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# Do Business Conditions Drive FDI Inflows? A Decomposition Analysis Using B-READY Indicators

Irsan Hardi <sup>1</sup>, Mustafa Necati Çoban <sup>2,\*</sup>, Ar Razy Ridha Maulana <sup>3</sup>, Ghalieb Mutig Idroes <sup>4</sup> and Ulfa Mardayanti <sup>5</sup>

- <sup>1</sup> Economic Modeling and Data Analytics Unit, Graha Primera Saintifika, Aceh Besar 23371, Indonesia; irsan.hardi@outlook.com (I.H.)  
<sup>2</sup> Department of Economics, Faculty of Economics and Administrative Sciences, Tokat Gaziosmanpaşa University, Tokat 60250, Türkiye; necati.coban@gop.edu.tr (M.N.C.)  
<sup>3</sup> Statistics of Aceh Province, Banda Aceh 23121, Indonesia; arrazy.ridha@bps.go.id (A.R.R.M.)  
<sup>4</sup> Energy and Green Economics Unit, Graha Primera Saintifika, Aceh Besar 23371, Indonesia; ghaliebidroes@outlook.com (G.M.I.)  
<sup>5</sup> Bank Mustaqim Aceh, Banda Aceh 23245, Indonesia; ulfamardayanti01@gmail.com (U.M.)

\* Correspondence: necati.coban@gop.edu.tr

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### Abstract

Foreign direct investment (FDI) is essential for economic development and business sustainability, and understanding the business conditions that attract it remains a key policy concern. This study adopts a decomposition approach by examining the impact of various B-READY indicators on FDI inflows in separate models, using cross-sectional data from 45 countries. To ensure methodological rigor, it applies three Robust Least Squares (RLS) estimation techniques: M-type, S-type, and MM-type. The findings reveal that six out of ten B-READY indicators exert a positive and statistically significant influence on FDI inflows. The significant B-READY indicators, such as business insolvency, dispute resolution, international trade, labor, market competition, and taxation, highlight critical factors that businesses consider when entering or expanding in foreign markets. These insights offer valuable guidance and practical implications not only for policymakers seeking to strengthen national investment environments, but also for businesses evaluating market readiness and investment risks in foreign economies.



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## 1. Introduction

Foreign direct investment (FDI) has long been recognized as a vital engine of economic development, particularly in emerging and developing economies. Beyond capital accumulation, FDI acts as a conduit for technological spillovers, managerial expertise, integration into global value chains, and employment generation [1, 2]. These benefits can accelerate industrial upgrading, improve productivity, and diversify the economic base. However, the patterns of FDI inflows are uneven across countries, even among those with similar economic size,

demographic profiles, or geographic positioning [3, 4]. These variations often hinge on the quality of a country's business environment, which encompasses legal, regulatory, and institutional conditions that shape the cost and risk of doing business [5, 6]. Understanding how these business conditions influence FDI is critical for governments aiming to foster investment-led growth in an increasingly competitive global economy.

Recognizing the importance of institutional factors, many governments have implemented broad reform agendas aimed at improving their investment climates. Advanced

economies have prioritized judicial transparency, regulatory streamlining, and digital governance tools to reduce transaction costs [7, 8], while developing and transitional economies have focused on easing entry barriers, strengthening contract enforcement, and reducing bureaucratic inefficiencies [9–11]. Nonetheless, global FDI inflows remain unevenly distributed, reflecting persistent disparities in regulatory quality, legal predictability, and infrastructure readiness [12]. Countries with comparable macroeconomic fundamentals often differ substantially in their ability to attract foreign investment, suggesting that micro-institutional factors, such as ease of dispute resolution, labor market flexibility, or tax administration, play a decisive role [13, 14]. Identifying which specific regulatory domains matter most at the global level is therefore essential to identifying effective policy levers for boosting FDI inflows across diverse economic contexts.

Despite the wealth of literature on the determinants of FDI, many studies focus predominantly on macroeconomic indicators such as market size, trade openness, or labor cost [15–17], often overlooking the role of institutional and regulatory dimensions. Existing measures like the Ease of Doing Business (EDB) index [18] have offered insights, but they have faced criticism for oversimplification and methodological flaws [19, 20]. Moreover, past studies frequently aggregate various business environment factors into composite scores [21, 22], which obscures the individual impact of specific regulatory dimensions on FDI. This gap calls for a more granular, empirically robust investigation that can isolate and evaluate the specific business conditions most influential in attracting FDI, an endeavor that remains underexplored in contemporary research.

The World Bank's newly developed Business Ready (B-READY) indicators [23] offer a timely and methodologically improved alternative to older indices like the EDB. Unlike its predecessor, B-READY evaluates ten key areas of business regulation not only in terms of laws (de jure) but also their practical implementation (de facto), offering a more comprehensive and policy-relevant diagnostic. It captures detailed, actionable insights on business entry, insolvency, taxation, labor regulation, and other critical domains [24]. As such, B-READY serves as a highly relevant proxy for measuring business conditions across countries, enabling more accurate comparisons of regulatory environments. Its broader scope and updated methodology provide a more credible foundation for examining how different facets of the regulatory environment affect FDI. This makes B-READY particularly relevant for addressing the existing empirical gaps in FDI research.

Theoretically, the importance of business conditions for FDI flows is well-established. The OLI paradigm emphasizes the significance of location-specific advantages, such as regulatory efficiency and institutional stability, in influencing a firm's decision to invest abroad [25, 26]. Institutional theory also supports the notion that strong legal frameworks and predictable enforcement reduce transaction costs and uncertainty, thereby attracting investment [27, 28]. Empirical studies by Perry [29], Finbow [30], and Loncan [31] have shown that improvements in legal systems, dispute resolution mechanisms, and market competition positively affect FDI inflows. Additionally, research by Akame et al. [32], Bobenič-Hintošová [33], Krifa-Schneider & Matei [34], and Njuguna & Nnadozie [35] also confirms the relevance of business conditions to FDI across diverse contexts. However, these studies have largely relied on earlier indices such as the EDB Index or other aggregate proxies. None have yet employed the newly developed B-READY indicators, which offer a more granular and implementation-sensitive framework.

This study aims to assess whether specific business conditions, as measured by the B-READY indicators, have a statistically significant impact on FDI inflows, and in what direction these effects occur. By adopting a decomposition analysis using cross-sectional data from 45 countries, it isolates the individual effects of each regulatory area on FDI. While previous research has relied on aggregate indices such as the EDB, the Business Confidence Index, or the Global Competitiveness Index, the B-READY framework offers a more comprehensive alternative by evaluating both the legal (de jure) and practical (de facto) quality of ten regulatory domains. However, empirical studies leveraging B-READY indicators to investigate FDI determinants remain virtually nonexistent. This paper addresses that gap by being among the first to operationalize B-READY in econometric analysis of FDI. It contributes to the literature by introducing a more precise and policy-relevant proxy for business conditions, supported by robust estimation methods. For policymakers, the findings highlight which regulatory areas offer the highest return on reform. For businesses, the study offers a disaggregated, evidence-based framework for evaluating investment climates beyond conventional summary scores.

## 2. Literature Review

### 2.1. Theoretical Review

The foundation of this study is grounded in the OLI Paradigm (Ownership, Location, Internalization). This theory posits that foreign direct investment occurs when

firms possess ownership-specific advantages, seek location-specific benefits, and internalize operations to reduce transaction costs [25]. The “location” component is particularly relevant to this study, as it highlights how favorable business conditions, such as efficient legal systems, regulatory quality, and transparent tax regimes, can attract FDI by providing institutional stability and lower operational risks. Countries with more business-ready environments tend to offer stronger location-specific advantages, enhancing their appeal to multinational firms [36].

Another relevant theoretical lens is the Institutional Theory, which emphasizes the role of formal institutions, such as laws, regulations, and enforcement mechanisms, in shaping economic behavior [37]. North [27] argued that institutions reduce uncertainty and transaction costs, making them critical to investment decisions. In the context of FDI, strong institutions signal reduced risks and greater predictability, which are essential for long-term investments. B-READY indicators like dispute resolution and business insolvency systems are direct measures of institutional quality and thus align closely with the theory's predictions [28].

Additionally, the Eclectic Theory of International Production incorporates aspects of transaction cost economics [38]. This perspective explains FDI as a strategic choice when firms find that internalizing operations across borders is more efficient than contracting through markets [39]. High transaction costs, often driven by regulatory inefficiencies, discourage FDI, while streamlined processes, as captured in B-READY indicators like international trade and labor regulation, facilitate cross-border integration. By incorporating these theoretical lenses, the study builds a robust analytical foundation for exploring the nuanced effects of business conditions on FDI inflows.

## 2.2. Empirical Review

### 2.2.1. Business Conditions and FDI Inflows Nexus

Examining the literature reveals that numerous studies have investigated how business conditions affect inflows of foreign direct investment (FDI). These studies consistently agree that business conditions are a key determinant of FDI inflows. This research distinguishes itself by incorporating the newly developed Business Ready (B-READY) indicators from the World Bank as proxies for business conditions. Several notable studies across various regions and time periods have provided insights into this relationship.

Contractor et al. [12] analyzed 189 countries using panel regression and found that efficient international trade

laws and strong contract enforcement significantly attract FDI. Krifa-Schneider & Matei [34] examined 33 emerging and transitional countries from 1996 to 2008 using the Arellano-Bond GMM and fixed effects model, concluding that a favorable business environment boosts FDI inflows. Similarly, Akame et al. [32], focusing on the CEMAC region from 2007 to 2014, employed the FGLS method and determined that the doing business index and its components, such as tax payment, international trade, starting a business, and investor protection, positively and significantly impact FDI inflows.

Other regional studies further support these findings. Bobenič-Hintošová [33] assessed the Visegrád countries using data from 2005 to 2015 and found that the business climate significantly influences FDI inflows, though the strength and direction vary by indicator. Vučković et al. [40] studied five Central and Eastern European countries from 2006 to 2016 and identified several contributing factors to higher FDI inflows, including labor market efficiency, business startup ease, technological readiness, and market efficiency. Similarly, Njuguna & Nnadozie [35] found that ease of doing business increases FDI inflows in 45 African nations using 2010–2011 data.

Further evidence comes from studies in Sub-Saharan Africa. Gizaw et al. [41] analyzed 14 East African countries (2010–2019) and concluded that FDI is significantly influenced by construction regulations, contract enforcement, credit access, power supply, tax systems, and investor protections. Nketiah-Amponsah & Sarpong [42], using System-GMM with data from 45 Sub-Saharan African countries (2004–2018), emphasized the importance of efficient firm establishment procedures and tax administration. Lastly, Borojo & Yushi [43] demonstrated that the business climate significantly affects the flow of Chinese FDI to Africa, reinforcing the global relevance of business conditions in attracting foreign investment.

### 2.2.2. Economic Growth and FDI Inflows Nexus

In this study, economic growth (proxied by GDP) is included as a control variable to account for cross-country differences in macroeconomic size [44–47] and performance that could otherwise confound the relationship between business conditions and FDI inflows. This subsection reviews studies that analyze how economic growth affects foreign direct investment (FDI) inflows. The relationship between these two variables has been widely examined across various countries and time periods, generally showing a positive association. Simionescu [48] analyzed the EU-28 countries during the 2008 financial crisis and found a mutual relationship

**Table 1.** Details of variables.

Status	Variable	Symbol	Unit Measurement	Source
Dependent	FDI Inflow	FDI	Percent of GDP	World Bank [49]
Control Independent	Gross Domestic Product	GDP	Constant 2015 US\$	World Bank [50]
Main Independent	Business Entry	BE	Scale, from 0-100	World Bank [23]
	Business Insolvency	BI	Scale, from 0-100	World Bank [23]
	Business Location	BL	Scale, from 0-100	World Bank [23]
	Dispute Resolution	DR	Scale, from 0-100	World Bank [23]
	Financial Services	FS	Scale, from 0-100	World Bank [23]
	International Trade	IT	Scale, from 0-100	World Bank [23]
	Labor	LB	Scale, from 0-100	World Bank [23]
	Market Competition	MC	Scale, from 0-100	World Bank [23]
	Taxation	TX	Scale, from 0-100	World Bank [23]
	Utility Services	US	Scale, from 0-100	World Bank [23]

between economic growth and FDI using advanced statistical methods. Similarly, Vojtovič et al. [51] used Granger causality tests and a VAR model on data from 1997 to 2014 in Central and Eastern European countries, concluding that FDI inflows are influenced by the strength of economic growth indicators. In the case of Iran, Rafat [52] employed VAR analysis on data from 1991 to 2014 and found a bidirectional causality between economic development and FDI, indicating that both positively reinforce each other.

Further evidence comes from studies in Asia. Pattayat [53] examined the factors influencing FDI in India using data from 1980 to 2013 and panel cointegration analysis, revealing long-term cointegration between GDP and FDI inflows, with GDP having the strongest long-run effect. Wijeweera & Mounter [54] assessed Sri Lanka's economic data from 1950 to 2004 using VAR analysis and found a long-term positive relationship between real GDP and FDI. Lee et al. [55] investigated broader social, economic, and institutional factors affecting FDI across countries from 1996 to 2019 using fixed and random effects models, concluding that GDP has a significant positive impact on FDI inflows.

Other regional studies support these findings. Meressa [56] focused on COMESA countries, using dynamic panel estimators and fixed effects models to show that economic growth positively influences FDI inflows. Similarly, Dang & Nguyen [57] analyzed ASEAN-7 nations from 1996 to 2019 using the System-GMM and fixed effects models, concluding that FDI inflows increase in line with economic development. Collectively, these studies reinforce the view that economic growth plays a significant role in attracting FDI across different regions.

### 3. Materials and Methods

#### 3.1. Data and Variables

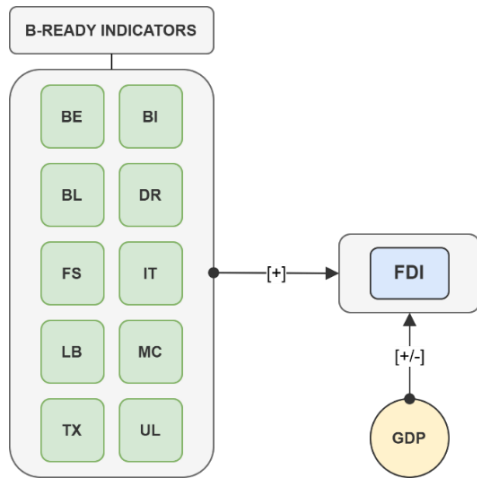
The study employs the World Bank's Business Ready (B-READY) data from the 2024 publication report [23]. As the

report reflects country performance in 2023, the dependent variable FDI inflows and the control variable GDP are also taken from the year 2023. Since the study uses data in logarithmic form for econometric estimation, negative values in their original form cannot be included, as the logarithm of a negative number is undefined in real numbers. Therefore, although the report covers a total of 50 countries, the study excludes Hungary, Iraq, Lesotho, Slovakia, and Timor-Leste, as these countries reported negative FDI inflows. Details of the variables can be found in Table 1.

The cross-sectional data used in this study includes the following 45 countries: Bangladesh, Barbados, Bosnia and Herzegovina, Botswana, Bulgaria, Cambodia, Central African Republic, Chad, Colombia, Costa Rica, Côte d'Ivoire, Croatia, El Salvador, Estonia, The Gambia, Georgia, Ghana, Greece, Hong Kong SAR (China), Indonesia, Kyrgyz Republic, Madagascar, Mauritius, Mexico, Montenegro, Morocco, Nepal, New Zealand, North Macedonia, Pakistan, Paraguay, Peru, Philippines, Portugal, Romania, Rwanda, Samoa, Seychelles, Sierra Leone, Singapore, Tanzania, Togo, Vanuatu, Viet Nam, and the West Bank and Gaza.

#### 3.2. B-READY Indicators and Conceptual Framework of the Study

The Business Ready (B-READY) indicators are a World Bank's development diagnostic tool that analyses the regulatory environment considering the lifecycle of businesses in different countries [23]. Introduced as the successor to the Doing Business project [18], B-READY evaluates the quality, efficiency, and implementation of regulations across ten key areas, each scored on a scale from 0 to 100. Higher scores reflect more business-friendly regulatory conditions. These indicators are designed to capture both de jure (laws and regulations) and de facto (practical implementation) aspects, providing a more comprehensive and policy-relevant view of business environments across countries.



**Figure 1.** Conceptual framework of the study.

Compared to other external proxies such as the Business Confidence Index by OECD, which reflects short-term sentiment, or the Global Competitiveness Index by World Economic Forum, which aggregates diverse macro-level factors, B-READY offers a more targeted, actionable, and domain-specific assessment of regulatory conditions that directly influence firm-level investment decisions. The ten B-READY indicators include:

- 1) Business Entry (BE): Assesses the procedures, time, and cost required to start a business and obtain necessary licenses.
- 2) Business Insolvency (BI): Evaluates the legal and institutional framework for resolving business insolvency and restructuring efficiently.
- 3) Business Location (BL): Examines regulations and administrative procedures related to securing commercial property and land use rights.
- 4) Dispute Resolution (DR): Measures the effectiveness, accessibility, and timeliness of mechanisms for resolving commercial disputes.
- 5) Financial Services (FS): Assesses the regulatory environment for access to finance, including credit, banking, and financial infrastructure.
- 6) International Trade (IT): Evaluates the efficiency and cost of cross-border trade processes, including customs procedures and documentation.
- 7) Labor (LB): Covers regulations related to hiring, working conditions, and redundancy processes.
- 8) Market Competition (MC): Reviews policies and institutions that promote competitive markets and prevent anti-competitive behavior.
- 9) Taxation (TX): Assesses the burden, complexity, and compliance requirements of business taxation systems.
- 10) Utility Services (UL): Evaluates access to and reliability of basic infrastructure services, such as electricity and water, for businesses.

The conceptual framework, as shown in Figure 1, illustrates the study’s focus on evaluating how various B-READY indicators, such as BE, BI, BL, DR, FS, IT, LB, MC, TX, and UL, individually influence FDI inflows. These indicators are treated as the main independent variables, while FDI serves as the dependent variable. The model incorporates GDP as a supplementary control variable to account for macroeconomic influence [58–61]. By applying a decomposition approach in the econometric analysis, each B-READY indicator is assessed in separate models using GDP as a consistent control. This design enables clearer interpretation of each indicator’s unique contribution to FDI inflows. The study hypothesizes that B-READY indicators have a positive influence on FDI inflows, while GDP may exert either a positive or negative effect depending on context.

### 3.3. Model Specification

This study focuses on examining the impact of various B-READY indicators on FDI inflows, with GDP included as a supplementary factor. The econometric analysis adopts a decomposition approach [62–64], assessing the impact of the main independent variables representing B-READY indicators on the dependent variable, FDI inflow, in separate models using the same control variable, GDP. This allows the individual contributions of each main independent variable to be more clearly identified and interpreted. The mathematical function of the study is presented in Equation 1.

$$FDI = f(GDP, BRE) \tag{1}$$

Where *FDI* is the FDI inflow, *GDP* is the gross domestic product, and *BRE* is the ten B-READY indicators.

Then, the decomposition approach of econometric model derived from the function in Equation 1 is expressed in Equations 2-11.

$$FDI_i = \beta_0 + \beta_1 GDP_i + \beta_2 \begin{bmatrix} BE_i \\ BI_i \\ BL_i \\ DR_i \\ FS_i \\ IT_i \\ LB_i \\ MC_i \\ TX_i \\ UL_i \end{bmatrix} + \varepsilon_i \tag{2-11}$$

Here, *i* represents the country,  $\beta_0$  is the constant,  $\beta_1$  and  $\beta_2$  are the coefficients, and  $\varepsilon$  is the error term.

Since the dependent, control, and independent variables have different units of measurement, the data were transformed into their natural logarithmic form, allowing the results to be interpreted as percentage changes



Figure 2. Flow analysis of the study.

rather than absolute changes. The final econometric model of the study is shown in Equations 12–21.

$$\ln FDI_i = \beta_0 + \beta_1 \ln GDP_i + \beta_2 \begin{bmatrix} \ln BE_i \\ \ln BI_i \\ \ln BL_i \\ \ln DR_i \\ \ln FS_i \\ \ln IT_i \\ \ln LB_i \\ \ln MC_i \\ \ln TX_i \\ \ln UL_i \end{bmatrix} + \varepsilon_i \quad (12-21)$$

### 3.4. Method: Robust Least Squares (RLS)

Robust Least Squares (RLS) is a statistical method designed to address the sensitivity of Ordinary Least Squares (OLS) regression to outliers and violations of classical assumptions such as homoskedasticity and normality. While OLS minimizes the sum of squared residuals, RLS techniques aim to minimize the impact of influential observations that can distort parameter estimates. By incorporating robustness into the estimation process, RLS produces more reliable coefficient estimates in the presence of data contamination, heavy-tailed distributions, or model misspecification [6, 65–68]. This method is particularly suitable for the study's cross-sectional dataset, which exhibits substantial variation in economic size and FDI inflows across countries, increasing the likelihood of violations of classical assumptions that could bias traditional OLS estimates.

M-type estimation is one of the most commonly used approaches within RLS. It generalizes the OLS method by minimizing a function of the residuals that is less sensitive to large errors. Instead of minimizing the squared residuals, M-estimators minimize a chosen loss function  $\rho(e)$ , such as the Huber or Tukey biweight function, which reduces the influence of outliers. The M-estimator retains high efficiency under normality but provides better resistance to extreme values. The

robustness is controlled by tuning constants in the loss function, allowing a balance between efficiency and resistance to outliers [69–71].

S-type estimation focuses on achieving a high breakdown point, the proportion of contamination the estimator can handle before giving incorrect results. It works by minimizing a robust measure of scale of the residuals, typically the median or another robust scale estimate, subject to constraints. S-estimators are particularly effective in cases with a high percentage of outliers, offering better robustness than M-estimators but at the cost of lower statistical efficiency. The method is computationally intensive but useful when data integrity is significantly compromised by noise or errors [69, 72, 73].

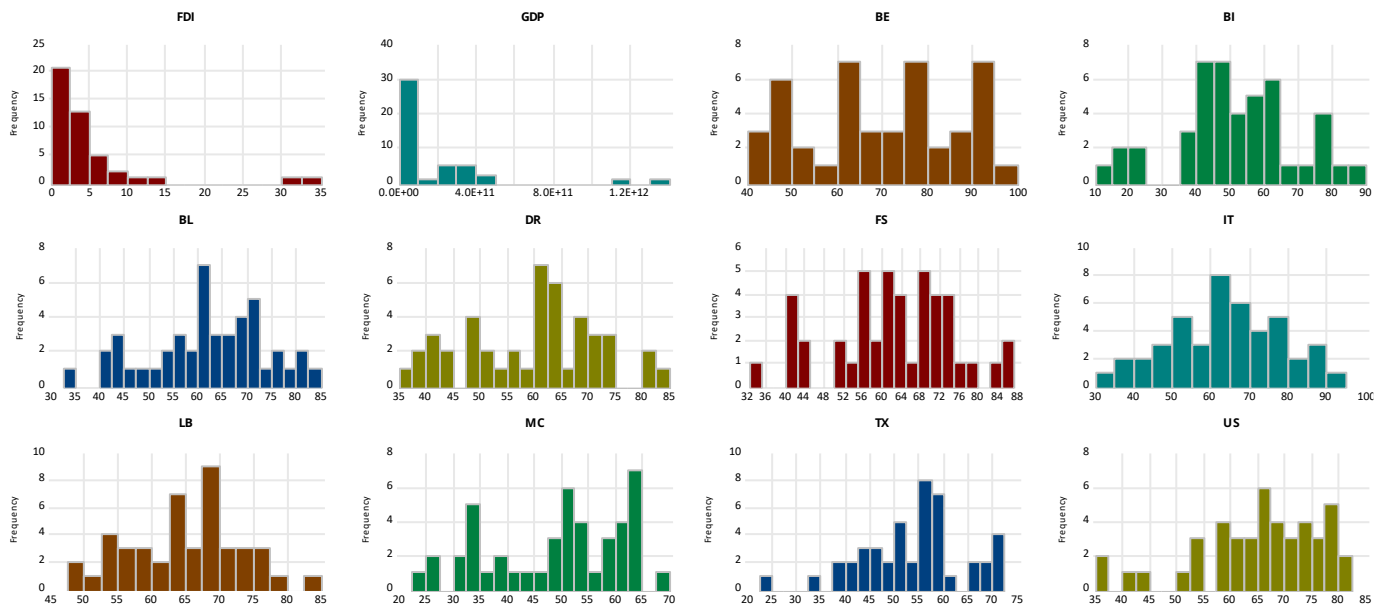
MM-estimation combines the strengths of both M-type and S-type estimators to achieve high breakdown robustness and high efficiency. The MM approach typically involves three steps: first, using an S-estimator to get a robust initial scale; second, computing an M-estimator with that scale for efficiency; and third, refining the result through another M-estimation step. This layered structure makes MM-estimators more robust than M-estimators and more efficient than S-estimators, offering a practical and powerful solution for robust regression analysis [69, 70, 72].

### 3.5. Flow Analysis of the Study

The study follows a systematic series of steps in conducting the empirical analysis. As depicted in Figure 2, it begins with variable identification, followed by data collection and the presentation of descriptive statistics. The analysis then proceeds with three diagnostic tests as a preliminary assessment: the normality test, multicollinearity test, and heteroskedasticity test, all aimed at ensuring the model provides reliable and unbiased estimates. Next, the study conducts estimations using three types of RLS methods: M-type, S-

**Table 2.** Descriptive statistics of raw data.

Variable	Mean	Median	Max.	Min.	Std. Dev.
FDI	4.78	3.15	34.95	0.18	6.90
GDP	1.59E+11	3.63E+10	1.33E+12	8.42E+8	2.74E+11
BE	69.96	71.08	96.58	40.99	16.60
BI	51.50	50.44	89.69	11.99	17.48
BL	61.92	61.9	83.01	33.42	11.69
DR	59.62	61.63	82.87	36.51	12.21
FS	62.34	62.66	86.03	33.98	12.32
IT	63.83	64.55	90.77	34.82	14.21
LB	64.97	65.70	83.46	49.22	8.19
MC	49.21	51.69	68.55	23.01	12.72
TX	53.94	56.02	71.74	23.28	10.48
US	65.22	65.57	81.76	35.04	11.51



**Figure 3.** Graphical representation of the raw data distribution through histograms.

type, and MM-type. This is followed by a discussion of the key findings. Finally, the analysis concludes with the study's overall conclusions and implications.

#### 4. Results and Discussion

##### 4.1. Descriptive Statistics

Table 2 presents descriptive statistics for a cross-sectional dataset examining FDI, GDP, and ten B-READY indicators. The mean FDI inflow, expressed as a percentage of GDP, stands at 4.78%, with a considerable range between the minimum (0.18%) and maximum (34.95%), indicating significant variation in FDI across countries. GDP, measured in constant 2015 US dollars, exhibits a highly skewed distribution, with a mean of \$159 billion and a median of \$36.3 billion, suggesting that a small number of large economies are inflating the average. This skewness is further supported by a high standard deviation of \$274 billion.

The B-READY indicators display varying degrees of dispersion in scale 1-100. Indicators such as BE, IT, and LB

cluster relatively tightly around their means, indicating more uniform institutional conditions in these areas. In contrast, BI and MC show broader standard deviations (17.48 and 12.72, respectively), reflecting more heterogeneity in technological advancement and competitive dynamics. Other indicators (DR, FS, TX, US, and BL) fall between these two extremes, with moderate variation across countries. While most indicators have medians close to their means, suggesting symmetric distributions, some, like BI, show a wider gap between minimum and maximum values, implying that the ease of resolving business insolvency differ considerably across the sample.

Additionally, Figure 3 presents the distribution of each variable using histograms, offering a visual complement to the descriptive statistics. The FDI and GDP distributions are both heavily right-skewed, with most observations concentrated at the lower end of the scale and a few extreme values extending the upper tail. This confirms the high dispersion and skewness already observed in the descriptive table, particularly for GDP,

**Table 3.** Results of Jarque-Bera normality test.

Model	Main Independent Variable	Jarque-Bera	
		Stat.	Prob.
1	BE	0.4782	0.7874
2	BI	1.4959	0.4733
3	BL	0.3315	0.8473
4	DR	2.8970	0.2349
5	FS	0.6880	0.7089
6	IT	1.0579	0.5892
7	LB	0.7956	0.6718
8	MC	0.5703	0.7519
9	TX	1.1808	0.5541
10	US	0.2932	0.8636

Note: A probability value > 0.05 indicates that the residuals are normally distributed; All variables are in their natural logarithmic (ln) form.

**Table 4.** Results of correlation matrix and VIF test.

Independent Variable	Pairwise Correlation											Centered VIF
	GDP	BE	BI	BL	DR	FS	IT	LB	MC	TX	US	
GDP	1											1.7703
BE	0.3252	1										2.4054
BI	0.3618	0.4975	1									2.2209
BL	0.4507	0.5622	0.4859	1								3.7397
DR	0.3919	0.4665	0.5818	0.5123	1							3.2446
FS	0.5403	0.4722	0.3537	0.6326	0.5958	1						2.6923
IT	0.4491	0.6067	0.4702	0.7466	0.6919	0.6355	1					4.2975
LB	0.2898	0.2729	0.4086	0.4737	0.3979	0.3933	0.5308	1				1.9076
MC	0.5100	0.7045	0.5961	0.7346	0.6235	0.6477	0.7557	0.3975	1			4.5819
TX	0.4172	0.4192	0.3903	0.4729	0.5111	0.5747	0.5475	0.5391	0.3892	1		2.4733
US	0.4996	0.4771	0.3529	0.6704	0.5683	0.5585	0.5589	0.4232	0.5954	0.2876	1	2.8206

Note: A correlation value < 0.8 and a centered VIF value between 1 and 10 indicate no high multicollinearity; All variables are in their natural logarithmic (ln) form.

where a small number of large economies dominate the sample. In contrast, the B-READY indicators generally display more symmetric or multimodal patterns, though with variation in spread and central tendency.

Among the B-READY indicators, BE, LB, and US appear relatively normally distributed, with frequencies clustered around the mean. Others, such as BI and MC, display more irregular or bimodal patterns, reinforcing the notion of greater heterogeneity across countries in these domains. TX is slightly right-skewed, indicating that fewer countries have particularly low scores. IT, BL, and FS exhibit fairly even or uniform distributions, suggesting no strong central tendency. DR, while closer to normal, shows slight skewness and clustering. Overall, the histogram analysis confirms that while some institutional indicators tend to be more uniformly distributed, others display broader cross-country variation.

**4.2. Diagnostic Test**

**4.2.1. Normality Test**

The normality test evaluates whether the residuals from a regression model follow a normal distribution, which an essential assumption in many linear regression methods to ensure reliable statistical inference [74, 75]. Table 3 displays the outcomes of the Jarque-Bera normality test

across ten models, each incorporating different main independent variables. All models yield probability values significantly above the standard 0.05 threshold, indicating no grounds to reject the null hypothesis of normally distributed residuals. This implies that the residuals across all models are normally distributed, thereby supporting the appropriateness of the regression estimates under the normality assumption.

**4.2.2. Multicollinearity Test**

The multicollinearity test aims to assess whether the independent variables in a regression model are excessively correlated, which can inflate standard errors and undermine the reliability of coefficient estimates [76, 77]. A common diagnostic tool is the Variance Inflation Factor (VIF), with values above 10 typically indicating serious multicollinearity concerns, and values above 5 suggesting potential issues depending on the context. In Table 4, all centered VIF values fall between 1.77 and 4.58, indicating that multicollinearity is within acceptable limits. Furthermore, the pairwise correlation coefficients among the independent variables do not exceed 0.8, providing additional evidence that no strong linear relationships exist between them. These results suggest that multicollinearity is not a significant concern in the

**Table 5.** Results of Breusch-Pagan-Godfrey heteroskedasticity test.

Model	Main Independent Variable	F-stat. (Prob.)	Obs. × R <sup>2</sup> (Prob. Chi <sup>2</sup> )	Scaled Explained Sum of Squares (Prob. Chi <sup>2</sup> )
1	BE	0.4879	0.4695	0.4819
2	BI	0.8367	0.8268	0.7875
3	BL	0.2076	0.9741	0.7107
4	DR	0.5093	0.4909	0.3757
5	FS	0.8943	0.8874	0.8814
6	IT	0.7197	0.7049	0.6844
7	LB	0.9273	0.9224	0.9134
8	MC	0.6771	0.6611	0.6318
9	TX	0.1108	0.1067	0.1094
10	US	0.7836	0.7713	0.7817

Note: A prob. value above 0.05 indicates no evidence of heteroskedasticity, suggesting homoskedasticity; All variables are in their natural logarithmic (ln) form.

**Table 6.** Results of RLS M-type estimation.

<i>Dependent: FDI Inflow</i>										
Variable	Coeff. (z-stat.)									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
C	-0.5562 (-0.24)	0.7867 (0.38)	-0.9764 (-0.37)	4.1070 (2.53)**	0.6033 (0.22)	1.9972 (0.87)	2.4925 (1.21)	3.4689 (1.42)	2.4267 (1.02)	-0.5247 (-0.19)
GDP	-0.1146 (-1.26)	-0.1453 (-1.79)***	-0.0967 (-0.98)	-0.2585 (-4.25)*	-0.1461 (-1.44)	-0.1942 (-2.22)**	-0.2009 (-2.63)*	-0.2406 (-2.69)*	-0.2061 (-2.37)**	-0.1148 (-1.13)
BE	0.5652 (0.82)									
BI		1.1966 (3.26)*								
BL			0.5164 (0.56)							
DR				2.5320 (4.78)*						
FS					1.2903 (1.43)					
IT						1.7324 (2.49)**				
LB							2.6954 (2.40)**			
MC								1.6413 (2.81)*		
TX									1.4150 (1.87)***	
US										0.5919 (0.61)

Note: \*, \*\*, and \*\*\* indicate 1%, 5%, and 10% significance levels, respectively; All variables are in their natural logarithmic (ln) form.

model and should not compromise the validity of the regression estimates.

#### 4.2.3. Heteroskedasticity Test

Apart from the normality and multicollinearity tests, the heteroskedasticity test is also an important component of the classical assumptions as it determines whether the variance of the error terms in a regression model remains constant across observations, a key assumption for obtaining efficient and unbiased estimates [78, 79]. In this analysis, the Breusch-Pagan-Godfrey test was applied across ten models. The results in Table 5 show that all probability values for the F-statistic, Observation × R<sup>2</sup>, and Scaled Explained Sum of Squares are well above the

conventional 0.05 significance level. This indicates a lack of evidence to reject the null hypothesis of homoskedasticity in any of the models. Therefore, the error variances appear to be constant, suggesting that heteroskedasticity is not a concern and the regression results are not likely to be biased due to non-constant error variance.

#### 4.3. RLS Estimation

##### 4.3.1. M-Type Estimation

Table 6 presents the first results of the RLS method, specifically the M-type estimation, which examines how various B-READY indicators influence FDI across ten separate models. Several variables show statistically

**Table 7.** Results of RLS S-type estimation.

<i>Dependent: FDI Inflow</i>										
Variable	Coeff. (z-stat.)									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
C	1.7689 (0.94)	2.8065 (1.39)	3.0377 (1.46)	3.6493 (2.44)**	2.0529 (0.81)	2.8839 (1.87)***	3.4613 (1.38)	1.4146 (0.67)	1.4102 (0.64)	2.3325 (0.95)
GDP	-0.2057 (-2.79)*	-0.2292 (-2.95)*	-0.2425 (-3.14)*	-0.2352 (-4.19)*	-0.2218 (-2.39)**	-0.2300 (-3.94)*	-0.2582 (-2.79)*	-0.1514 (-1.96)***	-0.2047 (-2.53)**	-0.2309 (-2.52)**
BE	0.4785 (0.86)									
BI		0.9798 (2.79)*								
BL			1.0556 (1.47)							
DR				3.0312 (6.19)*						
FS					0.0941 (0.11)					
IT						1.7924 (3.85)*				
LB							1.4938 (1.09)			
MC								1.9073 (3.78)*		
TX									-0.2694 (-0.38)	
US										0.2379 (0.27)

Note: \*, \*\*, and \*\*\* indicate 1%, 5%, and 10% significance levels, respectively; All variables are in their natural logarithmic (ln) form.

significant relationships with FDI inflows. For instance, BI in Model 2 has a positive coefficient of 1.1966, significant at the 1% level, suggesting that a 1% increase in the efficiency of insolvency procedures is associated with approximately a 1.1966% increase in FDI. DR in Model 4 also shows a robust positive effect, with a coefficient of 2.5320, significant at the 1% level, indicating that a 1% improvement in legal mechanisms for dispute resolution may lead to a 2.5320% increase in FDI by fostering a more secure investment climate. Similarly, IT in Model 6 demonstrates a significant positive relationship, with a coefficient of 1.7324 at the 5% significance level, suggesting that a 1% increase in trade openness could boost FDI inflows by about 1.7324%.

Additionally, LB in Model 7 has a positive coefficient of 2.6954 and is significant at the 5% level, suggesting that a 1% increase in favorable labor regulations is associated with approximately a 2.6954% increase in FDI, likely due to the creation of a more stable and productive workforce. In Model 8, MC exhibits a positive coefficient of 1.6413, significant at the 1% level, indicating that a 1% increase in domestic market competitiveness is associated with a 1.6413% rise in FDI, as competitive environments are more attractive to foreign investors. Finally, TX in Model 9 shows a positive coefficient of 1.4150, significant at the 10% level (a weaker but still acceptable level of statistical support) suggesting that a 1% improvement in the transparency or favorability of

tax regimes may increase FDI by approximately 1.4150%. Overall, these six B-READY indicators underscore the importance of institutional quality and regulatory conditions in attracting foreign investment.

The constant term (C) fluctuates across models, being statistically significant only in Model 4, where it shows a positive and significant coefficient. This suggests that when the variables in Model 4 are considered, there may be a significant base level of FDI not explained by the included predictors. GDP consistently shows a negative coefficient across all models, with statistically significant values in Models 2, 4, 6 through 9. The strongest significance appears in Model 4 and Model 8, indicating a robust negative relationship between GDP and FDI inflow in these contexts. This counterintuitive finding might imply that higher GDP economies in the sample attract relatively less FDI, possibly due to market maturity or investment saturation.

#### 4.3.2. S-Type Estimation

The results from the second RLS estimation, the S-type, identify four B-READY indicators with statistically significant impacts on FDI inflows, all at the 1% significance level, as shown in Table 7. BI in Model 2 has a positive coefficient of 0.9798, suggesting that a 1% increase in the efficiency of insolvency procedures can enhance investor confidence by approximately 0.9798%,

**Table 8.** Results of RLS MM-type estimation.

<i>Dependent: FDI Inflow</i>										
Variable	Coeff. (z-stat.)									
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8	Model 9	Model 10
C	-0.7832 (-0.33)	1.4265 (0.71)	-0.1201 (-0.05)	3.6552 (2.05)**	0.8435 (0.31)	1.7227 (0.74)	1.5345 (0.69)	3.4343 (1.40)	1.4177 (0.57)	-0.3884 (-0.14)
GDP	-0.1057 (-1.15)	-0.1702 (-2.19)**	-0.1295 (-1.34)	-0.2394 (-3.58)*	-0.1556 (-1.55)	-0.1828 (-2.07)**	-0.1621 (-1.98)**	-0.2392 (-2.67)*	-0.1689 (-1.86)***	-0.1202 (-1.18)
BE	0.5613 (0.81)									
BI		1.2369 (3.50)*								
BL			0.5827 (0.65)							
DR				2.5496 (4.38)*						
FS					1.2970 (1.45)					
IT						1.7559 (2.49)**				
LB							2.6921 (2.24)**			
MC								1.6403 (2.81)*		
TX									1.3013 (1.65)***	
US										0.5996 (0.62)

Note: \*, \*\*, and \*\*\* indicate 1%, 5%, and 10% significance levels, respectively; All variables are in their natural logarithmic (ln) form.

due to more predictable exit strategies. In Model 4, DR shows a strong positive effect with a coefficient of 3.0312, indicating that a 1% improvement in legal systems may reduce investment risk by about 3.0312%. IT in Model 6 has a coefficient of 1.7924, highlighting that a 1% increase in trade openness is associated with an approximate 1.7924% increase in FDI, as it facilitates greater integration into global markets. Lastly, MC in Model 8 has a positive coefficient of 1.9073, implying that a 1% increase in competitive market environments can lead to an approximate 1.9073% rise in investor interest through enhanced efficiency and regulatory fairness.

Regarding the control variable, GDP shows results consistent with those from the RLS M-type estimation. It consistently exhibits a negative relationship with FDI across all models, with coefficients ranging from approximately -0.15 to -0.26, and is statistically significant at the 1% or 5% level in nearly all models (except Model 8). This inverse association may suggest that higher-income countries attract proportionally less FDI relative to their GDP, possibly due to market saturation or a shift in investor focus toward emerging economies. The constant term (C) varies across models, reaching statistical significance in Model 4 at the 5% level and in Model 6 at the 10% level, suggesting that in those specifications, baseline levels of FDI inflow exist beyond what is explained by the included variables.

#### 4.3.3. MM-Type Estimation

The results from the third estimation, as shown in Table 8 using the RLS MM-type method, identify six B-READY indicators with statistically significant positive impacts on FDI inflows, closely mirroring the findings from the RLS M-type estimation. BI in Model 2 has a coefficient of 1.2369, indicating that a 1% increase in the efficiency of insolvency mechanisms may boost investor confidence by approximately 1.2369%, by providing reliable exit options. In Model 4, DR shows a strong positive effect with a coefficient of 2.5496, suggesting that a 1% improvement in dependable legal frameworks may reduce investment risk and increase FDI inflows by approximately 2.5496%. IT in Model 6, with a coefficient of 1.7559, underscores that a 1% increase in trade openness is associated with an approximate 1.7559% rise in FDI, as it facilitates access to global markets. LB in Model 7, with a coefficient of 2.6921, suggests that a 1% enhancement in stable and well-regulated labor markets could increase investment appeal by around 2.6921%. MC in Model 8 shows a coefficient of 1.6403, implying that a 1% improvement in competitive business environments may lead to a 1.6403% increase in investor interest through greater efficiency and transparency. Lastly, TX in Model 9 has a coefficient of 1.3013, indicating that a 1% increase in favorable or predictable tax regimes may result in an approximate 1.3013% rise in FDI inflows.

Consistent with previous results, GDP exhibits a negative relationship with FDI across all models, with coefficients ranging from approximately -0.1057 to -0.2394, and is statistically significant in six models (Models 2, 4, and 6 through 9). This recurring inverse pattern may reflect that higher-income or more mature economies attract relatively less FDI as a share of GDP, potentially due to market saturation or investors' shifting preferences toward emerging markets. The constant term (C) is only statistically significant in Model 4, indicating the presence of unexplained baseline FDI inflows in that specification.

#### 4.4. Discussion

This study provides robust empirical evidence that business conditions, as measured by the B-READY indicators, plays a critical role in attracting FDI. Specifically, six out of ten B-READY indicators (business insolvency, dispute resolution, international trade, labor, market competition, and taxation) are found to have statistically significant and positive effects on FDI inflows. The consistency of these results across both RLS M-type, S-type, and MM-type estimations strengthens the credibility of the findings. Given that a majority of the indicators demonstrate a meaningful impact, this study affirms that improving the business environment is not merely complementary but fundamental to a country's ability to attract foreign capital.

First, business insolvency shows a strong positive relationship with FDI inflows, aligning with previous studies by Akame et al. [32], Gizaw et al. [41], and Vučković et al. [40], which also emphasize the role of effective legal and institutional systems in handling business insolvency and supporting restructuring processes. This suggests that effective insolvency regimes, which enable failing firms to exit the market in a transparent and timely manner, can enhance investor confidence [80]. Predictable and efficient exit mechanisms lower perceived risks and transaction costs, especially for investors entering markets with long-term commitments [81]. This finding implies that reforms aimed at streamlining insolvency processes and reducing legal uncertainty can significantly boost a country's investment appeal [82, 83].

Second, the indicator for dispute resolution is positively and significantly associated with FDI. This finding is supported by studies such as Bobenič-Hintošová [33] and Gizaw et al. [41], which suggest that a robust business climate capable of resolving disputes and providing strong protection against business threats is crucial for attracting FDI. This underscores the importance of legal certainty and contract enforcement. A reliable and impartial dispute resolution system lowers the risks of

expropriation and contractual breaches, both of which are central concerns for foreign investors [84]. Countries that strengthen their legal frameworks and judicial efficiency may therefore be more likely to attract high-value, long-term foreign investments [85].

Third, international trade openness also emerges as a significant driver of FDI. Aligned with evidence from studies such as Akame et al. [32] and Contractor et al. [12], international trade openness is associated with reduced barriers to entry and increased market access, making a country more attractive to foreign investors. Economies that are more integrated into global markets offer foreign firms better access to export opportunities and global value chains [86, 87]. This finding supports the argument that trade liberalization, customs efficiency, and the reduction of non-tariff barriers not only foster economic growth but also act as magnets for foreign investment [88].

Fourth, supported by the similar evidence from Njuguna & Nnadozie [35] and Vučković et al. [40], this study finds a significant positive link between labor regulation and FDI inflows. This suggests that labor market conditions, when perceived as balanced, stable, and not overly restrictive, can create a productive environment that attracts foreign firms [89, 90]. Policies that ensure workforce adaptability, reasonable wage flexibility, and skill development may thus serve as competitive advantages in the global race for FDI [91, 92].

Fifth, market competition is shown to positively affect FDI inflows. Bobenič-Hintošová [33], Borojo & Yushi [43], and Vučković et al. [40] also report similar findings, highlighting the importance of a stable business climate and a competitive market environment in attracting FDI. Competitive domestic markets signal to investors that monopolistic practices are limited and that there is fair regulatory oversight [31]. Such environments are conducive to innovation, efficiency, and profitability, making them more attractive for foreign enterprises [93, 94]. Enhancing anti-trust regulations and supporting pro-competition policies could therefore have broader investment implications [95, 96].

Lastly, taxation is positively linked to FDI, suggesting that clear, transparent, and manageable tax systems play a role in investor decision-making [97]. Empirical evidence from Akame et al. [32], Gizaw et al. [41], and Nketiah-Amponsah & Sarpong [42] highlights that a robust tax system is one of the most critical factors influencing a country's FDI inflows. This reinforces the idea that tax policy, including the predictability of tax burdens and the efficiency of tax administration, matters [98]. Policymakers seeking to improve investment inflows

**Table 9.** Summary of study findings.

<i>Dependent: FDI Inflow</i>			
<b>Main Independent Variable</b>	<b>Results</b>		
	Method 1 (RLS M-type)	Method 2 (RLS S-type)	Method 3 (RLS MM-type)
Business Entry	X	X	X
Business Insolvency	✓	✓	✓
Business Location	X	X	X
Dispute Resolution	✓	✓	✓
Financial Services	X	X	X
International Trade	✓	✓	✓
Labor	✓	X	✓
Market Competition	✓	✓	✓
Taxation	✓	X	✓
Utility Services	X	X	X

Note: ✓ (positive impact) and X (no impact).

should consider not only competitive tax rates but also the overall quality and clarity of the tax environment.

This study underscores the significant role that institutional and regulatory quality, as measured by the B-READY indicators, drives FDI inflows. The findings, as summarize in Table 9, reveal that key areas such as business insolvency, dispute resolution, international trade, labor, market competition, and taxation are crucial determinants of a country's ability to attract foreign capital. By improving the business environment through targeted reforms in these areas, countries can enhance investor confidence, reduce risks, and create more favorable conditions for long-term economic growth. For businesses, these findings imply that operating in markets with strong regulatory frameworks and efficient business environments can provide greater stability, lower operational risks, and access to new opportunities.

## 5. Conclusions and Implications

This study demonstrates that business conditions, as measured by the B-READY indicators, are essential in driving foreign direct investment (FDI) inflows. Six key areas—business insolvency, dispute resolution, international trade, labor, market competition, and taxation—are found to have statistically significant and positive effects on FDI. The consistency of these results across various estimations further strengthens the robustness of the findings. This evidence confirms that institutional and regulatory quality is fundamental to a country's ability to attract foreign capital.

For policymakers, the findings of this study highlight the critical importance of strengthening institutional and regulatory frameworks to attract FDI. Prioritize reforms should aimed at improving legal certainty, enhancing the efficiency of market processes, and fostering an open and competitive business environment. By targeting these key regulatory areas, governments can create a more attractive investment climate, reduce risks for

foreign investors, and increase their country's competitiveness in the global market.

For businesses, the study underscores the value of operating in countries with strong regulatory environments and efficient business conditions. Foreign firms seeking to expand globally should consider markets with robust legal and institutional frameworks, as these are likely to offer greater stability and lower operational risks. The positive relationship between factors like dispute resolution, labor market conditions, and market competition with FDI inflows suggests that businesses can benefit from operating in environments that support transparent and predictable regulations. Additionally, businesses can leverage favorable conditions in sectors with competitive markets and effective taxation systems to gain access to new opportunities, mitigate risks, and foster long-term growth.

Future studies could build on this research by addressing several limitations. First, this study relied solely on cross-sectional data due to the availability of B-READY indicators only from 2024. As more annual B-READY reports become available, future research could leverage panel data, allowing for more robust analysis of temporal changes and causal relationships. Additionally, this study included only 45 countries; future studies may expand the sample size to include a broader range of countries, providing a more comprehensive understanding of global trends. Lastly, while the study employed a rigorous methodological approach with various estimation techniques, future research should consider using more advanced and dynamic methods, especially as the availability of B-READY data expands, enabling more sophisticated dynamic analyses.

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