theory of markets and hierarchies of Williamson and the theory of property rights of McManus that Hennart builds his explanation for FDI, claiming that companies with internalization advantages provided by know-how or goodwill/reputation will engage in horizontal internalization, while companies that have internalization advantages arising from the lack of competence and market failures will engage in vertical internalization (Faeth, 2009).

Other authors, such as David J. Teece (Teece, 1981), also focus on the distinction between vertical and horizontal internalization, with the author stating that whereas FDI is a response to market failure, horizontal FDI is also a response to market failure, but also to market power.

2.5.2 Eclectic Paradigm

By fusing the internalization theory with the traditional trade theory, John Dunning produced the eclectic paradigm of FDI as a way to explain the advantages for firms to produce internationally and the mode of entry within a foreign country or market (Faeth, 2009).

The eclectic paradigm consists of the interaction between three interdependent variables (Dunning, 2000), those being the ownership, the location, and the internalization advantages (Faeth, 2009). This happens in the sense that, according to Dunning (Dunning, 1979) in his early articles, three conditions must be fulfilled for a firm to engage in FDI: 1) the company must possess sustainable and unique ownership advantages when compared to other firms in controlling particular markets; 2) if the first condition is satisfied, the firm needs to acknowledge that it is more beneficial for the company's business to continue adding value to the ownership advantages rather than license them to other firms (Dunning & Lundan, 2008), meaning that, the company needs to benefit from the internalization of resources when compared to licensing; 3) if the first and second conditions are fulfilled, the host country must provide special location benefits simultaneously with the ownership and internalization advantages (Ietto-Gillies, 2019).

Ownership advantages are the capabilities, such as knowledge, patents, reputation, and skills (Faeth, 2009), and assets like technology and exclusive processes, that MNEs possess that give them a competitive advantage over the local firms (Dunning & Lundan, 2008). As for location advantages, these are the reasons, usually composed of favorable tax conditions, protected markets, and lower costs of production and transportation, that lead companies to produce across borders given that they gain from being in foreign markets (Dunning & Lundan, 2008). Regarding internalization advantages, there are benefits of internal production (Ietto-Gillies, 2019) when transactions become cheaper when carried within the firm rather than through the market (Kurtishi-Kastrati, 2013).

When the three conditions are not fulfilled, a company might have ownership and internalization advantages, but if it does not benefit from location advantages, it is more likely to increase its home country production and opt for exportation. Inversely, if a company has ownership and location advantages, but does not benefit from having its processes internalized, it will be more beneficial for the firm to license the factors that give an ownership advantage to foreign firms (Nayak & Choudhury, 2014).

One important aspect of the OLI (ownership, Location, Internalization) paradigm is that it is possible to apply it to the three types of internationalization, meaning that, the analysis of the ownership, location, and internalization advantages can be applied to exportation, licensing, and direct investment within the same framework, which was not done in the previous theories and models (Ietto-Gillies, 2019).

2.5.3 New Trade Theories

The neoclassical theory of trade is often considered an unrealistic theory as it considers perfect market competition and constant returns to scale, which are impractical assumptions as they are rarely observed in practice. In light of the need to develop a more realistic model, substantial progress in mathematical modeling led to the rise of the new trade theories, a framework that considers imperfect market competition and increasing returns to scale, which according to economists and researchers, are much more realistic assumptions and necessary to study the capital flows around the globe (Ietto-Gillies, 2019).

The new trade theory explains FDI considering the type of investment that is being made, whether it is horizontal or vertical (Nayak & Choudhury, 2014). This new analytical framework combines the ownership and location advantages with technological and country factors. In this theory, the ownership advantage represents knowledge capital, and location advantages have a distinction between whether companies are horizontal or vertical: the location advantages for horizontal firms are the size of the nation and moderate to high transaction costs, and the location advantages for vertical companies are low transaction costs, different factor intensities in the production stages and disparities in the relative endowments of a country. Many authors made important contributions to this line of thought, and some factors that are common between those theories are the trade barriers, the size of the market, the costs regarding transportation and production, and the relative factor endowments of the countries (Faeth, 2009).

One of the authors belonging to the new trade theories is Elhanan Helpman. This author bases international trade on a general equilibrium model that uses the countries' differences in factor endowments to explain the location where a vertically integrated company wants to establish a production facility (Nayak & Choudhury, 2014). In an imperfect competition environment, firms export their headquarters' services to other countries, choosing to produce in one place rather than another as a result of increasing returns to scale (Faeth, 2009). Regarding horizontal FDI, Helpman's take on this aspect is that all industries are characterized by heterogeneity, thus, production will be different among firms. From here, the author concludes that non-productive firms will not maintain activity, low-productive firms will only be able to serve the local markets, while high-productive firms will be the ones to participate in domestic and foreign markets. Only the extremely highly productive ones are going to engage in FDI while the remaining of the high-productive companies will opt for exportation (Nayak & Choudhury, 2014).

2.6 Institutional Approach

After the decade of 1980, many scholars started looking at policy and non-policy determinants as a way to explain why and where FDI occurred. It is often the case where governments can influence the type of internationalization that a company chooses. This means that governments have an impact that usually starts from the decision between home country production, exporting or FDI; to the location choice of those methods of internationalization; or even the decision regarding whether the investment will be creating a new production facility from the start or acquiring an existing host firm. Additionally, once the company has made an investment in the host country, government actions and choices also influence if the company remains in that country or pulls out the investment. This happens due to the many areas where government intervention can have an impact on FDI, such as taxes, exportation conditions, subsidies, employment, local training, capital repatriation, among others (Faeth, 2009).

Given the complex and uncertain environment where firms operate, the institutional theory emerged as a way to demonstrate how institutional forces, especially incentives and legislation, impact companies' decisions regarding their international strategy and performance (Assunção et al., 2011).

Looking at some of the authors that focused on the institutional theory, Bond and Samuelson focused their research on investment incentives stating that countries should use those incentives as an indication of the high quality of local factors in order to attract FDI (Bond & Samuelson, 1986). From another point of view, Haufler and Wooton made a combined analysis between trade costs and the differences in the host country's size and its fiscal competition. The outcome of this research was that, between two or more countries, firms invest in the country where the market is larger, regardless of the increase in taxes, despite the subsidies offered by the countries (Haufler & Wooton, 1999).

3. Foreign Direct Investment and Determinants of Location

In this chapter, the concept of FDI is going to be introduced in more detail by reviewing the types of investment possible and the motives beside the investment decision, as well as the different location determinants of location that MNEs have in consideration.

3.1 Foreign Direct Investment

When engaging in FDI, MNEs can either make greenfield investments or mergers and acquisitions (M&As). Greenfield investments are investments made by the parent company where a new productive unit is established. M&As are those investments that acquire assets from other already existing companies (Harms & Méon, 2018). When entering a new country, as well as having to decide what type of investment the company is going to make, there is also the need to decide what type of production will be located abroad, that is, whether the investment will be a horizontal or vertical FDI. When firms duplicate the same stage of their production process in several countries in order to potentially save transport and trading costs and get access to new markets, firms are engaging in horizontal FDI. On the other hand, firms that geographically fragment distinct parts of the production process, motivated by the desire of saving production costs due to differences in the factor prices between countries, engage in vertical FDI (Grossman et al., 2006). For that reason, while horizontal FDI arises from market size aspects, vertical FDI is driven by the countries' factor endowments (Herger & McCorriston, 2014).

Investing in countries across borders can have many benefits for host countries, but it can also prove to be a challenge when predictions do not occur as expected. Some major benefits for said countries that are usually associated with FDI are the transfer of technology, which can happen through alliances or close proximity with innovation firms, labor turnover, or even through the need of local firms to increase their competitiveness and technology inventory; spillover of knowledge about foreign markets and exportation to local firms, progressively increase of wages (Harrison, 1994); a more skilled workforce and the enhanced of labor force productivity, either by training or by transferring new managerial and organizational skills; and a better local business environment (Kurtishi-Kastrati, 2013). However, sometimes FDI does not go according to the country's best interest with some disadvantages being gatekeeping of technology, by training their workers in ways that local firms will not be able to duplicate, multinational companies removing market share from the local companies (Harrison, 1994); disincentive research and development, increase of unemployment and crowding-out of local businesses, hence, allowing the monopolization of the market and the decrease in competitiveness (Kurtishi-Kastrati, 2013).

When studying FDI, one important concept to have in mind is Multinational Enterprises. According to Dunning and Lundan (Dunning & Lundan, 2008, p.3), a MNE can be defined as “an enterprise that engages in foreign direct investment and owns or, in some way, controls value-added activities in more than one country”. Others, such as Wilkins (Rugman, 2009, p.23), define MNE as “a firm that is headquartered in one country and extends itself over borders”.

On that account, MNEs distinguish themselves from other international firms in two aspects. One is in the sense that there is an internal exchange of goods and services between countries, where this internal transaction adds value to goods and services through the assets owned by the company in a foreign country. The other one, is the fact that it performs multiple economic activities, with the particularity that some of these activities are conducted in the other countries rather than the one where the company has its headquarters. Hence, multinational companies have both production and transactions in more than one country (Dunning & Lundan, 2008).

Considering that MNEs entering new markets abroad face numerous disadvantages such as the initial cost of setting up a new foreign facility, the need to adapt to the cultural and legal requirements of the host country, exchange rate risks, and less initial access to market information when compared to local companies, the potential benefits of establishing activity in a foreign country need to offset the disadvantages. Some of the benefits can be the secured market share due to differentiated products, avoiding trade barriers, yielding higher profits due to lower transportation and production costs (Brakman & Garretsen, 2008), and the creation of an intra-organizational network that allows it to be more profitable at a bigger scale (Angeli & Jaiswal, 2015).

As companies expand their horizons beyond domestic borders, the choice regarding the location of FDI becomes a critical decision that can have a significant impact on the success and sustainability of the business activity. Therefore, comprehending the factors that determine the location of FDI is vital to have certainty that this strategic investment is aligned with the company’s long-term business goals.

3.2 Motives for FDI

As companies cross borders to gain a foothold in foreign markets, scholars have identified four motives driving these strategic investments. These four motives consist of 1) resource-seeking FDI, which is also referred to as supply-oriented FDI, whose goal is to gain access to resources; 2) market-seeking FDI, also denominated demand-oriented FDI, that aims to secure one or a set of foreign markets; 3) efficient-seeking FDI or rationalized-seeking FDI that is focused on turning processes, labor and the use of assets more efficient; and, 4) strategic asset-seeking FDI, whose purpose is to increase the competitive advantage of the firm or decrease the competitiveness of competitors (Dunning, 2000).

Motives for FDI are not statical and can change over time, as MNEs acquired a more established position in the country where they invest their activities. When MNEs first start expanding their business activities across borders, it is usually to seek natural resources or acquire market access. Nonetheless, as MNEs expand their level of multinationality, these motives might change, becoming more relevant to increase efficiency or gaining access to new forms of competitive advantage that improve the overall global market position of the company (Dunning & Lundan, 2008).

Resource seekers are companies that want to be more profitable and competitive by investing abroad, in order to obtain resources that either do not exist in the company's home country or to acquire resources with higher quality at lower cost. In this category, it is possible to find three types of MNEs. The first type usually reflects primary producers that seek physical resources to minimize costs and have a secure supply source. Physical resource-seeking FDI is generally location-bound in the sense that it requires big capital investments. Manufacturing and services normally engage in the second type, seeking abundant cheap supplies and/or unskilled or semi-skilled low-cost labor. Contrary to the first one, this type of investment can be volatile in a manner that when labor costs increase in the host countries, investments tend to shift to other countries with lower labor costs (Dunning & Lundan, 2008). The third type occurs when firms need to "acquire technological capability, management or marketing expertise and organizational skills" (Dunning & Lundan, 2008, p.69) by creating collaborative alliances between countries.

When the motive for FDI is market seeking, companies supply goods and services to the host country and countries in its proximity, either to maintain existing markets or to exploit new ones. Companies that engage in this type of FDI, generally supply the host country through exportation, but due to varied reasons, such as market size, tariffs, or other barriers implemented by the host country, it becomes more profitable to establish local production. Four main purposes can explain the reason for companies to opt for market-seeking investment. The first reason is when upstream or downstream stakeholders establish foreign facilities and, to maintain business relationships, the company decides to follow. Another reason is the need to adapt the products to the local preferences, culture, capabilities, requirements, and procedures so, as to not be in disadvantage when compared to local companies. Additionally, in some specific products, establishing a production facility to supply close markets translates into lower production and transaction costs when compared to the costs of producing it farther away. The last reason stands for the importance of having a physical facility in leading markets served by competitors (Dunning & Lundan, 2008).

Efficiency seekers are companies that concentrate production in a reduced number of locations to supply many markets, thus, taking advantage of different factors, such as "factor endowments, cultures, institutional arrangements, demand patterns, economic policies and market structures" (Dunning & Lundan, 2008, p.72) in order to beneficiate of economies of scale and economies of scope, while also engaging in risk diversification (Dunning & Lundan, 2008). One type of efficiency-seeking FDI is when MNEs have production facilities in developed and developing countries, where capital, technology, and information-intensive activities are located in the developed nations, while labor and resource-intensive value-added activities are strategically implemented in developing nations, to take advantage of the differences in accessibility and relative cost of factor endowments between countries. The other type of efficiency-seeking FDI aims to obtain economies of scale and scope by having production facilities in countries with similar economic structures, taking advantage of the different consumer preferences and supply capabilities (Dunning & Lundan, 2008).

Strategic asset seekers acquire assets of foreign firms to increase the portfolio of physical and human assets in order to sustain or increase the global competitiveness of the company, or even decrease the competitiveness of competitors. This type of investment has been increasingly done by MNEs from emerging economies (Dunning & Lundan, 2008), as firms have the opportunity to integrate and use the strategic assets acquired in their business, thus, creating firm-specific advantages (Cui et al., 2014). These acquisitions are generally knowledge-based assets (Cui et al., 2014), such as hard or technological assets like Research and Development (R&D) or high-tech products, and soft and brand assets like brand image and value (Chen et al., 2022).

As the motives of FDI shape the selection of investment destinations, depending on the predominant motive, the hierarchy of location determinants can shift, highlighting the dynamic interplay between FDI motives and the role of location factors in facilitating successful foreign investments.

3.3 Determinants of Location

Researchers have been studying the role of location determinants on foreign investments, as these are a crucial concept within the FDI literature, given that they usually define the type and conditions of the investment that is going to be made in a country (Agiomirgianakis et al., 2003). Although one can identify multiple determinants that impact multinationals' investment decisions, there are some factors that are more frequently taken into consideration. Some of the most frequently considered location determinants will be discussed next.

3.3.1 Market Factors

Market determinants, especially the size of the market, are usually the most considered factors by multinationals in the investment process (Antonakakis & Tondl, 2011; Dellis et al., 2017). The importance of the size of the market comes from the fact that it allows for economies of scale to occur and the specialization in standard production, which permits firms to reduce costs of production (Agiomirgianakis et al., 2003). Consequently, this enables firms to increase their sales and profitability. This variable can be measured through gross domestic product (GDP), income per capita or the size of the population (Popovici et al., 2021). In the majority of the cases, a positive relation between market size and FDI is expected, as were the conclusions of the studies of Cleeve (2008) and Mohamed and Sidiropoulos (2010). Nevertheless, other authors such as Mhlanga et al. (2010) and Vijayakumar et al. (2010) have reached inconclusive results. Other market determinants that impact the investment decision are the proximity to fundamental markets and the market growth (Cavusgil et al., 2020).

3.3.2 Trade Openness

The degree of liberalization of trade in an economy is another important determinant taken into consideration by companies. This determinant demonstrates the country's competitive position regarding exposure and international trade (Stoian & Filippaios, 2008). A higher degree of openness might facilitate the importation of technology, which will translate into a higher competitiveness of firms and better knowledge diffusion (Silajdzic & Mehic, 2015). In this determinant, it is also the case where a positive relation between FDI and trade openness is found in the majority of the cases (Cleeve, 2008; Mhlanga et al., 2010), while other times, the results were inconclusive (Vijayakumar et al., 2010).

3.3.3 Economic Stability

An economy can be deemed stable when there is price stability, an equilibrium in the balance of payments, and a sustained high level of employment (Cleeve, 2008). One of the variables most used to measure this is the inflation rate, although there are many variables that can be used (Assunção et al., 2011). The rate of inflation is a relevant determinant for companies, as stability in prices usually translates into a less risk investment, economic prosperity, and sound government policies (Popovici et al., 2021).

Following this, for Schneider and Frey (1985), a deficit in the balance of payments is a barrier to FDI as it becomes an impediment to the free movement of capital, hence, a restriction in the multinational's decisions of capital repatriation. In this case, studies have reached mixed results, as they diverge depending on the type of methodology used for the study. Nevertheless, it is possible to conclude that it is expected that economic stability will have a positive relation with FDI (Assunção et al., 2011).

Another determinant relevant to the investment decision is the currency stability, as countries with currency fluctuation might lead to higher costs for companies investing (Cavusgil et al., 2020).

3.3.4 Infrastructure

The access and quality of infrastructure of a country is another determinant that multinationals have in consideration. Infrastructure can be seen as a multidimensional factor as it covers aspects such as roads, ports, telecommunication systems and development of institutions (Dermihan & Masca, 2008). It is possible to find a positive effect between good infrastructure and FDI flows, as transport and communications infrastructure affect the decision regarding the location of investment (Cheng & Kwan, 2000; Mhlanga et al., 2010; Vijayakumar et al., 2010). Additionally, a country's level of R&D or the amount of expenditure by the government in research is also a factor that companies have in consideration (Park et al., 2022). Nevertheless, conclusions on this determinant are not unanimous as others do not obtain any relation (Cleeve, 2008; Mohamed & Sidiropoulos, 2010).

3.3.5 Human Capital

The cost of labor has been another determinant to which studies have not reached a unanimous conclusion. Although one's first thought might be that lower labor costs are positively related to FDI, some studies have reached this conclusion (Schneider & Frey, 1985; Vijayakumar et al., 2010), while others have not (Botrić and Škuflić, 2006), as the cost of labor depends on the type, location, and on the sector of the investment (Coy & Cormican, 2014). Regarding skilled labor, Noorbakhsh et al. (2001) concluded that there is a significant positive relation between skilled labor and the attraction of FDI. The importance of this determinant stems from how the degree of education can increase productivity and incorporate innovation in technology (Brooks et al., 2010). The amount of personnel in R&D is also viewed by companies as an important factor to have in consideration (Park et al., 2022). However, other authors conclude that this relation is not always significant (Lucke & Eichler, 2015; Ghazalian & Amposem, 2018).

3.3.6 Taxes and Fiscal Incentives

Foreign investment decisions also take into consideration the tax rates of a country. Corporate income taxes have an impact on both the cost of capital and the profitability (Leibrecht & Riedl, 2010), so the higher the taxes, the higher will be the cost of the investment to the company. Therefore, when studying the effect of taxes on investment decisions, one assumption that is commonly made is that the higher the taxes, the less attractive the country will be to FDI (Chiappini & Viaud, 2021). Some studies have proven that assumption to be true in the sense that there is a significant negative relation between taxes and FDI flows (Billigton, 1999; Devereux & Griffith, 2003; Giovanni 2005). Notwithstanding, the study of Wheeler and Mody's (1992) concluded that taxes have little influence on attracting FDI.

Regarding fiscal incentives, authors have not reached a unanimous conclusion about the importance of this determinant on FDI. Root and Ahmed (1978) concluded that tax incentives do not attract FDI, as companies fear that those incentives will be taken away once the investment is made. Cleeve (2008), using three proxies to assess the importance of this determinant, found no significant effect between the determinant and FDI.

3.3.7 Political Stability

Political stability is another determinant that multinationals consider in their investment decisions, in the sense that a country might present sufficient economic factors to invest, but political instability can become a barrier for the investment (Schneider & Frey, 1985). The studies' conclusions on the influence of political risk on FDI are different, although many studies point to a negative relation between the determinant and FDI (Schneider & Frey, 1985; Mellahi et al., 2003). Cleeve (2008) and Mhlanga et al. (2010) did not obtain any significant conclusion, while Schneider and Frey (1985) and Biswas (2002) concluded that the longer the same political regime stays in a country, the less attractive will be the country to FDI. There is the case where one study concluded that countries with high political risk can significantly attract FDI, with the authors believing that this conclusion stems from including in the sample countries with high political risk but with big endowments of natural resources that attract FDI (Mhlanga et al., 2010).

Most studies show that the level of corruption in a country is negatively related to FDI attraction (Barassi & Zhou, 2012; Lee & Hong, 2012). However, others have found that corruption is not a significant determinant in terms of attracting FDI (Wheeler & Mody, 1992).

3.3.8 Institutions

Another important determinant in attracting FDI is institutions. The institutions of a country are composed of political, economic, and social elements, and these institutions have the capacity of affecting the firm’s profitability as they influence the transaction costs (North, 1990; Khanna & Rivkin, 2001). It is generally assumed that a country with high quality institutions tends to attract more FDI, as institutions allow a reduction in transaction costs and also reduce uncertainty (Popovici et al., 2021). Governmental institutions need to be efficient and of quality, as companies look for legal protection in terms of intellectual property, especially in the case of ownership advantages. If there is no proper protection of the intellectual assets, firms risk losing the profit coming from those assets (Coy & Cormican, 2014). In terms of the legal system of a country, there are studies that show that the quality and transparency of the legal system are a key factor in attracting FDI (Baniak et al., 2005; Naudé and Krugell, 2007). Therefore, given the many factors that encompass the institutional framework, there are many proxies that can be used to assess the relation between the institutional quality and FDI attraction, and most of those studies show that there is a positive relation between the two (Biswas, 2002; Asiedu, 2006; Mohamed and Sidiropoulos, 2010).

4. Methodology

The following chapter describes the methodology used for the empirical analysis regarding the importance of location determinants, in terms of their evolution and depending on the type and purpose of the investment made. Therefore, this chapter will explain the narrative literature review and the rapid literature review approaches as well as the rationale behind selecting these qualitative research methods and discuss their strengths and limitations in the context of this study.

4.1 Evolution of Location Determinants of FDI

The narrative literature review, also known as a semi-systematic review, is a method used when the purpose of the research is to summarize and compile existing literature on a specific topic. This type of research is useful when assessing the progress and development of a topic or research field over time as it enables the identification of components within a theoretical concept. It is particularly beneficial on subjects where extensive research has been done, sometimes across multiple study areas, which makes it not feasible to identify and review all the empirical articles available. Thus, the systematic literature review is not a possible approach (Paré et al., 2015). Nevertheless, this type of research presents disadvantages such as potential bias, in the sense that not every empirical article published on the subject is reviewed (Snyder, 2019).

Therefore, taking into consideration the characteristics of the narrative literature review mentioned above, this methodology was deemed more feasible for two primary reasons. The first is the main focus being the location determinants of FDI which, in the broader extent of FDI literature, only represents a small segment. Secondly, the extensive literature published combined with scope and time constraints of this study, makes this methodology a more practical approach.

The first part of the research chapter is dedicated to the evolution of location determinants of FDI from 1960 until 2023. To ensure a comprehensive review of the available literature, the search strategy started by defining the databases that were going to be used. In this case, existing literature was retrieved from three databases, those being JSTOR, Science Direct and Web of Science, given their prestige as peer-reviewed academic journal databases.

From here, the search term used was “FDI Location Determinants”. Then, the abstract and conclusion of the first fifty articles of each of the three databases were reviewed to ensure that the topic of the article was related to location determinants of foreign investment and that empirical methods were used when testing. Only empirical studies were included in this research to ensure real and practical global evidence, meaning that articles that were purely theoretical or reviews were excluded. In the case of repeated articles within the databases, no more articles were analyzed besides the first fifty selected.

Therefore, once the abstract and conclusion indicated that the article was indeed related to the topic at hand, and empirical methodologies were deployed, the article was considered for the present research. The review process consisted of analyzing the results extracted from the existing literature in a decade-by-decade review to identify common determinants or divergences between periods. This means that the articles of each year were aggregated in a group of ten years, resulting in seven distinct phases, and reviewed together. For example, for the first time period, between 1960 and 1969, the articles selected were reviewed and conclusions were drawn for that period. For each decade, information on historical and economic events of the period was added to provide context, considering that economic events have a substantial impact on FDI flows, as well as information on FDI flows of the decade.

The articles were examined based on their year of publication and not by the period the study is focused on, in order to simplify the research and to try to capture the broader shifts in thought, and the evolution of key determinants in response to changing economic and political contexts.

4.2 Determinants of Location of FDI Depending on the Type of Investment

To complement the assessment of the evolution of the location determinants of FDI throughout an extensive period of time, the determinants depending on the type of investment are also being studied in this paper. As it is a complement to the main research of the present paper, the narrative literature review methodology was deemed impractical for this component of the research due to time and literature availability constraints.

Instead, the method of a rapid literature review was applied to the study of this topic. This method seems the most appropriate for this study as it also defines a clear research strategy, similar to other literature review methodologies, but the research depth is shortened (Grant & Booth, 2009).

The study of the determinants of location depending on the type of investment will be done for the period between 2000 and 2023. While in the previous topic, the first fifty articles were reviewed, in examining the determinants depending on the type, research was organized to divide the period under analysis into three distinct sub-periods, those being the periods of 2000-2007, 2008-2015, 2016-2023. For each of the time periods, the first twenty five relevant articles were reviewed from the same three data bases as previously mentioned. The terms used upon research were “Greenfield Investment Determinants”, “M&As Investment Determinants”, “Greenfield and M&As Investment Determinants”.

5. Results and Discussion

5.1 The evolution of the importance of location determinants

As previously mentioned, FDI is intrinsically connected with the global economy and economic growth. Therefore, as the economy has changed and adapted to many circumstances, the same can be said for companies' operating models. While companies adapt to their external environment, their preferences in terms of FDI determinants and their needs while seeking a host country for their investment have also changed over the years.

Much like how the concept of FDI gained relevance starting in 1960, scholars also devoted their research to the motives tied to FDI and the results of this type of investment. Therefore, although there are many directions one can follow when researching FDI, some authors focused their research on gathering and studying empirical evidence on how FDI, as a dependent variable, is impacted by many location determinants. From the wide literature available, the present paper is focused on reviewing research papers in order to obtain an understanding of the evolution of the importance of location determinants.

5.1.1 The Decade of 1960

During the decade of 1960, the vast majority of FDI flows originated from developed economies, with the United States notably accounting for nearly half of the world's outward stock of FDI, followed by the United Kingdom (UK), albeit with a substantial gap between the two countries. In the beginning of the 1960's, FDI of the United States was mainly directed to Canada and Latin America and applied in mining and petroleum, and also the manufacturing sector (Hummels & Stern, 1994). Given the uprising of the concept of FDI from 1960 onwards, the literature regarding the determinants and reasons for FDI flows was sparse during this decade when in comparison with the subsequent decades, where the rapid growth of FDI was matched with an increase in articles published and empirical investigations on the subject (Buckley, 2009).

During this decade, one major historical occurrence that influenced the economic context was the creation of the European Economic Community (EEC) in the previous decade. Consequently, authors focused on how FDI behaved with the establishment of the European community. Scaperlanda (1967), taking into consideration the common belief that the creation of the EEC would have an impact on international investment due to the special preference for the products produced by the members of the community, focused his study on assessing the impact of the EEC formation in FDI from the United

States of America (USA). By analyzing the investment flows of the USA before and after the establishment of the EEC, the author concluded that the formation of the European community did not have an impact on the FDI patterns of the USA (Scaperlanda, 1967). D'Arge (1969) also focused his study on testing the impact of the EEC and EFTA formation on USA FDI flows. This author, using the assumptions that FDI goes towards the countries that offer the highest profit rates and that American FDI would flow towards the EEC because that region had relatively less capital in comparison with the USA, concluded that the creation of EFTA, but not EEC, had a positive impact on the flows of FDI from the US to this region (D'Arge, 1969).

As for Krainer (1967), this author studied how the natural resource endowment of a country influences private foreign investment flows using the cases of the United Kingdom and of the USA. The main hypothesis that the author seeks to assess is that FDI made in countries with raw material production is positively related to the domestic capacity utilization of the country that is investing abroad. According to the author, as the UK has deficits in some natural resources, British firms will seek to set up affiliates in countries abundant with those raw materials. Additionally, private British investors will have a bigger incentive to invest in countries where British affiliates establish. Therefore, when the capacity utilization of this country increases, the investment in the UK and in foreign countries tends to rise and vice-versa. As for the USA, as the country does not have such a deficit of resource endowments as the UK, its investment in other countries will focus on a more extensive range of business sectors than the ones from the UK. The final criteria for American internal investment or foreign investment depends on the one that is expected to have a higher and faster growth and profit potential (Krainer, 1967).

Therefore, from the articles reviewed from the decade of 1960, it is possible to see that authors were focused on the economic factors of the countries, such as trade agreements and political unions, and profit rates, while also looking at the natural resources of the countries as location determinants. Taking into consideration the literature review from Chapter 2, it is possible to see a connection between the articles above and the Hecksher-Ohlin model, believed to be one of the first theories capable of explaining FDI.

5.1.2 The Decade of 1970

Moving on to the decade of 1970, significant economic events happened, such as the fall of the Bretton Woods system, which ended the convertibility between USA dollars and gold, profoundly impacting the exchange rates. Additionally, the imposition of oil embargoes by the Organization of the Petroleum Exporting Countries triggered a drastic rise in oil prices, affecting the global economy (De Vries, 1986). Considering the global economic events occurring at the time, it is possible to see shifts in the available literature regarding FDI determinants.

Over this timeframe, the worldwide outward stock of FDI had a significant increase in absolute terms. The greatest part of FDI stemmed from the developed countries like the previous decade but, during the seventies, while the USA and the UK still maintained their positions as the two countries with the highest percentage of outward FDI, their shares presented a slightly decreased, reflecting the increase of other developed nations FDI stocks, such as Switzerland and the Federal Republic of Germany, at the time. Another important difference worth mentioning when comparing to the previous decade is the percentage increase of FDI stocks from developing economies that was around 2,3% in 1975. It was during this decade that Western Europe became the destination of a big portion of FDI flows from the USA, alongside with Canada, and more focused on the manufacturing sector (Hummels & Stern, 1994).

There are many empirical studies during this decade that reach similar conclusions. Green and Cunningham (1975), in their attempt to test through data the findings of Aharoni (1966) regarding the most important determinants for FDI, concluded that market factors are the most significant location determinants for US FDI, with the Gross National Product (GNP) demonstrating significance for total and manufacturing FDI, corroborating the results reached by the previous author. As for Levis (1979), in a study examining the impact of political instability on FDI, concluded that while the political factor is an important determinant for FDI, the economic ones, such as the balance of payments, have a greater weight and importance in investment decisions. Kobrin (1976) in his study between environmental factors and manufacturing FDI flows concluded that the determinants factors for that type of FDI are market related factors such as size, growth, and socio-economic development. Even in the case where the variable of market size is held constant, none of the three variables, related to political instability, were considered significant (Kobrin, 1976). In their study on the determinants of investment in the manufacturing sector in developing countries, Root and Ahmed (1979) identified that four economic variables, one social variable, and one political variable were significant out of the thirty-eight variables analyzed. The primary conclusion of their research is that FDI in the manufacturing sector tends to occur in countries characterized by a higher degree of urbanization that can provide a more concentrated market and labor force, relatively advanced infrastructure, political stability with few changes in government, robust growth rates and comparatively higher income measured by GDP per capita that might be an indicative of a growing market (Root & Ahmed, 1979). From this, it is possible to see that during the decade of 1970, factors regarding the market, such as its size and growth were deemed as the principal variables leading to foreign investment. Nonetheless, political factors and infrastructure variables were also gaining ground during this period as they started to be included in research. Although empirical research in both the 1960's and 1970's focused primarily on USA FDI flows, there was a notable shift from examining the host and investing countries' endowments to assessing the market potential.

5.1.3 The Decade of 1980

Turning to the decade of 1980, some economic events that impacted this period were the global recession and stagnation in the beginning of the decade caused by the second oil shock at the end of the previous decade. A subsequent occurrence from this global stagnation was a decrease of the manufacturing industry in the richest countries and, on the other hand, an increase of industrial capacity in some developing nations. Additionally, it was also during this time span that an uprising of neoliberalism was observed (Pirani, 2018).

In terms of FDI trends, in the beginning of the decade, due to the global economic recession, FDI was increasing at a slow pace. It was from 1985 onwards that FDI flows started to increase, with the countries of the USA, UK, Japan, France, and West Germany accounting for about 70% of FDI outflows. One important detail to mention is the rise of Japan's investing power in other countries that occurred during this time span, which resulted in the country surpassing the UK in direct investment in the year of 1988. Developed nations hosted approximately 81% of global FDI world inflows, with the five countries previously mentioned accounting for 57% of those inflows. Notably, developing countries received 19% of FDI flows during this decade, with special mention to the countries of Mexico, Brazil, and other industrialized countries in Asia such as Singapore and Hong Kong (Graham & Krugman, 1993, Chapter 1).

In line with the tendency of FDI going to developing countries in this decade, Lecraw (1985) concluded that FDI towards Singapore is mainly influenced by location determinants such as the level of infrastructure, wages and capital costs, access to export markets and government incentives. Schneider and Frey (1985), while aiming to incorporate both economic and political factors together into the scope of FDI's determinants studies, performed different regressions on four models: an economic one, a political model, an international risk indicator model and a political-economic model using the factors of the first two models together. The authors concluded that the last model shows better results and significance than the other three models, hence, they suggest that a better understanding of the determinants in developing countries can be found by studying economic and political variables together instead of focusing solely on one set of criteria. In terms of economic elements, the real GNP per capita and the balance of payments are the most important ones, whereas the bilateral aid of Western countries to other countries is the political component with higher significance (Schneider & Frey, 1985).

Nigh (1985) dedicated his study to assess the importance of political determinants in American manufacturing FDI. The author, while applying econometric models for developing and developed countries separately, concluded that there is a significant relationship between political variables and USA manufacturing FDI in host countries. More specifically, it was found that internal conflicts of the host country are important when it comes to developing nations, but not in developed ones, and internal host country cooperation is not meaningful. Additionally, inter-nations conflicts and also cooperation between the USA and the host country are significant for both developed and less developed countries. Despite the fact that the focus of the study is the political variables, the author includes the market size and market growth in his study as they are important non-political variables that need to be taken into consideration when determining the influence of political factors. For both developed and developing economies, the market size of the host country showed to be positively significant, with even a higher significance than the political determinants (Nigh, 1985). In another similar study, Schöllhammer and Nigh (1984) focused on the influence of political variables on FDI from West Germany. They reached similar findings as the previously mentioned study, in the sense that, for developed countries, inter-nations conflicts and cooperation are fundamental, but for West Germany, cooperation within the host country has positive influence on the German investment decisions. As for developing countries, cooperation between the host country and West Germany is fundamental as well as internal conflicts, just like in the previous study. In the case of German investment, both market size and market growth of the host country are meaningful variables (Schöllhammer & Nigh, 1984). The same study was applied to Japanese investment but, in contrast with the two previous studies, Japanese foreign investment in developed countries is highly influenced by intra-nation and inter-nation conflicts and cooperation, while developing countries are only influenced by the market size and market growth (Schöllhammer & Nigh, 1986).

David O. Cushman (1987) analyzed empirically the effect of labor costs and productivity on FDI flows from and into the United States and other countries such as the UK, France, Germany, Canada, and Japan. The author found that an increase in foreign wages negatively impacts American FDI outflows, except if there is a substitution effect between labor and capital, and a rise in the home country wages leads to a positive reaction of USA outflows (Cushman, 1987). Another study by O´Sullivan (1985) reached the conclusion that market size, labor costs and exchange rates were the major determinants of FDI. Grubaugh (1987), analyzing data from American companies, identified significant R&D expenditures as a determinant of FDI, while labor intensity, not only lacks significance but also exhibits an unexpected sign.

Thus, in the decade of the 1980's, it is possible to see that articles increased their focus on developing countries in addition to developed ones. Another important aspect that should be mentioned is the shift in the authors integration of different variables in their studies and especially their conclusions regarding factors influencing foreign investment decisions that included more determinants than the market-related ones, such as labor costs, infrastructure, R&D, and political variables.

5.1.4 The Decade of 1990

Advancing to the 1990's, several major economic events significantly reshaped the global economic landscape. This period saw the rise of regional trade agreements, including the establishment of the European Union (EU), the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the USA, and the Association of Southeast Asian Nations Free Trade Area (AFTA). Alongside these agreements, there was a broader trend towards globalization and trade liberalization, with countries reducing trade barriers and integrating more deeply into the global economy, such as the EU's free movement of people, goods, services, and capital. Although it occurred at the very end of the previous decade, the 1990's were also marked by the fall of the Berlin Wall and the reunification of Germany, and by the collapse of the Soviet Union, which transitioned many countries from centrally planned economies to market-oriented systems. It was also in 1999, that the Euro was announced as the currency for the Economic and Monetary Union, which came into full effect in 2002. Another significant event was the Asian Financial Crisis of 1997, which led to severe economic contractions and devalued currencies across the affected countries (Boughton, 2012).

Regarding FDI patterns, global flows increased significantly during this decade, especially in the years of 1998 and 1999, due to cross-borders M&A. The last year of the decade saw an exponential growth with the value of FDI flows being nearly four times higher than the decade's start. This increase was largely due to the liberalization of foreign trade and capital flows by several countries during this period. By the end of the decade, developed countries still received around three-quarters of the global FDI inflows, with the USA and the UK remaining as the top two countries for both inward and outward FDI. In 1997, developing countries accounted for about 38% of FDI inflows, but this share fell to nearly 25% by the end of the decade. Half of the FDI inflows to developing countries were directed to Asia, with approximately 43% of the remainder going to Latin America, around 4% to Africa, and the remaining 2% to the least developed countries, which saw only a marginal increase during this decade (UNCTAD, 2000).

Li and Guisinger (1992), in their study regarding the determinants of service multinationals for Japan, Western Europe and North America, concluded that market size, openness of the host country, oligopolistic reaction, and growth size of the service firm are positive and significant determinants for service investment from the three countries. In a study on the location drivers of FDI from the USA and Japan in the EU, Aristotelous and Fountas (1996) concluded that both USA and Japanese FDI are significantly influenced by real GDP, the real exchange rate as proxy for the labor costs, the signing of the Single European Act and external tariffs. However, the results for Japanese FDI are weaker when compared to those of USA FDI given the smaller explanation power of the Japanese regression model (Aristotelous & Fountas, 1996). Clegg and Scott-Green (1999) also dedicated their study on the location determinants of USA and Japan investments within the EU. Their major findings revealed that for USA FDI, the significant location variables of EU countries were the average wage, salary per employee and the relative borrowing interest rate. In the case of Japan FDI, significant determinants included R&D expenditure, market size and annual change in market size, the average wage and salary per employee, and the EC internal non-tariff barrier elimination program (Clegg & Scott-Green, 1999). Billington (1999) examined the location factors of foreign investment in the UK, concluding that the market size, the market potential, the unemployment rate, corporate tax rate, money market rate and imports are significant determinants for that investment.

London and Ross (1995) devoted their research to the political sociology side of FDI by examining the effect of the cost and control of labor on foreign investment decisions. In terms of control of labor, they concluded that political strikes and protests have a significantly negative impact in foreign investment decisions and regime repressiveness also plays a crucial role. Regarding the cost of labor, only the sectoral inequality of labor costs between the urban and rural areas were negatively significant. Thus, the authors demonstrated that political stability is a determinant of FDI as foreign flows tend to flow towards places with fewer political strikes and protests and moderately repressive regimes (London & Ross, 1995).

The impact of intellectual property rights as determinants of FDI for less-developed, new industrialized and developed countries was studied by Seyoum (1996). The research found that patents are significant for newly industrialized and developed countries but not for less-developed countries. Trademarks are significant for all three groups, with a positive impact on less developed and developed countries, but a negative impact on newly industrialized countries. Trade secrets are significant across all groups, and copyrights are positively significant for all three groups. When examining all countries together, trademarks, trade secrets, and copyrights positively influence investment decisions. The study also considered economic variables, revealing that public investment rates and market size are significant positive determinants of FDI when assessing all countries collectively (Seyoum, 1996). Another research study that leans more towards the ownership advantages side of foreign investments is the work by Love and Lage-Hidalgo (1999) on USA foreign investment in Mexico. Despite its primary focus on ownership advantages, the study also provided valuable insights into location determinants. The conclusions revealed that the key determinants for American investment in Mexico included employee compensation, used as a proxy for highly skilled and well-paid employees, R&D expenditures, capital expenditure, and tangible fixed assets per employee (Love & Lage-Hidalgo, 1999). In line with investment in Latin America, Tuman and Emmert (1999) conducted a study on the determinants of Japanese investment across Latin America countries and found that, out of sixteen market and political variables examined, the only significant determinants were market potential, measured by the population, political instability, and policy adjustments.

The decade of the 1990's was a period highly focused on many location determinants, continuing the studies' trends of the previous decade. Market-related variables alongside infrastructure, trade openness, labor costs, taxes, political and differentiating variables are recurrent variables deemed as significant for foreign investment in many countries. Additionally, there was a notable focus on developing countries during this period, driven by the increased percentage of FDI these countries received. As more countries were opening their borders to foreign capital during the 1980's and 1990's, it is possible to see that the research literature reflects that openness through variables such as trade openness and tariffs, that have become a common component in studies and frequently part of the significant variables group.

5.1.5 The Decade of 2000

Advancing towards the first decade of the twenty-first century, this one was marked by significant global changes. It is important to highlight events such as the dot-com bubble, which resulted in tremendous losses for investors and the technological sector, as well as changes in regulations (Goodnight & Green, 2010). Additionally, the Euro became the official currency for several countries in the EU, reinforcing the integration between European countries. Most notably, the decade ended with a global financial crisis, a consequence of the subprime mortgage collapse in the USA that led to a great recession for the economy worldwide (Silva et al., 2023).

The decade began with unprecedented FDI flows in 2000. Despite a notable decline in the first two years, there was steady growth from 2003 to 2007, leading to a new vigorous record of FDI flows in that latter year. However, due to the economic context of this period, the end of the decade saw a significant decrease when compared to the beginning. Remarkably, the reduction in FDI flows to developing countries was less severe when compared to the decrease experienced by developed countries. By the end of the decade, the USA was still the country with the most inflows and outflows, whereas the UK lost its position as the second one. Regarding developing countries, it was still the Asian continent that attracted more FDI (UNCTAD, 2010).

In terms of research done during this time span, Urata and Kawai (2000) conducted their study on the location determinants of Japanese manufacturing FDI by assessing the relevant determinants among various factors in both developed and developing countries and four types of industries. The major conclusions included the negative impact of wage costs on all countries and the negative impact of inflation in developing countries, while infrastructure and good governance of the host country positively influenced investment decisions. Market size was also significant, but negatively for developing countries, which the authors concluded that production in these regions is aimed at export rather than serving the local market. Additionally, skilled labour was a significant factor, positively influencing FDI in developed countries and negatively in developing ones. Lastly, the agglomeration of firms in the host country is also a key determinant in Japanese investment decisions (Urata & Kawai, 2000).

Zhang (2001) dedicated his research towards the location determinants of foreign investment in China, given the country's growing importance on the global stage of FDI inflows at the time. The author concluded that market size, labor quality, agglomeration effects, transportation network, fiscal incentives for FDI, cultural historical links with the investors and the market openness to foreign FDI were significant determinants of foreign investment in China. Notably, only the wage costs were shown to not impact foreign investment decisions. Additionally, the author divided the study period into three different periods and found that the importance of these determinants has increased over time, as their statistical significance increases in each subsequent time period (Zhang, 2001). Fung et al. (2005) investigated the impact of infrastructure and institutions on investment from the USA, Japan, Taiwan, Hong-Kong and Korea in China. The major conclusions of the study were that, for all countries except Korea, market size is a positive significant determinant, and the level of human capital positively impacts investment from the USA, Japan and Taiwan. Additionally, the wage costs were positively significant in the case of the USA and negatively in the case of Taiwan, and preferential tax policies positively influenced the foreign investment of the five countries. Focusing on infrastructure and institutions, the quality of infrastructure positively influences the foreign investment of all countries. However, the variable representing state-owned enterprises, used as a proxy for institutional quality and the legal system, had the most substantial influence. This proxy had a negative statistical sign, indicating that foreign investors prefer countries with established institutions and transparent legal systems (Fung et al., 2005).

Filippaios et. al (2003) studied the location determinants of USA FDI in Australia, New Zealand, Japan and Korea. When taking into consideration the full sample, the study showed that market size influences American investment positively, as well as, unit labor costs, which the author concluded that this might be related to a more skilled labor force. The growth of GDP and GDP per capita negatively impact FDI flows, leading to the conclusion that fast-growing host economies create an economic environment that is not favorable to FDI investors and that there are different consumer preferences between the investing country and the host country. The number of R&D personnel in the total employment population is negatively significant, just like openness to trade (Filippaios et. al, 2003).

In their research regarding Central and East European countries, Bellak and Leibrecht (2009) concluded that the home country size, the host country market size, common borders and privatization revenue have a positive influence on foreign investment in these countries. On the other hand, distance, bilateral effective tax rate and unit labour costs negatively impact this type of investment, with the last two variables being the most significant ones. Additionally, variables such as inflation and political stability did not show significant effects on foreign investment towards this region (Bellak & Leibrecht, 2009).

Fedderke and Romm (2006) devoted their research on the determinants of investment in South Africa and found that market sizes, openness of the economy, increased exports and political stability are significant factors that investors have positively in consideration when deciding whether to invest in the country, while corporate taxes, wage costs, and increased imports negatively affect those investment decisions. Sekka and Veganzones-Varoudakis (2007) centered their study on location determinants in developing countries and their conclusions indicate that wealth of the host country measured by GDP per capita, openness of the economy, infrastructure, political and institutional frameworks, and the economic risk are significant variables influencing foreign investment in developing countries.

Taking this into consideration, the studies of the first decade of the twenty-first century, similar to the preceding two decades, are still centered in many FDI determinants. It is particularly notable the increase in the attention given to institution and tax policies as key factors influencing foreign investment. Moreover, there are more studies that direct their research towards developing economies, especially outflows from Asian countries and inflows coming to these regions.

5.1.6 The Decade of 2010

The decade between 2010 and 2019 was characterized by several events that shaped the global economy. Right at the beginning of the decade, the worldwide economy experienced the effects of the European sovereign debt crisis, which was followed by the global financial crisis that marked the end of the previous decade, and many countries' debt ratings were downgraded (Francis et al. 2020). Another event that changed the global paradigm was the UK decision to leave the EU and the process of leaving, which meant that the country would no longer be part of the EU Single Market (Kren & Lawless, 2024). Additionally, at the end of the decade, the USA government-imposed trade barriers on Chinese imports, which led China to also impose trade barriers on USA products in return (Jiang et al., 2023).

In the beginning of the decade, FDI inflows continued the same trajectory as the end of the previous decade, steadily increasing until the year of 2014 and, between 2015 and 2016, FDI inflows reached its all-time peak. However, after 2016, the stock flows started to decrease, and the decade ended with values close to those of the beginning. In 2019, the USA still maintained its position as the country that receives the most FDI inflows. However, it was China that showed a higher level of FDI outflows (UNCTAD, 2021). Importantly, it was during this period that FDI towards developing countries gained even more expression, with the percentage going to these countries surpassing the percentage going to developed nations in 2014 and 2018. Inside the group of developing countries, the Asian continent, like in the previous decade, has higher values of FDI inflows than the African continent, Latin America and transaction economies (UNCTAD, 2019).

In their attempt to explore the impact of FDI in China on FDI flows towards East and Southeast Asian and Latin American economies, Chantasasawat et al. (2010) also examined the location determinants of foreign investment in these countries. For East and Southeast Asian, the authors found that openness to trade, the level of human capital, labor costs and the quality of infrastructure influence positively foreign investment, whereas tariff barriers and corporate taxes have the opposite effect. Policy variables such as government stability, corruption and law institutions were not found to be significant. As for Latin America countries, only the market size, and its growth, and tariff barriers do have a positive impact on FDI (Chantasasawat et al., 2010). Kang and Jiang (2012) examined in their study the location choice of Chinese FDI in East and Southeast Asia. In terms of economic factors, only unit labor costs were found to be statistically negatively significant. As for the institutional factors, there were four significant variables, in the sense that, economic freedom and bilateral trade impact positively foreign investment from China in East and Southeast Asian economies, while political differences and cultural distance influence negatively (Kang & Jiang, 2012).

Rodríguez and Bustillo (2011) examined the location determinants of Chinese investment in other countries and concluded that the host country market size, population, natural resources endowment, bilateral exports and openness to FDI are positive and impactful factors for Chinese investment, while the host country institutional framework, distance between countries and price deflator have a negative influence on this type of investment. Kolstad and Wiig (2012) also devoted their research to the determinants of outward Chinese FDI and concluded that the market size of the host country is significant as well as a combination of abundant natural resources and poor institutional quality.

In the case of Latin America, Sánchez-Martin et al. (2014) identified the determinants for foreign investment in this region, which include the stock of already existing FDI, the degree of trade openness, government stability, low short-term debt levels and balance of payment deficit, with the last two having a negative impact. For the African continent, Mijiyawa (2015) concluded that the factors that impact the most foreign investment are trade openness, political stability, market size and return on investment. Okafor et al. (2015) focused their research on the Sub-Saharan African countries and found that the rate of return of capital, the population skill level and trade openness have a positive impact on attracting foreign investment to the region while natural resources rent, such as fuel, corruption and inflation negatively affect investment.

Bellak et al. (2010) centered their work on foreign investment on three regions of the EU, concluding that the location determinants of FDI of those regions include low-skilled hours worked, effective tax rates on corporate profits, institutional barriers and high labor costs, whose impact are negative, while public R&D expenditures, communication and technology infrastructure influence investment positively. Villaverde and Maza (2015) also dedicated their research to determinants within the EU region, including a broader range of regions in their study. The conclusions of their study were that the market potential of the regions, measured by labor productivity, GDP per capita and wages were significant determinants. Additionally, technological progress, represented by R&D investment and personnel, along with competitiveness and openness were found to be significant factors. Labor market characteristics, such as the employment rate and activity rate, were also identified as variables investors have in consideration when deciding to pursue FDI in EU regions (Villaverde & Maza, 2015).

In the period between 2010 and 2019, developing countries were still the center of research regarding determinants of FDI and researchers continued to include a wide range of variables in their studies. One remarkable shift during this period is that, for developed nations, market factors that were once considered important, have diminished in statistical significance. Instead, R&D, communication and technological infrastructure and, to a certain extent, institutional quality have gained the most relevance. This shift demonstrates the evolving priorities and considerations for investors in developed economies, highlighting the increasing importance of innovation and advanced infrastructure.

5.1.7 The First Years of the Decade of 2020

Moving on to the most recent period, the years between 2020 and 2023 were impacted by important events such as the Covid-19 pandemic, whose implications caused a global recession (Gonçalves & Moro, 2023), and the conflict between Russia and Ukraine, which caused worldwide supply chain disruptions (Rose et al., 2023).

Having in consideration the economic context of the years mentioned above, 2020 was marked by a significant decline of FDI inflows when compared to the previous decade, whose explanation is in vast majority due to the pandemics and the uncertainty climate it created. Although in 2021 there was a slight recovery in those inflows, the following two years continued the downward trend. In terms of inflows, the two countries with the highest flows were still the USA and China. As for outflows, the USA regained its position as the country with the most FDI outflows, followed by Japan, while China came in third place showing a substantial decrease between 2023 and the end of the previous decade. It should be noted that during this time period, developing countries had a higher share of FDI inflows when compared to developing nations (UNCTAD, 2023, 2024).

Nam et al. (2020), in their study on the importance of micro institutions on FDI, concluded that, for both developed and developing countries, market size and growth, openness to trade, political stability, public services, laws and regulations and corruption are significant determinants. Bouchoucha and Benammou (2020) directed their study towards the influence of governance on FDI in the African continent. They concluded that political variables such as government efficiency, regulation quality, control of corruption and voice and accountability influence foreign investment in African countries. Additionally, factors such as taxes, infrastructure and agglomeration economies are also important for this type of investment (Bouchoucha & Benammou, 2020).

As for Hou et al. (2021), their study is focused on the drivers of FDI in China, and the authors were able to conclude that the market size, infrastructure quality, openness to trade, government expenditure and labor quality influence positively foreign investment in Chinese regions while wage costs impact negatively. Zhang and Kim (2022) explored the importance of institutional quality on FDI location decisions in the South and Southeast of Asia and found that institutional quality, such as government effectiveness, regulatory quality, political stability, control of corruption, and rule of law are important variables influencing investment decisions towards these countries. Additionally, the authors concluded that, while labor costs show a negative influence on FDI when the quality of institutions is not high, when quality level improves, these costs are no longer significant. Market size and infrastructure were also key factors in investment decisions in these countries (Zhang & Kim, 2022).

In terms of developed economies, Dellis et al. (2022) concluded that, for this type of economies, the drivers of FDI are based on economic and market structures, such as economic freedom and market regulation and efficiency, on the labor market efficiency and legislation and, on the framework of political institutions, such as the quality of governance, regulatory efficiency, rule of law and control of corruption.

In this last period under examination, there has been a significant emphasis on the role of institutions in influencing foreign investment flows. Additionally, as it was expected due to the amount of FDI flows going to developed countries, between 2020 and 2023, there continues to be a substantial attention directed towards understanding the location determinants of these countries and the determinant of their foreign investment.

Taking what has been studied into account, and focusing on recent years, companies' strategies have dramatically changed from the previous decades. While profitability remains a core objective, today's business enterprises place a higher emphasis on sustainability, innovation, efficiency, among others, rather than simply generating value (Ghaemi-Zadeh & Eghbali-Zarch, 2024; Jonsdottir et al., 2024; Poretti et al., 2024). This transformation is extremely important when analyzing the most recent location determinants of FDI. Low labor costs, that were once a vital factor in the decision making of firms investing abroad, are now greatly replaced by concerns regarding access and obtaining skilled, productive, and efficient labor forces. Furthermore, businesses operate in an increasingly fast and technology-driven world, where the protection of assets and intellectual property has become crucial. Consequently, the role of institutions and the legal frameworks becomes critical, as expected, since companies seek stable environments where their innovations can be protected. Additionally, the growing focus on sustainability reflects broader social and regulatory pressures for businesses to adopt responsible practices. Firms now seek investment locations that offer not only financial benefits but also alignment with environmental and social governance (ESG) standards. This trend has led to an increased emphasis on regulatory quality, institutional transparency, and the ability of host countries to support long-term sustainable growth, making these factors key considerations in contemporary FDI decision-making. Thus, the shift in business focus aligns with the changing determinants of investment locations, reflecting a more integrated approach to global business strategies.

To conclude this subchapter, it is evident that the determinants of location of FDI have evolved significantly in response to the changing global economic environment and shifts in technological and political frameworks. Thus, the understanding of this evolution is of great value to different stakeholders, including investors and governments. For policymakers, comprehending the shifts of FDI determinants from the previous traditional ones towards more complex ones is essential when formulating policies, to ensure those enhance the contemporary determinants. Due to the dynamic scenario of FDI, understanding how factors attracting FDI changed and are changing can be helpful to anticipate policies to attract FDI and have a proactive behavior. As for investors, understanding what a foreign investment will require in the host country is crucial to develop an effective business strategy and allocate the appropriate resources towards the investment. By having insights of previous research on the relation between FDI and different countries, they can make more informed decisions and create strategies that better align with the conditions and opportunities in their target markets.

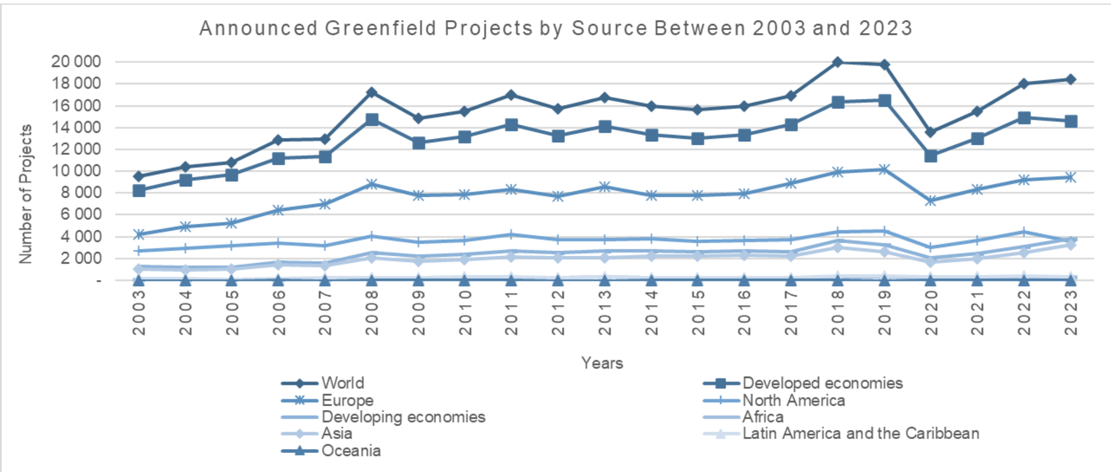
5.2 Determinants of Location Depending on the Type and Motive of Investment

When companies invest in foreign countries, they need to evaluate the most suitable entry mode for their expansion. This evaluation takes many factors into consideration, such as the market dimension, resource endowments, the labor market, among others, as enterprises might find in their best interest to choose exportation, licensing or FDI. Focusing specifically on FDI, and as previously mentioned in Chapter 3, when entering new countries there are two modes of entry, those being greenfield investment and mergers and acquisitions (Slangen & Hennart, 2007).

The number of announced greenfield FDI projects by source and by destination over the years of 2003 and 2022 are illustrated in Figures 5.1 and 5.2, respectively. It is possible to see that the number of deals announced in Figure 5.1 have been steadily growing since the beginning of the century, with the exception of the years of 2009 and 2020, where the global financial crisis and the Covid-19 pandemic, respectively, decreased FDI flows as previously seen. Due to data limitations, it was not possible to include the years of 2000, 2001 and 2002 in the table.

Figure 5.1

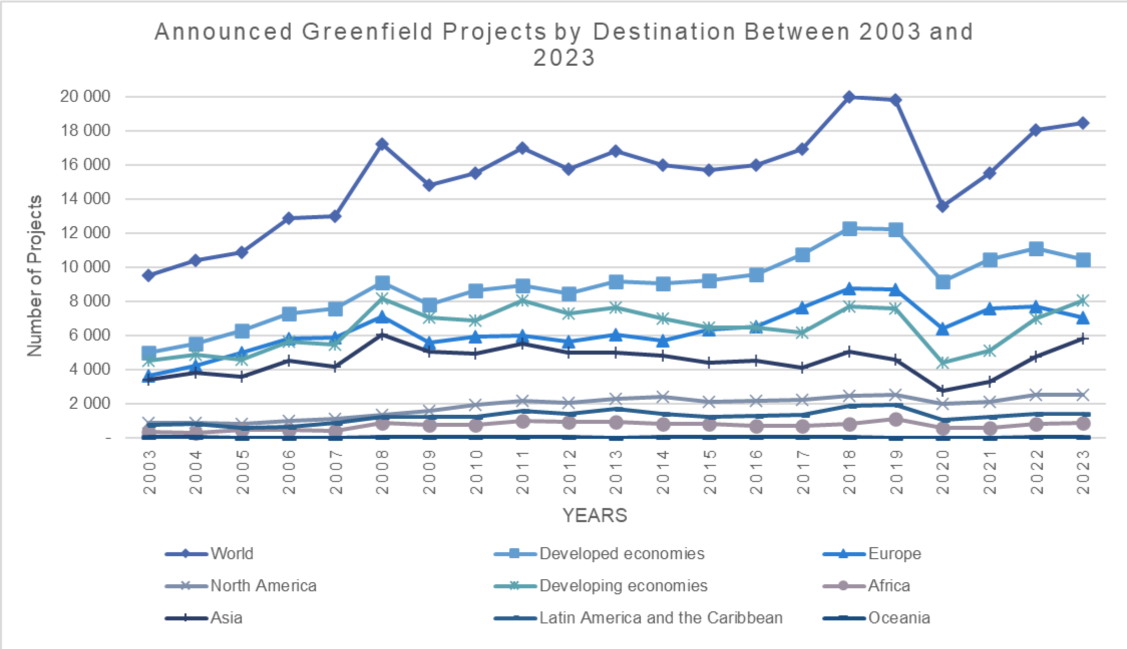
Number of Announced Greenfield FDI Projects by Source Region Between 2003 and 2023



Note. From World Investment Report 2024: Investment facilitation and digital government, by United Nations Conference on Trade and Development, 2024, United Nations.

Figure 5.2

Number of Announced Greenfield FDI Projects by Destination Region Between 2003 and 2023



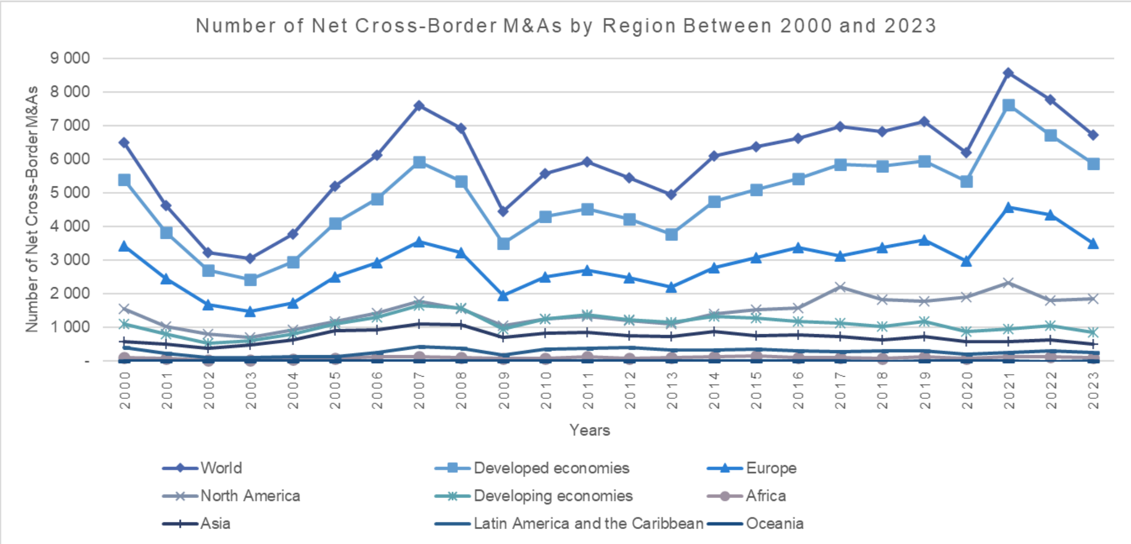
Note. From World Investment Report 2024: Investment facilitation and digital government, by United Nations Conference on Trade and Development, 2024, United Nations.

Geographically, developed countries have been the leading source of greenfield investment projects, with European countries contributing significantly. When considering the destinations of these investments, developed nations also receive a higher volume of greenfield projects. As for developing economies, the number of announced deals is significantly low in comparison. It should be noted that, until 2013, the number of projects announced between developed and developing countries were relatively close. However, the gap between the two widened after that year, although it seems that it has been narrowing again since the pandemic. Among developing regions, Asia stands out as the leading destination of greenfield projects.

Figure 5.3 depicts the number of net cross-border M&A's from 2000 to 2023. In contrast to the steady increase observed in greenfield investments, M&A activities have displayed significant fluctuations over this period. There was a significant decrease in the first years of the century, followed by a notable increase until the global financial crisis. After the decrease in 2009, there was a steady growth until the Covid-19 pandemics led to another decline. Developed countries account for about 80% of global M&A activities, with European nations exhibiting the highest number of net M&As among developed regions. Within developing economies, Asian countries lead in the number of net M&As.

Figure 5.3

Number of Net Cross-Border M&As FDI Projects by Region Between 2000 and 2023



Note. From World Investment Report 2024: Investment facilitation and digital government, by United Nations Conference on Trade and Development, 2024, United Nations.

Although there are many studies regarding the determinants of FDI as a whole, literature regarding location determinants depending on the type of investment is considerably less in comparison (Davies et. al, 2018; Moghadam et al., 2019; Alon et al., 2020). Nevertheless, there are some authors that devoted their research to the empirical study of the location factors that attract greenfield and M&A investments.

Alon et al. (2020) focused their research on the emerging markets multinationals enterprises from China investing abroad. One important aspect of their research is that, not only it tries to assess the determinants depending on the type of investment, but it also uses proxies for the seeking motives of FDI. Using greenfield investments as the dependent variable, the authors concluded that both the number of patent applications per capita, proxy for asset-seeking, and the ratio of ore and metal exports in the total of exports of the host country, proxy for resource-seeking, impact significantly and positively greenfield investments. Additionally, the GDP growth, used as a proxy for market-seeking, was found to have a significant, but negative effect for investments establishing new units. The variable output per worker, representing the strategic-seeking motive, was not significant in the study. Thus, the authors conclude that M&As are more closely tied to market-seeking motives, as these investments are often driven by the aspiration to acquire market shares, while greenfield investments are more inclined to internalize resources through resource-seeking and asset-seeking motives. Moreover, political stability is a significant factor for M&As, whereas greenfield investments are less affected by a distortion in the political and legal system (Alon et al., 2020).

Moghadam et al. (2019) dedicated their research towards the host country location determinants of six countries from the Association of Southeast Asian Nations and found that an increase of the exchange rate has a negative relation with greenfield investment, but a positive one for M&As. The same occurs regarding trade openness. Inversely, the market size of the investment destination positively impacts greenfield investment, whereas M&As decrease as the market expands. The authors justified their findings in the sense that a higher exchange rate leads to a subsequent decrease of a companies' value through currency devaluation, while a growth in the market size raises the foreign companies' values due to the growing economy. Additionally, they believe that greenfield investment is motivated by market-seeking which means that a higher degree of trade openness reflects in more competitors entering the market through imports reducing greenfield investment flows (Moghadam et al., 2019).

According to Davies et al. (2018), the quality of the institutional framework of the host country has a more crucial role is M&As when compared to greenfield investments. Additionally, the presence and development of financial institutions are more significant for M&As. In contrast, corporate taxes are particularly relevant for greenfield projects, while trade costs are more influential for M&As. Both types of investments are sensitive to market size factors. Furthermore, the technological level in the host country and economic instability have a negative impact on greenfield investments, but these factors do not affect M&As (Davies et al., 2018).

While analyzing investment data from Asia and Oceania, Nagano (2013) found that the size of the host country's market is positively significant, while the level of income and tax rates have a negative and significant influence on both M&As and greenfield investments. The author concludes that the income level of the host country has a negative effect on investment due to the correlation of this variable with labor cost, meaning that higher income levels are associated with higher labor costs, which indicates a preference for both types of FDI investment for low labor costs. Additionally, the institutional framework of the host country is also crucial in investment decisions as shown by the significance of the intellectual property rights legal environment for both

M&As and greenfield investment, and the importance of the shareholder rights legal environment for M&As (Nagano, 2013).

Neto et. al (2009) analyzed the key variables determining greenfield investments and M&As and obtained several insights. Firstly, they concluded that the growth rate of GDP, used as a proxy for the market growth of the host country, is positively significant for greenfield FDI, but not for M&As. Additionally, for greenfield investment, the market size and openness to trade is only significant if cultural distance is not considered. Nevertheless, those two variables are important in M&As' investment considerations. Investor protection was found to be significant solely for M&As, which demonstrates the importance of institutional variables to this type of investment. For both investments, the human development index, which is used as a proxy for human capital and infrastructure quality, is positively significant (Neto et. al, 2009).

Globerman and Shapiro (2005) focused their research solemnly on the determinants of M&As and concluded that the host country's size and governmental and regulatory framework are positive and significant factors influencing the investment decision. Additionally, di Giovanni (2005) used the same approach, conducting his study by only looking at the determinants of M&As. The author's main insights were that trade openness and trade agreements are crucial and positive for M&As, while taxes and the real exchange rate have a negative impact on this type of FDI (di Giovanni, 2005).

In conclusion, while there has been considerable research on the broader topic of FDI, there remains a significant gap in research regarding the distinct determinants for greenfield investment and M&As. Although these two types of foreign investment are not forgotten by scholars, the literature available regarding them focuses on their impact on the host country and the changes it provokes in the microeconomic and macroeconomic environment of that country. However, a deeper investigation into the specific factors that attract greenfield and M&A investments is still necessary. From the available literature it is possible to see that although some determinants are common between greenfield investments and M&As, there are distinct factors attracting these two types of investment. Another important aspect to note is that in some cases, one factor might be significant for both investments but with opposite effects.

This illustrates the importance of understanding profoundly which determinants play a pivotal role for each type of investment, as it can greatly influence the success of investment decisions. More research on these determinants and a deeper understanding would provide essential insights, enabling investors and policymakers to tailor their strategies according to the unique dynamics of each investment type, improving decision-making. For investors, this knowledge would enable more strategic allocation of resources, while for policymakers, it would inform the creation of targeted policies that effectively attract the desired form of FDI.

6. Conclusion

This dissertation examines the evolution of the determinants influencing the location of FDI from 1960 to 2023, while also assessing those determinants depending on the type of investment. To achieve this, a review of various FDI determinants was conducted primarily to evaluate the factors that attract FDI to host countries. This review revealed that the host country variables influencing FDI are diverse, meaning that it is not only the need for raw materials that attracts foreign investment, but also factors related to the market, economic conditions, infrastructure, political framework, and other significant elements.

Following the understanding of the variables that investors prioritize when selecting the most appropriate location for their foreign investment, a narrative literature review of empirical studies was chosen as the methodology to assess the evolution of the determinants of location between 1960 and 2023. To assess the location determinants depending on the type of investment, a rapid literature review was used between 2000 and 2023. However, these approaches carry certain limitations. Despite the databases chosen providing extensive coverage of the topic, some relevant and reliable articles that are not included in these databases, are automatically excluded from the analysis, which affects the comprehensiveness of the review. Furthermore, by limiting the review to the first fifty articles from each year and the first twenty-five articles for the three time periods previously mentioned, respectively, from each database, other significant studies might have been excluded that otherwise would be considered in a systematic literature review, leading to potential gaps in the analysis. Another limitation is that the definition of FDI has evolved during the years so data on FDI might have changed throughout that time, which affects the research results as some important variables might have been excluded and other variables not related to the theme included.

Based on the research done, it is evident that the determinants of location of FDI have evolved significantly in response to the changing global economic environment and shifts in technological and political frameworks. Initially, FDI decisions were predominantly influenced by the availability of natural resources and profit rates, however, over time, additional factors such as labor costs, economic stability, infrastructure, and political conditions have appeared and gained prominence in the research literature. In more recent discussions, institutional variables have emerged as significant determinants, reflecting their growing importance in investment decisions. The findings of this research align with the various theories of FDI explored in the literature review chapter, in the sense that early FDI theories emphasized natural resources and profit rates as drivers, which was also demonstrated by the findings of the empirical studies reviewed in the first decade. As the theories evolved to incorporate a broader range of determinants as explanations for FDI flows, the empirical studies reviewed also demonstrate those shifts in the determinants of FDI flows. This is particularly evident in the growing focus on institutional factors over the last two decades, which corresponds to the last FDI theory studied.

Thus, the understanding of this evolution is of significant value to different stakeholders, including investors and governments. For policymakers, comprehending the factors that have influenced the changing preferences of investors is critical in developing policies that create an attractive environment for FDI. Given that foreign investment takes place within a dynamic and competitive global stage, policymakers must remain vigilant to global trends and be strategic and innovative in their policy approaches to attract FDI. This proactive stance is essential for positioning their countries as favorable destinations for FDI. Furthermore, insights from past studies, particularly those examining the policies of developed countries, can serve as examples and inspirations for policymakers in developing nations. As developing countries continue to attract more FDI, understanding and learning from the strategies that have been effective in more established economies can help these emerging markets enhance their appeal to foreign investors.

Some of the considerations governments should have are the political relationships with other countries in terms of trade policies and integration in the world economy. Strong political and economic ties can create a more stable and predictable environment for foreign investors, which can be perceived as a key variable in investment decisions. Additionally, as technology advances, investing in human capital becomes increasingly important. Not only it fosters innovation, but it also attracts FDI to high-value and technological sectors rather than what used to be the traditional low-labor sectors of FDI. This shift might help position the country to compete in sectors that can be viewed as critical for future economic growth. Moreover, stimulating the country’s economy can create a loop of attracting FDI which, in turn, can help to stimulate the local economy. By implementing policies that enhance economic stability, infrastructure, and institutional quality, governments can create a conducive environment that not only draws in FDI but also leverages it to promote sustained economic growth and development.

On the other hand, for investors, a thorough understanding of the necessary resources and factors is essential to identify the optional investment location and develop effective business strategies. This involves not just an awareness of current economic conditions but also a deep understanding of the historical and emerging trends that have shaped FDI flows over time. By examining empirical examples of other companies' experiences in different countries, investors can draw more informed conclusions and refine their approaches. These case studies offer practical insights on what has worked, and what has not, in different regions, industries, and political environments. This knowledge not only aids in navigating the complexities of global investment but also enhances the potential for achieving sustainable and profitable outcomes.

Understanding the evolution of FDI determinants also enables investors to anticipate future trends and shifts in the global economy. For example, recognizing the increasing importance of factors such as institutional quality, technological infrastructure, and human capital development can guide investors toward countries that are likely to become more attractive in the coming years. As technology continues to drive global business operations, having access to cutting-edge technological infrastructure and skilled labour is becoming increasingly vital for companies seeking to maintain competitiveness and foster innovation. Moreover, this knowledge equips investors to better assess and mitigate risks associated with international investments. By understanding how different determinants have impacted FDI in the past, investors can identify potential challenges and opportunities in their target markets. In addition to risk management, understanding the evolution of FDI determinants can enhance investors' ability to align their investments with broader corporate goals, such as sustainability and corporate social responsibility (CSR). As global emphasis on sustainable development and ethical business practices grows, being aware of how these factors influence FDI can help investors choose locations that not only promise financial returns but also align with their values and long-term objectives.

Taking into consideration the distinct determinants depending on the type of investment, there is a notable gap in the literature regarding this subject. While these two types of foreign direct investment are widely researched, most studies focus on their impact on the host country's economic environment rather than the specific factors that drive each type of investment. This proved to be a limitation to the present dissertation as it prevented a comprehensive analysis of the determinants for each type of investment due to the insufficient literature available on this subject. Therefore, it was not possible to draw a proper conclusion regarding this topic. Nevertheless, from the available literature, it was evident that not all determinants are equal between the two types of investment. While some variables influence both greenfield investments and M&As, many others are specific to one or the other. In some cases, the same factor can have opposing effects on each investment type, highlighting the complexity of these investment decisions.

Thus, the most important conclusion drawn from this literature review is the need for more research focused on the specific determinants of location depending on the type of investment. By filling this gap in research, scholars could provide invaluable insights that improve the overall effectiveness and success of international investment strategies. A deeper understanding of these factors would be highly beneficial for both businesses and governments. Governments benefit from this understanding as it aids in shaping policies that attract the desired kind of foreign investment. By recognizing the determinants that drive specifically greenfield investments or M&As, governments can tailor their incentives, regulatory frameworks, and support systems to attract investments that align with their economic goals. For instance, fostering greenfield investments may be prioritized in regions where job creation and infrastructure development are needed, while promoting M&As might be more suitable in sectors where modernization and technological advancement are critical. For companies, it enables them to tailor investment strategies that align with their growth objectives, whether pursuing long-term control through greenfield projects or rapid market entry via M&As. This insight aids in optimal resource allocation and it also enhances risk management by addressing the specific uncertainties associated with each investment type. Moreover, this understanding allows companies to strategically leverage their investments for competitive advantage, innovation, and growth, while also facilitating the formation of beneficial partnerships and alliances. By applying these insights, companies can effectively navigate their strategic choices, improve financial performance, and strengthen their market position.

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