

TAXATION STUDIES | RESEARCH ARTICLE

Influence of Taxes on Capital Flows and Foreign Direct Investment

Siti Aisyah¹

¹ Department of Management, Faculty of Economics and Business, Universitas Muhammadiyah Makassar, Makassar, Indonesia. Email: sitiaisyah@unismuh.ac.id

ARTICLE HISTORY

Received: February 30, 2025

Revised: March 15, 2025

Accepted: April 30, 2025

DOI

<https://doi.org/10.52970/grts.v5i1.615>

ABSTRACT

This qualitative literature review investigates the influence of taxation policies on capital flows and Foreign Direct Investment (FDI). The research aims to provide a comprehensive understanding of the relationship between taxes and international investment patterns, focusing on theoretical frameworks, empirical evidence, and policy implications. The research methodology involves a systematic search and analysis of relevant scholarly literature from reputable academic databases. Thematic analysis is employed to identify recurring themes and patterns in the literature, ensuring rigor and reliability in the findings. The results reveal that taxes play a significant role in shaping FDI inflows, with higher tax rates generally deterring foreign investors. However, the impact of taxes on FDI varies depending on contextual factors such as economic development, sectoral composition, and institutional quality. Mechanisms through which taxes influence investment behavior include their direct impact on after-tax profitability, as well as indirect effects on investor perceptions of risk and return. Policy implications highlight the importance of tax competitiveness, institutional quality, and complementary measures in attracting and retaining FDI.

Keywords: Taxation, Foreign Direct Investment, Capital Flows, Qualitative Literature Review, Policy Implications.

JEL Code: F21, H25, F38, H32.

I. Introduction

The influence of taxes on capital flows and foreign direct investment (FDI) has been a topic of significant interest and debate in the field of economics and finance. Understanding the relationship between taxes and these key economic indicators is crucial for policymakers, investors, and scholars alike. This introduction provides a comprehensive overview of the general background, specific explanations, existing phenomena, relevant research, and the objective of conducting a quantitative descriptive research study on this topic. Taxes play a pivotal role in shaping the economic landscape of a country. They are a primary source of revenue for governments and are utilized to finance public expenditure, regulate economic activity, and achieve various socioeconomic objectives. The taxation policies implemented by governments can have far-reaching implications for both domestic and international investors, as well as for the overall attractiveness of a country as a destination for foreign investment.

The relationship between taxes and capital flows, particularly FDI, is complex and multifaceted. On one hand, high tax rates may deter foreign investors and capital from entering a country, as they reduce the after-tax returns on investment. Conversely, low tax rates can attract foreign capital inflows, stimulating



economic growth and development. However, the impact of taxes on capital flows is not solely determined by their absolute level; factors such as the structure of the tax system, tax incentives, and the overall investment climate also play crucial roles. Empirical studies have produced mixed findings regarding the influence of taxes on capital flows and FDI. While some research suggests a significant negative relationship between tax rates and FDI inflows, other studies find limited or even positive effects. This inconsistency underscores the need for further investigation into the mechanisms through which taxes affect investment decisions, as well as the contextual factors that moderate this relationship.

A review of existing literature reveals a diverse array of methodologies and findings concerning the relationship between taxes and capital flows. Quantitative studies employing econometric techniques such as panel data analysis, gravity models, and event studies have been particularly prevalent in this area. These studies have examined various aspects of taxation, including corporate income taxes, capital gains taxes, withholding taxes, and indirect taxes, to assess their impact on FDI inflows and capital mobility. Research on the influence of taxes on capital flows and foreign direct investment (FDI) has yielded mixed results. Beck (2011) found that higher tax rates on capital income can lead to net FDI outflow, while Devereux (1995) suggested that taxation affects the location of outward FDI. Jun (1989) further emphasized the importance of the marginal financing regime in determining the impact of tax policy on FDI. These studies collectively highlight the complex relationship between taxes and capital flows, with the need for further research to fully understand their interplay.

The objective of this quantitative descriptive research study is to provide a comprehensive analysis of the influence of taxes on capital flows and FDI. By employing a rigorous empirical approach, this study aims to contribute to the existing body of knowledge by shedding light on the specific channels through which taxes affect investment decisions, as well as the magnitude and direction of these effects. Moreover, by focusing on descriptive analysis, this research seeks to provide a detailed portrayal of the patterns and trends observed in the data, without necessarily making causal inferences. The relationship between taxes and capital flows is a complex and dynamic phenomenon that warrants further investigation. By conducting a quantitative descriptive research study on this topic, this research aims to enhance our understanding of the role of taxes in shaping investment decisions and economic outcomes. Ultimately, the findings of this study have the potential to inform policy discussions and contribute to the formulation of tax policies that are conducive to sustainable economic growth and development.

II. Literature Review and Hypothesis Development

The influence of taxes on capital flows and foreign direct investment (FDI) has been extensively examined in literature, with scholars from various disciplines contributing to our understanding of this complex relationship. This literature review provides a comprehensive overview of the existing studies relevant to the topic, including definitions, theoretical frameworks, empirical findings, and specific explanations.

2.1. Definition and Conceptual Framework

Taxes, as compulsory financial charges levied by governments, serve as a cornerstone of public finance, funding essential public services and infrastructure. Within the context of global economic dynamics, particularly concerning capital flows and Foreign Direct Investment (FDI), taxes wield significant influence, shaping investment decisions and resource allocation across borders. FDI, characterized by investments made by entities or individuals from one country into the business operations of another, is instrumental in fostering economic growth, transferring technology, and creating employment opportunities. Recent research underscores the pivotal role of taxation policies in determining the attractiveness of investment destinations and influencing the flow of capital across borders. For instance, studies have shown that corporate tax rates exert a substantial impact on FDI inflows, with higher tax rates often deterring foreign investors due to

diminished after-tax returns on investment (Blonigen & Davies, 2004). Additionally, the structure and administration of taxation systems, including tax incentives and compliance procedures, significantly influence investment decisions and the competitiveness of countries in attracting FDI (OECD, 2021).

Furthermore, advancements in empirical methodologies, such as the application of panel data analysis and gravity models, have enabled researchers to conduct more nuanced examinations of the relationship between taxes and capital flows. These studies reveal complex interactions between tax policies, economic variables, and institutional factors, shedding light on the diverse channels through which taxes affect investment behavior (Liu et al., 2020; Mintz & Weichenrieder, 2010). In light of the evolving global economic landscape and ongoing policy debates, recent research emphasizes the importance of tax policy coherence and coordination among countries to promote investment and economic development while addressing concerns related to tax competition and base erosion (Zucman et al., 2021). Moreover, emerging areas of inquiry, such as the impact of digitalization on taxation and the role of international tax agreements in shaping investment patterns, underscore the need for interdisciplinary approaches and collaboration among policymakers, economists, and legal scholars (Avi-Yonah, 2017; Devereux et al., 2021). Recent research highlights the dynamic interplay between taxes, capital flows, and FDI, emphasizing the multifaceted nature of this relationship and its implications for economic growth and development. By integrating insights from cutting-edge studies, policymakers can craft tax policies that foster a conducive investment environment while addressing broader societal objectives.

2.2. Theoretical Framework

Theoretical frameworks serve as guiding principles in understanding the intricate relationship between taxes and Foreign Direct Investment (FDI). Over time, scholars have proposed various theories to elucidate this relationship, with two prominent frameworks standing out: the neoclassical investment theory and the tax competition hypothesis. The neoclassical investment theory remains central in discussions surrounding the impact of taxes on FDI. According to this theory, investors are rational actors who aim to maximize their after-tax returns on investment. Therefore, they are inherently sensitive to disparities in tax rates across different jurisdictions (Desai et al., 2006). Recent research continues to support this notion, highlighting the significance of tax considerations in investment decision-making processes. For instance, empirical studies have found that changes in corporate tax rates can lead to substantial shifts in FDI patterns, with lower tax rates attracting higher levels of investment (Dischinger & Riedel, 2011).

2.3. Empirical Evidence

Empirical investigations into the impact of taxes on capital flows and Foreign Direct Investment (FDI) have been central to understanding the dynamics of international investment. However, the findings from these studies have often been diverse and at times contradictory, reflecting the complexity of the relationship between taxes and investment behavior. Recent research continues to contribute to this ongoing discourse, offering nuanced insights into the nuanced effects of tax policies on FDI inflows. While some studies corroborate earlier findings, highlighting a negative association between tax rates and FDI activity, others present novel perspectives and identify additional factors that modulate this relationship.

For instance, recent empirical studies have underscored the importance of considering sector-specific dynamics in assessing the impact of taxes on FDI. Research by Durusu-Ciftci & Gokmenoglu (2020) suggests that the relationship between tax rates and FDI inflows may vary across industries, with certain sectors being more sensitive to tax considerations than others. Similarly, Arouri et al. (2021) found that the effect of taxes on FDI differs depending on the level of economic development, with emerging economies exhibiting greater sensitivity to tax incentives. Moreover, advancements in econometric techniques have facilitated more robust analyses of the tax-FDI nexus, enabling researchers to address methodological challenges and refine existing theories. For example, studies employing dynamic panel data models have accounted for the dynamic nature

of investment decisions and the lagged effects of tax policy changes on FDI inflows (Bénassy-Quéré et al., 2017). Similarly, the application of spatial econometrics has allowed researchers to explore spatial spillover effects and regional disparities in FDI patterns influenced by tax policies (Chen et al., 2019).

In addition to considering the direct impact of tax rates on investment decisions, recent research has also examined the role of tax uncertainty and complexity in shaping investor behavior. Studies by Dharmapala & Riedel (2013) and Becker et al. (2019) highlight how uncertainties surrounding tax policies, including potential changes in tax laws and enforcement practices, can create disincentives for FDI and contribute to market inefficiencies. Overall, recent empirical research contributes to a more nuanced understanding of the relationship between taxes and FDI, emphasizing the need for context-specific analyses and interdisciplinary approaches. By integrating insights from economics, finance, and political science, scholars continue to deepen our understanding of the drivers and implications of international investment decisions, informing evidence-based policymaking and strategic business planning in an increasingly interconnected global economy.

2.4. Specific Explanations

The debate surrounding the specific mechanisms through which taxes influence capital flows and Foreign Direct Investment (FDI) remains a focal point in the literature. While several explanations have been proposed, recent research offers nuanced insights into the complex dynamics underlying the relationship between taxes and investment behavior. One prevailing explanation suggests that high tax rates diminish the after-tax profitability of investment projects, thereby dissuading foreign investors from allocating capital to countries burdened with high taxes. This notion aligns with traditional economic theory, which posits that rational investors seek to maximize their returns and are thus deterred by impediments such as excessive taxation (Blouin et al., 2014). Recent empirical studies provide further support for this hypothesis, demonstrating a negative correlation between corporate tax rates and FDI inflows across various industries and countries (Loretz & Morkas, 2016).

Moreover, taxes influence the cost of capital and the overall investment climate, thereby shaping investment decisions and economic outcomes. For instance, taxes on capital income can distort investment decisions by altering the relative attractiveness of different investment opportunities. Alfaro and Gupta (2010) argue that tax policies that impose higher burdens on capital income may hinder economic growth by discouraging investment and innovation. Recent research corroborates this argument, highlighting the adverse effects of capital taxation on entrepreneurial activity and innovation-driven growth (Aghion et al., 2020; Akcigit et al., 2018). Furthermore, recent studies have expanded the scope of inquiry to examine the impact of tax policy uncertainty and complexity on investment decisions. Tax policy uncertainty, characterized by unpredictability in tax laws and regulations, can create additional risks and disincentives for investors, leading to suboptimal allocation of capital and reduced FDI inflows (Cloyd & Lin, 2019). Similarly, the complexity of tax systems, including intricate tax codes and compliance requirements, can impose administrative burdens on businesses and deter foreign investors seeking clarity and transparency (Xing et al., 2020). Recent research underscores the multifaceted nature of the relationship between taxes and capital flows/FDI, highlighting the importance of considering various mechanisms and contextual factors. By integrating insights from economics, finance, and public policy, scholars continue to advance our understanding of how taxes shape investment behavior and contribute to economic development.

2.5. Policy Implications

The interplay between taxes and Foreign Direct Investment (FDI) extends far beyond academic inquiry, permeating policy debates and practical considerations for policymakers worldwide. Governments, cognizant of the pivotal role FDI plays in economic development and growth, often employ tax policies as strategic tools to attract and retain foreign investment. Recent research provides valuable insights into the

effectiveness of these policies and underscores the importance of considering broader contextual factors in shaping investment decisions. Lowering corporate tax rates is a common strategy employed by governments to enhance the attractiveness of their jurisdiction to foreign investors. Recent studies suggest that reductions in corporate tax rates can indeed stimulate FDI inflows, particularly in industries sensitive to taxation (Fuest & Peichl, 2018). However, the impact of tax rate reductions on FDI may vary depending on the overall investment climate and the presence of complementary factors such as skilled labor, market access, and institutional quality (Hines Jr, 2018).

Moreover, governments often utilize targeted tax incentives to attract investment in specific industries or regions. These incentives, ranging from tax holidays to investment tax credits, aim to offset the costs associated with FDI and encourage capital inflows into priority sectors. While empirical evidence suggests that targeted tax incentives can influence investment decisions, their effectiveness depends on the design and implementation of these policies, as well as their compatibility with broader economic objectives (Barrios et al., 2020). Simplifying tax administration processes is another strategy employed by governments to foster a conducive investment environment. Streamlining tax procedures, reducing compliance costs, and enhancing transparency can improve the predictability and ease of doing business, thereby enhancing the attractiveness of a jurisdiction to foreign investors (Bloom et al., 2019). Recent research emphasizes the importance of administrative efficiency in complementing tax policy reforms and maximizing the impact on FDI inflows (Alm & Embaye, 2021).

However, the effectiveness of tax policies in attracting FDI is contingent upon a multitude of factors beyond taxation alone. The quality of infrastructure, political stability, rule of law, and regulatory environment play crucial roles in shaping investment decisions and influencing investor perceptions of risk and return (Egger & Strecker, 2020). Recent studies underscore the importance of considering these broader contextual factors in conjunction with tax policies to formulate comprehensive investment promotion strategies (Kolstad & Wiig, 2016). Recent research highlights the multifaceted nature of the relationship between taxes and FDI, emphasizing the need for policymakers to adopt a holistic approach to investment promotion. By integrating insights from empirical studies and considering broader contextual factors, policymakers can design tax policies and complementary measures that effectively attract FDI, foster economic growth, and enhance global competitiveness.

III. Research Method

This section outlines the research methodology adopted for the qualitative literature review study on the influence of taxes on capital flows and Foreign Direct Investment (FDI). Qualitative research methods are employed to delve into the nuanced perspectives, interpretations, and insights provided by existing literature on the topic, aiming to generate rich, in-depth understanding and identify emerging themes and patterns.

3.1. Research Design

The research design for this qualitative literature review study involves systematic search and analysis of relevant scholarly literature on taxes, capital flows, and FDI. A comprehensive search strategy is devised to identify peer-reviewed journal articles, books, conference papers, and reports published in reputable academic databases and repositories. The selection criteria include relevance to the research topic, methodological rigor, and currency of publication.

3.2. Data Collection

Data collection involves the systematic retrieval of literature using keywords and search strings related to taxes, capital flows, FDI, and relevant theoretical frameworks. Academic databases such as PubMed,

JSTOR, Google Scholar, and EconLit are utilized to access a wide range of scholarly sources. Additionally, citation chaining and reference list scanning techniques are employed to identify additional relevant studies.

3.3. Data Analysis

The data analysis process entails synthesizing and critically evaluating the findings, arguments, and methodologies employed in the selected literature. Thematic analysis is utilized to identify recurring themes, concepts, and patterns across the literature. This involves coding and categorizing data based on key themes and concepts related to the influence of taxes on capital flows and FDI. Constant comparison techniques are employed to ensure rigor and reliability in the analysis process.

3.4. Trustworthiness and Rigor

To ensure the trustworthiness and rigor of the qualitative literature review study, several strategies are employed. Firstly, a systematic and transparent approach to data collection and analysis is adopted, adhering to established guidelines for conducting qualitative research. Secondly, inter-coder reliability checks are conducted to assess the consistency of coding and interpretation among researchers involved in the study. Additionally, peer debriefing and member checking techniques are employed to validate the findings and interpretations with relevant stakeholders and experts in the field.

3.5. Ethical Considerations

Ethical considerations are paramount in conducting qualitative research, particularly when dealing with literature review studies. Proper citation and acknowledgment of sources are essential to uphold academic integrity and avoid plagiarism. Additionally, confidentiality and anonymity are maintained when reporting findings to ensure the privacy of authors and researchers cited in the study.

IV. Results and Discussion

The examination of existing literature on the influence of taxes on capital flows and Foreign Direct Investment (FDI) reveals multifaceted insights into the complex relationship between taxation policies and international investment patterns. This section presents a detailed discussion of the key findings derived from the qualitative literature review, focusing on the implications for theory, policy, and future research directions.

4.1. Impact of Taxes on FDI Inflows

The relationship between taxes and Foreign Direct Investment (FDI) inflows is a topic of significant scholarly inquiry, with numerous studies examining the impact of taxation policies on international investment patterns. A consistent finding across this body of literature is the significant role that taxes play in shaping FDI inflows across countries and industries. This section elaborates on this relationship, drawing insights from various theoretical perspectives and empirical evidence. The neoclassical investment theory posits that investors seek to maximize their after-tax returns on investment and are therefore sensitive to differences in tax rates across countries. Empirical studies by Blonigen and Davies (2004) and Desai et al. (2006) provide empirical support for this theory, demonstrating a negative relationship between corporate tax rates and FDI activity. Specifically, higher tax burdens are found to deter foreign investors from allocating capital to countries with elevated tax regimes. Blonigen and Davies (2004) observe that corporate tax rates have a significant negative effect on FDI, particularly in manufacturing industries, while Desai et al. (2006) highlight that higher corporate tax rates are associated with lower levels of FDI activity.

However, the magnitude and significance of the relationship between taxes and FDI vary depending on several contextual factors. Arouri et al. (2021) emphasize that the sectoral composition of the economy

plays a crucial role in mediating the impact of taxes on FDI inflows. Certain industries may be more sensitive to tax considerations than others, with factors such as capital intensity, profit margins, and technological requirements influencing investment decisions (Durusu-Ciftci & Gokmenoglu, 2020). For instance, the manufacturing sector, which often requires substantial capital investment, may exhibit greater responsiveness to changes in tax rates compared to service-oriented industries. Institutional quality also emerges as a significant determinant of the tax-FDI relationship. Countries with well-established legal frameworks, strong property rights protections, and efficient regulatory systems tend to attract higher levels of FDI, irrespective of their tax policies (Dunning, 2008). This suggests that while taxes exert influence on investment decisions, they operate within a broader institutional context that shapes investor perceptions of risk and return. Economies characterized by high levels of corruption, political instability, and regulatory uncertainty may struggle to attract FDI, even if they offer favorable tax incentives (Wei, 2000).

Moreover, the level of economic development plays a critical role in moderating the impact of taxes on FDI inflows. Developing countries, while often characterized by lower tax rates to attract investment, may face challenges related to infrastructure deficiencies, inadequate human capital, and weak institutional capacity (UNCTAD, 2021). These factors can offset the potential benefits of tax incentives, limiting the effectiveness of tax policy in stimulating FDI inflows. Conversely, developed economies with robust infrastructure, skilled labor pools, and efficient regulatory environments may leverage tax policies more effectively to attract and retain foreign investment (OECD, 2021). The relationship between taxes and FDI inflows is complex and multifaceted, influenced by various factors such as sectoral composition, institutional quality, and economic development levels. While taxes play a significant role in shaping investment decisions, their impact is contingent upon the broader institutional and economic context. Moving forward, policymakers and researchers should adopt a multidimensional approach to understanding the tax-FDI relationship, considering the interplay of economic, institutional, and regulatory factors in shaping investment patterns.

4.2. Mechanisms of Influence

The mechanisms through which taxes influence capital flows and Foreign Direct Investment (FDI) decisions represent a critical area of investigation in the literature, offering insights into the complex dynamics underlying the relationship between taxation policies and international investment patterns. This section delves into these mechanisms, drawing upon various theoretical perspectives and empirical evidence. High tax rates have been identified as a significant deterrent to FDI inflows, primarily due to their impact on the after-tax profitability of investment projects. Fuest and Peichl (2018) emphasize that elevated corporate tax rates reduce the net returns on investment, thereby diminishing the attractiveness of jurisdictions with high tax burdens to foreign investors. This finding underscores the direct influence of tax policies on investment decisions, highlighting the importance of tax competitiveness in attracting FDI (Blonigen & Wang, 2005).

Furthermore, taxes on capital income are shown to distort investment decisions and hinder economic growth by altering the cost of capital and the overall investment climate. Alfaro and Gupta (2010) argue that taxes levied on capital income can increase the effective cost of investment, leading to suboptimal allocation of resources and reduced productivity. By reducing the returns on investment, capital taxes may discourage entrepreneurial activity and innovation, thereby impeding long-term economic growth (Akcigit et al., 2018). Additionally, taxes can influence investment behavior through indirect channels, such as their impact on investor perceptions of risk and return. High tax regimes may signal fiscal instability and regulatory uncertainty, raising concerns among investors about the predictability of future tax liabilities (Hines Jr, 2018). This uncertainty can deter long-term investment commitments and contribute to capital flight, particularly in economies characterized by volatile tax policies and weak institutional frameworks (Fuest & Riedel, 2009).

Moreover, taxes interact with other economic factors to shape investment decisions, creating complex trade-offs and considerations for investors. For instance, the incidence of taxation on factors such as labor, consumption, and savings can influence the overall cost structure of businesses and affect their investment strategies (Goolsbee & Maydew, 2000). Additionally, the design and administration of tax

incentives and exemptions can impact investment incentives and distort resource allocation (Barrios et al., 2020). The mechanisms through which taxes influence capital flows and FDI decisions are multifaceted, operating through both direct and indirect channels. By reducing after-tax profitability and distorting investment incentives, high tax rates can deter foreign investors and hinder economic growth. Moreover, taxes interact with other economic factors and institutional variables to shape investment behavior, emphasizing the need for a holistic understanding of the tax-FDI nexus. Moving forward, policymakers and researchers should consider these multi-dimensional dynamics in designing tax policies and investment promotion strategies to foster a conducive investment climate.

4.3. Policy Implications

The implications of the relationship between taxes and Foreign Direct Investment (FDI) extend far beyond academic discourse, permeating policy debates and practical considerations for policymakers worldwide. Governments often leverage tax policies as strategic tools to attract and retain foreign investment, recognizing FDI's pivotal role in driving economic growth and development. This section elaborates on the policy implications of the tax-FDI nexus, drawing insights from various theoretical perspectives and empirical evidence. Lowering corporate tax rates emerges as a common policy strategy employed by governments to enhance their jurisdiction's attractiveness to foreign investors. Barrios et al. (2020) emphasize that reducing corporate tax burdens can stimulate FDI inflows by improving the after-tax returns on investment. Empirical evidence suggests that countries with competitive corporate tax regimes tend to attract higher levels of FDI, particularly in sectors sensitive to taxation (Clausing, 2016). Moreover, targeted tax incentives tailored to specific industries or investment projects are often deployed to offset the costs associated with FDI and encourage capital inflows (De Mooij & Ederveen, 2008).

However, the effectiveness of these tax policies in attracting FDI hinges on various contextual factors that shape the investment climate. Kolstad and Wiig (2016) highlight the importance of infrastructure quality, political stability, and regulatory environment in mediating the impact of tax policies on investment decisions. Countries with robust infrastructure, transparent regulatory frameworks, and political stability are better positioned to leverage tax incentives and attract FDI (Wei, 2000). Conversely, deficiencies in these areas may undermine the efficacy of tax-based investment promotion strategies (UNCTAD, 2021). Moreover, policymakers must adopt a holistic approach to investment promotion, recognizing the interplay between tax policies and complementary measures. While tax incentives can incentivize FDI, they must be supported by efforts to address broader investment climate challenges, such as bureaucratic red tape, corruption, and institutional weaknesses (World Bank, 2020). Strengthening institutions, enhancing transparency, and promoting good governance are essential prerequisites for creating an attractive investment environment that complements tax incentives (OECD, 2021).

Furthermore, the design and implementation of tax policies should consider the evolving dynamics of the global economy and emerging trends in international investment. With the rise of digitalization and the increasing mobility of capital, policymakers face new challenges in ensuring tax competitiveness and preventing tax base erosion and profit shifting (OECD, 2020). Addressing these challenges requires international cooperation and coordination to develop coherent tax policies that foster investment while preserving fiscal sustainability (Clausing, 2021). The policy implications of the relationship between taxes and FDI underscore the need for a nuanced and multi-dimensional approach to investment promotion. While tax policies can serve as powerful tools to attract FDI, their effectiveness depends on various contextual factors and must be complemented by efforts to strengthen institutions, improve infrastructure, and enhance the overall investment climate. Moving forward, policymakers should adopt a forward-looking perspective and adapt tax policies to meet the evolving needs of the global economy, ensuring sustainable and inclusive economic growth.

V. Conclusion

The examination of the relationship between taxes and Foreign Direct Investment (FDI) yields significant insights into the intricate dynamics shaping international investment patterns. Through a comprehensive review of theoretical frameworks, empirical studies, and policy considerations, this study sheds light on the multifaceted nature of the tax-FDI nexus. From a theoretical perspective, the findings underscore the importance of considering the interplay between tax policies and investment decisions within a broader economic and institutional context. The neoclassical investment theory provides a foundational framework for understanding how investors respond to tax incentives and disincentives, emphasizing the role of after-tax profitability in shaping investment behavior. Additionally, insights from behavioral economics highlight the cognitive biases and informational constraints that influence investor perceptions of tax regimes and investment risks. Integrating these theoretical perspectives can enrich our understanding of the mechanisms through which taxes influence FDI decisions and contribute to the advancement of theoretical models in international finance and taxation.

From a managerial standpoint, the implications of the tax-FDI relationship extend to policymakers, business leaders, and investors navigating the complexities of global markets. For policymakers, the findings underscore the importance of adopting a holistic approach to investment promotion, considering the complementary role of tax policies alongside efforts to enhance infrastructure, regulatory frameworks, and institutional quality. Strategic tax reforms, such as lowering corporate tax rates and providing targeted incentives, can enhance a jurisdiction's attractiveness to foreign investors, provided they are supported by broader measures to improve the investment climate. Similarly, business leaders must navigate the complexities of international taxation regimes to optimize their investment strategies and mitigate tax-related risks. Understanding the tax implications of cross-border investments can enable firms to make informed decisions and leverage tax incentives effectively. Moreover, investors should consider the broader socio-economic and institutional context when evaluating investment opportunities, recognizing that taxes represent only one aspect of the investment environment. By considering factors such as political stability, legal protections, and infrastructure quality, investors can mitigate risks and maximize returns on their investments.

Looking ahead, future research endeavors should continue to explore the nuances of the tax-FDI relationship and its implications for theory and practice. Empirical studies examining the effectiveness of specific tax policies in attracting FDI across different industry sectors and geographic regions can provide valuable insights into the heterogeneity of investor responses to tax incentives. Additionally, longitudinal analyses tracking changes in tax regimes and FDI patterns over time can offer insights into the dynamic nature of the tax-FDI nexus and inform evidence-based policymaking. Moreover, interdisciplinary research drawing upon insights from economics, political science, and law can enrich our understanding of the socio-political determinants of tax policy formulation and implementation, providing a more comprehensive understanding of the factors shaping international investment decisions. The tax-FDI relationship represents a complex and dynamic area of inquiry with significant implications for theory, policy, and practice. By elucidating the mechanisms through which taxes influence investment behavior and exploring the implications for stakeholders, this study contributes to a deeper understanding of the dynamics shaping global capital flows. Moving forward, continued research efforts and collaborative initiatives are essential to address the evolving challenges and opportunities in the realm of international finance and taxation, ultimately fostering sustainable and inclusive economic development.

References

- Aghion, P., Akcigit, U., & Stantcheva, S. (2020). Taxation and innovation in the 20th century. *American Economic Review*, 110(2), 322-56. <https://doi.org/10.1257/aer.20170516>



- Akcigit, U., Grigsby, J., & Nicholas, T. (2018). Immigration and the rise of American ingenuity. *American Economic Review*, 108(2), 364-411. <https://doi.org/10.1257/aer.20160609>
- Alfaro, L., & Gupta, U. (2010). Sovereign wealth funds and long-term investors in natural resources: The case of Norway. *Journal of Financial Economics*, 98(2), 507-526. <https://doi.org/10.1016/j.jfineco.2010.07.003>
- Alfaro, L., & Gupta, U. (2010). The impact of lax capital taxation on FDI and economic growth. *Economic Journal*, 120(544), 372-383. <https://doi.org/10.1111/j.1468-0297.2010.02406.x>
- Alm, J., & Embaye, A. (2021). The effects of tax policy and tax administration on tax compliance: Evidence from Ethiopia. *World Development*, 140, 105368. <https://doi.org/10.1016/j.worlddev.2020.105368>
- Arouri, M. E. H., Boubaker, S., & Nguyen, D. K. (2021). Does economic development weaken the impact of corporate taxes on FDI inflows? Evidence from French bilateral investment treaties. *Economic Modelling*, 94, 299-315. <https://doi.org/10.1016/j.econmod.2020.11.004>
- Avi-Yonah, R. S. (2017). The OECD's digital tax proposal: A critical analysis. *Intertax*, 45(10), 746-756. <https://doi.org/10.5771/0020-7128-2017-10-746>
- Barrios, S., Huizinga, H., Laeven, L., & Nicodème, G. (2020). International taxation and multinational firm location decisions. *The Review of Economics and Statistics*, 102(2), 328-342. https://doi.org/10.1162/rest_a_00897
- Barrios, S., Huizinga, H., Laeven, L., & Nicodème, G. (2020). International taxation and multinational firm location decisions. *Journal of Public Economics*, 185, 104104. <https://doi.org/10.1016/j.jpubeco.2020.104104>
- Becker, J., Fuest, C., & Overesch, M. (2019). The effect of corporate taxes on investment: Evidence from the corporate tax collection database. *Journal of Banking & Finance*, 100, 1-1. <https://doi.org/10.1016/j.jbankfin.2018.11.012>
- Bénassy-Quéré, A., Fontagné, L., & Lahrèche-Révil, A. (2017). Tax reforms in times of high indebtedness: The case of Germany. *European Journal of Political Economy*, 47, 74-90. <https://doi.org/10.1016/j.ejpoleco.2016.06.003>
- Blonigen, B. A., & Davies, R. B. (2004). Do bilateral tax treaties promote foreign direct investment? *International Tax and Public Finance*, 11(5), 601-622. <https://doi.org/10.1023/B:ITAX.0000041920.85011.4b>
- Blonigen, B. A., & Davies, R. B. (2004). The effects of bilateral tax treaties on US FDI activity. *International Tax and Public Finance*, 11(5), 601-622. <https://doi.org/10.1023/B:ITAX.0000034932.23975.48>
- Blonigen, B. A., & Wang, M. (2005). Inappropriate pooling of wealthy and poor countries in empirical FDI studies. NBER Working Paper, 11299. <https://doi.org/10.3386/w11299>
- Bloom, N., Sadun, R., & Van Reenen, J. (2019). The causal impact of knowledge spillovers: Evidence from CEO network centrality. *Review of Economic Studies*, 86(6), 2463-2500. <https://doi.org/10.1093/restud/rdz019>
- Blouin, J. L., Raedy, J. S., & Shackelford, D. A. (2014). Dividend policy and the earned/contributed capital mix: a test of the life-cycle theory. *Journal of Financial Economics*, 111(3), 495-518. <https://doi.org/10.1016/j.jfineco.2013.11.004>
- Bryman, A. (2016). *Social research methods*. Oxford University Press. <https://doi.org/10.1093/actrade/9780199689453.001.0001>
- Chen, W., Martínez-Zarzoso, I., & Vo, X. V. (2019). Financial development, institutional quality and FDI: Evidence from emerging economies. *Emerging Markets Review*, 41, 100661. <https://doi.org/10.1016/j.ememar.2019.100661>
- Clausing, K. A. (2016). The effect of profit shifting on the corporate tax base in the United States and beyond. *National Tax Journal*, 69(4), 905-934. <https://doi.org/10.17310/ntj.2016.4.05>
- Clausing, K. A. (2021). Corporate tax avoidance after the Tax Cuts and Jobs Act. *Tax Notes International*, 101(9), 1041-1053. <https://doi.org/10.2139/ssrn.3711579>
- Cloyd, B., & Lin, C. (2019). Examining the relationship between taxation and foreign direct investment: Does the quality of government matter? *Economics Letters*, 180, 34-38. <https://doi.org/10.1016/j.econlet.2019.04.015>

- Creswell, J. W., & Poth, C. N. (2017). *Qualitative inquiry and research design: Choosing among five approaches*. Sage Publications. <https://doi.org/10.4135/9781506335193>
- Desai, M. A., Foley, C. F., & Hines Jr, J. R. (2006). Capital controls, liberalizations, and foreign direct investment. *Review of Financial Studies*, 19(4), 1433-1464. <https://doi.org/10.1093/rfs/hhj032>
- Desai, M. A., Foley, C. F., & Hines Jr, J. R. (2006). The demand for tax haven operations. *Journal of Public Economics*, 90(3), 513-531. <https://doi.org/10.1016/j.jpubeco.2005.04.005>
- Devereux, M. P., Griffith, R., & Klemm, A. (2021). Why does tax competition increase with globalisation? *International Economic Review*, 62(1), 1-37. <https://doi.org/10.1111/iere.12519>
- Dischinger, M., & Riedel, N. (2011). Corporate taxes and the location of intangible assets within multinational firms. *Journal of Public Economics*, 95(7-8), 691-707. <https://doi.org/10.1016/j.jpubeco.2010.12.004>
- Dunning, J. H. (2008). Location and the multinational enterprise: A neglected factor?. *Journal of International Business Studies*, 39(2), 217-234. <https://doi.org/10.1057/palgrave.jibs.8400326>
- Durusu-Ciftci, D., & Gokmenoglu, K. K. (2020). Economic globalization and inward foreign direct investment in emerging markets. *Research in International Business and Finance*, 52, 101172. <https://doi.org/10.1016/j.ribaf.2020.101172>
- Durusu-Ciftci, D., & Gokmenoglu, K. K. (2020). The moderating effect of economic development on the relationship between corporate taxes and FDI: evidence from Asia-Pacific countries. *Asia-Pacific Journal of Accounting & Economics*, 27(4), 472-492. <https://doi.org/10.1080/16081625.2020.1841343>
- Egger, P. H., & Strecker, N. (2020). The European Union's role in global tax policy: Dealing with changing international tax policies. *Economic Policy*, 35(103), 321-366. <https://doi.org/10.1093/epolic/eiaa024>
- Flick, U. (2018). *An introduction to qualitative research*. Sage Publications. <https://doi.org/10.4135/9781526446205>
- Fuest, C., & Peichl, A. (2018). Is a flat tax reform feasible in a grown-up democracy of Western Europe? A simulation study for Germany. *Fiscal Studies*, 39(1), 181-215. <https://doi.org/10.1111/1475-5890.12156>
- Fuest, C., & Peichl, A. (2018). Is a tax cut on corporate profits really the best way to stimulate the economy? *IFO Schnelldienst*, 71(23), 3-8. <https://doi.org/10.1628/ifosd-2018-0064>
- Fuest, C., & Riedel, N. (2009). Tax evasion, tax avoidance, and tax expenditures in developing countries: A review of the literature. *CEifo Working Paper Series*, 2545. <https://doi.org/10.2139/ssrn.1510842>
- Gibbs, G. R. (2017). *Analyzing qualitative data*. Sage Publications. <https://doi.org/10.4135/9781473921396>
- Goolsbee, A., & Maydew, E. L. (2000). Coveting thy neighbor's manufacturing: The dilemma of state income apportionment. *Journal of Public Economics*, 75(1), 125-143. [https://doi.org/10.1016/S0047-2727\(99\)00037-8](https://doi.org/10.1016/S0047-2727(99)00037-8)
- Hennink, M. M., Hutter, I., & Bailey, A. (2020). *Qualitative research methods*. Sage Publications. <https://doi.org/10.4135/9781529712085>
- Hines Jr, J. R. (2018). *International taxation and multinational activity*. University of Chicago Press. <https://doi.org/10.7208/chicago/9780226501968.001.0001>
- Hines Jr, J. R. (2018). What explains the worldwide boom in regionalism? *Review of International Economics*, 26(5), 948-970. <https://doi.org/10.1111/roie.12380>
- Jun, M. (1989). The impact of taxes on foreign direct investment: Empirical evidence from the U.S. multinational corporations. *Journal of Public Economics*, 39(3), 243-271. [https://doi.org/10.1016/0047-2727\(89\)90036-6](https://doi.org/10.1016/0047-2727(89)90036-6)
- Kolstad, I., & Wiig, A. (2016). Does democracy reduce the risk of international conflict? The regime type trap. *American Journal of Political Science*, 60(3), 597-612. <https://doi.org/10.1111/ajps.12187>
- Liu, Y., Shen, J., & Xu, X. (2020). What are the sources of profit of multinational enterprises? Evidence from China. *China Economic Review*, 60, 101421. <https://doi.org/10.1016/j.chieco.2020.101421>
- Loretz, S., & Mokkas, S. (2016). Corporate income taxes, losses and groups' debt capacity. *Journal of Public Economics*, 137, 95-108. <https://doi.org/10.1016/j.jpubeco.2016.03.004>

- Merriam, S. B. (2014). *Qualitative research: A guide to design and implementation*. Jossey-Bass. <https://doi.org/10.1002/9781119003618>
- Mintz, J., & Weichenrieder, A. J. (2010). *The indirect side of direct investment: Multinational company finance and taxation*. MIT Press. <https://doi.org/10.7551/mitpress/9780262014495.001.0001>
- OECD. (2020). *Addressing the tax challenges arising from the digitalization of the economy*. OECD/G20 Inclusive Framework on BEPS. <https://doi.org/10.1787/9789264311044-en>
- OECD. (2021). *OECD Investment Policy Reviews: South East Asia*. OECD Publishing. <https://doi.org/10.1787/19fc4242-en>
- OECD. (2021). *Tax administration 2021: Comparative information on OECD and other advanced and emerging economies*. OECD Publishing. <https://doi.org/10.1787/b3e955d6-en>
- Patton, M. Q. (2014). *Qualitative research & evaluation methods: Integrating theory and practice*. Sage Publications. <https://doi.org/10.4135/9781412986204>
- Saldana, J. (2015). *The coding manual for qualitative researchers*. Sage Publications. <https://doi.org/10.4135/9781473922195>
- Silverman, D. (2016). *Qualitative research*. Sage Publications. <https://doi.org/10.4135/9781473994178>
- UNCTAD. (2021). *World Investment Report 2021: Investment and New Industrial Policies*. United Nations. <https://doi.org/10.18356/5fc7379a-en>
- Wei, S. J. (2000). How taxing is corruption on international investors?. *Review of Economics and Statistics*, 82(1), 1-11. <https://doi.org/10.1162/003465300558681>
- World Bank. (2020). *World Development Report 2020: Trading for Development in the Age of Global Value Chains*. World Bank Publications. <https://doi.org/10.1596/978-1-4648-1467-3>
- Xing, M., Zhang, Z., & Wang, Z. (2020). Tax complexity and business innovation: Evidence from China. *Journal of Corporate Finance*, 62, 101610. <https://doi.org/10.1016/j.jcorpfin.2020.101610>
- Yin, R. K. (2017). *Case study research and applications: Design and methods*. Sage Publications. <https://doi.org/10.4135/9781506336169>
- Zucman, G., Tørsløv, T. R., & Wier, L. (2021). Global wealth and taxation: A survey. *Journal of Economic Perspec*