ECONOMIC AND CULTURAL DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN EU COUNTRIES. EVIDENCE FROM 2019 AND 2023

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Abstract

This study examines the economic and cultural determinants of foreign direct investment (FDI) inflows across European Union countries, with a comparative focus on 2019 and 2023. The analysis is based on a cross-sectional dataset covering the 27 EU member states and combines economic indicators with a cultural variable derived from Hofstede's framework, namely the Uncertainty Avoidance Index (UAI). The research aims to identify whether structural country characteristics help explain the distribution of FDI inflows and whether their explanatory power changes between a relatively stable period and a more uncertain economic context. The empirical approach includes descriptive analysis, thematic mapping, Pearson and partial correlation analysis, and Ordinary Least Squares (OLS) regression models estimated separately for each year. The results show that in 2019, economic development and cultural attitudes toward uncertainty were significantly associated with FDI inflows, suggesting that more developed and institutionally predictable environments were more attractive to foreign investors. In contrast, for 2023, the estimated relationships are weaker and statistically insignificant, while the overall explanatory power of the model declines. These findings suggest that traditional structural determinants of FDI may become less informative during periods of increased global uncertainty, when investment decisions are more strongly influenced by volatility, corporate restructuring and broader geopolitical conditions. The study contributes to the literature by integrating economic and cultural variables within the same empirical framework and by highlighting the changing relevance of FDI determinants across different economic contexts.

Keywords: *FDI; European Union; annual earnings; uncertainty avoidance; cultural determinants; OLS regression; cross-country analysis*

JEL classification: F21, F23, Z10

1.Introduction

Foreign direct investment (FDI) plays an important role in the economic development of both developed and emerging economies. By bringing external capital into host countries, FDI contributes to capital formation, facilitates technology transfer and supports productivity improvements across sectors. In addition, foreign investments can stimulate employment creation and strengthen the integration of national economies into global value chains. This enables firms to access international markets and modern production networks. Within the European Union (EU), FDI has a particularly important role, as member states operate within a common economic and institutional framework while simultaneously competing to attract international investors. Differences in labour market conditions, institutional quality and economic structures may therefore influence the distribution of foreign investments across EU countries.

Although traditional studies emphasize macroeconomic determinants such as market size, economic growth or trade openness, the investment decisions of multinational firms are influenced by a broader set of factors. Investors may respond not only to economic conditions but also to institutional stability, labour market characteristics and cultural features that shape the predictability of the business environment and the perceived level of risk. These aspects are particularly relevant in the EU, where countries share a common market but differ in their labour costs, institutional environments and economic structures. In recent years, global developments

have further increased the uncertainty surrounding international investment flows. The COVID-19 pandemic, followed by geopolitical tensions and the energy crisis in Europe, has affected global economic activity and investment decisions, making FDI flows more volatile and less predictable.

The determinants of FDI have been large analysed in the economic literature, most empirical studies focus primarily on macroeconomic or institutional variables, such as economic growth, governance indicators or taxation. Fewer studies combine economic and cultural determinants within a comparative framework, particularly in the context of EU countries. Cultural characteristics may influence investors' perceptions of risk and institutional predictability, yet they remain relatively underexplored in empirical models of FDI. Moreover, relatively limited attention has been given to comparing investment patterns across different economic contexts using the same analytical framework, especially when contrasting relatively stable pre-crisis periods with years characterised by economic and geopolitical disruptions. This gap motivates the present study, which investigates the role of economic and cultural factors in explaining FDI inflows across EU countries in 2 different years, 2019 and 2023. By examining these two years, the paper explores whether the factors associated with FDI inflows remain stable aftershocks or whether their explanatory power changes in a more uncertain economic environment. To achieve this aim, several objectives are pursued. First, the study describes the spatial distribution of FDI inflows across EU member states. Second, it examines the bivariate relationships between FDI and selected explanatory variables. Third, the analysis tests whether economic and cultural factors explain the variation in FDI inflows across EU countries in both 2019 and 2023. Finally, the study assesses whether the explanatory power of the estimated model changes between the two years.

Based on the existing literature, we formulate the following research hypotheses.

H1: Higher annual earnings are associated with higher FDI inflows in EU countries.

H2: Cultural characteristics, proxied by the Uncertainty Avoidance Index (UAI), are associated with FDI inflows across EU member states.

H3: The explanatory power of economic and cultural determinants of FDI is weaker in 2023 than in 2019.

The hypotheses are tested using cross-sectional regression models, which are estimated separately for each of the two reference years.

This study contributes to the literature on the determinants of FDI in several ways. First, it combines economic and cultural variables within the same empirical framework, allowing a more comprehensive analysis of the factors associated with FDI inflows. Second, the analysis focuses exclusively on European Union countries, which operate within a common institutional and economic space but display significant differences in labour market conditions and cultural characteristics. Third, the study compares two different years, providing insights into how the determinants of FDI may behave across different economic contexts. Finally, the results highlight the possibility that traditional determinants of foreign investment may behave differently in relatively stable economic environments compared with periods characterised by higher uncertainty and global economic disruptions.

II. Literature Review

2.1. The concept and importance of FDI

FDI represents a form of international investment through which an investor from one country obtains a lasting interest and a significant degree of influence in the management of an enterprise located in another country (Islam and Beloucif, 2024). Unlike portfolio investment, which generally involves the purchase of financial assets without managerial control, FDI implies

a long-term relationship between the investor and the host economy and often includes the transfer of capital, technology and managerial expertise (Rafidi and Verikios, 2022).

In the literature, a distinction is commonly made between FDI flows and FDI stocks. FDI flows refer to the value of cross-border investment transactions recorded during a specific period, usually measured on an annual basis. They capture the new investments entering or leaving a country within that period and therefore reflect short-term dynamics of international capital movements (Bruno et al., 2021). In contrast, FDI stocks represent the cumulative value of foreign investments accumulated over time in a host economy. This indicator provides a broader picture of the total presence of foreign capital in a country (Otieno and Aduda, 2022).

In practice, FDI flows may reflect different types of economic activities. In many cases, they correspond to productive investments meant at establishing or expanding business operations, such as building new production facilities or acquiring existing firms (Walsh and Yu, 2010). However, particularly in some European economies that function as international financial hubs, FDI flows may also reflect financial reallocations within multinational corporate structures (Gupta and Singh, 2016). As a result, the interpretation of FDI data requires careful attention of the economic and institutional context in which these investments happen.

2.2. Determinants of FDI

The literature on FDI identifies a large range of factors that may influence the location decisions of multinational firms. Traditional economic theories show the importance of market size, labour costs, trade openness and taxation in shaping the attractiveness of host countries. Larger markets can offer bigger demand potential for foreign companies (Islam and Beloucif, 2024), while trade openness facilitates access to international markets and integration into global production networks (Gülcü, 2024; Ozturk and Nagayev, 2024; Makhrout and Hbibi, 2025). Taxation policies may also influence investment decisions, as multinational firms often consider fiscal conditions when selecting investment locations (Makhrout and Hbibi, 2025). Other factors such as institutional quality (Lucke and Eichler, 2015), productivity levels and human capital have gained increasing attention in recent studies. However, the relationship is not always direct. Some research indicates that foreign investors may be attracted to developing countries with less regulatory burden or even higher levels of corruption, possibly to avoid bureaucratic work, a phenomenon known as the "helping hand" theory of corruption (Lucke and Eichler, 2015). Countries with higher productivity and better-educated workforces may attract foreign investors looking for advanced production capabilities and innovation potential Das, 2016). As a result, the determinants of FDI are generally understood as a combination of economic, institutional and structural factors that jointly influence the investment environment.

Between determinants discussed in the literature, labour-related factors play an important role in explaining foreign investment decisions (Sahiti et al., 2018). Indicators such as annual earnings, compensation of employees and overall labour costs provide information about the conditions of the labour market in the host economy. In many cases, lower labour costs can attract efficiency-seeking investments, particularly in industries that rely on cost advantages and labour-intensive production (Janicki and Wunnava, 2004). However, higher wage levels do not necessarily discourage foreign investors. In more advanced economies, higher earnings may reflect greater labour productivity, better skills and more developed economic structures (Walsh and Yu, 2010). In these cases, multinational firms may be interested in accessing a more qualified workforce and higher levels of technological capability (Jamolovich, 2016). For example, while a weaker real exchange rate (associated with lower wages) attracts manufacturing FDI, a stronger exchange rate (associated with higher relative wages and profits) is linked to more investment in

the tertiary or services sector (Walsh and Yu, 2010). Studies on Japanese FDI in Asia show that an increase in the host country wage rate decreases FDI determines an increase in Japan's wage rate, highlighting that the labour cost differential is a determinant. Furthermore, the productivity differential between the home and host country also plays a role across different sectors (Baek and Okawa, 2001). Therefore, labour market indicators can capture both cost-related and productivity-related aspects of the investment environment.

Institutional factors are frequently cited in academic discourse as significant influences on FDI. Investors typically favour nations characterized by stable and predictable regulatory frameworks, wherein rules are explicitly articulated and administrative processes are efficient (Dorożyński et al., 2019). Studies show that specific institutional dimensions influence FDI inflows. For instance, factors such as regulatory quality, control of corruption, political stability, government effectiveness, and rule of law are considered key determinants (Gülcü, 2024) (Dorożyński et al., 2019). Research on Central and Eastern European countries reveals a moderate positive correlation between institutional quality and FDI inward stock as a percentage of GDP (Dorożyński et al., 2019). Similarly, analysis of SAARC nations indicates that regulatory quality, control of governance, and political stability are significant and effective determinants of FDI inflows (Kumar et al., 2025). These findings underscore that a sound institutional framework, characterized by effective rule of law, a good business climate, secure property rights, and market-friendly norms, better positions countries to attract investment (Dorożyński et al., 2019). These dimensions are often assessed using indicators pertaining to government effectiveness and the overall quality of institutions. Efficient public institutions can mitigate transaction costs for businesses, enhance regulatory enforcement, and cultivate a more dependable business climate. Furthermore, less administrative uncertainty could encourage long-term investments, given that multinational corporations often avoid environments with unstable or unpredictable regulations. As a result, the quality of institutions is often seen as a key factor in how attractive a host economy is to foreign investors.

In addition to economic and institutional factors, cultural characteristics may also influence foreign investment decisions. Cultural differences can shape how economic actors perceive risk, uncertainty and business relationships. One of the most widely used frameworks for analysing national cultural differences is the model developed by Hofstede, which identifies several cultural dimensions that vary across countries. Among these dimensions, uncertainty avoidance is particularly relevant in the context of investment decisions. The Uncertainty Avoidance Index (UAI) reflects the extent to which societies prefer structured situations and clear rules when dealing with uncertain environments. In the context of foreign investment, cultural attitudes toward uncertainty may influence the perceived stability and predictability of the host economy (Silajdzic and Mehic, 2020). Studies suggest that when FDI flows from a country with high uncertainty avoidance to one with low uncertainty avoidance, acculturative stress increases, which can reduce FDI. Conversely, when investment flows from a low-UAI country to a high-UAI one, there tends to be less stress because the organizational hierarchy is consistent with the values of both the parent and subsidiary companies. (Tang, 2012) Empirical analysis indicates that higher levels of uncertainty avoidance in a host country have a negative impact on FDI inflows. (Silajdzic and Mehic, 2020)

In this study, only this cultural dimension is considered. This choice is motivated by small sample size and the need to maintain a parsimonious empirical model. Moreover, uncertainty avoidance is conceptually the dimension most directly related to perceptions of risk and institutional predictability, which are important aspects in international investment decisions.

2.3. FDI in the European Union

FDI the EU has several particular characteristics that distinguish it from other regions of the world. The EU represents a highly integrated economic area, where member states operate within a common market that ensures the free movement of goods, services, capital and labour. This institutional integration reduces many barriers to cross-border investment and creates a relatively stable framework for multinational firms. Studies show that EU membership correlating to a 60% increase in external FDI and a 50% rise in intra-EU investments (Bruno et al., 2021). At the same time, however, important differences remain between EU countries in terms of wage levels, taxation systems, productivity and overall economic structure. These differences may influence the location decisions of foreign investors, as firms may seek cost advantages, either access to skilled labour or proximity to larger consumer markets depending on their investment strategy (Brahim and Dupuch, 2016).

Another important aspect is that some European economies play a specific role in international financial networks. Certain countries act as financial hubs or centres used by multinational corporations for investment structuring and tax optimisation. Several studies highlight that institutional quality is a primary determinant of FDI inflows, often outweighing purely economic factors. For multinational corporations, a stable and predictable institutional environment reduces transaction costs and uncertainties, making a country more attractive for investment (Gülcü, 2024). This environment is characterized by factors such as the rule of law, government stability, low corruption, property rights protection, and regulatory quality (Dorożyński et al., 2019). As a result, recorded FDI flows may sometimes reflect financial transactions within multinational groups rather than purely productive investments in the domestic economy. This can lead to unusually large investment values for some countries and may influence the interpretation of FDI statistics in comparative analyses. For this reason, the analysis of FDI in the European Union requires careful consideration of the structural and institutional characteristics of member states.

2.4. Literature gap and position of the present study

In literature, some aspects remain relatively underexplored, particularly in the context of EU countries. Much of the existing research focuses on macroeconomic variables or institutional indicators, while fewer studies examine the combined role of labour-related and cultural factors in shaping FDI inflows.

The present study aims to contribute to this discussion by integrating both labour market and cultural dimensions within the same analytical framework. In particular, the analysis focuses on annual earnings as a labour-related indicator and on uncertainty avoidance as a cultural characteristic that may influence investors' perceptions of risk and predictability. The research concentrates on EU countries, which share a common institutional and economic framework but continue to display considerable structural differences. Furthermore, by comparing two different years, 2019 and 2023, the study seeks to examine whether the relevance of these determinants remains consistent over time or whether it changes in a more uncertain economic environment.

III. Data and Methodology

3.1. Data used

This study investigates the determinants of FDI inflows across EU member states. The analysis is based on a cross-sectional dataset including 27 EU countries, which represent the complete set of member states of the European Union during the analysed period. Two reference years are considered in the empirical analysis: 2019 and 2023. The selection of these two years allows a comparison between different economic contexts. The year 2019 is used as a benchmark representing a relatively stable period before the major global disruptions generated by the

COVID-19 pandemic. By contrast, 2023 reflects a more recent economic environment characterized by post-pandemic adjustments, geopolitical tensions and energy market instability within Europe. By comparing these two years, the study aims to explore whether the determinants of foreign direct investment remain stable over time or whether their explanatory power changes in a more volatile economic environment.

The empirical analysis combines data from several international statistical databases it can be seen in table 1. Using multiple sources allows the construction of a dataset that captures economic, labour market and cultural aspects potentially relevant for foreign investment decisions. Data on foreign direct investment inflows and several macroeconomic indicators were obtained from the World Bank World Development Indicators database. Labour-related indicators were collected from Eurostat, which provides harmonized statistics for European Union member states. The cultural indicator included in the analysis is based on the Hofstede cultural dimensions database, which is widely used in comparative economic and management studies.

Table 1. Variables used in the empirical analysis

Variable	Description	Source
FDI inflows	Foreign direct investment inflows (current US$)	World Bank
UAI	Uncertainty Avoidance Index (Hofstede cultural dimension measuring tolerance for uncertainty and preference for structured rules)	Hofstede Insights
GDP per capita	GDP per capita, purchasing power parity (current international dollars)	World Bank
Trade openness	Ratio of total trade (exports + imports) to GDP	World Bank
Government effectiveness	Indicator of the quality of public services and institutional effectiveness	World Bank – Worldwide Governance Indicators
Compensation of employees	Compensation of employees as a percentage of government expenditure	World Bank
Taxes	Taxes on income, profits and capital gains (% of total taxes)	World Bank
Annual earnings	Annual net earnings (Euro) for a representative household structure	Eurostat

Source: author processing

The empirical analysis focuses on both economic and cultural determinants of foreign direct investment. The selection of explanatory variables is motivated by theoretical considerations from the literature on international investment and by the availability of comparable data across EU countries.

The main economic variable included in the final empirical model is annual earnings. This indicator is used as a proxy for labour market conditions across countries. Although wage levels are often interpreted as reflecting labour costs, they may also capture broader aspects such as labour productivity, workforce skills and the overall level of economic development. Higher earnings may signal the presence of more productive and better-qualified labour forces, which can attract multinational firms seeking efficiency, technological capabilities or higher value-added production activities.

The cultural dimension included in the analysis is the Uncertainty Avoidance Index (UAI) developed by Hofstede. This indicator measures the degree to which members of a society feel uncomfortable with uncertainty and ambiguity (Hofstede, 2001). In the context of foreign investment decisions, uncertainty avoidance may serve as a proxy for the predictability of institutional and regulatory environments. Countries with higher levels of uncertainty avoidance

are often characterized by more structured rules, formal procedures and clearer institutional frameworks, which may reduce perceived risks for foreign investors.

Given the relatively small sample size consisting of 27 EU countries, the analysis includes only one cultural indicator. The UAI dimension was selected because it is directly related to risk perception and predictability, factors that are particularly relevant for multinational firms when choosing investment locations. Additional variables considered in the preliminary analysis

In the exploratory phase of the analysis, several additional variables commonly used in the literature on FDI determinants were also examined. These include:

- GDP per capita, reflecting the level of economic development and market potential;
- trade openness, capturing the degree of integration into international markets;
- government effectiveness, measuring institutional quality;
- tax indicators, related to fiscal policy;
- compensation of employees, representing labour market costs.

However, the final empirical specification retains only the variables that produced the most stable and interpretable model, while the additional indicators were used primarily in descriptive and correlation analyses.

3.2. Descriptive analysis

The empirical analysis begins with a descriptive examination of the dataset in order to provide an overview of the main characteristics of the variables included in the study. This stage includes the calculation of summary statistics, such as the mean, standard deviation, minimum and maximum values for each variable. These indicators help illustrate the extent of variation across European Union countries and allow a preliminary understanding of the distribution of the data.

In addition to numerical statistics, the descriptive analysis also includes thematic maps illustrating the spatial distribution of foreign direct investment inflows across EU member states. These maps provide a visual representation of how FDI is distributed across the European Union and highlight the existence of substantial differences between countries. Such differences often reflect variations in economic size, development levels and the role of certain economies as international investment or financial centres.

Finally, the descriptive stage includes an initial correlation analysis between the dependent variable and the explanatory variables. This step helps identify potential associations between foreign investment flows and the selected economic or cultural indicators before proceeding to more formal econometric estimation.

3.3. Correlation analysis

In order to explore the relationships between the variables included in the study, the analysis first employs Pearson correlation coefficients (Wooldridge, 2010). Pearson correlations allow the examination of bivariate relationships between foreign direct investment inflows and the selected explanatory variables, providing a first indication of whether these variables tend to move together across EU countries. The complete correlation matrices can be seen in annexes 1 and 2.

However, simple correlations may sometimes reflect indirect relationships driven by other factors, such as differences in economic development between countries. For this reason, the analysis also considers partial correlation coefficients, which measure the association between two variables while controlling for the influence of another variable (Wooldridge, 2010). In this study, partial correlations are used to examine the relationship between FDI and selected explanatory variables while controlling for GDP per capita, which captures differences in the level of economic

development across European Union countries. This approach allows a clearer assessment of the net relationships between the variables before estimating the regression models.

3.4. Econometric model

To examine the relationship between FDI inflows and the selected explanatory variables, the study estimates a cross-sectional regression model. The empirical specification aims to capture the potential influence of both economic and cultural factors on the distribution of FDI across EU countries.

The general form of the estimated model is the following:

$$FDI_i = \beta_0 + \beta_1 UAI_i + \beta_2 AnnualEarnings_i + \varepsilon_i$$

where:

- FDI_i represents foreign direct investment inflows in country i,
- UAI_i is the Uncertainty Avoidance Index capturing cultural attitudes toward uncertainty,
- $AnnualEarnings_i$ represents labour market conditions measured through annual earnings,
- β_0 is the constant term,
- β_1 and β_2 are the estimated coefficients,
- ε_i is the error term.

This specification reflects a parsimonious modelling strategy that combines economic and cultural determinants of foreign investment. The selection of a limited number of explanatory variables is motivated by the relatively small sample size of the study, which includes only 27 observations corresponding to EU member states.

It is important to note that the estimated models should be interpreted with caution, as the explanatory power of the regressions remains relatively modest. However, even models with limited explanatory power may provide useful insights into the potential relationships between structural country characteristics and foreign investment flows. In cross-country analyses, particularly with small samples and highly volatile variables such as FDI, it is common for regression models to capture only a portion of the underlying variation (Chakrabarti, 2001). The estimated relationships may still reveal meaningful patterns and help identify factors that are associated with the distribution of investment across countries.

The empirical analysis employs Ordinary Least Squares (OLS) cross-sectional regression models. This estimation method is appropriate given the structure of the dataset, which consists of observations across countries for specific years rather than a long time series. OLS is widely used in empirical studies analysing the determinants of foreign direct investment because it allows a straightforward interpretation of the relationships between the dependent variable and the explanatory factors. In this study, the objective is primarily explanatory, aiming to explore potential associations between structural country characteristics and FDI inflows rather than to generate precise forecasts. Furthermore, the regression models are intentionally kept parsimonious, including only a small number of explanatory variables. This approach helps reduce the risk of overfitting and is particularly important given the limited number of observations available in the dataset (Wooldridge, 2010).

Several diagnostic checks are performed to ensure the reliability of the estimated models. First, potential multicollinearity between the explanatory variables is assessed using the Variance Inflation Factor (VIF). The results indicate that multicollinearity is not a major concern in the estimated specifications. Second, the analysis considers the potential influence of extreme observations in the dataset. Since foreign direct investment flows can display unusually large positive or negative values in some countries, extreme cases were examined and, where necessary,

excluded in order to avoid distortions in the regression results. Finally, the overall quality of the estimated models is evaluated using standard indicators such as the coefficient of determination (R^2), the adjusted R^2, and the statistical significance of the ANOVA test. These indicators provide information on the explanatory power of the models and the overall relevance of the included variables (Wooldridge, 2010).

IV. Results

4.1. Descriptive statistics

Table 2 presents the descriptive statistics of the main variables included in the analysis for EU countries in 2019. The results indicate a substantial variation in foreign direct investment flows within the sample. The mean value of foreign direct investment flows is around US$21.56 billion, while the standard deviation is considerably higher, reflecting a high dispersion of investment flows across countries. The minimum value is negative, indicating net disinvestment in some economies, while the maximum value exceeds US$163 billion, suggesting that certain countries attract significantly higher levels of foreign capital.

Table 2. Descriptive statistics of the main variables (EU countries, 2019)

Variable	Mean	Std. Deviation	Minimum	Maximum	Skewness
FDI (current US$)	21,562,163,857	50,890,141,576	-127,785,000,000	163,718,000,000	0.254
UAI	72.81	21.27	23	100	-0.826
GDP per capita (US$)	49,240.63	19,896.63	26,765.72	121,371.74	2.210
Trade openness (%)	135.20	69.69	58.69	382.66	1.975
Government effectiveness	1.016	0.553	-0.215	1.973	-0.192
Compensation of employees (%)	16.37	6.82	6.10	30.70	0.267
Taxes on income, profits and capital gains (%)	38.09	12.61	10.86	56.34	-0.510
Annual earnings (PPS)	73,547.21	40,865.02	23,861.77	146,225.12	0.413

Note: *FDI is measured in current US dollars. The sample includes EU member states for the year 2019.*
Source: author processing in SPSS

The explanatory variables also show differences across EU Member States. The uncertainty avoidance index has a mean value of 72.81, with values ranging from 23 to 100, indicating considerable cultural variation across countries in attitudes towards uncertainty and risk. Economic indicators such as GDP per capita and trade openness also show significant dispersion. GDP per capita ranges from around 26,700 to over 121,000 US dollars, while trade openness ranges from around 59% to over 380%, reflecting differences in economic size, structure and degree of integration into international trade.

Labour force variables further illustrate the diversity of economic conditions across the European Union. Annual earnings range widely from around 23,800 to over 146,000 units, highlighting differences in labour market conditions and productivity levels across countries. Similarly, compensation of employees and taxation indicators show moderate variation within the sample. This suggest that EU Member States differ in terms of economic structure, labour market characteristics, and institutional conditions, which may influence the distribution of foreign direct investment across countries. Studies on Foreign Direct Investment (FDI) in European Union countries reveal significant diversity in economic, institutional, and cultural landscapes. Research on transition economies, for instance, highlights that cultural factors, such as those described by Hofstede's cultural dimensions, can be more influential than formal institutions in attracting FDI (Silajdzic and Mehic, 2020). An analysis of EU15 countries shows that a 1% increase in the logarithm of FDI as a percentage of GDP can lead to a GDP increase of between 0.1226% and

0.4398% in the long run, although the overall evidence for FDI's impact on GDP is considered weak (Bilas, 2020).

Table 3. Tests of normality for the main variables (EU countries, 2019)

Variable	Kolmogorov–Smirnov (Sig.)	Shapiro–Wilk (Sig.)	Normal distribution
FDI	0.003	0.000	No
UAI	0.200	0.054	Yes
GDP per capita	0.023	0.000	No
Trade openness	0.020	0.000	No
Government effectiveness	0.200	0.757	Yes
Compensation of employees	0.200	0.492	Yes
Taxes	0.200	0.249	Yes
Annual earnings	0.002	0.001	No

Note: *For samples smaller than 50 observations, the Shapiro–Wilk test is generally considered more appropriate for assessing normality.*
Source: author processing in SPSS

Table 3 presents the results of the normality tests for the variables included in the analysis. According to the Shapiro-Wilk test, which is more appropriate for small samples (Laerd Statistics, 2018), some variables deviate from a normal distribution. This result reflects the differences in economic size and investment patterns across EU countries. In contrast, variables such as UAI, government effectiveness, compensation of employees and taxes do not show significant deviations from normality. The results suggest that some economic indicators present asymmetric distributions, which is common in cross-country datasets.

Table 4 presents the descriptive statistics of the main variables for EU countries in 2023. The results indicate a high variation in foreign direct investment inflows across the sample. The average value of FDI is negative, reflecting the presence of significant disinvestment flows in some countries. At the same time, the large standard deviation and the strong negative skewness suggest the existence of extreme values in the distribution of investment flows.

Economic indicators such as GDP per capita and trade openness also show dispersion across EU member states, highlighting differences in economic development and integration into international markets. Labour-related variables, including annual earnings and compensation of employees, display noticeable variation as well, reflecting diverse labour market conditions within the European Union. These results confirm the strong heterogeneity among EU countries in terms of economic structure and labour market characteristics.

Table 4. Descriptive statistics of the main variables (2023)

Variable	Mean	Std. Deviation	Minimum	Maximum	Skewness
FDI (current US$)	-9,501,752,168	76,899,272,236	-343,403,000,000	77,438,957,875	-3.515
UAI	72.81	21.27	23	100	-0.826
GDP per capita (US$)	63,487.83	25,100.38	38,829.19	150,508.22	2.352
Trade openness (%)	140.36	69.44	65.11	402.57	2.209
Government effectiveness	0.951	0.577	-0.093	2.016	0.040
Compensation of employees (%)	16.02	5.87	7.15	27.22	0.394
Taxes on income, profits and capital gains (%)	43.39	11.96	14.16	57.14	-0.974
Annual earnings (PPS)	88,241.88	44,103.05	35,358.03	173,740.91	0.536

Note: *FDI is measured in current US dollars. The sample includes EU member states for the year 2023.*
Source: author processing in SPSS

Table 5 presents the results of the normality tests for the variables included in the analysis for the year 2023. According to the Shapiro–Wilk test, several variables, including FDI, GDP per capita, trade openness and annual earnings, deviate from a normal distribution. This outcome reflects the considerable economic differences among EU countries and the presence of extreme values in some indicators, particularly in the case of FDI flows. By contrast, variables such as uncertainty avoidance, government effectiveness, compensation of employees and taxes do not show significant deviations from normality. The results indicate that some economic variables display asymmetric distributions, which is common in cross-country datasets characterised by heterogeneous economic structures.

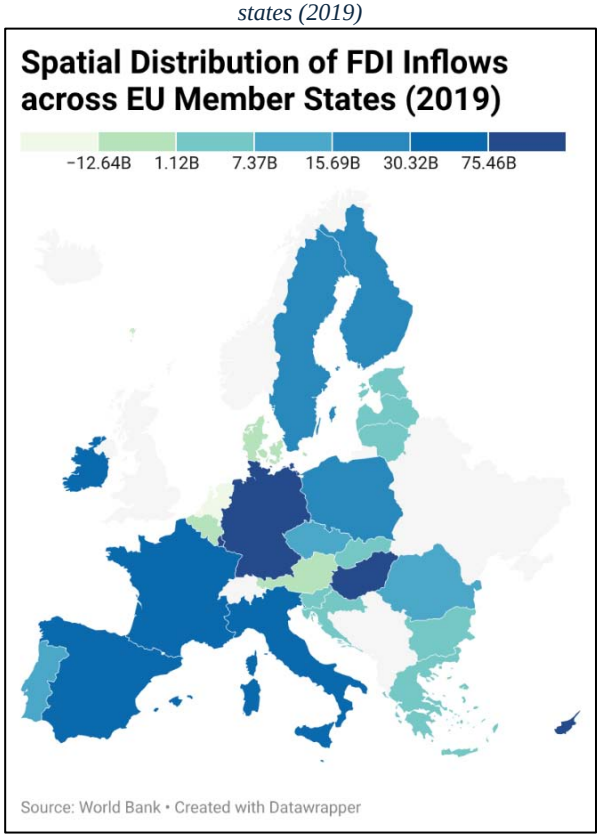
Table 5. Tests of normality for the main variables (EU countries, 2023)

Variable	Kolmogorov–Smirnov (Sig.)	Shapiro–Wilk (Sig.)	Normal distribution
FDI	0.000	0.000	No
UAI	0.200	0.054	Yes
GDP per capita	0.009	0.000	No
Trade openness	0.040	0.000	No
Government effectiveness	0.200	0.766	Yes
Annual earnings	0.000	0.002	No
Compensation of employees	0.200	0.558	Yes
Taxes	0.200	0.111	Yes

Note: *For samples smaller than 50 observations, the Shapiro–Wilk test is considered more appropriate for assessing normality.*
Source: author processing in SPSS

Figure 1 illustrates the spatial distribution of foreign direct investment inflows across European Union member states in 2019. The map highlights significant differences in the level of foreign investment received by EU countries. Higher FDI inflows are concentrated mainly in large and economically developed economies such as Germany, France, Spain and Ireland. These countries benefit from large domestic markets, developed infrastructure and strong integration into global production networks, which make them attractive locations for multinational firms (Walsh and Yu, 2010).

Figure 1. Spatial Distribution of FDI Inflows across EU member states (2019)



Source: author processing in Datawrapper

At the same time, several smaller or more open economies also display relatively high levels of foreign investment. Countries such as Ireland or some Western European economies often attract multinational corporations due to favourable business environments, advanced service sectors and strong links with international markets (Economou et al., 2016).

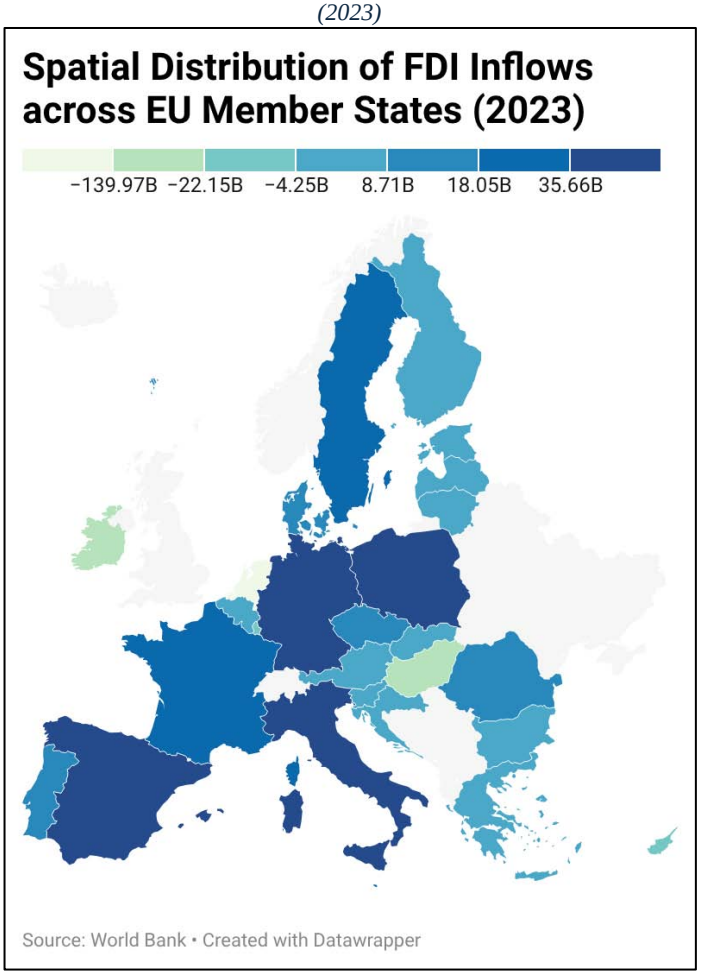
In contrast, lower levels of FDI inflows can be observed in a number of Central and Eastern European (CEE) countries, where smaller market size, lower levels of economic

development or different economic structures may limit the scale of foreign investment. Larger markets tend to attract more FDI due to the potential for higher returns on investment. Poland, for example, has been a leader in attracting FDI within the CEE region, partly due to its large population and market size compared to other CEE countries like Slovenia and Slovakia (Zarić, 2022). Countries with higher levels of economic development, such as the Czech Republic and Hungary, have been more successful in attracting FDI. These countries have implemented structural reforms and developed infrastructure that supports foreign investment (Jimborean and Kelber, 2017). The quality of institutions, including democratic governance, an independent judiciary, and low levels of corruption, significantly influences FDI inflows. Countries with better institutional frameworks are more attractive to foreign investors(Zarić, 2022)

The map suggests that the distribution of FDI across the EU is influenced by a combination of factors, including market size, economic development, openness to international trade and the presence of multinational business activities. These structural differences help explain why foreign investment tends to concentrate in certain economies while remaining more limited in others.

Figure 2 presents the spatial distribution of foreign direct investment inflows across European Union member states in 2023. Compared with 2019, the pattern of FDI inflows appears more irregular, with several countries experiencing negative values, indicating withdrawal of previously invested capital. Such situations may occur when multinational firms reorganize their financial structures, repatriate profits or relocate investment within international corporate networks.

Figure 2. Spatial Distribution of FDI Inflows across EU member states (2023)



Source: author processing in Datawrapper

Higher positive FDI inflows remain concentrated in several large and economically developed EU economies, including Germany, France and Spain. These countries continue to attract foreign investment due to their large domestic markets, diversified industrial structures and strong integration into international production networks. In addition, some CEE economies still display moderate levels of investment inflows, reflecting their role as attractive locations for manufacturing and production activities due to relatively competitive labour costs and increasing economic integration within the European market.

At the same time, the presence of negative FDI values in some countries may reflect financial restructuring within multinational companies rather than a decline in real economic activity. In highly integrated financial systems such as those of the EU, FDI statistics may capture not only productive investments but also intra-company financial flows (Bruno et al., 2021).

The map suggests that while major European economies continue to attract significant foreign investment, the distribution of FDI inflows in 2023 is more volatile and reflects the broader economic uncertainty affecting global investment decisions.

4.2. Correlation analysis

For year 2019

Table 6 presents the Pearson correlation coefficients between FDI inflows and the selected explanatory variables for EU countries in 2019. Using a significance threshold of 10%, several variables show weak but positive associations with FDI. In particular, GDP per capita ($r = 0.354$, $p = 0.070$), trade openness ($r = 0.353$, $p = 0.071$) and compensation of employees ($r = 0.365$, $p = 0.061$) display correlations that are close to the significance threshold. These results suggest that countries with higher levels of economic development, greater integration into international trade and more developed labour markets tend to attract relatively higher levels of foreign investment. This may reflect the attractiveness of more productive and internationally connected economies for multinational firms seeking stable markets and efficient production environments (Blonigen, 2005; Lucke and Eichler, 2015; Silajdzic and Mehic, 2020; Feng and Wang, 2021).

Table 6. Correlations between FDI inflows and explanatory variables (EU countries, 2019)

Variable	Pearson correlation with FDI	Sig. (p-value)
UAI	0.200	0.316
Annual earnings	0.067	0.739
GDP per capita	0.354	0.070
Trade openness	0.353	0.071
Government effectiveness	-0.034	0.866
Compensation of employees	0.365	0.061
Taxes	0.059	0.769

Notes: *p < 0.05, ** p < 0.01, Number of observations:* ***27***
Source: author processing in SPSS

Other variables such as UAI, government effectiveness, taxes and annual earnings do not show statistically significant correlations with FDI in the sample. This may indicate that the relationship between these factors and foreign investment is more complex and may only become visible when multiple determinants are considered simultaneously in a regression framework. The results suggest that while some economic indicators may be weakly associated with FDI inflows, simple bivariate relationships remain limited, highlighting the need for multivariate analysis (Sabroso and Cañete, 2023).

Table 7 reports the partial correlations between FDI inflows and the selected explanatory variables while controlling for GDP per capita.

Table 7. Partial correlations between FDI inflows and explanatory variables controlling for GDP per capita (2019)

Variable	Partial correlation with FDI	Sig. (p-value)
UAI	0.396**	0.045
Annual earnings	-0.371*	0.062
Government effectiveness	-0.347*	0.082
Compensation of employees	0.398**	0.044
Taxes	-0.193	0.344

Notes*: * p < 0.10, ** p < 0.05, Control variable: GDP per capita, Observations: 27*
Source: author processing in SPSS

After accounting for differences in the level of economic development across EU countries, several relationships become more visible. In particular, UAI shows a positive and statistically significant association with FDI inflows (r = 0.396, p = 0.045). This result suggests that, once differences in income levels are controlled for, cultural attitudes toward uncertainty may play a role in shaping the investment environment. Countries with higher uncertainty avoidance may offer more structured institutional frameworks and clearer rules, which can increase the predictability of the business environment for foreign investors. Studies analyzing Hofstede's cultural dimensions find that countries with high uncertainty avoidance, which prefer structured rules and predictability, can be more attractive to foreign investors. This preference for structure can translate into clearer institutional frameworks, increasing the predictability of the business environment (Silajdzic and Mehic, 2020). Other studies argue that societies with high uncertainty avoidance are characterized by high emotional resistance to change and may be reluctant to work in the unfamiliar environment of foreign companies. This can create additional obstacles for foreign firms. (Silajdzic and Mehic, 2020) When a parent company from a high uncertainty avoidance country invests in a low uncertainty avoidance country, the disagreement between the 'rule maker' and the 'rule follower' can increase stress and deter FDI (Tang, 2012).

A positive and significant relationship is also observed between FDI and compensation of employees (r = 0.398, p = 0.044). This may reflect the fact that higher compensation levels often

indicate higher labour productivity and more developed labour markets, which can attract multinational firms seeking skilled labour and efficient production environments. In contrast, annual earnings show a weak negative association with FDI (r = -0.371, p = 0.062), significant at the 10% level, which may suggest that in some cases higher wage levels can reduce cost advantages for efficiency-seeking investments. Government effectiveness also displays a weak negative relationship with FDI at the 10% significance level, while the taxation indicator does not appear to have a statistically significant association with foreign investment inflows. These results indicate that once differences in economic development are taken into account, labour market characteristics and cultural factors may play a more relevant role in explaining the distribution of FDI across EU countries (Ozturk and Nagayev, 2024).

For year 2023

Table 8 presents the Pearson correlation coefficients between FDI inflows and the selected explanatory variables for EU countries in 2023. The results indicate that none of the analysed variables show statistically significant correlations with FDI, even when considering a 10% significance threshold. This suggests that simple bivariate relationships between FDI and the selected economic or cultural indicators are weak in this year.

Table 8. Correlations between FDI inflows and explanatory variables (EU countries, 2023)

Variable	Pearson correlation with FDI	Sig. (p-value)	N
UAI	0.278	0.160	27
GDP per capita	-0.320	0.104	27
Trade openness	-0.294	0.137	27
Government effectiveness	-0.270	0.174	27
Compensation of employees	0.218	0.370	19
Taxes	-0.232	0.325	20
Annual earnings	-0.240	0.227	27

Notes: ** p < 0.05, ** p < 0.01*

Source: author processing in SPSS

Some variables display moderate but non-significant associations with FDI. For example, GDP per capita (r = −0.320) and trade openness (r = −0.294) show negative correlations with FDI inflows, while UAI (r = 0.278) and compensation of employees (r = 0.218) display weak positive associations. However, the relatively high p-values indicate that these relationships are not statistically reliable within the sample.

The absence of clear correlations may reflect the greater volatility of foreign investment flows in recent years. After the COVID-19 pandemic and during the period marked by geopolitical tensions and energy market disruptions, FDI flows in Europe became less predictable and more influenced by firm-level financial decisions rather than by structural economic characteristics alone (Sharma, 2021). As a result, traditional determinants such as income levels, trade integration or institutional indicators appear to have weaker explanatory power in 2023 compared with earlier periods (Okunoye and Akpa, 2023).

The Russia-Ukraine war appears to have created new incentives for foreign investors in Europe, with one study finding a positive and significant impact on FDI inflows during the post-invasion period. (Okunoye and Akpa, 2023). In contrast to the pandemic's direct health impact, traditional macroeconomic determinants like market size, trade openness, labour costs, infrastructure, and political risk remain commonly cited as potential determinants of FDI. However, a 2023 study acknowledges that the dynamics of these determinants have changed considerably due to the pandemic, and their effectiveness in the current scenario is a key area of investigation (Manglani and Sharma, 2023).

Table 9. Partial correlations between FDI inflows and explanatory variables controlling for GDP per capita (2023)

Variable	Partial correlation with FDI	Sig. (p-value)	N
UAI	0.174	0.395	27
Trade openness	-0.094	0.648	27
Government effectiveness	-0.078	0.706	27
Annual earnings	0.005	0.980	27
Compensation of employees	0.317	0.232	19
Taxes	-0.144	0.594	20

Notes: *Control variable: GDP per capita, Significance levels: * p < 0.05, ** p < 0.01*
Source: author processing in SPSS

Table 9 presents the partial correlations between FDI inflows and the selected explanatory variables for EU countries in 2023, while controlling for GDP per capita. The results indicate that none of the analysed variables show statistically significant relationships with FDI once differences in the level of economic development are taken into account. The partial correlation coefficients are generally weak and associated with relatively high p-values, suggesting that the observed relationships are not statistically reliable within the sample.

These results may reflect the increased volatility of FDI flows in recent years. In 2023, multinational firms have indeed adjusted their investment strategies in response to global uncertainties, such as geopolitical tensions, supply chain disruptions, and energy market instability. These adjustments have led to a shift in the determinants of foreign direct investment (FDI) inflows, with traditional structural country characteristics playing a less significant role. Instead, factors like economic policy uncertainty (EPU) and geopolitical risks have become more influential in shaping FDI patterns. This shift highlights the increasing unpredictability of FDI determinants in turbulent economic environments. Economic policy uncertainty has a significant impact on FDI inflows. The "push effect" drives FDI from countries with higher EPU to those with lower EPU, while the "consistency effect" impedes FDI flows when there are differences in policy environments between countries. The latter effect is stronger, indicating that policy coordination is crucial for attracting FDI (Dong et al., 2025). Global uncertainty, rather than host country uncertainty, has a more pronounced effect on FDI inflows. High levels of uncertainty disproportionately affect FDI, especially in emerging markets and developing countries, where financial openness can exacerbate these effects (Jardet et al., 2022)

4.3. Econometric Results

4.3.1. Regression results for 2019

Table 10 presents the results of the regression model explaining foreign direct investment inflows across EU countries in 2019.

Table 10. Regression results explaining FDI inflows (2019)

Variable	B	Std. Error	Beta	t	p-value
Constant	-113158781638.43	48893032673.94	—	-2.314	0.030
UAI	963345824.91	456586640.96	0.403	2.110	0.045
GDP per capita	1311419.08	488130.38	0.513	2.687	0.013

Source: author processing in SPSS

The estimated model is statistically significant overall ($F = 4.261$, $p = 0.026$), indicating that the selected explanatory variables jointly contribute to explaining variations in FDI across the sample. The model explains approximately 26% of the variation in FDI inflows ($R^2 = 0.262$),

which is reasonable given the relatively small cross-sectional dataset and the complexity of international investment decisions.

Both explanatory variables included in the model display statistically significant effects. GDP per capita has a positive and significant coefficient ($p = 0.013$), suggesting that more economically developed countries tend to attract higher levels of foreign investment. From an economic perspective, higher income levels often reflect stronger domestic demand, better infrastructure and more advanced economic structures, which increase the attractiveness of host countries for multinational firms.

The Uncertainty Avoidance Index (UAI) also shows a positive and significant relationship with FDI inflows ($p = 0.045$). This result suggests that countries characterised by higher levels of uncertainty avoidance may provide more structured institutional environments and clearer regulatory frameworks. Such conditions can reduce perceived investment risk and increase predictability for foreign investors, which may encourage multinational firms to allocate capital in these economies.

Finally, the Durbin–Watson statistic (1.896) indicates that there are no serious autocorrelation issues in the residuals, while the collinearity diagnostics suggest that multicollinearity between the explanatory variables is not a concern.

The results indicate that both economic development and cultural characteristics may play a role in explaining the distribution of FDI inflows across EU countries in relatively stable economic periods such as 2019.

4.3.2. Regression results for 2023

Table 11 presents the regression results explaining foreign direct investment inflows across European Union countries in 2023. In contrast to the results obtained for 2019, the estimated model is not statistically significant ($F = 1.788$, $p = 0.189$). The explanatory variables included in the model jointly explain only 13% of the variation in FDI inflows ($R^2 = 0.130$), while the adjusted R^2 decreases to 0.057, indicating a very limited explanatory power.

Table 11. Regression results explaining FDI inflows (EU countries, 2023)

Variable	B	Std. Error	Beta	t	p-value
Constant	-8,376,617,067.07	80,984,299,982.98	—	-0.103	0.918
UAI	649,572,329.94	749,744,938.55	0.180	0.866	0.395
GDP per capita	-762,722.95	635,368.12	-0.249	-1.200	0.242

Source: author processing in SPSS

Neither GDP per capita nor uncertainty avoidance (UAI) display statistically significant coefficients in 2023. The coefficient of GDP per capita is negative, although not significant, suggesting that the relationship between economic development and foreign investment inflows became less stable during this period. Similarly, the coefficient of UAI is positive but statistically insignificant, indicating that cultural characteristics do not appear to systematically explain FDI inflows in this year.

From an economic perspective, these results may reflect the higher volatility of international investment flows observed in recent years. The global economic environment in 2023 was characterised by geopolitical tensions, energy market disruptions and continued adjustments following the COVID-19 pandemic. Under such conditions, multinational firms may base their investment decisions more on short-term strategic considerations or internal financial restructuring rather than on structural country characteristics such as income levels or cultural factors.

The results show that the traditional determinants of foreign direct investment appear to have weaker explanatory power in 2023 compared with 2019, supporting the hypothesis that FDI patterns become less predictable during periods of increased global uncertainty.

V. Discussion

The results of the empirical analysis provide several insights into the determinants of foreign direct investment across EU countries. The findings suggest that both economic and cultural factors may influence the distribution of FDI, although their importance appears to vary depending on the broader economic context. In particular, labour-related indicators and cultural characteristics may reflect deeper structural aspects of national economies, such as workforce quality, institutional predictability and the perceived level of investment risk. The results highlight that the explanatory power of these determinants is not constant over time and may weaken in periods characterized by greater global economic uncertainty.

Economic interpretation of the main findings

The results indicate that labour market characteristics may play an important role in shaping foreign investment decisions. Although annual earnings are often interpreted as a proxy for labour costs, they may also capture broader aspects such as labour productivity, workforce skills and the overall level of economic development. Countries with higher earnings levels may therefore signal the presence of more productive and better-qualified labour forces, which can attract multinational firms seeking efficiency, innovation and higher value-added production activities.

Studies show that labour cost is a key determinant of FDI, with lower costs generally being attractive to foreign investors (Islam and Beloucif, 2024) In developing countries, higher labour costs are found to constrain FDI inflows (Das, 2016). For OECD countries, a negative relationship is found between unit labour cost and FDI inflows, suggesting that higher costs can be a problem (Economou et al., 2016). However, some research indicates that the impact of labour costs can be nuanced. For example, one study on Latin America found that higher labour costs in Spain did not impact manufacturing FDI, suggesting other factors were at play (Das, 2016). The quality of the workforce, often measured by human capital (e.g., school enrolment), is a factor in attracting FDI (Islam and Beloucif, 2024). In Latin American countries, human capital has a positive and statistically significant relationship with FDI, suggesting that a better-trained workforce attracts investment (Das, 2016). For developing countries, institutional variables and labour costs are considered the most robust determinants of FDI, but the quality of labour is also important (Economou et al., 2016). In developing and transition economies, foreign investors are often attracted to countries with lower levels of corruption and less regulatory burden (Lucke and Eichler, 2015)

At the same time, the cultural dimension of uncertainty avoidance may reflect elements related to institutional predictability and the perceived stability of the business environment. Higher levels of uncertainty avoidance are often associated with more formalized rules, structured institutional frameworks and clearer regulatory procedures. For foreign investors, these characteristics may reduce the perceived level of investment risk and increase the predictability of economic interactions, which can positively influence investment decisions. Research using the GLOBE practices-based cultural scores for the years 1990-2000 found that higher uncertainty avoidance in a host country positively and significantly impacts FDI. This study using GLOBE's values-based scores for the same period found that bilateral FDI is negatively related to the net difference in host and source countries' uncertainty avoidance scores, which confirmed the study's hypothesis (Tang, 2012). A study focusing on transition economies found that uncertainty avoidance has a negative and significant influence on FDI. This suggests that societies with high

uncertainty avoidance may be resistant to change and reluctant to work in unfamiliar environments associated with foreign companies, which can create obstacles for foreign investors (Silajdzic & Mehic, 2020).

Why 2019 and 2023 differ

The comparison between the two analysed years highlights important differences in the determinants of foreign direct investment across EU countries. The results suggest that 2019 represents a more stable economic environment, in which structural country characteristics appear to play a more visible role in shaping the distribution of FDI inflows. In that year, both GDP per capita and the UAI display statistically significant effects in the regression model. These results indicate that foreign investors tended to allocate capital towards more economically developed countries and towards environments perceived as more predictable in terms of institutional and regulatory frameworks. In relatively stable economic conditions, multinational firms are more likely to rely on structural indicators such as economic development, labour market characteristics or institutional predictability when making long-term investment decisions (Jardet et al., 2022).

In contrast, the results obtained for 2023 reveal a different pattern. Neither the economic variable (GDP per capita) nor the cultural indicator (UAI) shows statistically significant relationships with FDI inflows. Moreover, the overall explanatory power of the regression model decreases. These findings suggest that the traditional determinants of foreign investment may have become less relevant during this period. From an economic perspective, this outcome may reflect the broader context in which international investment decisions were made (Jardet et al., 2022). The post-pandemic recovery, combined with geopolitical tensions, supply chain disruptions and energy market instability in Europe, created a more uncertain global environment (Dong et al., 2025) . Under such conditions, foreign direct investment flows may be influenced more strongly by short-term strategic adjustments, corporate restructuring or financial reallocations within multinational groups rather than by long-term structural country characteristics.

The comparison between the two years supports the idea that the determinants of foreign direct investment are not constant over time. While structural economic and cultural factors appear to play a role in relatively stable periods, their explanatory power may weaken during times of increased global uncertainty. This finding highlights the importance of considering the broader international economic context when analysing the drivers of FDI flows.

VI. Conclusions

This study examined the economic and cultural determinants of FDI inflows across EU countries by comparing two different years, 2019 and 2023. The results indicate that the distribution of FDI across the EU is different, showing differences in economic structure, labour market conditions and the role of certain countries as financial or investment hubs.

The empirical analysis shows that in 2019, a relatively stable economic period, structural factors such as economic development and cultural characteristics help explain the variation in FDI inflows across countries. In particular, indicators related to labour market conditions and uncertainty avoidance appear to capture elements associated with productivity, institutional predictability and the attractiveness of national investment environments. However, the results for 2023 have a different pattern. In this case, the same variables show weaker and statistically insignificant relationships with FDI inflows. This suggests that during periods characterized by higher economic and geopolitical uncertainty, traditional structural determinants may become less informative in explaining the dependent variable.

The main theoretical contribution of this study lies in the integration of economic and cultural variables within the same analytical framework when analysing the determinants of

foreign direct investment in the EU. While many previous studies focus primarily on macroeconomic or institutional indicators, this research highlights that cultural dimensions may also provide useful insights into the investment environment. By combining labour-related indicators with a cultural variable related to uncertainty avoidance, the study offers a broader perspective on the factors that may influence foreign investment decisions across EU countries.

The results also provide several practical implications for policymakers seeking to attract foreign investment. First, the findings suggest that countries should not focus exclusively on maintaining low labour costs as a strategy for attracting FDI. Instead, factors such as workforce quality, labour productivity and the overall predictability of the business environment may play a more important role in shaping investment decisions. At the same time, the comparison between the two years indicates that the effectiveness of traditional policy strategies may vary depending on the broader international context. During periods of economic stability, structural factors may strongly influence investment flows, whereas during periods of uncertainty, multinational firms may adjust their investment decisions more frequently in response to global shocks or strategic considerations.

Several limitations should be considered when interpreting the results of this study. First, the analysis is based on a relatively small cross-sectional sample consisting only of European Union countries, which may limit the statistical power of the estimated models. Second, the comparison focuses on only two years, which may not fully capture longer-term dynamics in foreign investment patterns. Moreover, the flow of foreign direct investment is often influenced by financial activities within multinational corporations, particularly in countries that serve as financial or tax optimization centres. Such situations may generate large fluctuations in FDI statistics and may affect the empirical results.

Future research could extend the analysis in more directions. One possible approach would be to use panel data for a longer time period. This would allow a more detailed examination of the dynamics of foreign investment across EU countries. Further studies could also include additional explanatory variables, such as innovation capacity, institutional indicators or measures of economic competitiveness, in order to capture a broader set of factors influencing investment decisions. Finally, distinguishing between productive FDI and financial FDI flows could provide a clearer understanding of the economic impact of foreign investments and help improve the interpretation of empirical results.

VII.References

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Annex

Annex 1 – Complete correlation matrix for 2019

Correlations

		FDI	UAI	Annual earnings	GDP per capita	Trade openness	Government effectiveness	Compensation of employees	Taxes
FDI	Pearson Correlation	1	.200	.067	.354	.353	-.034	.365	.059
	Sig. (2-tailed)		.316	.739	.070	.071	.866	.061	.769
	N	27	27	27	27	27	27	27	27
UAI	Pearson Correlation	.200	1	-.442*	-.395*	-.142	-.573**	.328	-.111
	Sig. (2-tailed)	.316		.021	.042	.481	.002	.095	.583
	N	27	27	27	27	27	27	27	27
Annual earnings	Pearson Correlation	.067	-.442*	1	.790**	.223	.766**	-.436*	.590**
	Sig. (2-tailed)	.739	.021		.000	.263	.000	.023	.001
	N	27	27	27	27	27	27	27	27
GDP per capita	Pearson Correlation	.354	-.395*	.790**	1	.689**	.622**	-.020	.583**
	Sig. (2-tailed)	.070	.042	.000		.000	.001	.922	.001
	N	27	27	27	27	27	27	27	27
Trade openness	Pearson Correlation	.353	-.142	.223	.689**	1	.186	.412*	.330
	Sig. (2-tailed)	.071	.481	.263	.000		.352	.033	.093
	N	27	27	27	27	27	27	27	27
Government effectiveness	Pearson Correlation	-.034	-.573**	.766**	.622**	.186	1	-.431*	.355
	Sig. (2-tailed)	.866	.002	.000	.001	.352		.025	.069
	N	27	27	27	27	27	27	27	27
Compensation of employees	Pearson Correlation	.365	.328	-.436*	-.020	.412*	-.431*	1	-.024
	Sig. (2-tailed)	.061	.095	.023	.922	.033	.025		.905
	N	27	27	27	27	27	27	27	27
taxes	Pearson Correlation	.059	-.111	.590**	.583**	.330	.355	-.024	1
	Sig. (2-tailed)	.769	.583	.001	.001	.093	.069	.905	
	N	27	27	27	27	27	27	27	27

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).

Annex 2 – Complete correlation matrix for 2023

Correlations

		FDI	UAI	GDP per capita	Trade openness	Government effectiveness	Compensation of employees	Taxes	Annual earnings
FDI	Pearson Correlation	1	.278	-.320	-.294	-.270	.218	-.232	-.240
	Sig. (2-tailed)		.160	.104	.137	.174	.370	.325	.227
	N	27	27	27	27	27	19	20	27
UAI	Pearson Correlation	.278	1	-.396*	-.142	-.641**	.496*	-.124	-.436*
	Sig. (2-tailed)	.160		.041	.480	.000	.031	.604	.023
	N	27	27	27	27	27	19	20	27
GDP per capita	Pearson Correlation	-.320	-.396*	1	.726**	.673**	.007	.468*	.761**
	Sig. (2-tailed)	.104	.041		.000	.000	.977	.037	.000
	N	27	27	27	27	27	19	20	27
Trade openness	Pearson Correlation	-.294	-.142	.726**	1	.299	.459*	.242	.279
	Sig. (2-tailed)	.137	.480	.000		.130	.048	.304	.159
	N	27	27	27	27	27	19	20	27
Government effectiveness	Pearson Correlation	-.270	-.641**	.673**	.299	1	-.353	.381	.762**

	Sig. (2-tailed)	.174	.000	.000	.130		.139	.098	.000
	N	27	27	27	27	27	19	20	27
Compensation of employees	Pearson Correlation	.218	.496*	.007	.459*	-.353	1	-.075	-.380
	Sig. (2-tailed)	.370	.031	.977	.048	.139		.774	.108
	N	19	19	19	19	19	19	17	19
Taxes	Pearson Correlation	-.232	-.124	.468*	.242	.381	-.075	1	.514*
	Sig. (2-tailed)	.325	.604	.037	.304	.098	.774		.020
	N	20	20	20	20	20	17	20	20
Annual earnings	Pearson Correlation	-.240	-.436*	.761**	.279	.762**	-.380	.514*	1
	Sig. (2-tailed)	.227	.023	.000	.159	.000	.108	.020	
	N	27	27	27	27	27	19	20	27

*. Correlation is significant at the 0.05 level (2-tailed).
**. Correlation is significant at the 0.01 level (2-tailed).