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B-READY Indicators and Foreign Direct Investment: Evidence from Emerging and Advanced Economies

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Abstract

Background: The study examines the effect of the Business Entry, Taxation, and Utility Services indicators from the World Bank's Business Ready (B-READY) framework on Foreign Direct Investment (FDI) inflows.
Objective: The analysis aims to compare how these regulatory indicators influence investment attractiveness in Emerging Market Economies (EMEs) and Advanced Economies (AEs).
Methods: The study employs a quantitative approach using cross-sectional data from 32 countries included in the B-READY dataset. The estimation is conducted using the Weighted Least Squares (WLS) method to address heteroscedasticity in cross-country data.
Results: The results show that Business Entry and Taxation have a positive and statistically significant effect on FDI inflows in the full sample and in Emerging Market Economies (EMEs). However, the findings indicate no significant effect of these variables in Advanced Economies (AEs). The Utility Services indicator does not show a statistically significant impact on FDI inflows in either group. These findings suggest that regulatory efficiency related to business establishment and taxation plays a more important role in attracting foreign investment in developing economies.
Conclusion: Policymakers in emerging economies should prioritize regulatory reforms that simplify business registration procedures and improve the efficiency of tax administration to enhance investment attractiveness.

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INTRODUCTION

Global uncertainty has increased in recent years, marked by geopolitical fragmentation, trade wars, and protectionism, which have led to a decline in global foreign direct investment (FDI). Geopolitical fragmentation is not only related to military conflicts or ideological competition, but also includes differences in trade policies, domestic industry protection, and the formation of opposing economic blocs. These factors create an unstable business climate, causing multinational companies to delay or divert their international expansion plans. The UNCTAD report notes an 11% decline in global FDI from 2023 to 2024 due to escalating geopolitical conflicts and increasingly restrictive trade policies, indicating that this uncertainty is directly reflected in declining long-term investor confidence. A CEPR study also shows that the widening "geopolitical distance" between countries has reduced cross-border FDI flows by half compared to a decade ago. This indicates that the wider the differences in political orientation between countries, the lower the probability of cross-border investment (Grover & Vézina, 2025).

These negative impacts are proven to be greater in developing countries than in developed countries. This is because Emerging Market Economies (EMEs) or developing economies tend to be more dependent on foreign capital flows to sustain economic development.

Meanwhile, Advanced Economies (AEs), which are dominated by developed countries, have stronger institutional capacity and domestic markets to absorb external shocks. These conditions underscore the urgency of mapping the direction of FDI in a crisis situation, given its vital role not only in promoting job creation, technology transfer, and infrastructure development, but also in strengthening a country's long-term economic stability and resilience in the face of global pressures.

In the context of Dunning's OLI theory, foreign investors' decisions are determined by three main dimensions: ownership, location, and internalization (Dunning, 2015). The B-READY index released by the World Bank is an important representation of the location and internalization factors, particularly through the aspects of Business Entry, Taxation, and Utility Services. These three indicators reflect the efficiency of business regulations, the tax burden, and the quality of basic infrastructure, which are strategic considerations for investors when deciding on an investment location. The key questions that arise are to what extent these factors remain relevant in attracting FDI amid the global crisis, and whether their influence differs between Emerging Market Economies (EMEs) and Advanced Economies (AEs).

A number of previous studies have confirmed the importance of the business climate, taxation, and regulation in influencing FDI. Gizaw (2023) found that business regulatory reforms in East Africa increased average FDI by 3.09% and GDP by 2.24%. These results indicate that any regulatory improvements related to construction, contract enforcement, access to credit, electricity, and tax payments can provide real incentives for foreign investors to enter a country. In other words, simpler and more transparent business regulations not only strengthen FDI inflows but also have direct implications for regional economic growth.

Furthermore, Corcoran (2018) show that multinational companies are often willing to make trade-offs between regulatory aspects. For example, weaknesses in entry-exit regulations can be tolerated as long as there is strength on the contract enforcement side. This finding emphasizes that regulatory improvements do not have to be uniform across all areas, but can be prioritized on factors that are most strategic in increasing investment attractiveness. This perspective provides an understanding that a country's institutional limitations can still be compensated for if there are other areas of regulation that are very strong (Zulfia et al., 2025).

On the taxation side De Mooij (2003), through a meta-analysis of 25 studies, found that a 1-point reduction in corporate tax rates can increase FDI by 3,3%. These results confirm the consistency of FDI sensitivity to cross-border tax policies, despite methodological variations. Thus, fiscal policy has proven to be one of the main instruments used by governments to influence the direction and volume of FDI. Furthermore, Arulampalam (2019) reinforce this evidence by finding that official tax rates in target countries have a negative effect on the probability of cross-border acquisitions. This finding underscores that, in addition to the level of tariffs, the structure of the tax system also plays an important role in determining cross-border investment decisions.

In the context of more modern regulations Hardi (2025) explicitly tested the B-READY indicators and found that six of the ten indicators had a significant positive effect on FDI. These indicators include business insolvency, dispute resolution, international trade, labor, market competition, and taxation. This shows that the existence of a clear legal framework, a healthy competitive climate, and a proportional tax burden are the main determinants that influence FDI inflows. In other words, B-READY can serve as a comprehensive proxy for assessing a country's readiness to attract foreign investment in an increasingly competitive global era.

This study contributes to the international business literature by re-evaluating Dunning's OLI Paradigm through the lens of the World Bank's B-READY (Business Ready) index. Unlike previous studies that relied on Doing Business indicators, this paper offers a new approach to international business by utilizing the three-pillar B-READY framework (Regulatory Framework, Public Services, and Operational Efficiency) to operationalize the Location (L) and Internalization (I) dimensions more precisely.

Furthermore, this study offers new insights by empirically testing whether the significance of these determinants (specifically Business Entry, Taxation, and Utility Services) differs between Emerging Market Economies (EMEs) and Advanced Economies (AEs) in an era of rising global economic volatility. This is due to differences in economic structure, institutional capacity, and reliance on FDI between these two groups of countries have the potential to yield different responses to regulatory changes and external pressures. This understanding is crucial

as it can reveal whether domestic institutional and regulatory factors are reflected in the B-READY indicators. Thus, this study goes beyond a static view of the investment climate, offering an assessment of how institutional "readiness" functions as a critical attractor for FDI when traditional market stability can no longer be taken for granted.

In addition to the main variables, this study uses GDP as a control variable. GDP per capita is considered a key factor influencing FDI as it reflects market size and purchasing power. Ningsih's (2019) empirical study shows that GDP per capita has a positive and significant effect on FDI inflows in ASEAN countries during the 2008–2017 period. By including these control variables, this study aims to distinguish the specific impact of the B-READY regulations on FDI from macroeconomic structural factors.

Against this backdrop, a critical research gap emerges: existing empirical studies have yet to evaluate how the newly introduced B-READY framework (specifically its Business Entry, Taxation, and Utility Services dimensions) influences FDI inflows, and whether these effects differ systematically between Emerging Market Economies (EMEs) and Advanced Economies (AEs). This study therefore addresses the following research question: Do the Business Entry, Taxation, and Utility Services indicators of the B-READY framework significantly affect FDI inflows, and do their impacts differ across economic development levels.

Literature review

Foreign Direct Investment

FDI is understood as the inflow of foreign direct investment aimed at obtaining long-term ownership and control of companies operating outside the investor's home country. FDI elements include investments in the form of equity, reinvestment of profits, and long-term and short-term capital as recorded in the balance of payments. To ensure comparability between countries, FDI is measured as a ratio to Gross Domestic Product (GDP). According to the United Nations Trade and Development, FDI is defined as investment that forms a long-term relationship between entities resident in one country (investors or home country) and companies in another country (host country).

This investment allows foreign investors to manage, control, and have significant influence over companies in the recipient country. A similar definition is given by the International Monetary Fund and the OECD, which emphasize that FDI is a form of long-term investment by individuals, private companies, or groups of individuals that aims to obtain profits and control over companies in other countries. Thus, FDI essentially reflects the long-term commitment of foreign investors to manage and control companies in the recipient country, both to obtain financial profits and influence (Nupehewa et al., 2022).

Foreign direct investment (FDI) is seen as one of the drivers of economic growth Choi (2024) as well as an instrument for poverty alleviation (Dhahri & Omri, 2020). This is because FDI not only provides direct capital financing, but also supports growth through technology transfer, increased productivity, job creation, and the application of new processes and modern managerial skills (Lee et al., 2018). Given the important role of FDI for the economies of recipient countries, various studies have been conducted to examine the impact of FDI on economic growth and its impact on poverty reduction in developing countries (Anetor, 2025).

Business Entry

Business Entry (business registration) provides various benefits that cannot be obtained by informal companies. Formal companies can access legal services and financing options that support business expansion, thereby contributing to increased employment and the adoption of new technologies (Cirera et al., 2022). Employees also receive social security protection Medina (2018) and better management practices (Islam & Amin, 2023). This makes formal companies more productive, resilient, and likely to grow and contribute significantly to the economy (Boly, 2018). Conversely, informal companies tend to face structural barriers, infrastructure limitations, and low labor skills that hinder sustainable growth (Loayza, 2018).

From a macro perspective, high levels of formal entrepreneurship have a positive impact on job creation, increased productivity, and economic growth (Loayza et al., 2016; Soesilowati et al., 2024). Business formalization also strengthens the government's fiscal capacity through an increased tax base, which enables the provision of essential public services such as infrastructure,

education, and health (Fajnzylber et al., 2011). A conducive business environment is an important factor in encouraging companies to register formally. Complex regulations in the business establishment process are associated with high levels of corruption and informality (Klapper & Love, 2010). Therefore, simple, efficient, and secure regulations are needed to encourage company registration. The implementation of cost-effective and time-saving registration schemes has been shown to increase new business activity (Klapper et al., 2011). For example, the implementation of security checks in registration documents or the obligation to include beneficial ownership information can minimize the risk of misuse of business entities for illegal purposes. In addition, transparent and digitized public services, including interoperability between agencies, can reduce compliance costs and encourage more businesses to register.

Within the B-READY framework, the topic of Business Entry is measured based on three main pillars: (1) regulatory quality, which includes information and procedural standards as well as restrictions imposed on business registration (2) the quality of digital public services and information disclosure; and (3) operational efficiency, which includes the time and cost of establishing domestic and foreign businesses.

Taxation

Taxes are an important instrument used by governments around the world to collect state revenue and reallocate resources to various social sectors, thereby promoting economic development and meeting public needs. A healthy fiscal environment can support private sector development through the provision of infrastructure, strengthening human capital, law enforcement, and various other public services (Besley & Torsten, 2019). Conversely, complex tax regulations, low administrative efficiency, and high compliance costs are associated with increased corruption, decreased investment, and low entry rates for new companies (Dabla-Norris et al., 2017).

Effective tax policies need to balance increasing revenue and minimizing the compliance burden on companies. Efficient tax administration, ease of access to information, the use of electronic payment systems, and information disclosure can boost company productivity and economic growth (Dabla-Norris et al,. 2017; Zulfia, 2023). Furthermore, reducing the probability of audits for low-risk taxpayers increases compliance, while the existence of a fair, open, and efficient dispute resolution mechanism protects the rights of taxpayers (Koos, 2014).

However, excessive taxation has the potential to lead to tax avoidance (Clotfelter, 1983). Complex regulations can also weaken incentives for business formalization Coolidge (2009), mainly due to significant additional compliance burdens, especially for small and medium-sized enterprises (Alm et al., 2010). Therefore, the government needs to design rules that limit discretion and provide certainty for taxpayers. In the realm of environmental taxation, fiscal instruments play an important role in encouraging consumers and businesses to choose low-cost, sustainability-oriented solutions, as well as stimulating innovation and investment in low-carbon technologies (Aldy & Stavins, 2011).

Within the B-READY framework, the topic of Taxation covers three main pillars. First, the quality of tax regulations, including the affordability of tax guidelines, transparency in the issuance of new regulations, the existence of binding rulings, public consultation mechanisms, and environmental fiscal instruments such as carbon taxes and fossil fuel subsidies. Second, the quality of public services in tax administration, which includes the digitization of services, interoperability between institutions, administrative transparency, and audit and dispute resolution practices. Third, the operational efficiency of the tax system, which is measured using electronic systems for reporting and payment, the duration of audits and disputes, and real costs in the form of effective tax rates on profits, employment taxes, and social contributions.

Utility Services

Utility services play a crucial role in economic and social development because they provide the basic inputs that every business needs to operate. Electricity, water, and the internet are important factors of production that support business activities. When these services are unreliable, inefficient, or too expensive, businesses face significant operational burdens. Power outages can reduce productivity, corporate revenue, and economic growth (Allcott et al., 2016). Globally, one-third of companies identify unstable electricity supply as a major constraint to their

operations. Similarly, inadequate water supply due to aging infrastructure, poor water quality, or fluctuations in water pressure can reduce productivity, accelerate machine damage, and squeeze profits. It is estimated that losses due to power outages and water disruptions reach around USD 82 billion per year in developing countries (Maruyama et al., 2019).

Internet connectivity is also an indispensable factor for companies' digital adoption. However, in many developing countries, the scarcity of high-speed access remains a barrier. In 2022, only about 17 percent of the world's population will have access to fixed broadband subscriptions, and in the least developed countries, the figure will be only 1.6 percent (WIPO, 2023). Network limitations and the high cost of installing broadband connections limit companies' ability to adopt and improve digital technologies in their business operations (Chen, 2019).

Within the B-READY framework, the topic of Utility Services covers three main pillars. First, the quality of utility service regulation, which assesses the reliability of regulations in accelerating the provision of utility connections, supply quality, quality monitoring mechanisms, digital connectivity efficiency, and environmental sustainability, such as wastewater treatment practices. Second, governance and transparency quality, which measures aspects of monitoring the reliability and sustainability of supply, connection security, openness of information regarding service disruptions, tariffs, connection requirements, complaint mechanisms, and customer satisfaction surveys. This pillar also covers interoperability between utility providers and the use of electronic applications and payments. Third, operational efficiency, which focuses on the time and cost of obtaining a new connection, ongoing operational costs, and the reliability of utility supply (World Bank, 2024).

Therefore, based on the relevant literature and existing gaps, this study attempts to integrate the B-READY index into the OLI framework, specifically regarding Location or Internalization benefits, through the reduction of transaction costs and the enhancement of location-specific assets. Specifically, Utility Services and Taxation serve as the primary determinants of 'L'; the former represents the quality of available critical infrastructure, while the latter reflects the fiscal attractiveness of the country's environment. Conversely, Business Entry efficiency directly influences the 'I' advantage. By lowering administrative barriers to entry, a high B-READY score reduces the search, negotiation, and enforcement costs associated with entering foreign markets, thereby encouraging firms to internalize their operations through FDI rather than relying on external market contracts (such as licenses).

METHOD

This study used a quantitative approach with cross-sectional regression and applied Weighted Least Squares (WLS) as the estimation technique. The quantitative approach was chosen because it aligned with the research objective of testing the hypothesis regarding the effect of Business Entry, Taxation, and Utility Services on Foreign Direct Investment (FDI) inflows. The dependent variable in this study was FDI inflows (expressed as a percentage of Gross Domestic Product), with data obtained from the World Bank's World Development Indicators. The main independent variables consisted of the Business Entry Index (BENTRY), Taxation Index (TAXINDEX), and Utility Services Index (UTSERV), sourced from the World Bank B-READY database.

The unit of analysis in this study was 32 countries covered in B-READY 2024, consisting of 26 countries categorized as Emerging Market Economies (EMEs) and 6 countries classified as Advanced Economies (AEs). The dataset was classified according to the categories provided by the International Monetary Fund, where Emerging Market Economies (EMEs) represent developing economies and Advanced Economies (AEs) represent developed economies.

Table 1. List of Countries included in B-READY

Emerging Market Economies (EMEs)	Advanced Economies (EAs)
Bangladesh	Estonia
Bosnia and Herzegovina	Hong Kong SAR, China
Bulgaria	New Zealand
Cambodia	Portugal
Central African Republic	Singapore

Costa Rica	Slovak Republic
Côte d'Ivoire	
El Salvador	
Gambia, The	
Georgia	
Ghana	
Hungary	
Indonesia	
Iraq	
Madagascar	
Montenegro	
Nepal	
North Macedonia	
Pakistan	
Paraguay	
Philippines	
Romania	
Samoa	
Timor-Leste	
Viet Nam	
West Bank and Gaza	

Source: Compiled by the authors based on IMF World Economic Outlook (WEO) Database (April 2023) classifications

Before interpreting the regression results, this study conducted a series of validity and classical assumption tests to ensure the reliability of the estimates. Initial estimates were obtained using Ordinary Least Squares (OLS). However, the test results indicated the presence of heteroskedasticity; therefore, the estimation was re-run using Weighted Least Squares (WLS) to obtain a more efficient and reliable estimator.

The validity of the model was assessed through several stages. Multicollinearity was examined using the Variance Inflation Factor (VIF) to ensure that there was no severe correlation among independent variables. Heteroskedasticity was tested using the Breusch–Pagan and Goldfeld–Quandt tests. In addition, a residual normality test was conducted to ensure that the error terms were approximately normally distributed. The F-test was used to assess the simultaneous significance of the independent variables, while the goodness-of-fit was evaluated using the Adjusted R^2 value.

Regression analysis was conducted in two stages. First, a full-sample regression was performed using all countries in the dataset to identify the general influence of Business Entry, Taxation, and Utility Services on FDI. Second, a subsample analysis was conducted by separating countries into Emerging Market Economies (EMEs) and Advanced Economies (AEs) using dummy variables, allowing differences in the effects between groups to be examined in greater depth.

The main regression model used is:

$$FDI_i = \beta_0 + \beta_1 lnBENTRY_i + \beta_2 lnTAXAX_i + \beta_3 lnUTSERV_i + \beta_4 GDP_i + \varepsilon_i \text{.....(1)}$$

To test for heterogeneity between country groups, the model is estimated separately as follows:
Advanced Economies (AEs)

$$FDI_i^{AE} = \beta_0 + \beta_1 lnBENTRY_i + \beta_2 lnTAXAX_i + \beta_3 lnUTSERV_i + \beta_4 GDP_i + \varepsilon_i \text{.....(2)}$$

Emerging Market Economies (EMEs)

$$FDI_i^{EME} = \beta_0 + \beta_1 lnBENTRY_i + \beta_2 lnTAXAX_i + \beta_3 lnUTSERV_i + \beta_4 GDP_i + \varepsilon_i \text{.....(3)}$$

FDI_i = Foreign Direct Investment (USD)
$BENTRY_i$ = Business Entry Index
$TAXAX_i$ = Taxation Index

$UTSERV_i$ = Utility Services Index
GDP_i = GDP per capita as control variable
ε_i = error term

All final estimates were performed using Weighted Least Squares (WLS) to address heteroscedasticity and produce consistent and efficient estimators.

This study uses 1/GDP as a weighting factor in the WLS estimation, based on the Scale Effects hypothesis commonly used in cross-sectional development studies. We assume that the variance of the idiosyncratic component is proportional to the size of the economy ($Var(\varepsilon_1) = \sigma^2 GDP_i$).

Larger economies inherently exhibit larger absolute residuals in the sustainability metric. By applying a weight of 1/GDP, we transform the model into a homoscedastic form, thereby preventing large GDP outliers from dominating parameter estimates. Given that this study analyzes the differences in FDI between developed and developing countries, GDP serves as a proxy for investment data maturity and economic scale. This weighting scheme ensures that the estimated coefficients reflect representative impacts across the distribution of economic development levels, rather than being influenced solely by the scale of aggregate output.

RESULTS AND DISCUSSION

Results

The model was first tested using Ordinary Least Squares (OLS). Ordinary Least Squares (OLS) is a basic regression method that estimates parameters by minimizing the sum of squares of differences between actual values and predicted values.

Table 2. Multicollinearity Test

Variable	VIF	1/VIF
BENTRY	1.85	0.539176
UTSERV	1.59	0.629267
TAXINDEX	1.55	0.645437
GDP	1.15	0.866266
Mean VIF	1.54	

Source: Calculated by the authors

The results of the multicollinearity test using the Variance Inflation Factor (VIF) show that all variables have a VIF value below 10, with an average value of 1.54.

Table 3. Skewness and kurtosis test

Variable	Obs	Pr (skewness)	Pr (kurtosis)	Joint test	
				Adj chi2 (2)	Prob > chi2
uhat	32	0.0000	0.0002	24.78	0.0000

Source: Calculated by the authors

The normality of residuals was tested using the Skewness–Kurtosis test. The test results showed a probability value (p-value) of 0.0000 for skewness and 0.0002 for kurtosis. Meanwhile, the joint test produced a $chi^2(2)$ value of 24.78 with a probability of 0.0000. Since all p-values are less than 0.05, the null hypothesis stating that the residuals are normally distributed is rejected.

Although the results indicate that the residuals are not normally distributed, no further corrective measures were taken because the Weighted Least Squares (WLS) estimator remains consistent and unbiased. Following Gujarati (2012), with a sample size of N = 32, this study relies on the property of asymptotic normality. This justifies the use of standard inference procedures, as the distribution of the estimator approaches normality in sufficiently large samples regardless of the error distribution

Table 4. Breusch-Pagan/Cook-Weisberg test

Assumption: Normal error terms
Variable: Fitted values of FDI

H0: Constant variance	
Chi2 (1)	Prob > chi2
6.53	0.0106

Source: Calculated by the authors

Breusch–Pagan/Cook–Weisberg heteroscedasticity test produced a $chi^2(1)$ statistical value of 6.53 with a probability of 0.0106 ($p < 0.05$), thus rejecting H_0 and indicating heteroscedasticity in the model. In this study, weighting was performed using the GDP (1/GDP) variable. The application of 1/GDP as the inverse of the variance proxy yields a more efficient and unbiased estimator, ensuring that the heteroscedasticity between developed and developing countries does not affect the model's structural parameters.

Empirical Results for All Countries

This regression model analyzes the effect of Business Entry (lnBENTRY), Taxation (ln TAXINDEX), and Utility Services (lnUTSERV) on Foreign Direct Investment (FDI) flows by controlling for GDP variables and using the Weighted Least Squares (WLS) method with a weight of 1/GDP to overcome heteroscedasticity. The estimation results are shown in the table below.

Table 5. Empirical Results for All Countries

Variable	Coefficient	Std. Error	t-statistik	Prob. (p-value)	95% Confidence Interval
lnBENTRY	3.62×10^{10}	1.26×10^{10}	2.88	0.008	1.04×10^{10} – 6.19×10^{10}
lnTAXINDEX	7.93×10^{10}	2.38×10^{10}	3.33	0.003	3.05×10^{10} – 1.28×10^{11}
lnUTSERV	-4.11×10^{10}	4.63×10^{10}	−0.89	0.389	-1.36×10^{11} – 5.38×10^{10}
GDP	−0.00006	0.0000465	−1.29	0.208	−0.0001555 – 0.0000377
Constant	-2.60×10^{11}	1.66×10^{11}	−1.56	0.130	-6.01×10^{11} – 8.13×10^{10}

Number of observations = 32
R^2 = 0.6158
Adjusted R^2 = 0.5589
F(4,27) = 10.82
Prob > F = 0.0000
Root MSE = 2.2

Overall, the model has an F-statistic of 10.82 with a probability value of 0.0000, making the model simultaneously significant at a 1% confidence level. The R-squared value of 0.6158 indicates that approximately 61.6% of FDI variation can be explained by the independent variables in the model, while the remainder is explained by other factors outside the model.

The coefficient of lnBENTRY is positive (3.62×10^{10}) and statistically significant at the 1% level (p = 0.008). Since the model is specified in a lin-log form, a 1% increase in the Business Entry index is associated with an increase in FDI inflows of approximately $0.01 \times 3.62\times10^{10}$, ceteris paribus. The positive coefficient indicates that countries with more efficient business entry regulations tend to attract higher levels of foreign direct investment. The coefficient is statistically significant as indicated by the t-statistic of 2.88 and p-value of 0.008. Furthermore, the 95% confidence interval for the coefficient ranges from 1.04×10^{10} to 6.19×10^{10}, confirming a positive and significant relationship between Business Entry and FDI inflows.

The coefficient of ln TAXINDEX is positive (7.93×10^{10}) and statistically significant at the 1% level (p = 0.003). This implies that a 1% improvement in the Taxation Index is associated with an increase in FDI inflows of approximately $0.01 \times 7.93\times10^{10}$. The result suggests that a more efficient and investment-friendly tax environment contributes positively to attracting foreign investors. The coefficient is statistically significant as indicated by the t-statistic of 3.33 and p-

value of 0.003. The 95% confidence interval for the coefficient ranges from 3.05×10^{10} to 1.28×10^{11}, further supporting the robustness of the posi tive relationship. Thus, a taxation system that is more supportive of investment, for example through fiscal incentives or regulatory simplification, can enhance a country's attractiveness to foreign investors.

Although the coefficient of lnUTSERV is negative, the effect is not statistically significant (p = 0.389). Therefore, there is insufficient evidence to conclude that improvements in Utility Services are associated with changes in FDI inflows in the sample countries. The t-statistic value is –0.89, and the 95% confidence interval ranges from -1.36×10^{11} to 5.38×10^{10}, crossing zero. These results indicate that Utility Services do not have a statistically significant effect on FDI inflows within the sample.

The GDP coefficient of –0.00006 with a standard error of 0.0000465 and a t-statistic of –1.29 is also insignificant (p = 0.208). The t-statistic value is smaller than the t-table (1.29 < 2.05), and the 95% confidence interval includes zero (–0.0001555 to 0.0000354). This means that there is insufficient evidence that GDP variation in this model affects FDI after policy factors are taken into account. The insignificance of the GDP variable may also be influenced by the use of the weight 1/GDP in WLS, which methodologically reduces the influence of differences in economic scale between countries.

Empirical Results of Advanced Economies (AEs) developed economies

Table 6. Results of Advanced Economies (AEs) developed economies

Variable	Coefficient	Std. Error	t-statistics	Prob. (p-value)	95% Confidence Interval
lnBENTRY_dev	-8.22×10^{8}	5.01×10^{11}	–0.00	0.999	-1.03×10^{12} – 1.03×10^{12}
lnTAXINDEX_dev	4.94×10^{8}	2.27×10^{11}	0.00	0.998	-4.65×10^{11} – 4.66×10^{11}
lnUTSERV_dev	2.58×10^{9}	4.00×10^{11}	0.01	0.995	-8.19×10^{11} – 8.24×10^{11}
GDP	0.0000611	0.0001186	0.53	0.603	–0.000147 – 0.000177
Constant	1.46×10^{9}	6.24×10^{8}	2.35	0.027	1.84×10^{8} – 2.74×10^{9}

Number of observations = 6
R^2 = 0.0200
Adjusted R^2 = –0.1252
F(4, 27) = 0.14
Prob > F = 0.9668
Root MSE = 3.5

The coefficient for the variable lnBENTRY_dev is -8.22×10^{8} with a standard error of 5.01×10^{11}, resulting in a t-statistic value of –0.00 and a p-value of 0.999. This value is well below the t-table value of ±2.048 (df = 27, α = 0.05), so the coefficient is not statistically significant. The 95% confidence interval for this coefficient ranges from -1.03×10^{12} to 1.03×10^{12}, which is very wide and crosses zero, indicating a very high level of estimation uncertainty. In the log-level context, a 1% increase in the business entry in developed countries is estimated to change FDI flows by around USD –8.22 million, but this effect is statistically indistinguishable from zero. These results show that, unlike in developing countries, the ease of doing business variable does not contribute significantly to FDI variation in developed countries. One plausible explanation is that in developed countries, business regulations and systems are relatively well-established and homogeneous, so that differences between countries in this regard are not large enough to explain the variation in FDI flows.

The coefficient of the variable lnTAXINDEX_dev is 4.94×10^{8}, with a standard error of 2.27×10^{11}. The resulting t-statistic value is very small (0.00) with a p-value of 0.998, much greater than 0.05. The 95% confidence interval covers a very wide range, from -4.65×10^{11} to 4.66×10^{11}, and also crosses zero. Economically, a 1% increase in the tax policy index is estimated to increase FDI by only USD 4.94 million, but due to the very high uncertainty of the estimate, this effect is not statistically significant. In other words, changes in tax policy in the context of developed countries do not appear to affect FDI in this model. It is possible that the differences in tax systems between developed countries are too small to be a determining factor for investment, or that tax factors may already be "internalized" by multinational investors who are accustomed to stable and

predictable tax frameworks in developed countries.

The coefficient of lnUTSERV_dev is recorded at 2.58×10^{9} with a standard error of 4.00×10^{11}. The t-statistic value is only 0.01, much smaller than the t-table of 2.048, with a p-value of 0.995, which means it is not statistically significant. The 95% confidence interval covers the range of -8.19×10^{11} to 8.24×10^{11}, indicating a large estimation uncertainty and crossing zero. Economically, a 1% increase in the utility service indicator is estimated to increase FDI by only USD 25.8 million, but this effect cannot be statistically confirmed. This can be interpreted to mean that the utility infrastructure factor in developed countries is no longer a major differentiating factor in foreign investment decisions, as utility services in developed countries are generally already at a high and relatively uniform level.

The GDP coefficient of 0.0000361 with a standard error of 0.0000686 produces a t-statistic of 0.53 with a p-value of 0.603, which is well above the conventional significance level. The 95% confidence interval ranges from –0.0001047 to 0.000177, covering zero. This means that there is no significant effect of GDP on FDI in the developed country group after policy factors are taken into account. Substantively, this can be explained by the fact that developed countries generally have large and stable economies, so that differences in economic scale between countries are no longer a major factor affecting FDI, especially when the model uses 1/GDP weighting in WLS.

The model as a whole has an F(4, 27) value of 0.14 with a p-value of 0.9668, which means it is not simultaneously significant. The R^2 value is 0.02 and the adjusted R^2 is negative (-0.1252), indicating that the model is almost unable to explain the variation in FDI in the developed country group. None of the policy variables (business entry, taxation, utility services) are significant, and the GDP control variable also has no effect.

The small sample size for the Advanced Economies group, which includes only six countries, is attributed to limited data availability for the key variables (e.g. BREADY)-. This small sample size results in low statistical power in the analysis of this subgroup, as reflected by a low R-squared value (0.02) and the non-significance of several coefficients.

However, this limitation has been mitigated by conducting an analysis on the full sample, which combines all countries (see Table 5). This full-sample analysis provides greater statistical power and confirms the overall validity of the model. Although the results for the developed-country subsample are indicative, the results from the full-sample analysis and the analysis of developing countries provide a strong empirical basis for the conclusions of this study.

Empirical Results of Emerging Market Economies (EMEs)

Table 7. Results of Emerging Market Economies (EMEs)

Variable	Coefficient	Std. Error	t-statistik	Prob. (p-value)	95% Confidence Interval
lnBENTRY	5.22×10^{10}	1.66×10^{10}	3.15	0.005	1.78×10^{10} – 8.67×10^{10}
lnTAXINDEX	8.52×10^{10}	2.50×10^{10}	3.41	0.003	3.32×10^{10} – 1.37×10^{11}
lnUTSERV	-1.43×10^{10}	5.44×10^{10}	–0.26	0.795	-1.27×10^{11} – 9.88×10^{10}
GDP	–0.000072	0.000052	–1.39	0.179	–0.000175 – 0.000037
Constant	-4.56×10^{11}	2.24×10^{11}	–2.03	0.055	-9.22×10^{11} – 1.05×10^{10}

Number of observations = 26
R^2 = 0.6750
Adjusted R^2 = 0.6131
F(4, 21) = 10.91
Prob > F = 0.0001
Root MSE = 2.0

Unlike the developed countries group, the number of observations in the regression for the developing countries group was recorded as 26 observations, corresponding to the number of developing countries in the sample. This occurred because the analysis for the developing countries group was conducted by limiting the sample using the if developing == 1 command in the regression. The following are the estimation results obtained:

The coefficient of the lnBENTRY variable is 5.22×10^{10}, with a standard error of 1.66×10^{10}.

The t-statistic value = 3.15, which is greater than the t-table value of 2.080, with a p-value of 0.005, indicating that this coefficient is significant at a 1% confidence level. The 95% confidence interval ranges from 1.78×10^{10} to 8.67×10^{10}, all of which are positive. Economically, because the model is level–log, a 1% increase in the business entry estimated to increase FDI by USD 522 million, with a 1% effect range between 1.78×10^{8} and 8.67×10^{8} units. These findings indicate that in developing countries, ease of doing business is an important factor that is positively and significantly correlated with foreign direct investment flows. Countries with simpler business regulations and higher Business Entry scores tend to be more attractive to foreign investors.

The coefficient of lnTAXINDEX is 8.52×10^{10}, with a standard error of 2.50×10^{10}. The t-statistic value = 3.41, greater than the t-table 2.080, and p-value = 0.003, indicating strong significance at the 1% level. The 95% confidence interval for this coefficient is between 3.32×10^{10} and 1.37×10^{11}, all of which are positive. In economic terms, a 1% increase in the tax policy index is estimated to increase FDI by USD 852 million, ranging from 3.32×10^{8} to 1.37×10^{9} units. These findings indicate that more investment-friendly tax policies, such as competitive tax rates, administrative ease, or fiscal incentives, are significant factors in attracting FDI flows to developing countries.

The coefficient of the lnUTSERV variable is -1.43×10^{10}, with a standard error of 5.44×10^{10}. The t-statistic value is −0.26, well below the t-table of 2.080, with a p-value of 0.795. The 95% confidence interval ranges from -1.27×10^{11} to 9.88×10^{10}, which is wide and includes zero. A 1% increase in the utility service index is estimated to change FDI by approximately USD −143 million, but this effect is not statistically significant and is economically indistinguishable from zero. This may be because the quality of utility services in many developing countries varies greatly and is often not a primary consideration in the early stages of investment decisions, compared to more direct factors such as regulation and fiscal incentives.

The GDP coefficient is −0.0000702, with a standard error of 0.0000504, a t-statistic of −1.39, and a p-value of 0.179. The t-statistic value is well below the t-table, and the 95% confidence interval includes zero (−0.000175 to 0.0000347). This means that GDP differences between developing countries do not have a significant effect on FDI after policy variables are included in the model. In this context, the 1/GDP weighting in WLS may also reduce the role of economies of scale, making this factor less dominant.

Discussion

The Effect of Business Entry on FDI

These empirical findings are consistent with various previous studies. Gizaw (2023) emphasizes the importance of continuous improvement of the business climate in attracting trade and investment flows in developing countries, particularly in East Africa. The study shows that business regulatory reforms, such as ease of starting a business, contract enforcement, and investor protection, significantly increase FDI flows and regional economic growth. Similarly, Corcoran (2018) found that countries with more efficient entry–exit regulations and contract enforcement are more attractive to multinational companies, even when other institutional aspects are less robust. These findings reinforce the current research that ease of doing business plays an important role in the context of developing countries.

In the context of developed countries, the insignificant findings can be explained by literature emphasizing that basic regulatory factors are no longer the main determinants of FDI in developed countries. Corcoran (2018) also show that investors can trade off the weaknesses of one institution with the strengths of another, for example, continuing to invest in countries with less efficient entry regulations as long as they have very strong contract enforcement. In other words, in developed countries, factors such as market size, global supply chain networks, and a high degree of legal certainty may be more dominant than indicators of ease of entry, which are relatively uniform across countries.

The Effect of Taxation on FDI

Referring to a statement that tax payments are one aspect of business regulation that has a significant effect on FDI inflows in East African countries, in addition to credit access and investor protection (Gizaw et al., 2023). This supports the findings of studies on developing countries that better taxation policies can increase investment attractiveness. Furthermore De

Mooij (2003), through a meta-analysis of 25 empirical studies, found that a 1 percentage point decrease in corporate tax rates is associated with an increase in FDI of around 3.3%, reinforcing the evidence of the importance of taxation policy as a determinant of investment location.

Hebous (2011) show that Greenfield investment is much more sensitive to tax rates than M&A, especially for German companies. This finding is relevant to developing countries, where the majority of FDI inflows are still in the form of Greenfield investment, making sensitivity to tax policy high. Furthermore Arulampalam (2019) also found that official tax rates in the target country have a significant negative effect on the probability of cross-border acquisitions, with different responses depending on the characteristics of the acquirer and the tax system of the home country.

Meanwhile, the insignificant results for developed countries are also in line with the literature's argument that in countries with mature tax frameworks, taxation is no longer the main distinguishing variable, but other factors such as legal stability, market size, global supply chain integration, and the availability of skilled labor are more dominant. Multinational investors can engage in cross-jurisdictional tax planning or tradeoff between institutional aspects as described by (Corcoran & Gillanders, 2018).

The Impact of Utility Services on FDI

The findings of this study differ from those of Gizaw (2023), who found that improvements in the electricity sector had a significant effect on FDI inflows in East Africa. This difference may be due to differences in the context of the analysis: Gizaw used dynamic panel data that captured the impact of regulatory reforms over time, while this study used cross-sectional data that focused on differences between countries. Furthermore, the influence of utilities in East Africa is likely to be more dominant than in the global sample, which includes developed and developing countries, so that the effect of utilities in this study is relatively insignificant statistically. Meanwhile, Corcoran (2018) emphasize that multinational companies can tradeoff between regulatory aspects, for example, by entering countries with less efficient utility services as long as there are other strong institutions such as contract enforcement or efficient trade policies. This explains why utility services are not significant in either developed or developing countries.

CONCLUSION

This study analyzes the determinants of foreign direct investment (FDI) by aligning the B-Ready index with Dunning's OLI (Ownership, Location, Internalization) framework. Based on the results of the analysis and discussion, this study concludes that, in general, the variables of Ease of Doing Business and Taxation have a positive and significant effect on Foreign Direct Investment (FDI) inflows, while the Utilities variable does not show a significant effect. This indicates that ease of doing business and investment-friendly tax policies are important determinants in attracting foreign capital in various countries. Ease of doing business through simplified entry procedures and tax policies through competitive fiscal policies reduce transaction costs in establishing a business, thereby attracting foreign companies to expand locally. However, the finding that utility services have no significant influence may be due to the evolution of infrastructure (such as electricity, water, and the internet) into basic factors or minimum requirements for most countries, so their influence may not be significant enough to trigger an increase in FDI.

When the analysis is broken down by level of economic development, clear differences in patterns are found between developed and developing countries. In the group of developed countries, the three variables Business Entry, Taxation, and Utility Services, do not have a significant impact on FDI. This condition can be explained by the relative stability and uniformity of regulatory and tax systems among developed countries, as well as the limited sample size, which results in low statistical power.

On the other hand, in the group of developing countries, Business Entry and Taxation have a positive and significant impact on FDI, while Utility Services remain insignificant. These findings confirm that in developing countries, regulatory and fiscal policy reforms are key instruments in attracting foreign investment, while differences in the quality of utility infrastructure have not yet become a primary factor in determining investor decisions.

These findings may serve as a signal to policymakers, particularly in developing countries,

that investors' risk perceptions can be optimized through administrative improvements that provide ease of doing business as well as marginal returns on investment.

A limitation of this study is the use of cross-sectional data, which cannot capture the impact of policies over a specific period of time. This is due to the limited availability of the World Bank's Business Ready data, which was only released in 2024. Additionally, the countries included, particularly advanced economies (AEs), are very limited, making the results susceptible to bias.

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AUTHOR CONTRIBUTION STATEMENT

R. contributed to conceptualization, methodology, supervision, and funding acquisition. E.S. and W. contributed to investigation, data collection, formal analysis, and manuscript preparation. All authors reviewed and approved the final manuscript.

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