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Foreign Direct Investment under Geopolitical Fragmentation: Determinants, Constraints, and Selectivity

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Abstract

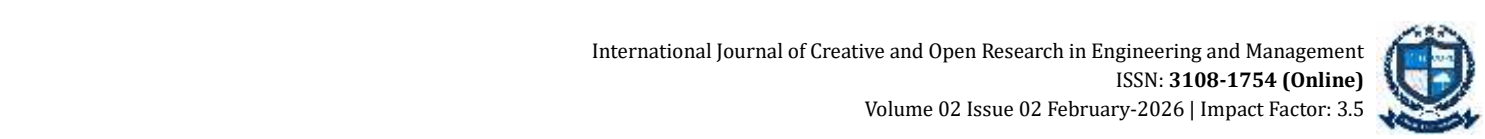
Economic fundamentals, including market size, production costs, and institutional quality, often determine foreign direct investment. However, an analysis of the turbulent 2020–2025 period suggests that these determinants now operate within a progressively narrower and more constrained set of viable global locations. The unstable global geopolitical landscape, characterized by pandemic aftershocks, strategic trade decoupling, and macroeconomic volatility, has caused several geographic locations to be systematically ruled out before standard economic considerations are even applied by multinational enterprises. Drawing on recent global and regional evidence, this paper shows that foreign direct investment has not declined, but has become more selective and increasingly concentrated across regions and sectors. Investment decisions are influenced first and foremost by conditions of feasibility, including policy predictability, political alignment, infrastructure readiness, and access to long-term finance. Traditional determinants affect the firm's final investment location only when these conditions are fulfilled. The analysis suggests a widening gap between regions, growing differences among sectors, increasing concentration in technology-enhanced activities, and a slowdown in infrastructure and project finance. These patterns elucidate how a diminishing overall flow of investment can co-occur with sustained investment resilience in a few locations. The paper contributes to the literature by reframing the determinants of foreign direct investment as sequential rather than additive. It emphasizes screening and constraint as central features of contemporary investment dynamics. Similarly, the findings indicate that reducing uncertainty and establishing long-horizon credibility are becoming the new prerequisites for attracting foreign direct investment rather than providing short-term incentives.

Keywords: Foreign Direct Investment, FDI Drivers, Proximity-Concentration Framework, Geopolitical Division, Digital Sector, Governance Standards

1. Introduction.

Foreign direct investment has rarely been as difficult to interpret as it is today. Indicators show a decline in aggregate FDI, but differences across regions and sectors show a more mixed and uneven picture. Following a dramatic 42% collapse in 2020 triggered by the COVID-19 pandemic, global FDI has experienced erratic, asymmetrical fluctuations rather than a steady or sustained recovery trajectory (United Nations Conference on Trade and Development [UNCTAD], 2021). As supply chains fractured and geopolitical tensions intensified through the early 2020s, multinational enterprises (MNEs) were forced to fundamentally reevaluate their capital deployment strategies.

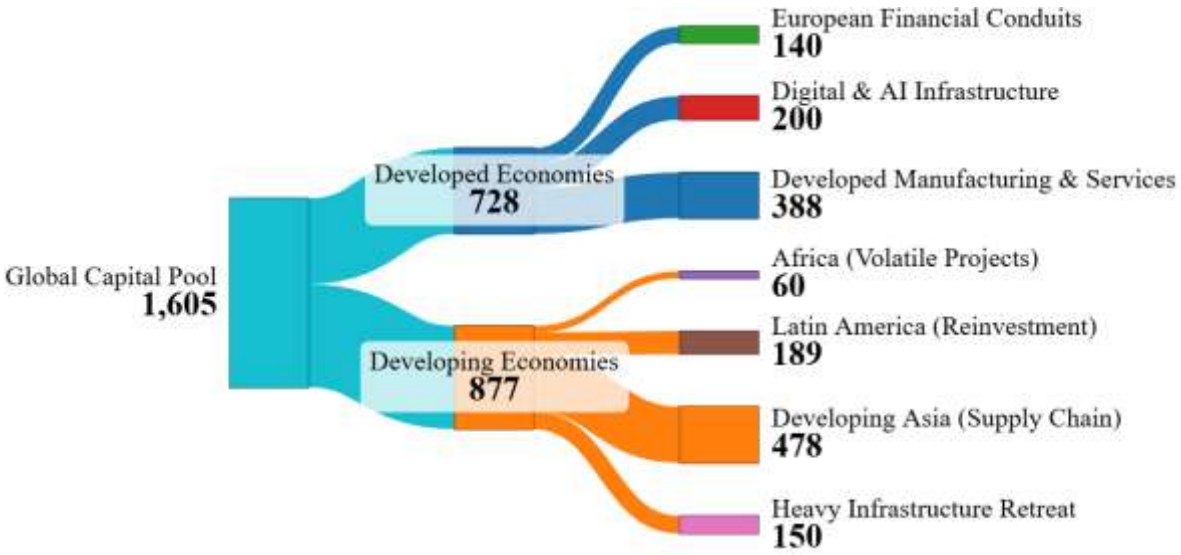
In 2024, total foreign direct investment across global economies dropped to about 1.5 trillion US dollars, which was around 11% lower than the previous year. It marked the second consecutive year of weakening cross-border investment activity, even though global output growth remained uneven rather than uniformly stagnant. This



aggregate number, often cited, hides more than it reveals. Beneath the headline contraction, investment outcomes diverged sharply, and investment results were far more disparate across regions. In Africa, registered FDI inflows increased significantly, mainly due to just one or two large-scale projects in the energy and extractive industries. When those projects are not included; the rise seems far less. Europe has displayed contradictory behaviour. European FDI inflows fell by over 50%, despite no change in market size or institutional capacity. On the other hand, North America demonstrated a unique pattern of rise in technology-centric investments and policy-driven incentives, despite an overall decline in global FDI inflows. Understanding these discrepancies purely through the perspective of cost competitiveness or cyclical demand is impossible.

Sectoral developments further emphasise the idea of structural constraint and regional concentration. From 2020 to 2025, traditional greenfield investments in worldwide integrated manufacturing sectors remained stagnant, while digital infrastructure sector witnessed significant rise in FDI. In 2024, investment in digital and technology efforts remained robust, particularly in significant projects relating to data infrastructure and highly advanced, sophisticated services. Simultaneously, international project funding experienced a significant reduction due to reduced investments in transport, renewable energy, and other infrastructure sectors vital for long-term development. The simultaneous rise in foreign direct investment (FDI) within the technology sector and the decline in FDI in the infrastructure sector indicate that businesses are becoming increasingly cautious regarding the risks they undertake and their duration. This paradox illustrates an increasing withdrawal of investors from capital-intensive projects that impose extended repayment periods despite significant regulatory and geopolitical uncertainties.

Figure 1: Regional Divergence of Global FDI Inflows



Prepared by the researcher using software Sankeymatic.com
Source: United Nations Conference on Trade and Development, 2026
Figure 1 *highlights the 2020-2025 regional divergence in global FDI flows, specifically contrasting the massive financial-hub surges in developed economies against the persistent structural declines in developing and least-developed economies.*

These deep regional and sectoral contrasts suggest that the traditional factors driving foreign investment such as market access, unit cost structures, and generalized institutional quality now interact in fundamentally different ways. Geopolitical fragmentation has not merely added a risk premium to global capital allocation; it has structurally altered the relative importance and sequencing of existing FDI drivers. Drawing on core theoretical frameworks and comprehensive empirical evidence from 2020 to 2025, this paper argues that contemporary investment decisions are increasingly shaped by hard constraints, stringent sequencing, and conditional feasibility.

This study evaluates recent outcomes of the foreign direct investment from this perspective. Geopolitical fragmentation does not merely superimpose an external disturbance on an already-existing template; rather, it alters the relative importance of the existing drivers. Drawing on core theoretical frameworks and recent empirical evidence, the paper argues that contemporary investment decisions are increasingly shaped by constraint, sequencing, and conditional feasibility.

2. Revisiting the Theoretical Foundations of Foreign Direct Investment

Theoretical literature on foreign direct investment was largely developed under the assumption of a relatively stable global economic environment. Uncertainty was always there, but most of the time, it was treated as background noise rather than a binding constraint on a firm's location choices. Consequently, the dominant models operationalized trade costs, fixed investment costs, productivity differences, and market size as the central forces that determine whether firms serve foreign markets through exports or local production (Antràs & Yeaple, 2014). These frameworks still matter, but some developments call for a more careful evaluation of how far their assumptions hold (Helpman, Melitz, & Yeaple, 2004; Melitz, 2003).

The current study does not suggest that existing models of foreign direct investment are irredeemably obsolete, but their insights now work in a more constrained and conditional decision environment. The study suggests that increased uncertainty and geopolitical fragmentation reorder and reorient familiar theoretical determinants, rather than replacing them altogether.

2.1 Proximity, Concentration, and the Export-FDI Trade-Off

The proximity-concentration framework formalised a central intuition in international economics that firms face a trade-off between exporting to foreign markets and producing abroad. When trade costs are high and markets are sufficiently large, firms may choose to incur the fixed costs of establishing local production, whereas when trade costs are low, exporting dominates FDI (Helpman et al., 2004). Multinationals tend to own the stages of production proximate to their final production, giving rise to a class of high-skill, intra-industry vertical FDI (Alfaro & Charlton, 2009) . This logic continues to underpin a large share of empirical work on multinational activity. At the same time, the framework abstracts from forms of uncertainty that have become more salient in recent years. Trade costs are no longer confined to tariffs and transport expenses. Regulatory divergence, investment screening, sanctions exposure, and the risk of policy reversal introduce sources of uncertainty that are difficult to reduce to a single cost parameter. In this context, proximity may matter less because it lowers production costs and more often it reduces exposure to policy and regulatory risk. There is also growing evidence that firms increasingly separate market access from production decisions. Exporting can serve as a cautious or transitional strategy, even when local production may appear efficient on cost grounds alone. Such sequencing behaviour, in which firms test markets before committing irreversible capital, sits uneasily with the clean comparative statics of proximity-concentration models and suggests that flexibility has become more valuable than these frameworks typically allow.

2.2 Productivity-Based Models and Selection into FDI

Productivity-based models introduced firm heterogeneity into theories of internationalisation. Models like Melitz (2003) and Helpman et al. (2004) suggest that only the most productive firms self-select into foreign production, while less productive firms either export or serve domestic markets. Firm-level evidence strongly backs this insight, and it remains a staple in the economist's understanding of multinational activity.

More recent findings seem to suggest that productivity alone is not sufficient to explain investment outcomes. Very productive firms may still postpone foreign investment or give it up entirely when uncertainty weakens the returns expected from long-term commitments. Some firms with lower productivity invest abroad due to policy incentives or strategic and geopolitical considerations. These cases are not the norm, but they are becoming progressively more evident.

While this perspective does not disprove the productivity-based theory, it does narrow its explanatory reach. Productivity appears increasingly necessary but not sufficient for foreign investment. Before productivity differences significantly affect investment decisions, various constraints intervene in the decision process to determine which locations to consider for FDI.

2.3 Institutions, Risk, and the Limits of Credible Commitment

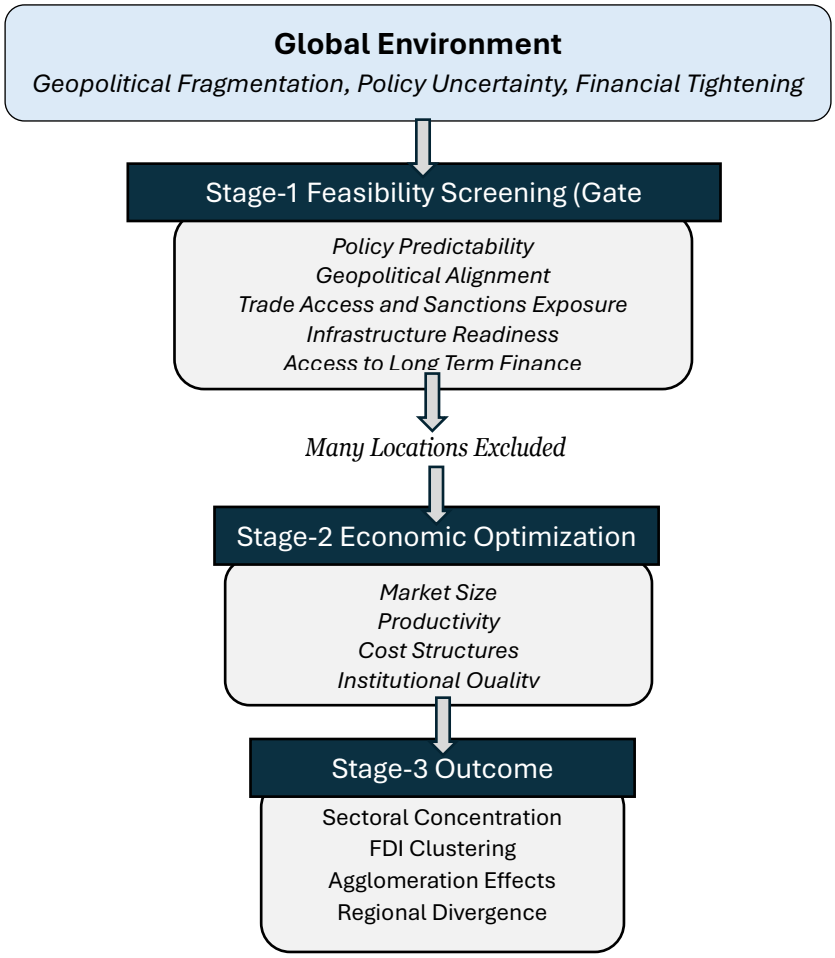
Foreign direct investment has long recognised institutional quality as a key determinant. Secure property rights, contract enforcement, and policy stability can reduce the expected returns and risk. These are more essential in the case of large sunk cost projects (North, 1990; Acemoglu, Johnson, & Robinson, 2005). Evidence shows that weak institutions discourage investments. Recent trends complicate this dynamic. Some economies with relatively strong institutional frameworks have experienced sharp declines in foreign direct investment (FDI) during periods of uncertainty.

On the other hand, economies with weak institutional frameworks have attracted significant amounts of financing related to specific sectors or resources. It does not mean institutions are no longer useful. Instead, it indicates that institutional quality is increasingly evaluated by investors alongside geopolitical alignment, regulatory predictability, certainty, and strategic factors (Baldwin & Freeman, 2022). In certain circumstances, companies seem to tolerate institutional weaknesses as long as other conditions are favourable. In some cases, strong institutions have failed to protect economies from reduced investment when policy uncertainty is high. It means that strong institutional qualities still matter, but their impact depends more on context than earlier research has suggested.

2.4 Fragmentation, Uncertainty, and Conditional Feasibility

The current period is defined not by higher uncertainty but by how that uncertainty interacts with and affects irreversibility. It is expensive to disentangle foreign investment. Once a firm invests in capital, it becomes vulnerable to policy changes that often have a weak connection to economic fundamentals. This exposure becomes more pronounced under conditions of geopolitical fragmentation. Conventional models tend to factor in uncertainty as a negative cost to the expected return. The recent investment pattern appears to have another use. The factor of uncertainty increasingly acts as a screening filter for FDI, entirely eliminating certain locations, no matter how cost-effective or rewarding they are. Traditional determinants of FDI can be considered only after the uncertainty assessment and feasibility conditions are satisfied. This sequencing changes the logic of investment decisions in ways not yet fully explored by current theories of foreign direct investment.

Figure 2: The Sequential Feasibility Framework for Foreign Direct Investments under Geopolitical Fragmentation



Source: Prepared by the Researcher

Figure 2 illustrates this argument by conceptualising foreign direct investment as a sequential decision process. Feasibility conditions, including stable policies, political alignment, trade access, infrastructure readiness, and long-term financing, limit a firm's options for suitable locations before traditional economic factors influence their final investment decisions. The figure illustrates how, in a staged decision process, feasibility screening precedes economic optimisation, yielding selective outcomes that tend to be concentrated but diverge regionally.

2.5 Implications for Interpreting Contemporary FDI Patterns

The recent foreign direct investment data should be used with caution. The proximity-concentration and productivity-based models remain valuable, but now operate in a more limited, conditional context. Although institutions remain important, they often do not have the linear effects suggested by previous theories or empirical works. According to this study, recent patterns of foreign direct investment do not signify a collapse of the conventional theories. They suggest a context where feasibility constraints, sequencing, and risk management shape investment decisions before more conventional determinants come into play.

3. Geopolitical Fragmentation and Factors Influencing Foreign Direct Investment

Recent findings surrounding foreign direct investment suggest that the central analytical problem is no longer "what attracts capital?" but rather "how do various determinants interact under greater uncertainty?" The drivers discussed in this section are already well documented in the literature (Dunning, 2001)but evidence suggests that their relative importance and modes of operation have changed (UNCTAD, 2024a; UNCTAD, 2025). Rather than acting in a single step as a collection of additive influences, these determinants are increasingly regarded as part of a sequential decision-making process that excludes certain investment locations before conventional optimisation takes place. Decisions about foreign direct investment now proceed in three broad stages. To begin with, firms assess feasibility

conditions such as access, stability, and risk exposure. Next, within the subset of locations that pass the first screen, location choice is shaped by traditional economic determinants, such as market size, productivity, and cost-effectiveness. Third, once an investment is undertaken, sector dynamics will intensify FDI concentration in specific locations. Such sequencing explains why recent investments have been selective and clustered, even in the absence of a synchronised global downturn.

3.1 Market Size, Trade Openness, and Access Conditions

A large market size has always been a pull factor for foreign investors, and the latest figures do not change that. Big economies still account for a large share of global investment inflows. Meanwhile, a recent divergence across countries indicates that scale alone is no longer sufficient to explain investment outcomes. In 2024, global foreign direct investment fell by about 11 percent, but some major markets suffered steep declines, while a handful of smaller economies saw rises linked to specific projects or sectors (UNCTAD, 2024a).

Access conditions are assuming greater significance in light to these patterns. Firms' views of market size are determined by the openness of trade, participation in regional value chains, and stability of trade arrangements. Wider market access made possible by trade agreements can help compensate for limited domestic demand, while uncertainty about tariffs or trade policy has weakened the attractiveness of even large economies (Organisation for Economic Co-operation and Development [OECD], 2023; World Bank, 2023). Essentially, the actual size of a market matters most once firms are assured that access to that market, and other connected markets, is predictable and durable.

3.2 Cost Structures, Productivity, and Macroeconomic Stability

While making foreign investment decisions relating to efficiency-seeking activities, cost considerations still play an important role. The cost of labour, energy prices, logistics costs, and other factors continue to affect firm behaviour. However, their function has become more conditional than in earlier investment cycles. As automation and other advances in digital technology have reduced the importance of low-cost labour across several sectors, the premium on skills, reliability, and coordination capacity has risen significantly (OECD, 2024). Macroeconomic stability is becoming a growing determinant of cost evaluation. Fluctuations in inflation, exchange rates, and fiscal stress can undermine cost advantages and further increase risks associated with long-term investment decisions and commitments. Due to persistent macroeconomic instability, economies are facing substantial challenges to attract investment, even when nominal cost conditions appear favourable (World Bank, 2023). Consequently, cost competitiveness is less likely to compensate for uncertainty, and it matters mainly within a feasible set of places.

3.3 Institutions, Incentives, and Policy Credibility

Institutional quality greatly impacts the inflow of foreign direct investment (FDI) into the country. Projects involving high sunk costs are especially sensitive to property rights, contract enforcement, and regulatory discretion (North, 1990; Acemoglu et al., 2005). However, current investment patterns indicate that institutional strength cannot guarantee stable inflows during periods of high policy uncertainty.

Investment incentives further complicate matters. Tax breaks, subsidized investment, and establishment in special economic zones can affect marginal location choices when basic conditions remain constant. They may, however, be potentially effective depending on how credible the policies are. Weak credibility can often attract short-lived investments that offer short-term benefits rather than long-lasting, stable commitments. The dynamics appear to suggest that the incentives are less important relative to greater, far-reaching assessments of policy reliability and coherence.

3.4 Political Risk, Geopolitical Alignment, and Trade Agreements

Investors are increasingly accounting for the possibility of civil war, financial seizures, asset confiscation, and state intervention. According to the OECD (2023), the investment environment is directly affected by screening

mechanisms, sanctions, regimes, export controls, and an economy's industrial policies. Firms assess risks in light of the host countries' geopolitical alliances and trade agreements.

Being a member of regional integration frameworks can reduce uncertainty by clearly defining the rules and dispute-resolution mechanisms. In comparison to it, misalignment or exposure to sanction risk can lead to early exclusion of the location from consideration, irrespective of its economic fundamentals (UNCTAD, 2025; World Trade Organization [WTO], 2023, 2024). In this sense, political risk now functions more as a gatekeeping condition than as a marginal-cost criterion.

3.5 Infrastructure, Connectivity, and Financing Constraints

Long-term investments depend on good infrastructure and connectivity. Sustainable transportation, reliable energy supplies, and efficient digital infrastructure are necessary for the integration of global production systems and to attract long-term greenfield investments. The recent slowdown in international project finance and FDI has led to a decline in investment in infrastructure and renewable energy projects, particularly in countries dependent on external capital financing. Many economies lack the necessary financing to convert investment interest into projects. As a result, disparities in access to long-term finance increasingly reinforce disparities across regions and sectors.

3.6 Natural Resources, Sectoral Composition, and Concentration

Natural resources have been an important pull factor for foreign investment in the energy sector. In some countries, inflows from resource-based projects have increased, but their effects are uneven and linked to volatile commodity cycles (UNCTAD, 2024b). This type of investment can generate considerable inflow without any significant spillover.

Sectors composed of foreign direct investment are increasingly leaning towards digital and high-tech sectors. Sectors showed surprising resilience in 2024, even as FDI inflows weakened overall. However, this resilience has been accompanied by increasing concentration. A small group of economies seized a disproportionate share of the new digital investment projects, reflecting complementarities among skills, infrastructure, regulations, and existing firms' networks (UNCTAD, 2025; OECD, 2024).

Figure 3: *Comparative Bar Chart- Traditional FDI Determinants vs New Hierarchy of Emerging Feasibility Constraints*

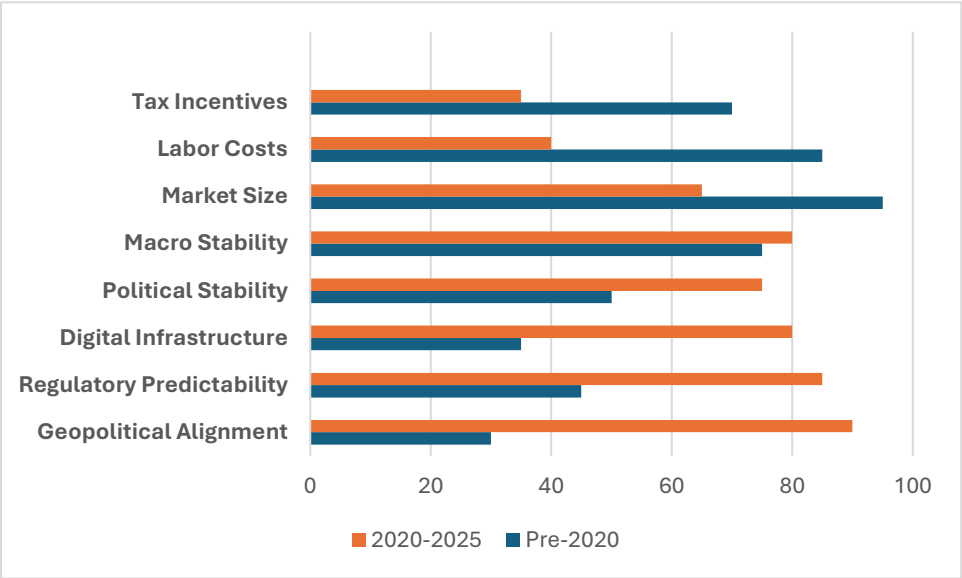


Figure 3 illustrates the contrasting Traditional FDI Determinants (e.g., Demographics, Labor Costs) against the new hierarchy of Emerging Feasibility Constraints (e.g., Geopolitical Alignment, Sovereign Debt Stability, AI/Digital Infrastructure Readiness).

Table 1: Comparative Weight of Traditional FDI Determinants and Emerginging Feasibility Constraints

FDI Determinant Factor	Traditional Era Weight (Pre-2020)	Current Era Weight (2020-2025)	Change	Source
Geopolitical Alignment	Low priority	**35%** cite as primary risk	↑ Sharp increase	Kearney FDI Index 2025
Regulatory Predictability	Moderate	**32%** cite as primary constraint	↑ Sharp increase	Kearney FDI Index, 2025
Political Stability	Moderate	**26%** cite as primary risk	↑ Increase	Kearney FDI Index, 2025
Digital Infrastructure Readiness	Low-Moderate	Critical (AI/data centers = 20% of greenfield)	↑ Sharp increase	UNCTAD, 2026 McKinsey, 2025
Macroeconomic Stability	High	**38%** cite commodity/supply risks	→ Remains high	Kearney FDI Index 2025
Market Size	Very High	Moderate-High (conditional onaccess)	↓ Decrease	UNCTAD WIR 2025 and (FT Locations Knowledge Hub | Blog | FDI Data Trends of 2025.)
Labor Costs	Very High	Low-Moderate (automation reduces importance)	↓ Sharp decrease	OECD 2024
Tax Incentives	High	Low (insufficient without stability)	↓ Decrease	UNCTAD WIR 2024

Note. Adapted from the Kearney FDI Confidence Index 2025.

Taken together, the determinants discussed in this section point to a qualitative shift in how foreign direct investment decisions are structured, rather than to a simple change in the relative strength of familiar drivers. Market size, costs, productivity, institutional quality, and resource endowments are still important, but they now operate within a limited set of choices influenced by previous evaluations of risks related to policies, political connections, access conditions, infrastructure readiness, and financing ability. This ordering has several important implications. Traditional determinants increasingly function as second-stage sorting mechanisms rather than as primary filters. Differences in market size or productivity can account for differences in investment inflows only if they satisfy minimum feasibility tests at these locations. It helps clarify why enhancing competitiveness or introducing incentive provisions is often insufficient to attract investment when uncertainty, policy volatility, or financing restrictions remain restrictive. Interactions among determinants, therefore, become more important than their individual effects. Large markets without predictable access conditions may be less attractive than smaller economies embedded in stable trade arrangements. Similarly, low production costs rarely compensate for macroeconomic instability or weak policy

credibility when projects involve high sunk costs. Additive empirical specifications poorly capture the nonlinear investment responses generated by these interactions. This logic also helps account for rising concentration and divergence. When investment is limited to a smaller number of viable locations, agglomeration forces and cumulative causation strengthen clustering across sectors and regions. Economies that meet minimum feasibility thresholds are more likely to attract further investment, while those economies that fall short face increasing difficulty in attracting FDI. Political and policy-related factors thus shape the domain within which economic optimisation occurs, rather than displacing economic logic altogether.

4. Empirical Patterns and Regional Dynamics of FDI (2020–2025)

The comprehensive worldwide FDI data from 2020 to 2025 offers substantial evidence corroborating the legitimacy of the Sequential Feasibility Framework. It illustrates that we need to do thorough, in-depth study because just looking at aggregate statistics doesn't show the high volatility, structural differences, and high-stakes selectivity that are common in current cross-border capital flows (UNCTAD, 2021, 2022, 2023, 2024, 2025, 2026). In 2020, the outbreak prompted a historic decline of 42% in worldwide FDI. The recovery in 2021 and 2022 was modest and not always the same. This was primarily because mergers and acquisitions that had been put on hold were back on track and the supply chain was reorganised (UNCTAD, 2023). By 2024, geopolitical fragmentation has put a lot of pressure on the economy to go down. As a result, foreign direct investment (FDI) around the world fell by 11% to around $1.5 trillion. The 14% increase in 2025 was mostly false; it was caused by European conduit channels and not real investment in productive capital (UNCTAD, 2025, 2026).

4.1 Regional Disparities and the Geographical Distribution of Investment

From 2020 to 2025, there is a lot of variation between regions, which makes it hard to think of a single worldwide investment framework (OECD, 2023). The 7.1% surge in inflows to $188.9 billion in 2024 shows that Latin America and the Caribbean were quite resilient. But this strength was primarily only seen in a few large economies, such Brazil and Mexico. It was largely due to present multinationals reinvesting their profits in the host country. There were no new investments or projects in greenfields (Economic Commission for Latin America and the Caribbean [ECLAC], 2024, 2025). Mexico is nearby to the United States, which has made nearshoring possible. This shows how crucial geopolitical and geographical issues are when making investment decisions (ECLAC, 2023). Africa has had a lot of difficulties keeping things in order. Foreign direct investment (FDI) went up 75% in 2024, hitting $96 billion. The main reason was the big project in Egypt known as Ras El-Hekma. It was strange that foreign direct investment (FDI) dropped by roughly 42% in the first half of 2025, because the project's effects were starting to fade off. This shows the significance of project financing for the African continent (UNCTAD, 2025–2026). By 2025, the gap between developed and developing economies had widened significantly. Foreign direct investment in advanced economies reached $728 billion, which is 43% greater than the previous year. Mostly, it was because businesses were restructuring and acquiring new technologies. Meanwhile, emerging countries had a small drop of 2%, which brought in a total of $877 billion. The least developed countries, on the other hand, still didn't get a lot of high-value technological investments. This implies that there are still structural inequalities exists (UNCTAD, 2026).

4.2 Sectoral Shifts and Investment Structure

The most significant and long-term transformation from this period is a significant shift in the overall composition of FDI. Capital has shifted from long-term, heavy-industry initiatives to flexible, scalable technology investments, driven by the global competition in AI, cloud computing, and data services. In 2025, investments in digital infrastructure predominated greenfield activities, with data center projects rising by $125 billion, constituting over 20% of the global greenfield market. The current pattern points out the attractiveness of rapid execution, flexible capacity, and high-margin revenue models due to geopolitical uncertainty (UNCTAD, 2026). In contrast, conventional sectors dependent on long-term project financing, including transportation, heavy manufacturing, and renewableenergy,had a persistent downturn, decreasing by 10% in 2025.Increased interest rates on loans, extended

payback durations, and regulatory uncertainties have diminished the feasibility of traditional investments, leading to a qualitative transition towards digital industries that provide swift scalability and risk adaptability (UNCTAD, 2022).

4.3 Country-Level Resilience: The Case of India

In spite of regional stagnation, certain developing nations demonstrated strategic resilience.It is most evident by India, where FDI inflows are expected to increase by73%to $47 billion in 2025 (Government of India, (2025). growth was largely driven by strategic investments in digital services, information technology, and manufacturing, in line with global supply chain diversification initiatives such as China-plus-one. India's success reinforces the Sequential Feasibility Framework, as its demographic advantages, geopolitical alignment, and macroeconomic stability allowed it to successfully overcome initial constraints that challenged other regional competitors (International Monetary Fund [IMF], 2023, 2024, 2025).

Table 2. Global Foreign Direct Investment Trends by Region and Sector (2020–2025)

Region / Sector	Trend Benchmark (2024/2025)	Analytical Interpretation & Investment Characteristics
Global Aggregate	$1.6 trillion in 2025 (+14% YoY)	Post-2020 volatility continues. The 2025 headline growth is highly inflated by financial conduit flows; real underlying productive growth remains a weak 5%.
Developed Economies	$728 billion in 2025 (+43% YoY)	Massive, highly concentrated rebound driven by cross-border M&As, corporate restructuring, and high-value tech acquisitions in established financial hubs.
Developing Economies	$877 billion in 2025 (-2% YoY)	Structural stagnation. Lower-income countries are heavily sidelined due to a lack of baseline digital infrastructure and extreme sensitivity to global interest rates.
Africa	$96B in 2024; massive drop in 2025	The 2024 spike (+75%) was an anomaly driven entirely by a single Egyptian megaproject. The 2025 collapse reveals deep underlying vulnerability to project finance.
Latin America	$188.9 billion in 2024 (+7.1% YoY)	Demonstrates regional resilience, but inflows are heavily concentrated in just a few nations and driven largely by the reinvestment of incumbent corporate earnings.
Digital & Tech Sectors	+$125B increase in 2025	Extreme capital concentration. AI infrastructure, semiconductors, and data centers now dominate global greenfield announcements due to their massive scalability.
Heavy Infrastructure	Sustained 10% decline in 2025	Broad retreat from highly tariff-exposed and long-horizon international transport, telecommunications, and traditional renewable energy projects.
India (Developing Asia)	$47 billion in 2025 (+73% YoY)	Exceptional regional outperformance. Growth driven by strategic IT services, supply-chain diversification, and stable macroeconomic governance.

Note. Compiled by the author based on data and analyses from UNCTAD (2025, 2026), OECD (2024, 2025), and ECLAC (2024, 2025).

Table 3. Dominant Modes of Foreign Direct Investment by Region (2020–2025)

Region / Sector	Dominant FDI Mode	Secondary Mode	Typical Horizon	Core Strategic Motivation
Developed Economies	Mergers & Acquisitions	Greenfield	Short–Medium	Deep reliance on corporate restructuring, market consolidation, and rapid technology acquisition.
Africa	External Project Finance	Greenfield	Very Long	Heavily dictated by capital-intensive, state-backed energy and transport infrastructure megaprojects.
Developing Asia	Greenfield	M&A	Medium	Driven fundamentally by supply-chain diversification, localized manufacturing relocation, and "China-plus-one" hedging.
Latin America	Earnings Reinvestment	M&A	Medium	Strongly concentrated in incumbent transnational resource firms and strategic nearshoring (e.g., Mexico).
Digital & Tech Sectors	Greenfield	Joint Ventures	Short	Highly modular, scalable physical investments allowing for rapid deployment and highly flexible risk mitigation.
Heavy Infrastructure	Complex Project Finance	-	Very Long	Inherently rigid projects that remain phenomenally sensitive to global interest rate spikes and policy reversals.

Note. Synthesized by the author. Regional dominance of foreign direct investment modes is based on qualitative trends reported in UNCTAD (2024b, 2025) and OECD (2024, 2025) monitoring reports.

Table 4. Policy and Geopolitical Exposure of FDI by Region and Sector

Region / Sector	Geopolitical Exposure	Main Policy & Regulatory Channels	Analytical Impact on Feasibility Screening
Developed Europe	High	Intense national security screening, ESG mandates, and energy transition policies.	Results in the rapid, early-stage exclusion of non-aligned or high-carbon capital sources.
North America	Medium–High	Strict industrial policy (e.g., CHIPS Act), semiconductor export controls, deep supply-chain decoupling.	FDI openness is entirely conditional, strictly tied to absolute strategic and geopolitical alignment.
Africa	High	High sovereign debt constraints, institutional opacity, and localized political instability.	Imposes massive feasibility thresholds, effectively excluding standard efficiency-seeking manufacturing FDI.
Developing Asia	Low–Medium	Pragmatic trade integration, localized tax incentives, and successful multi-alignment hedging.	Creates a vastly broader feasibility set for manufacturing FDI attempting to bypass Western tariff structures.

Digital & Tech	Low	Deep regulatory flexibility, massive state support for high-tech job creation.	Highly mobile capital aggressively pursues strict digital infrastructure readiness above all other concerns.
Heavy Infrastructure	Very High	Total reliance on state tariff regimes, sovereign guarantees, and environmental approvals.	Financial feasibility is unconditionally dependent on decades of continuous, unbroken state policy credibility.

Note. Developed by the author based on regional capital concentration data and financing constraints detailed in UNCTAD (2024a, 2025a) and World Bank (2024, 2025).

Table 5. Concentration and Financing Sensitivity in Contemporary FDI Patterns

Region /Sector	Degree of Capital Concentration	Sensitivity to Financing Conditions	Underlying Economic Mechanism
Africa	Very High	Extremely High	Aggregate trends are routinely dictated by single megaprojects and absolute structural dependence on external dollar finance.
Developed Economies	High	Medium	Heavy agglomeration and capital clustering in globally established, deeply capitalized financial and technology hubs.
Developing Asia	Medium	Medium	Features a substantially wider manufacturing base, though intra-regional distribution remains highly uneven and localized.
Latin America	Medium–High	Medium	Heavy capital concentration is located in the largest demographic economies and highly strategic critical mineral sectors.
Digital & Tech	Very High	Low	Massive network externalities and strict energy requirements drive intense, highly specific geographic clustering.
Heavy Infrastructure	High	Very High	Deep, sustained capital intensity severely exposes long-term projects to standard global interest rate fluctuations.

Note. Developed by the author based on regional capital concentration data and financing constraints detailed in UNCTAD (2024a, 2025a) and World Bank (2024, 2025).

4.4 Interpreting Divergence and Selectivity

Collectively, the evidence presented in this section suggests that the investment landscape is transitioning to a more selective approach. Overall reductions in foreign direct investment may occur alongside growth in select regions, countries, and sectors if conditions for feasibility are specifically fulfilled. This trend explains why conventional policy solutions frequently produce constrained outcomes in attracting foreign direct investment (FDI). Even if there is slight benefit in cost competitiveness, incentives, or market access, its impact is limited if uncertainty, policy volatility, and financial constraints remain high. Such feasibility requirements may completely exclude sites for foreign direct investment, irrespective of their economic advantages. The consequent concentration of investments indicates the reinforcing dynamics of feasibility. When foreign direct investment is directed towards a limited number of viable sites, agglomeration effects, network externalities, and cumulative causation reinforce

those positions, while excluded economies confront increased challenges in integrating with global investment networks. The dynamics reinforce the paper's primary assertion that modern foreign direct investment results are influenced by sequential decision-making processes, where feasibility constraints determine the scope of location choices, and conventional economic factors function within that scope.

6. Discussion

The findings of this research suggest that the determinants of foreign direct investment need to be re-conceptualised in both theory and empirical work. The existing literature largely views these determinants as additive influences that together shape firms' location choices. It is often assumed that market size, costs, productivity, and institutional quality all operate simultaneously, and differences in observed outcomes reflect differences in relative strength. The evidence examined in this study instead points to a more sequential decision process, in which certain conditions operate as preliminary screens that exclude locations before conventional economic considerations are evaluated. This perspective reconciles several discrepancies evident in recent investment figures. It explains why economies with relatively strong fundamentals experience a sharp decline in FDI, while those with narrow or sector-specific advantages attract large inflows. It also highlights why recent diversification efforts away from highly concentrated production networks have not produced widespread investment dispersion. Instead of being evenly distributed across a variety of alternative destinations, investment has tended to cluster in a small number of places that presently meet conditions of policy stability, infrastructure readiness, and financial accessibility. Importantly, this interpretation does not imply that political or strategic considerations have replaced economic logic. Firms still respond to cost, demand, and productivity differences. The realm in which these responses operate appears to have changed. Feasibility constraints restrict the set of choices, but optimization occurs within them. This distinction avoids a false dichotomy between economic and geopolitical explanations and instead highlights their interaction. Political alignment, policy predictability, and financing conditions determine which locations are considered first. Once this initial screening is complete, conventional determinants take over. This discussion also highlights the importance of diversity across firms and sectors. Feasibility Constraints may not work uniformly. Larger multinational corporations with diverse activities may be better equipped to manage political and policy risks than small investors. In the same way, activities with shorter investment horizons and lower sunk costs may remain mobile, whereas long-horizon projects in infrastructure, energy, and advanced manufacturing become more selective. The differences above suggest that aggregate investment data may be masking substantial variation in firm-level behaviour, which deserves more empirical attention. The existing proof does have a crucial limit on what can be inferred from it. Data at the aggregate and project levels don't help at the firm level. Large projects can disproportionately influence regional trends, while reporting lags and valuation effects can exaggerate volatility during periods of heightened uncertainty. Some observed shifts may thus reflect timing effects rather than permanent structural change. Whether the patterns documented here persist over longer horizons remains an open question that future research will need to address. The study advocates reframing existing theories of foreign direct investment rather than rejection in the context of a fragmented geopolitical environment. The traditional determinants are still relevant, but their influence is increasingly conditional on the feasibility constraints that shape where optimization occurs. More emphasis on screening, sequencing, and constraints offers a more coherent way to interpret the recent divergence in global investment patterns without overplaying its permanence and inevitability. This viewpoint connects existing theories with the new realities of the increasingly fractured and uncertain global investment environment.

5. Conclusion

This paper aims to explain the recent patterns of foreign direct investment against the backdrop of geopolitical fragmentation, rising policy uncertainty, and uneven economic outcomes. The study does not suggest a collapse of cross-border investment nor that the traditional economic determinants have ceased to be relevant. Instead, it indicates a shift in how foreign direct investment is structured. Optimisation is increasingly being replaced by feasibility. Firms across regions and sectors appear to use a narrower set of screening criteria before investing capital. The investment decisions are still shaped by market size, productivity, and cost competitiveness, but their impact is

conditional. The viability of any location is now increasingly determined by its political alignment, policy predictability, infrastructure readiness, and access to long-term finance. This analysis also explains the lack of widespread investment dispersion in recent production network diversification efforts. Investment is not spread evenly across alternative destinations but tends to concentrate in those economies that satisfy key feasibility conditions. This pattern reflects both firms' deliberate risk management and practical capacity constraints on the ground. It implies that current reallocation is not just a diversion from established hubs but rather an expansion of existing investment geographies. The recent dynamic investment trends suggest that the determinants of foreign direct investment are sequential rather than additive. Although established theoretical models remain relevant, they operate under a much narrower set of options, which are affected by geopolitical and policy-related factors. When we focus on screening constraints and the sequencing of events, we better understand why investment is attracted to different regions differently, and why some sectors attract more investment than others. These results also have implications for the interpretation of recent trends. Reduced overall investment flows do not correspond to to deglobalization. Rather, they signal a reordering of where and under what conditions investment decisions are made. While it is unclear whether this setup is temporary or more permanent, it does reveal that feasibility is a first-order consideration in contemporary investment scenarios.

7. Policy Implications

The findings of this study suggest that prevailing policy approaches to foreign direct investment require recalibration. If feasibility constraints are binding, then measures based predominantly on cost incentives, fiscal concessions, or headline competitiveness indicators will be ineffective. In an era of geopolitical fragmentation and high uncertainty, investors give greater weight to predictability, institutional coherence, and credible long-term assurances than to marginal cost advantage. What various economies need today are better investment outcomes that require less attention-grabbing and more uncertainty-reducing measures. The viability of investment location is increasingly determined by regulatory stability, transparency in policy processes, and consistency in trade and investment frameworks. In locations where these conditions are weak, investment decisions are unlikely to change in favour of modest improvements in competitiveness or the generosity of incentives. Investment promotion strategies that overlook these constraints risk misallocating scarce public resources. The analysis also emphasizes the limitations of standardized policy recommendations. Feasibility constraints vary by region, sector, and type of investment, as does government capacity to address them. In certain situations, it may be critical to strengthen infrastructure reliability or access to long-term finance. In some cases, it may be more important to clarify investment screening procedures, reduce policy unpredictability, or enhance coordination. Although marginal decisions can be influenced by short-term inducements, deeper credibility and coordination problems are not easily resolved by such inducements. The increasing concentration of investment in technology-intensive activities and a small number of locations raises additional policy concerns. When economies fail to meet new feasibility thresholds, they can have increasing difficulty attracting the type of investment that leads to productivity growth, technological upgrading, and structural transformation. To address this risk, policy approaches should go beyond investment promotion. Wider development strategies designed to improve institutional quality, human capital formation, infrastructure provision, and financial depth are likely to play a more central role. The results warn against any inward-looking or protectionist response to these recent shifts in investment. Even though fragmentation has reshaped the geography of foreign direct investment, cross-border capital flows remain an important channel for capital formation, knowledge transfer, and regional integration into global production networks. Polices that increase uncertainty or restrict openness may entrench exclusion rather than enhance resilience. A more constructive response lies in strengthening the conditions that allow economies to remain credible and predictable participants in an increasingly selective global investment environment. Taken together, these implications underscore the paper's central message. Drawing in foreign direct investment in today's global situation is less about margin competition and more about feasibility thresholds. Investments will be more affected by policies that focus on stability, credibility, and long-horizon capacity than by those that focus solely on incentives or cost-cutting.

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