

## Factors Influencing Foreign Direct Investment (FDI) Location Selection: A Review of the Literature

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### Abstract

Foreign Direct Investment (FDI) has long been associated with globalisation. It enables host countries to achieve economic growth by providing possibilities for multinational corporations (MNCs) to internationalise their business operations. To comprehend FDI, one must first grasp the fundamental motivations that drive a company to invest abroad. The objective of this research is to identify the key elements that influence a company's decision when selecting a location for FDI. The Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines were used to conduct a systematic review and four different databases were considered, namely ScienceDirect, Emerald Insight, Journal Storage (JSTOR) and Web of Science (WOS). The findings indicated that six theories can be associated to the factors influencing the choice of FDI locations, namely capital market theory, transaction cost theory, product life cycle theory, internationalisation theory, the eclectic paradigm, and entry mode theory. The findings also revealed that there are four factors that would influence the choice of FDI locations: (1) micro factors; (2) macro factors; (3) strategic factors; and (4) sector-specific factors. Future research should focus on determining how the factors influencing FDI location selection differ according to the types of FDI, which include vertical, horizontal, and conglomerate FDI. In addition, research should also focus on how the identified factors can affect the FDI inflows in host countries across various business industries.

**Keywords:** Foreign Direct Investment (FDI), Location Selection, PRISMA, Systematic Review, Internationalisation

**Introduction**

Foreign direct investment (FDI) occurs when a company acquires control of a business venture outside its own country or when it invests directly in facilities in a foreign country for production or marketing. Traditionally, FDI occurs between developed countries, but in recent years, FDI has begun to target developing countries as well. FDI is one of the most important mechanisms for globalisation where corporations see international growth as an essential step towards gaining a more effective access into markets where they currently have little presence (Tyler and Zhang, 2007). In other words, FDI is a process of transferring capital from one country to another for long-term participation, and it typically involves the investment of assets in other country's local goods and services (Tsen, 2005) as well as collaboration in expertise, cross-border acquisitions, technology transfer, greenfield investments, and joint ventures.

To simplify, FDI can be classified as horizontal, vertical, or conglomerate. Horizontal FDI happens when an MNC invests in a host country to carry out similar production activities as it does in its own country. An MNC's vertical FDI strategy involves fragmenting its production process globally by deploying each stage in the host country where it can be executed at minimal costs, whereas conglomerate FDI is when an MNC makes an investment in a completely different field that is not directly related to its existing business (Protsenko, 2004). FDI is mutually beneficial, providing advantages to both the host country and the MNC. The host country's economy should be able to expand and develop human capital, create more jobs, and better access to technology, knowledge, and skills. MNCs on the other hand, would also be able to lower the costs by reducing labour, transportation, or production costs, diversify their market through subsidiaries, and achieve greater savings on taxes and tariffs.

Corporations that choose to pursue FDI must undertake two decisions when deciding where to invest internationally. Firstly, which country to invest in and why. Secondly, what type of firm can invest in the host country. Attracting FDI, on the other hand, is a big issue for host countries, as they must discover the major factors that would inspire and influence FDI location decisions (Binsaheed, 2009).

Certain factors influence FDI location, making a given location more or less appealing in the perspective of MNCs. This demands everyone to identify the dominant motivating economic factors and aspects when selecting a particular FDI location and the measures that should be taken to make a location attractive to investors. Thus, this literature review is intended to identify the factors that would influence foreign corporations' choice of FDI location, which can serve as a guideline and reference not only for existing but also for future MNCs in selecting a suitable FDI location. However, this research also indirectly helps host countries to adequately prepare themselves by recognising the factors sought by MNCs in attracting FDI inflows into their countries.

**Methods**

This systematic review is carried out by using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines. The objective of this study is to examine all the factors influencing the choice of FDI locations by corporations that intend to expand their business operations globally.

### *Literature Search Strategy*

FDI is a popular strategy that plays a vital role and is also regarded as a viable option for corporations seeking to expand globally. Thus, searching for "determinants of FDI location selection" as the keyword in four different databases yields a total of 5,325 articles from ScienceDirect, 3,000 articles from Emerald Insight, 273 articles from Journal Storage (JSTOR) and 59 articles from Web of Science (WOS). These articles were thoroughly assessed in terms of title, abstract, and content to ensure they met the inclusion and exclusion criteria as well as quality assessment criteria, and, more importantly, that they were relevant to the research purpose. Finally, a total of 15 articles were analysed in order to determine the factors influencing FDI location selection. This involves four (4) types of factors, consisting of micro, macro, strategic, as well as specific sector-based factors depending on the type of business MNCs engages in (e.g., services, manufacturing, research and development, etc.).

### *Inclusion and Exclusion Criteria*

An inclusion criterion refers to all the requirements that the research must meet in order to be considered for inclusion in the researcher's review, whereas exclusion criteria are the elements that would exclude research from being considered for inclusion in the researcher's review. The inclusion criteria were papers written in English and an assessment of the major factors influencing FDI location selection, while the exclusion criteria were papers that were not written in English, as well as no restrictions on the year of publication or the location of the research, study design, and scope of studies. Reviews, case studies, conference materials, books, opinions, and reports, on the other hand, were omitted.

### **Findings**

A total of 8,657 journals were found and examined using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA). Following that, 115 studies were identified for screening purposes after duplication was removed. 47 of the 115 papers were evaluated for eligibility, with 32 being removed due to irrelevance to the main issue, insufficient details, and the lack of a full text of the study. In total, 15 articles were included in the final synthesis. Figure 1 illustrates a flowchart depicting the flow of the search results. While the objective is to analyse and identify numerous factors influencing FDI location selection, this study has also reviewed theories that would provide insights on the selection of suitable variables and proxies for FDI that are important for empirical estimation and discussions.

### **Review of Theories**

The following section discusses in further depth the various theories associated to FDI location selection, with each theory focusing on a different aspect of the issue of FDI location selection. Table 1 provides the summary of the discussion.

Table 1

*Theories applied in determining the location selection of FDI*

No.	Types of theory	Determinants of FDI location selection based on theory	Number of articles referred	Sources
1.	Capital Market Theory	Currency value & securities markets	4	Aliber (1971)
				Faeth (2009)
				Boddewyn (1985)
				Hennart (2015)
2.	Transaction Cost Theory	Transaction cost - Cost that incurs during selling/buying process	3	Hennart (1982)
				Baumol (1986)
				Buckley (1985)
3.	Product Life Cycle Theory	Production function characteristics	2	Vernon (1992)
				Vernon (1979)
4.	Internationalisation Theory	Secondary resources & technology	4	Buckley and Casson (2016)
				Coase (1991)
				Hennart (1982)
				Kang and Jiang (2012)
5.	The Eclectic Paradigm	Ownership, location, and internalisation advantages of host country	1	Dunning (1980)
6.	Entry Mode Theory	Seek for resources/cheap labour cost Create new markets Increase efficiency Acquire assets/shares of local firms to improve global competitiveness	7	Dunning (1993)
				Kang and Liu (2016)
				Franco (2013)
				Dunning and Lundan (2008)
				Wadhwa and Reddy (2011)
				Knickerbocker (1973)
				Hoenen and Hansen (2009)

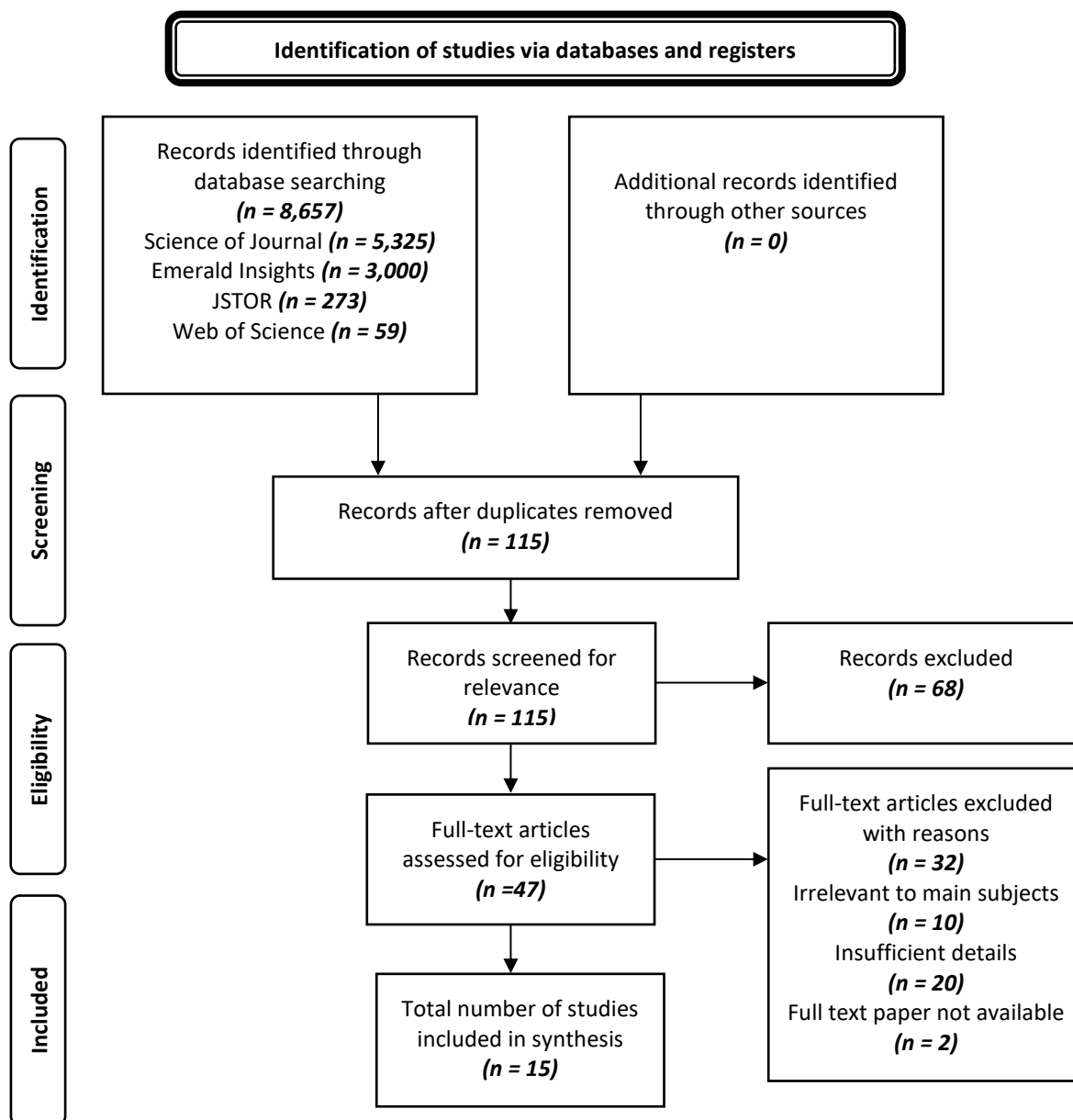


Figure 1: A flow chart for study screening and selection as per the PRISMA guidelines

### *Capital Market Theory*

FDI is essentially determined by the interest rates and the value of the host country's currency, which describes the rationale behind a firm's intention to expand abroad. According to Aliber (1971), corporations are more likely to expand abroad when their home country's currency value is high. Likewise, corporations hosted by countries with weak currencies are less likely to expand worldwide (Moosa, 2002; Faeth, 2009). Furthermore, greater currency volatility in the host countries encourages international corporations to borrow funds at lower interest rates than domestic firms. This theory addresses the reasons for firms' overseas investment, with Boddewyn (1985) stating that there are three scenarios that motivate corporations to extend their operations internationally. The first scenario is a lower exchange rate in the host country, which results in lower production costs in the host country. Second, the absence of organised securities markets in less developed countries would encourage FDI rather than stock purchases, and third, due to lack of information on securities markets in

these less developed countries, corporations prefer FDI that allows control of host country assets (Hennart, 2015).

#### *Transaction Cost Theory*

The rationale of transaction cost theory is that firms must establish systems of governance that minimise the costs and inefficiencies associated with entering and operating in international markets (Hennart, 1982; Baumol, 1986). The transaction cost theory approach also defines FDI as an entity pursuing more efficient results within the MNE in order to reduce transaction costs associated with international transactions (e.g., contract negotiation, monitoring, and enforcement) (Buckley, 1985). Three transaction characteristics have an effect on the quantity of transaction costs, namely asset specificity, uncertainty, and frequency (Hennart, 1982; Baumol, 1986). When the production costs in a foreign location are lower than those in the home country, and/or the transaction costs of using international market are higher than the cost of integration, FDI can provide the most efficient management structure by minimising the sum of production and transaction costs.

#### *Product Life Cycle Theory*

The product life cycle theory by Raymond Vernon describes why U.S. manufacturers are shifting from exporting to FDI. There are four stages of the production cycle, which are innovation, growth, maturity, and decline (Vernon, 1992). The products are classified into three groups based on their stage in the product life cycle, namely new product, maturing product, and standardised product, as well as their performance in the global trade market. Vernon (1992) also proposed that location selection is an interconnected integration of product life cycle and location characteristics. Location factors (e.g., market requirements, communication and external economies, and manufacturing flexibility) are critical to market formation and development for new products. Likewise, a mature product that sells in large quantities typically requires parts and labour from even more diverse sources, which could entail outsourcing different parts of the product such as part manufacturing, assembly, and shipment. In the case of standardised products, the costs of various production components become increasingly essential in terms of market extension and penetration (Vernon, 1979; Vernon, 1992).

#### *Internationalisation Theory*

FDI was explained differently in this theory, which places a greater emphasis on intermediate inputs and technology. Buckley and Casson (2016) based their hypothesis on the pioneering work of Coase (1991), in which they explained on why production is carried out by the same corporation in different locations. Firms expand their operations abroad to overcome market failure and improve their monopolistic advantage (Kang and Jiang, 2012) based on the idea of internalisation theory developed in this context by (Buckley and Casson, 2016; Hennart, 1982).

#### *The Eclectic Paradigm*

Dunning's OLI paradigm also known as international production theory is one of the most popular models for explaining FDI and MNCs location decisions which incorporates the host country's advantages in ownership, location, and internalisation (Dunning, 1980). "Ownership advantages" are competitive advantages of MNCs engaged in FDI as a result of their ownership of copyrighted technology or other intangible assets that make them more

powerful than domestic firms. “Location advantages” refer to a specific location that can provide firms with specific benefits such as preferential tax treatment, lower manufacturing and transportation costs, and lower risk, whereas “internalisation advantages” refer to the firm’s capacity to reduce transaction costs by internalising its activities.

#### *Entry Mode Theory*

This theory was evolved from the Eclectic Paradigm approach, in which Dunning (1993) divided MNC operations into four distinct types of FDI based on their stated intentions, and they are explained below:

- i. **Resource-seeking FDI:** This type of FDI is primarily aimed to collect raw materials from host countries for use as industry inputs, particularly in countries where considerable physical natural resources are available at a lower cost than in their home country. Furthermore, resource-seeking firms expand their operations abroad to take advantage of low labour costs, especially in labour-intensive industries like manufacturing and services (Kang and Liu, 2016).
- ii. **Market-seeking FDI:** This type of FDI aims to develop new markets for MNCs to sell excess goods and services, particularly when they are unable to sell their products in their home country. It also intends to broaden its marketing policies by increasing the physical presence of suppliers and customers in major markets (Franco, 2013). Other reasons for businesses to engage in this sort of FDI include the desire to tailor their products to local tastes or needs, to overcome cultural and religious obstacles, and to gain a better understanding of the local language, business norms, regulatory requirements, and marketing methods.
- iii. **Efficiency-seeking FDI:** This FDI is defined as investments made by businesses attempting to boost their efficiency by leveraging economies of scale and scope. According to Dunning and Lundan (2008), the primary motivations for this type of FDI are to capitalise on differences in labour costs, production costs, economic policies, institutional procedures, market size, and market structures across borders.
- iv. **Strategic asset-seeking FDI:** This FDI is motivated by the desire of foreign corporations to increase their global competitiveness through the acquisition of assets or shares in existing domestic enterprises in order to pursue long-term strategic objectives (Wadhwa and Reddy, 2011). Additionally, MNCs seek to weaken competitors by leveraging specific cost or marketing advantages. Knickerbocker (1973) asserted that expanding investment outside borders is a defensive strategy in oligopolistic markets, as it enables firms to follow their primary competitors in order to avoid distortions in oligopolistic equilibrium (Hoenen and Hansen, 2009).

#### **Factors Influencing Foreign Direct Investment Location Selection**

The drivers which influence FDI location selection as described by FDI theories can be divided into three categories, namely micro, macro, and strategic factors (Wang and Swain, 1997; Liu, et al., 1997; Zhang, 2000; Wei and Liu, 2001; Zhang, 2002). Another additional factor that is highlighted is the sector-specific factors, indicating that each business sector has different factors that affect the location choice of FDI, and on top of that, these factors are also not

easily transferable between countries and may differ from MNCs' home country situations (Liu, 2009; Agustina and Flath, 2020).

#### *Micro Factors*

Micro determinants are ownership-specific advantages of MNCs, as described below:

- a. **Knowledge and experience of the foreign market:** It is widely acknowledged that having a better understanding of a foreign country reduces both the cost and the unpredictability of operating in a foreign market (Buckley and Casson, 2016). Experience, like knowledge, is thought to provide significant tangible and intangible benefits (Gresser and Gaskell, 1993; Porcano, 1993). Furthermore, it is frequently considered that a corporation with more experience in a specific place is more inclined to invest there than a corporation with less experience (Kogut, 1997; Liu, 2009).
- b. **Size of the firm:** The size of an MNC has been proven to have considerable influence on its FDI location choice, since large size frequently enhances its potential to enjoy economies of scale and scope, as well as to invest in technology (Kogut and Singh, 1988). According to Chan (2005), from a resource standpoint, the firm size is an important resource that leads to high profitability. Liu (2009) described the significance of firm size in facilitating the acquisition of natural resources in two ways: (1) large MNCs are more capable of playing one local resource owner against another and securing a favourable position in the acquisition of natural resources; and (2) strong negotiating powers make MNCs better at dealing with political issues and more effective in negotiating the desired conditions without relying on local partners.
- c. **Technology capabilities:** Nachum and Wymbs (2002) stated that corporations with superior technologies will profit less from access to competitor's technological expertise, but corporations with inferior technological capabilities will benefit more from closeness to other firms. This would allow them to have access to competitor's sources of information and learning that are superior from their own. As a result, organisations with the most advanced technological skills may be tempted to relocate away from a certain host country where other companies in the same industry have already established themselves in order to safeguard their core innovations.
- d. **Product Differentiation:** As one of the firm-specific variables that is thought to affect location choices, product differentiation appears to be a key determinant of MNCs' location decisions. Nachum and Wymbs (2002) discovered that location plays diverse functions as a competitive advantage for firms at different levels of product differentiation in terms of brand, price, and customer base. According to Gupta et al. (2006), if two companies sell complementing items, then they shall choose coincident locations, whereas, if they market alternative products, then they should locate places to optimise the separation between them.

#### *1. Macro Factors*

The macro determinants emphasise the host country's attractiveness for FDI, which is segregated and explained according to the category of factors listed below:



a. Market Factors

- Market Size: GDP growth rate is a critical indication of market size in every country. The majority of experts choose the total population, GDP (in current U.S. dollars), and GDP per capita income as market size metrics since they indicate the purchasing power of people in host nations (Tintin, 2013). MNCs want larger market sizes for investment since they are believed to imply a higher level of development and a higher per capita income (Cuyvers et al., 2011). The market size is expected to be positively and significantly related to FDI inflows (Cheng and Kwan, 2000; Sahoo, 2006).

b. Human Resource Factors

- Human Capital: Human capital is defined as the knowledge, skills, abilities, and traits embodied in individuals that enable the growth of personal, societal, and economic well-being (OECD, 2001). Mostly, the phrase human capital will be used to refer to labour force quality. Workers that are well trained would be able to manage machinery and technology more efficiently and adapt more easily to new developments than low-skilled workers, resulting in a higher labour productivity, which has been demonstrated to have a positive effect on FDI inflows into host nations (Woodward, 1992; Axaroglou, 2004). Some researchers have stated in their studies that human capital is critical in attracting FDI into the host country (e.g., Iwai and Thompson, 2012; Ta et al., 2021). Furthermore, in regard to the four categories of FDI identified by Dunning (1993), MNCs may perceive human capital to be a critical component of their business systems, which, in turn, would impact their investment selections.

c. Infrastructural Factors

- Well-developed infrastructure facilities: More FDI will be attracted to host countries that are equipped with well-developed infrastructure, which is a top priority for MNCs (Tsen, 2005). This is important because it signals effective business activities in the host country (Kinoshita and Campos, 2003). Alshamlan et al. (2021) also supported their findings by stating that outstanding infrastructure plays a significant impact in MNCs' profitability and FDI location selection decisions.

d. Political and governmental factors

- Government's commitment to contracts: Mahbub and Jongwanich (2019) stated that this factor is the most important aspect in attracting FDI towards the host country. It represents the guiding rule for doing business as a means of seeing contractual obligations honoured, revenues secured, and building confidence that the interests of the MNCs as the investors are protected.
- Political stability: According to Alshamlan et al (2021), political stability is one of the most important aspects supporting global FDI, since MNCs prefer to conduct their operations effectively and safely in nations where political stability exists. Political unrest arises only when there is dissatisfaction among the citizens of the host country. Thus, a host country that is politically stable as a result of its ruler's strong political will and careful planning in developing plans for the country's growth and the prosperity of its people makes a host country a desirable destination for foreign investors.

- **Control of corruption:** When the level of corruption in a host country is high, there would be no investment in that country. As a result, the host country must provide an environment that is business-friendly and has an effective and efficient public administration (Mahbub and Jongwanich, 2019; Alshamlan, et al., 2021). The presence and application of anti-corruption and anti-fraud legislations in host countries where gifts and hospitality, as well as facilitation fees are considered bribes, play a significant impact in attracting FDI.
  
  - **Trade Openness:** Trade openness is described as a host country's readiness to trade, and not only useful for observing the export–import balance of the country. It can be advantageous in several ways, including a better resource utilisation due to better production conditions (Semancikova, 2016). As a result, trade openness is essential in attracting FDI (Wahid et al., 2009). Tintin (2013) also claimed that since most investors demand intermediate commodities from other countries, openness is critical for both exports and imports. Increased trade openness is widely acknowledged to create new investment opportunities and strengthen the interconnection of domestic and international markets.
  
  - **Ease of doing business:** Alshamlan et al (2021) emphasised in their research that a host country's economy is ranked on its ease of doing business, which includes regulations affecting ten areas of the business life cycle, (i.e., setting up a business, obtaining permits, connecting electricity, registering property, obtaining loans, safeguarding minority investors, paying taxes, trading across borders, enforcing contracts, and settling disputes). A high ease of doing business ranking indicates that the regulatory environment is more favourable for the establishment and operation of a local firm, which has a significant impact on FDI destination selection.
- e. **Profit Retention Factors**
- **Tax policy and rate:** Tax rate can be considered as one of the intimidating determinants of FDI. High excise charges, sales taxes, or customs tariffs can discourage FDI since a high tax rate can affect the company's profitability. Hence, MNCs may not want to invest in host countries with a high tax rate, whereas a lower tariff can encourage FDI (Tunca and Batmazb, 2014). Cassou (1997); Kemsley (1998) both discovered and supported a negative relation between FDI and tax rate.
  
  - **Inflation rate:** The inflation rate is a quantity indicator that depicts how the average price of goods and services in a given economy varies over time. An increase in the rate of inflation may be a sign of a country's financial instability. A high level of inflation rate in the country could affect the capital preservation of foreign investment, decrease the confidence of the investors and then decrease the net inflow of FDI (Hong and Ali, 2020). A low inflation rate, on the other hand, demonstrates the government's commitment and integrity in maintaining the country's economic stability (Mitra and Khan, 2014). Thus, the inflation rate is important in determining FDI inflows (Srinivasan, 2011).

*f. Economic Factors*

- Exchange Rate: The exchange rate and FDI have a negative connection where when the currency of the host country depreciates, it shall attract more FDI by making it cheaper for MNCs to purchase assets in the host country as a result of foreigner's wealth benefits (Kiyota and Urata, 2004). However, when the exchange rate appreciates, these MNCs believe that future profitability will increase, resulting in high expected returns (Campa and Guillén, 1999). Furthermore, if the currency rate depreciates, they will prefer to invest in domestic industries, resulting in a decrease in FDI flows.
- Location advantages to benefit on agglomeration effect: MNCs are frequently drawn to invest in areas where there is already FDI. This is because they can benefit from external economies of scale, and there will also be more confidence to invest in locations with an established track record. New investors often imitate previous investment decisions made by existing investors when determining where to invest. Clustering with other businesses allows new investors to reap the benefits of positive spillovers from current investors in the host country (Agustina and Flath, 2020). This is affected by the regional characteristics of the host country, such as demand, cost of production, presence of agglomeration economics, and policies. According to Guzman (2015), regional demand influences the selection of where MNCs prefer to operate. Furthermore, MNCs often choose a location with a reduced labour cost. The regional existence of agglomeration economies benefits MNCs in the host countries by providing workers who are well trained, a better infrastructure, and a larger division of labour with dedicated support services and reduced manufacturing costs (Blanc-Brude et al., 2014).
- Developed financial system: The availability of financial institutions in the host country with sufficient liquidity and transparency to give quick loans at reasonable rates is an important factor in FDI destination selection, as it contributes to gaining MNCs' confidence and trust as investors (Alshamlan et al., 2021).

*g. Legal and regulatory factors*

- *FDI Attraction policies*: A host country's policies towards FDI can be classified into three main categories: attracting FDI, upgrading FDI and enhancing linkages and spillovers to domestic firms (Te Velde, 2001; Ta et al., 2021). Tax incentives, promotions of FDI, simplified regulations, and reduced bureaucracy are examples of FDI policies that affect FDI flows.

*h. Socio Cultural Factors*

- Cultural similarities, diaspora and language play a crucial function in assisting MNCs in avoiding business relationship and trade restrictions imposed by local entities in the host country. MNCs prefer to invest in countries where they are familiar with the sales network because they understand the culture, law, taste, business environment, and, most importantly, the business community network (Paul, 2014).

*2. Strategic Factors*

Strategic determinants are those long-term strategic factors that influence MNCs' FDI inflows and they are outlined below:

- a. **Defending an existing foreign market:** According to Liu (2009), MNCs' FDI location choices are aimed at defending themselves against competitors or potential competitors or gaining an advantage over them because if existing or future MNCs do not enter the foreign markets, other foreign competitors will join to seize their market share in a particular host country.
- b. **Diversifying MNCs business activities:** If MNCs only have a few locations where they can offer their products or services, it is extremely risky if their present markets undergo drastic changes due to natural disasters or other unforeseen causes. Thus, MNCs can create short-term security in the host country's location through FDI because they still have alternative chances for growth that allow their firms to diversify, and these diversification opportunities are nearly limitless (Biggs, 2013). As a result, revenues will become more stable, even when the MNC's local sales are declining for whatever cause.
- c. **Exchange-of-threat:** Another defensive strategy is exchange-of-threat. Companies that see foreign firms entering their own domestic market may consider retaliating by entering the host country market (Graham, 1974, 1978; Vernon, 1974; Watson, 1982; Karnani and Wernerfelt, 1985; Hennart and Park, 1994). For example, if an MNC from Country A has previously invested in Company B's domestic market, the likelihood of Company B investing in Country A's domestic market increases.

### 3. *Sector-Specific Factors*

Sector-specific factors refer to factors required by specific business industries that are ventured into or preferred by MNCs, as stated below:

- a. Manufacturing/services sectors
  - **Low labour cost:** Where production is labour intensive, foreign investors will frequently demand for inexpensive labour (Andresosso-O'Callaghan and Wei, 2003). In addition, Zhang (2001) stated that companies with manufacturing-related FDI valued low labour costs. According to Liu et al. (1997), low wage rates have been shown to be a key factor in attracting FDI.
  - **Low transportation cost:** Liu (2009) says that lower transportation costs are an important factor when deciding where to put operations in a host country. This is because the MNC's home country is often where product components are made and where finished products are sold. Thus, transportation can be an issue for MNCs as a result of this two-way flow of products. High transportation costs would result in higher delivery costs creating a negative relationship between transportation costs and FDI readiness in a host country.
- b. Research and Development (R&D) sectors
  - **Availability of R&D related sources:** MNCs that are involved in knowledge-seeking investments, such as research and development, are influenced by location-specific factors such as the availability of scientists and educated people in that area, previously established innovations, R&D intensity, the education system, and strong links between educational institutions and corporations (Cantwell, 1989; Danciu and Strat, 2014).

## Result and Discussions

The *review* of literature in *this study* is based on *secondary data*. Table 2 summarises the articles reviewed for this study. The primary goal of this research is to identify the elements that influence the FDI location selection. The review of the key theoretical approaches in this study should be able to aid an MNC on how to go global through FDI and where to approach in order to position its investments. Furthermore, the factors emphasised throughout the research shall be able to provide answers to the following concerns. MNCs will not invest in host countries where the negative consequences of a variety of location-specific factors impede the corporation's ability to achieve long-term business objectives. Additionally, not all locational factors are equally essential in driving the dynamics of FDI flows. Their significance is subjective, depending on the size and strategy of the foreign investors. It is also largely determined by the type and sectoral orientation of investment that the investors intend to implement.

Knowing the determining factors prior to selecting a suitable FDI location can be beneficial for MNCs, as it can help them define and guide future actions in foreign markets. This study also demonstrates the importance of conducting research before deciding on an FDI location. Before an MNC chooses a location, it must consider all the important aspects such as the type of sector its FDI is involved in and whether the location of the host country meets its criteria related to its chosen business sector. As the findings of this study revealed, different categories of factors influence location decisions in a different manner, depending on the goals and desires of the MNCs as an investment firm. On the other hand, this research may even be useful to the host country and its government because it provides some hints about the best strategy that can be implemented to attract MNCs and support FDI in their country.

Table 2  
*Systematic Literature Review*

No.	Author(s) and Year	Journal	Title	Study Design	Purpose of the Study
1.	Alshamlan et al (2021)	European Journal of Business and Management Research	Foreign direct investment in the United Arab Emirates: A study on the main contributors	Secondary data sources	To explore the primary factors of FDI in the United Arab Emirates (UAE)
2.	Hamood et al (2018)	British Journal of Business Design & Education	Foreign direct investment determinants in Malaysia	Secondary data sources	To examine the factors that influence FDI inflows into Malaysia
3.	Mahbub and Jongwanich (2019)	Energy Strategy Reviews	Determinants of foreign direct investment (FDI) in the power sector: A	Quantitative (questionnaires) and qualitative (interview) sources	To examine the determinants of the decision-making

			case study of Bangladesh		process of firms conducting FDI in the power sector
4.	Ta et al (2021)	The Journal of Asian Finance, Economics and Business	Factors affecting FDI intentions of investors: Empirical evidence from provincial-level data in Vietnam	Quantitative (questionnaires) and qualitative (interview) sources	To analyse the factors affecting FDI intentions of investors into Quang Ninh province of Vietnam
5.	Gilmore et al (2003)	International Marketing Review	Factors influencing foreign direct investment and international joint ventures: A comparative study of Northern Ireland and Bahrain	Questionnaires	To examine the motivations and levels of satisfaction associated with FDI in Northern Ireland and Bahrain
6.	Liu (2009)	-	Factors determining location choice of foreign direct investment in China: A perspective from an inland province	Questionnaires	To develop conceptual framework regarding FDI location choice by MNEs and explore the factors influencing FDI location selection in China's inland region
7.	Agustina and Flath (2020)	Jurnal Ekonomi & Kebijakan Publik	Agglomeration and location decision of foreign direct investment (FDI) in Indonesia	Secondary data resources - Government agencies	To examine agglomeration as a factor in the selection of an FDI destination in Indonesia
8.	Sârbu (2014)	SEA: Practical Application of Science	Forms and motivations of	Secondary sources	To identify and analyse the forms of FDI

			foreign direct investment		and factors influencing FDI motivation
9.	Ali and Guo (2005)	Journal of Global Business and Technology	Determinants of FDI in China	Questionnaires	To explore significant factors that would influence foreign investors' decision to invest in China
10.	Danciu and Strat (2014)	Procedia-Social and Behavioral Sciences	Factors influencing the choice of the foreign direct investments locations in the Romanian regions	Questionnaires	To explore the importance of the different factors that would influence FDI in a Romanian region
11.	Hennart and Park (1994)	Strategic Management Journal	Location, governance, and strategic determinants of Japanese manufacturing investment in the United States	Secondary sources	To explore location, governance, and strategic factors influencing FDI at the product and firm-level
12.	Nachum and Wymbs (2002)	-	Firm-specific attributes and MNE location choices: Financial and professional service FDI to New York and London	Secondary sources	To explore on how the characteristics of investing firms affect location choices
13.	Te Velde (2001)	-	Policies towards foreign direct investment in developing countries: Emerging best-practices and outstanding issues	Secondary sources	To analyse best-practice policies towards inward FDI

14.	Tunca and Batmazb (2014)	Global Interdisciplinary Business-Economics Advancement Conference (GIBA)	Determinants of foreign direct investments in Turkey	Questionnaires	To analyse the determinants of greenfield FDI made by MNEs (Multinational Enterprises)
15.	Pattayat (2016)	Theoretical & Applied Economics	Examining the determinants of FDI inflows in India	Secondary sources	To explore the determinants of FDI and how these factors are affecting FDI

### Limitation

Systematic reviews are susceptible to reporting biases, like many other studies. Firstly, the systematic review of this study was based on a relatively limited number of databases for the identification of suitable studies. Secondly, this study also considered only articles written in English. Thus, there can be bias in the results as not various databases were considered and papers written in other languages were not included.

### Recommendations for Future Research

It is recommended that future researchers explore and conduct research on identifying the types of FDI, which include vertical, horizontal, and conglomerate FDI, and analysing what and how the factors influencing FDI location selection differ based on these forms of FDI. It is also important to assess and evaluate how the identified factors can affect the FDI inflows in host countries, whether positively, negatively, or indifferently, ranging from various business industries and sectors (e.g., manufacturing, services, agriculture, construction, etc.). In doing so, it will assist both current and future MNCs in reviewing their existing FDI strategies based on the type of FDI selected and upgrading their FDI strategies in line with what both the MNCs and the host country have to offer, resulting in a win-win situation for both.

### Conclusion

Numerous factors would influence the FDI location choice. It is highly determined by the status of a given host country as well as various features of investments, such as the purpose of investment, the type of investment venture, whether manufacturing or services, and even the size and significant advantages of a multinational corporation as an investor. Eventually, the weight of each factor described in this research which seems to be favourable to MNCs determines the decision for MNCs to choose a specific FDI location.



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