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# The Impact of Soft Power on Inward Foreign Direct Investment in the MENA Region

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**ABSTRACT**

In the recent years, the dynamics of global investment have undergone a significant shift. Influenced by climate change concerns, the transition toward renewable energy and green technology is becoming inevitable. This rapid change is particularly concerning for MENA countries, as the dependence on oil revenues exposes their economies to significant sustainability risks. In this context, soft power, which is an intangible form of influence that is rooted in countries' attractive qualities, emerges as a critical, yet underexplored, factor influencing governments, policymakers and investors' decisions in the MENA region. Using a descriptive and empirical approach, the research first analyzes data from 77 countries worldwide, then narrows the focus on the MENA region exclusively to explore the relationship between its soft power trends and its inward FDI flows. The Global soft power index, provided by Brand Finance, serves as the primary metric in our analysis as it captures the intangible and the multidimensional aspects of soft power. The descriptive analysis reveals that MENA countries are rapidly enhancing their soft power in the recent years, with new strategic investments allocated toward sports and entertainment. The empirical analysis, using system GMM estimation method, reveals that soft power has a positive and significant influence on inward FDI flows, with this effect being particularly strong in the MENA region. This study underscores the strategic importance for MENA countries to leverage their soft power assets in order to enhance their global appeal, attract foreign investors and move beyond dependence on oil revenues.

**Keywords*:*** Inward FDI, Soft Power, Culture, Influence; Reputation; Cultural Diplomacy

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## 1. Introduction

Since the early 1990s, the global investment landscape has been marked by a significant transformation regarding the dynamics of foreign direct investment. This shift has been driven by globalization and market liberalization, leading to a rise in FDI flows worldwide and particularly into developing countries including the MENA region. Today, FDI remains a crucial driver of economic growth across MENA countries, recognized for its ability to create jobs, transfer technology, and enhance productivity. Traditionally, the determinants of FDI have been linked to economic factors such as market size, natural resources, labor costs and infrastructure. However, in recent years, various MENA countries are rapidly enhancing their image and appeal, thus the concept of "soft power" has emerged as an unconventional yet significant factor influencing governments, policy makers and investors' decisions. Soft power, defined by Nye (2004) as the ability to influence others through attraction and persuasion rather than coercion, is rooted in a country's culture, political values, and foreign policies. In the recent years, countries like Turkey and Qatar have been leveraging cultural and diplomatic soft power channels to improve their image and influence around the world. Turkey, by promoting television dramas, cuisine, and historical heritage, has become a popular destination for tourists around the world, which significantly contributes to its economic growth. Qatar has also recently leveraged its soft power by investing in entertainment and sports including the hosting of the 2022 FIFA World Cup, which led to positive regional economic spillovers, infrastructure investments, and a significant boost in tourism. Other MENA countries as well, including the United Arabe Emirates and Saudi Arabia, are heavily
investing in cultural and diplomatic soft power assets to stimulate their economies and increase their influence on the global stage.

Despite its growing relevance, the literature investigating the impact of soft power on FDI is rather scarce. Although studies conducted by Buitrago et al. (2023) and Krum (2020) have begun exploring this topic, several gaps remain unaddressed. The research conducted by Buitrago et al. (2023) primarily focused on broad indicators of soft power, often conflating them with economic or business factors. As soft power is intangible in nature, the overuse of economic performance indicator might risk neglecting the impact of intangible forms of influence such as culture, diplomacy and the country's image and reputation on the global stage. Krum (2020) on the other hand uses the approval ratings of U.S. leadership as a proxy for soft power. The issue with this approach is that soft power is a multidimensional concept that cannot be captured relying only on a set of survey questions. In our research, we aim to address these gaps by employing both descriptive and empirical analysis covering a sample of 77 developed and developing countries during the period 2020-2023. To assess soft power, we use the Global soft power index, which is a metric provided by Brand Finance that is specifically designed to capture soft power, its intangible nature and its key drivers. We also aim to narrow the analysis more on the MENA region, given the rise of influence and reputation that many MENA countries are having on the global landscape. Therefore, we construct our research questions as follows:

1. What are the strategies and trends of soft power evolution in the MENA region?
2. What is the impact of soft power on inward FDI flows for MENA countries?

The descriptive analysis reveals the trends in soft power in the MENA region and across the world. The panel data analysis aims to answer the question regarding the impact of soft power on inward FDI flows using system GMM model. The model include different FDI determinants along with soft power such as lagged FDI values, market size metrics including GDP and trade openness, and other macroeconomic and infrastructure factors. From a policy perspective, if

soft power has a significant impact on inward FDI, governments can strategically leverage their cultural assets, political values, and diplomatic efforts to attract foreign investment.

In an increasingly interconnected world, where traditional power dynamics are shifting, the ability to attract FDI through non-coercive means could be a game-changer for many nations particularly in the MENA region. For MENA countries, the dependency on oil revenue nowadays poses several risks as the world is shifting more towards renewable and green energy sources. In the long term, this research could also contribute to a more nuanced and comprehensive theory of FDI determinants, incorporating both hard and soft power factors.

As for the structure of our research, first, we will introduce the concept of soft power, its definition, its key sources and the methods used for its measurement. The second part narrows the focus on the MENA region, highlighting its key soft power strategies and recent trends. In the third part, we conduct a literature review on the determinants of inward FDI and the impact of soft power on FDI. Moving on, in the following section, we initiate our empirical analysis by outlining the methodological framework and model selection process. Then, we present our estimation results along with a comprehensive discussion. Finally, we conclude with a summary of our main findings and key policy recommendations.

## 2. Soft Power definition, channels and measurement

### *2.1 Soft power origin and definition*

In the realm of international relations, the notion of power is a crucial component when it comes to understanding how nations interact and influence each other. Power, which is mainly defined as the ability to influence the behavior of others to achieve a certain outcome (Organski, 1958), has been historically associated with tangible factors such as military force and economic strength. Nevertheless, in the recent decades, the concept of soft power has emerged as an unconventional, yet a significant factor influencing governments, policy makers and even investors' decisions.

According to Nye (2004), soft power refers to the country's ability to influence and persuade others without resorting to force or coercion. In other words, it's the country's ability to influence others without the use of military force, economic sanctions, payments or any other form of coercion that involves the use of tangible instruments. It's the impact that countries have through their attractive qualities such as culture, values, and reputation. In this context, Nye (2004, pp. 5-6), adds "A country may obtain the outcomes it wants in world politics because other countries-admiring its values, emulating its example, aspiring to its level of prosperity and openness-want to follow it." He further suggests that "Simply put, in behavioral terms, soft power is attractive power."

The mechanisms of soft power can also be understood through its opposite form, which is hard power. While hard power is based on command, coercion, or inducement, soft power is based on co-optive power and the attractiveness of one's culture and values.

**Table 1. Soft Power versus Hard Power**

| | Hard power | | Soft power |
|---|---|---|---|
| | **Military power** | **Economic power** | |
| **Behavior** | Command<br>Coercion<br>Deterrence<br>Protection | Inducement<br>Coercion | Co-opt<br>Attraction<br>Agenda setting |
| **Resources / Primary currencies** | Threats<br>Force | Payment Sanctions | Values<br>Culture<br>Policies<br>Institutions |
| **Government policies** | Coercive diplomacy<br>War<br>Alliance | Aid<br>Bribes<br>Sanctions | Public diplomacy<br>Bilateral diplomacy<br>Multilateral diplomacy |

Source: Author's adaptation from Nye (2004, p. 31)

### *2.2 Soft power channels*

As for the channels or the drivers of soft power, Nye (2004) identifies three main sources: culture, political values, and foreign policy.

A. Culture: According to Nye (2008, p. 69), Culture is defined as the "set of practices that create meaning for society". It includes (1) high culture such as literature, theatre, visual art-which is more appealing to elite audience as well as (2) popular culture for mass entertainment, such as television, cinema, and pop music (Nye, 2008).

B. Political values: In addition to the laws and institutions that govern a nation, political values have a strong impact on the global perception of the country and thus on its soft power. When institutions effectively uphold and convey values such as transparency, justice, and equality at their home country, they naturally become more attractive to publics abroad (McClory, 2015).

C. Foreign policy: In a soft power context, foreign policy determines the extent to which a nation is perceived to be operating with morals in its conduct with other nations. In other words, is a country acting as a global force for good or not? (McClory, 2015).

Vuving's (2009) suggests a refinement for the concept by introducing 3 alternative sources of soft power: Benignity, Brilliance and Beauty. Benignity is achieved when an agent is perceived as generous, kind, and unselfish through acts of helping, protecting, and doing good to others. This translates into soft power as the recipient feels gratitude and sympathy, and desires to reciprocate the received benignity. Brilliance on the other hand refers to a country's competence in its domestic affairs. It is achieved when a country excels in areas such as military strength, economic prosperity, cultural richness, and social stability. Similarly, brilliance exerts soft power as others admire and respect the country, and seek to learn, adopt, and emulate its achievements. The third source, which is Beauty, refers to a country's charisma when promoting shared ideals, values, causes, or vision. A country possesses beauty when it acts as a leader in protecting and advancing these shared ideals, which fosters a sense of security, trust, credibility, legitimacy, and moral authority in the minds of others.

### *2.3 Soft power measurement*

Due to its multidimensional nature and its intangible aspects, the measurement of soft power is a significant challenge as trying to capture the perception of others on a nation involves several psychological factors. However, multiple options can be useful, and various metrics were constructed to achieve this goal.

#### *2.3.1 Polling projects:*

Polling data in a soft power context refers to surveys conducted to gauge the perceptions and stance of people in various countries towards other nations. These polls measure factors such as approval of foreign leadership, overall favorability, and the perceived influence or attractiveness of a country. Although not specifically intended to measure soft power, international polling projects still serve as a helpful proxy for such a case. Projects like the BBC World Service's country ratings poll, Pew Research Center's global attitudes project, and the Anholt-GFK Roper nation brand index all aim to evaluate the appeal or the attractiveness towards a country and can be considered as soft power indicators (McClory 2015).

#### *2.3.2 The IfG-Monocle soft power index*

The first initiative to measure soft power capabilities of nations was conducted by the Institute for Government and Monocle magazine through the creation of the IfG-Monocle soft power Index. This index combines different factors such as a country's political institutions, cultural appeal, diplomatic network strength, reputation of higher education systems and the attractiveness of its economic models. It also employs metrics related to language influence and sporting achievements (McClory, 2011).

#### *2.3.3 The Soft Power 30 Index (2015-2019)*

The soft power 30 project, developed by the Institute for Government in collaboration with Portland Communications, is widely recognized as the most representative model for measuring soft power resources for the period 2015-2019. It is regarded as the first comprehensive and empirical attempt at quantifying soft power resources, departing from the traditional reliance on opinion surveys. In the official report, both objective and subjective sub-indices of soft power are identified. The selection of soft power sub-indices categories in the soft power 30 index has been developed based on Nye's model for the conversion of soft power and a survey of existing academic literature on the subject (McClory, 2015).

#### *2.3.2 The Global soft power index (2020-2024)*

The Global soft power index, which is the main focus of this study, is the most up to date soft power indicator available and it is based on the most comprehensive and wide-ranging research program of its kind. With data collected from over 170,000 people across more than 100 countries, capturing perceptions of 193 nation brands from around the world (Brand Finance, 2024). As illustrated in table 2, the index assesses soft power across three key dimensions: familiarity, reputation and influence:

**Table 2. The Global soft power index main dimensions**

| | |
|---|---|
| Familiarity | Aims to capture the degree to which a country is known to people. Nation brands with more widespread recognition naturally have greater soft power. |
| Reputation | Aims to evaluate the extent to which a nation is perceived to have a strong and positive reputation globally. |
| Influence | Captures the extent to which a nation is perceived to have influence both domestically and on the global stage. |

Source: Brand Finance (2024)

These three dimensions are then evaluated across eight soft power pillars which include: (1) culture and heritage (2) international relations (3) media and communication (4) people and values (5) sustainable future (6) governance (7) business and trade and (8) education and science. This multidimensional framework goes beyond just cultural and diplomatic factors to also include economic, technological, and environmental dimensions as sources of soft power. The index uses a combination of objective metrics (number of international students, diplomatic network size etc..) and subjective perceptions data to assess each country's soft power across these pillars. By incorporating a wide range of measures, the Global soft power index provides a balanced evaluation of nations' presence, reputation, and impact on the global stage (Brand Finance, 2024).

## 3. Soft power in the MENA region

### *3.1 Foundations of MENA Soft Power*

For the MENA region, the origin of soft power is tied primarily to its rich cultural heritage and unique geo-economic positions. The region stands as a beacon of cultural diversity and civilization, yet in the recent years, it has suffered from several challenges and been often portrayed through the lens of conflict and instability. MENA countries are more encouraged to recognize the importance of leveraging their soft power assets such as culture, political values and diplomatic initiatives to improve and reinforce their positive image on the global stage.

From a historical perspective, the MENA region soft power story dates back to ancient civilizations and different nations that have shaped human knowledge, trade, and international relations. Egypt for instance with its monumental achievements, including the pyramids and early scientific advancements, have not only drawn global admiration but also reinforced the nation's identity as a cradle of civilization. Additionally, Mesopotamia's innovations, such as the development of cuneiform writing and the Code of Hammurabi, indicate the region's foundational role in establishing governance and legal principles, thus offering narratives of historical significance. The Islamic Golden Age as well further reinforces the region's intellectual legacy, with cities like Baghdad and Córdoba standing as global centers of knowledge in various fields including mathematics, medicine and philosophy. This legacy of fostering cross-cultural intellectual exchange remains a crucial soft power asset that promotes the region's global image as a bridge between civilizations. Another layer that adds to the region's soft power narrative is its resistance during the colonial period. Countries like Morocco and Tunisia has succeeded to preserve their unique cultural identities under colonial forces,

which serves today as an asset that further promotes these countries' image and its ability to attract international tourism.

As for the recent soft power narrative, the revolutions following the events of the Arab Spring in 2010 reflect a profound commitment to resilience and political transformation. The uprisings, most notably the Tunisian revolution, marked a pivotal moment in the region's history, as citizens protested against corruption and mobilized to advocate for values of freedom and democracy. These movements not only reshaped the internal political dynamics of several nations but also projected an image of the region as a space of agency and reform, contributing to its evolving role in the global political discourse.

### *3.2 MENA countries soft power strategies*

#### *3.2.1 Iran's soft power*

Although Iran has been always branded in the lens of hard power due to its envolvment in wars, the country is slowly but steadily moving towards an extraordinary status and role in the Middle East. Iran's soft power is rooted in its rich history, unique political model, and strategic foreign policy. With a three-thousand-year-old civilization and a ranking among the top ten destinations for historical tourism, Iran uses its cultural heritage, including the Persian language and a global diaspora, to promote its influence. Politically, its "religious democracy" offers an alternative model that appeals to religious Muslims, positioning Iran as a unique example in governance. Iran's foreign policy emphasizes Islamic values, solidarity with Muslims, and support for the oppressed, using these principles to strengthen Shiism globally through media campaigns, cultural centers, and financial support for Shiite minorities, including the Houthis. Anti-American and pro-Palestinian slogans further solidify Iran's role as a regional leader, while trade and investment initiatives, such as car manufacturing collaborations with Turkey and Malaysia, extend its economic reach. (Elhusseini, 2016)

#### *3.2.2 Oman's soft power*

Oman's soft power strategy is deeply rooted in its commitment to peace and state-branding, supported by its domestic stability and active diplomacy. The country's stability has not only attracted foreign investment but also elevated Oman's status internationally, with achievements such as being ranked first in human development progress from 1970-2010 by the UNDP (United Nations Development Programme). Oman has leveraged its multicultural identity and rich history to foster national pride and promote harmony, branding itself as a peaceful and inclusive nation. On the international stage, Oman's neutrality and advocacy for dialogue have allowed it to mediate key conflicts, including hosting secret US-Iran talks, aiding in the Yemen crisis, and maintaining ties with Syria when others severed relations. These efforts highlight Oman's unique role as a trusted mediator in regional disputes, showcasing its effective use of soft power to maintain stability and foster international trust. (Elhusseini, 2016)

#### *3.2.3 Saudi Arabia's soft power*

Saudi Arabia's soft power initiatives are largely rooted in its Vision 2030 strategy, which seeks to modernize the nation and integrate it more deeply into the global community. This vision emphasizes economic diversification, cultural openness, and fostering global connections. A significant aspect of Saudi Arabia's soft power is its role as the custodian of Islam's holiest sites, enabling it to exert influence through religious tourism, particularly the Hajj pilgrimage. By promoting these initiatives, Saudi Arabia positions itself as a global leader in cultural and

religious diplomacy while showcasing its commitment to economic and social transformation. (Zinser et al., 2023)

### *3.2.4 Qatar's soft power*

Qatar has carefully employed culture and media as central elements of its soft power strategy. Through initiatives like Al Jazeera, it has positioned itself as a leader in independent and influential media, shaping narratives and fostering dialogue on global issues. Qatar's cultural diplomacy extends to hosting international events, with the FIFA World Cup 2022 being its most prominent achievement. This event brought Qatar unprecedented global recognition and highlighted its economic strength and modern infrastructure. By leveraging culture, media, and sports, Qatar has established itself as a hub for global culture and diplomacy. This multifaceted approach reinforces its image as a forward-looking and progressive nation, using high-profile events and strategic investments in global arenas to amplify its influence on the global stage. (Zinser et al., 2023)

### *3.2.5 United Arabe Emirates's soft power*

The UAE's soft power strategy is built on multiple pillars, including humanitarian aid, global event hosting, cultural diplomacy, and environmental leadership. The UAE has positioned itself as a hub of modernity and tolerance, leveraging landmarks such as the Louvre Abu Dhabi and global events like EXPO 2020 to project an appealing image. These initiatives are complemented by its advanced infrastructure, security, and tourist attractions like the Burj Khalifa and Abu Dhabi Grand Prix, which draw global attention and enhance its reputation as a premier destination for business and leisure. In addition to cultural and tourism efforts, the UAE's leadership in addressing global challenges strengthens its international standing. The country hosts the headquarters of the International Renewable Energy Agency (IREA) and has committed to ambitious sustainability goals like the Net Zero by 2050 initiative. Its proactive response during the COVID-19 pandemic, including vaccine distribution and humanitarian aid, showcased its capability as a reliable global partner. Furthermore, national carriers like Emirates and Etihad serve as soft power instruments, facilitating international relief efforts and promoting the UAE's core values. Together, these strategies amplify the UAE's influence, positioning it as a forward-thinking and globally engaged nation.[1]

### *3.2.6 Egypt's soft power*

In addition to its cultural heritage, Egypt has historically leveraged emigration as a key instrument of its soft power strategy. By increasing the emigration of high-skilled professionals, such as teachers and medical personnel, Egypt was able to spread its cultural and political influence across the Arab world and beyond. Egyptian teachers played a pivotal role in fostering shared cultural and ideological values, including pan-Arabism and anti-colonial sentiments, across the region. Similarly, the deployment of professionals to African countries as part of bilateral aid initiatives strengthened Egypt's ties with these nations and showcased its commitment to development and solidarity. These efforts reflect a broader strategy that blends elements of soft and hard power, demonstrating Egypt's capacity to use population mobility as a tool for cultural diplomacy. This approach has not only bolstered Egypt's regional leadership but also expanded its influence in the Global South. By combining high-skilled emigration with educational programs and other forms of cultural exchange, Egypt exemplifies how

[1] Source: DemoEssays. (2024, November 15). United Arab Emirates Soft Power. https://demoessays.com/united-arab-emirates-soft-power

authoritarian states can effectively integrate migration into their foreign policy agendas to enhance their soft power on the global stage. (Tsourapas, 2018)

### *3.2.7 Bahrain's soft power*

Bahrain's soft power strategies are driven by its strong diplomatic ties with the US, UK, and EU, focusing on defense cooperation and economic diversification. A key element of its soft power is hosting major sporting events including the Formula 1 race and other Mixed Martial Arts competitions, which enhances its global visibility and promotes Bahrain as a modern hub for investment and tourism. This strategy also helps distract from human rights issues. Bahrain's membership in the Gulf Cooperation Council (GCC) and close partnerships with Saudi Arabia and the UAE further stabilize its political and economic position, reinforcing its governance and regional influence. (Silva, 2023)

### *3.2.8 Morrocco's soft power*

Morocco has developed a multidimensional soft power strategy that combines religious diplomacy, economic cooperation, and cultural outreach. It promotes its moderate Islamic model as a counter-narrative to extremism in Africa, training religious leaders and exporting its religious practices to enhance its influence across the region. Additionally, through the Moroccan International Cooperation Agency (AMCI), Morocco engages in development partnerships with African nations, providing humanitarian assistance, capacity building in sectors like health and education, and infrastructure projects to foster economic growth. Additionally, Morocco strengthens its position in sub-Saharan Africa through trade agreements and investments aimed at regional integration, positioning itself as a key player in the MENA region's economic landscape. Additionally, Morocco also actively promotes cultural diplomacy by showcasing its rich heritage, including arts, music, and cuisine, to foster goodwill and cultural appeal on the global stage.

### *3.2.9 Tunisia's soft power*

Tunisia's soft power is heavily intertwined with its rich cultural heritage. As a cradle of some of the world's earliest civilizations, including the Phoenician city of Carthage, Tunisia has long been a crossroads of cultures and ideas. Its rich Islamic heritage, particularly since the establishment of influential centers of learning like the Zaytuna University, further enhances its cultural appeal. During the colonial period, Tunisia's resistance against French and Italian occupations and its successful fight for independence, adds a layer of national pride and resilience. These historical narratives, alongside the country's political achievements including the revolution of 2011, which sparked the Arabe Spring and the resistance against political corruption across the Arab world, as well as the Nobel Peace Prize awarded to the National Dialogue Quartet, create a powerful fusion of cultural, political, and social soft power. Additionally, Tunisia's progressive stance on women's rights and its leadership in democratic transition further strengthen its reputation as a beacon of hope, social justice, and human rights in the Arab world.

### 3.2.10 *Kuwait's soft power*

Kuwait's soft power strategies are mainly centered around humanitarian aid, civil society engagement and cultural diplomacy. The country is a significant donor of humanitarian aid, contributing a significant amount of its GDP on various forms of assistance, which positions it as one of the largest per capita donors among GCC countries. As a mediator in regional conflicts, Kuwait maintains a neutral stance, promoting stability and enhancing its international

reputation. Additionally, Kuwait leverages cultural and sports diplomacy by hosting international events, alongside efforts to diversify its economy and build global brands. These strategies collectively strengthen Kuwait's global influence and support its national interests.

#### 3.2.11 *Lebanon's soft power*

Lebanon's soft power is defined by its rich cultural heritage, humanitarian diplomacy, and commitment to democratic values. The country is celebrated for its cultural diversity, with a mix of religious and ethnic groups contributing to its vibrant arts, literature, and music scene, making it a cultural hub in the MENA region. Lebanon's role as a humanitarian actor, particularly in response to the Syrian refugee crisis, enhances its international reputation. Additionally, Lebanon's democratic aspirations and advocacy for human rights align with global values, positioning it as a beacon of reform and freedom in the region.

#### 3.2.12 *Jordan's soft power*

Jordan advantages in soft power lie in its strategic use of humanitarian diplomacy and cultural heritage. The country has gained international recognition for its generous hosting of refugees, particularly from Syria and Palestine, positioning itself as a key player in regional stability and humanitarian efforts. Jordan also promotes its rich cultural history, leveraging its ancient sites like Petra and its thriving arts and film sectors to project a positive image globally. Additionally, Jordan plays a vital role as a mediator in Middle Eastern conflicts, maintaining a reputation for neutrality and diplomacy. These efforts enhance Jordan's influence in the region and on the global stage.

### *3.3 MENA region soft power evolution*

Despite the challenges that the region faces today in terms of frequent political changes and the perception of instability, soft power today still remains a crucial component for several MENA countries, particularly the United Arabe Emirates, which ranked 10 out of 170 nations evaluated in the Global soft power index during the year 2024. According to the Global soft power index, the UAE is the leading among MENA countries, followed by Saudi Arabia and Qatar. For the past 4 years, these 3 countries have demonstrated great advancement in leveraging their soft power assets. In just 3 years the UAE managed to jump 8 places and rank 10 among 100 nations evaluated in 2023. This performance could be attributed to several factors. The soft power driver's analysis provided by Brand Finance (2024) indicates the areas which contributed the most to this advancement. Primarily, these areas include business and trade, governance and international relations. Saudi Arabia also followed a similar path, climbing from a rank of 26 in 2020 to a rank of 18 in 2024. One of the primary reasons behind this improvement could be attributed to the Vision 2030 project, which was introduced in 2016 as a comprehensive plan that aims to diversify the Saudi economy from its traditional reliance on oil revenues through prioritizing investments in different sectors including entertainment, tourism, and technology, in an effort to position Saudi Arabia as a significant global player in business and culture. Similarly, Qatar as well has experienced a significant rise, going from rank 31 in 2020 to 21 in 2024. This evolution is also largely credited to strategic soft power initiatives, including the hosting of the 2022 FIFA World Cup.

**Table 3. MENA soft power ranking and pillars' scores (2024)**

| Country | MENA Rank | Global Rank | Index Scores | Familiarity | Reputation | Influence |
|---|---|---|---|---|---|---|
| United Arab Emirates | 1 | 10 | 59.7 | 6.4 | 7.1 | 5.9 |
| Saudi Arabia | 2 | 18 | 56 | 6.7 | 6.6 | 5.8 |
| Qatar | 3 | 21 | 54.5 | 5.9 | 6.9 | 5.3 |
| Kuwait | 4 | 37 | 45.3 | 4.9 | 6.2 | 4.5 |
| Egypt | 5 | 39 | 44.9 | 7.3 | 6.2 | 4.4 |
| Oman | 6 | 49 | 40.6 | 3.6 | 5.9 | 3.9 |
| Morocco | 7 | 50 | 40.6 | 5.7 | 5.9 | 3.9 |
| Bahrain | 8 | 51 | 40 | 3.6 | 5.8 | 3.9 |

Note- other MENA countries scores are displayed in appendix (table A.2)
Source: The Global Soft Power Index 2024 report

**Table 4. MENA soft power drivers' scores (2024)**

| | Business & Trade | International Relations | Education & Science | Culture & Heritage | Governance | Media & Communication | Sustainable Future | People & Values | Net Positive/Negative Impact |
|---|---|---|---|---|---|---|---|---|---|
| United Arab Emirates | 7.7 | 6.3 | 4.5 | 4.5 | 5.3 | 4.2 | 5.5 | 4.5 | 42 |
| Saudi Arabia | 6.8 | 6.2 | 3.6 | 3.8 | 4.7 | 3.9 | 4.7 | 4 | 28.3 |
| Qatar | 7 | 5.7 | 4 | 4 | 4.9 | 4 | 5 | 4.4 | 40.5 |
| Kuwait | 5.7 | 4.5 | 3 | 3.1 | 4 | 3.2 | 3.9 | 3.8 | 20.8 |
| Egypt | 4 | 4.1 | 2.8 | 4.7 | 2.9 | 3.2 | 3.1 | 3.6 | 30.2 |
| Oman | 4.8 | 4.1 | 2.9 | 3.3 | 3.9 | 3.3 | 3.8 | 4.2 | 25.6 |
| Morocco | 3.9 | 3.4 | 2.5 | 4.3 | 2.9 | 2.9 | 3.2 | 3.9 | 24.2 |

Note- other MENA countries scores are displayed in appendix (table A.3)
Source: The Global Soft Power Index 2024 report

Tables 3 and 4 present a comparative analysis of soft power among MENA nations for the year 2024. The United Arabe Emirates, Saudi Arabia, and Qatar maintain their positions as the top three leaders in soft power pillars and drivers' scores. However, when it comes the culture and heritage category, Egypt ranks first Marrocco ranks third. In terms of the net positive impact, Egypt surpasses Saudi Arabia and ranks third in that category

### *3.4 Soft power evolution around the world*

Giving that the soft power 30 index only provides data for only 30 countries and covers only the period 2019-2020, the Global soft power index serves as the most efficient proxy for soft power as it covers a larger sample and covers the recent period 2020-2024. Tables 5 and 6 provide descriptive statistics on soft power for different regions and income-based country groups during the period 2020-2024.

**Table 5. Average soft power evolution across different regions (2020-2024)**

| Region | | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| **Asia** | Number of countries | 14 | 19 | 19 | 19 | 19 |
| | Average | 38.51 | 36.51 | 37.87 | 42.18 | 43.06 |
| **Europe** | Number of countries | 25 | 32 | 32 | 32 | 32 |
| | Average | 44.12 | 42.45 | 43.61 | 48.34 | 50.57 |
| **Latin America & Caribbean** | Number of countries | 7 | 19 | 19 | 19 | 19 |
| | Average | 33.17 | 31.18 | 32.39 | 37.53 | 36.81 |
| **MENA** | Number of countries | 7 | 14 | 14 | 14 | 14 |
| | Average | 35.61 | 35.31 | 3702 | 41.55 | 42.93 |
| **North America** | Number of countries | 2 | 2 | 2 | 2 | 2 |
| | Average | 60.8 | 56.55 | 65.1 | 67.75 | 71.6 |
| **Oceania** | Number of countries | 2 | 2 | 2 | 2 | 2 |
| | Average | 46.15 | 50.75 | 50.55 | 52.2 | 55.55 |
| **Sub-Saharan Africa** | Number of countries | 2 | 14 | 14 | 14 | 14 |
| | Average | 32.6 | 28.43 | 29.52 | 35.2 | 34.23 |

Note – Complete descriptive statistics are displayed in appendix (table A.1)
Source: Author's calculations based on the Global Soft Power Index

**Table 6. Average soft power evolution across income level groups (2020-2024)**

| Income levels | | 2020 | 2021 | 2022 | 2023 | 2024 |
|---|---|---|---|---|---|---|
| **High Income** | Number of countries | 26 | 32 | 32 | 32 | 32 |
| | Average | 49.11 | 47.15 | 48.95 | 52.59 | 55.87 |
| **Middle Income** | Number of countries | 32 | 63 | 63 | 63 | 63 |
| | Average | 34.32 | 32.55 | 33.81 | 38.92 | 38.98 |
| **Low Income** | Number of countries | 1 | 7 | 7 | 7 | 7 |
| | Average | 27.5 | 27.41 | 28.11 | 34.37 | 32.44 |

Note – Complete descriptive statistics are displayed in appendix (table A.1)
Source: Author's calculations based on the Global soft power index

According to table 5, North American countries exhibit the highest soft power scores ranging from approximately 60 to 71. Oceana, which is represented New Zealand and Australia, follows in the second position while Europe ranks third. Asia and the MENA region occupy approximately similar positions with closely aligned average scores ranging from around 35 in 2020 to 43 in 2024, followed by Latin America in the fifth position and then the Sub-Saharan African countries in the last position.[2]

According to table 6 and as evident by the evolution graph in figure 2 in appendix, high income countries are the leading group with the highest soft power average scores ranging from around 49 in 2020 to 56 in 2024, followed by middle income countries in a second position and low-income countries in the third position. The dominance in soft power by high-income countries is very convenient, as these countries already have established hard power resources and economic dominance, which naturally improves their image and perception on the global stage. Nye (2004) also supports this notion where he pointed that hard power has a "soft" side to it. In other words, hard power, whether expressed by military force or economic strength, can create an impression and aura of invincibility which attracts others and enhances countries' overall appeal.

[2] Figure 1 in appendix illustrates the evolution of average soft power scores across different regions during the period 2020-2024 and indicates the order in which these regions are ranked.

## 4. Literature review: FDI determinants and soft power impact

### *4.1 FDI determinants*

The theoretical and empirical literature on inward foreign direct investment covers a wide range of determinants. As each region and time period has its specific characteristics, the theories of foreign direct investment continue to evolve as well. In our study, we choose to focus on an empirical literature review in an effort to identify the most significant factors influencing inward FDI flows. Table 7 summarizes the empirical literature review on soft power determinants based on the review of Tocar (2018) and other studies.

**Table 7. FDI determinants based on the empirical literature**

| Determinant | Author(s) | Impact and significance |
|---|---|---|
| **Market Size** | Sharma and Bandara (2010); Riedl (2010)<br>Artigas and Nicolini (2010) | Significant positive influence on FDI |
| **Inflation** | Kersan-Skabic (2013) | Positive impact on FDI |
| | Kok and Ersoy (2009) | Negative impact on FDI |
| **Trade Openness** | Güriş and Gözgör (2015)<br>Kok and Ersoy (2009) , Noorbakhsh and Paloni (2001)<br>Kersan-Skabic (2013) | Significant positive impact on FDI |
| **Labor Costs** | Du et al. (2012)<br>Hayakawa (2013)<br>Mateev (2009)<br>Khachoo and Khan (2012)<br>Riedl (2010) | Significant negative impact on FDI |
| **Exchange Rate** | Bayoumi et al. (1996) | High exchange rates (currency depreciation) attract FDI |
| | Lajevardi and Chowdhury (2024) | Significant impact of the real effective exchange rate and its volatility on FDI |
| **Natural Resource Endowment** | Morisset (2000) | Positive influence on resource-based FDI |
| | Asiedu and Lien (2011) | May deter non-resource FDI due to currency appreciation |
| | Makonda and Ngakala (2021) | Mixed effects depending on the region and context |
| **Infrastructure** | Kok and Ersoy (2009) | Significant positive impact on FDI (telephone mainlines) |
| | Du et al. (2012) | Significant positive impact on FDI (highway density) |
| **Corruption** | Karim et al. (2017); Gasanova et al. (2018); Luu et al. (2018) | Significant negative impact on FDI |
| **Corporate Tax Rates** | Bellak and Leibrecht (2009) | Significant negative impact on FDI |
| | Gropp and Kostial (2001) | Higher tax rates discourage FDI |
| | Mandinga (2015) | Higher tax rates reduce FDI proportion |
| | Arbatli (2011) | Significant negative impact on FDI |
| **Political Risk** | Riedl (2010); Arbatli (2011) | Lower political risk attracts FDI |
| **Population** | Aziz and Makai (2012) | Larger population and growth attract more FDI |
| | Bhasin and Garg (2019) | Positive influence on FDI stock |
| | Polloni-Silva et al. (2022) | Higher population density attracts more FDI |
| **Education** | Miningou and Tapsoba (2020) | Higher education efficiency positively impacts FDI |
| **Geographic Distance** | Bi et al. (2020) | Gravity effect: closer proximity increases FDI flows |

Source: Author's summary based on Tocar (2018) FDI determinants review and other studies

### *4.2 Soft power impact on inward FDI*

Before presenting the literature regarding soft power impact on inward FDI, it is important to address some of the issues that are relevant in this context and the approach we will be using to deal with it.
The main issue we face in this context lies the scarcity of the literature. In fact, we are able to identify only two studies that investigate this topic directly: Buitrago (2023) and Krum (2020). The first study investigates the impact of soft power on FDI in emerging economies using structural equation modeling and the second study analyzes the impact of U.S. leadership on FDI in the United States. Most of the remaining literature does not specifically address soft power but rather focuses on institutional aspects influencing FDI or instead they analyze the impact that FDI has on soft power, not the reverse. Therefore, we need to clarify our methodology, and the rationale behind our literature review choices. To address these issues, first, our analysis will focus on the literature that deals with the impact of soft power on FDI, not the reverse. This choice is driven by a couple of reasons: The first is that the concept of Power itself is defined as a tool that enables the achievement of a goal through changing the preferences of others to align with the objectives set. In the same context, soft power is defined as the ability to influence others without the use of force or coercion (Nye, 2004). This logic implies that soft power is a tool in itself and not an objective. It is an instrument used to achieve certain goals.

#### *4.2.1. Contributions of Buitrago et al. (2023)*

In their research, Buitrago et al. (2023) use four latent variables to analyze soft power in emerging economies: government, business, culture, and diplomacy. These variables are measured using indicators from various sources, and covering the period 2016-2019. The main findings of the study in regard to inward FDI flows include the following:

(1) Business, cultural, and diplomatic conditions significantly and positively influence IFD inflows in the analyzed emerging economies. However, government conditions do not show a significant direct effect on IFD inflows.
(2) Indirect effects: government conditions indirectly affect IFD inflows through their influence on business conditions. Culture and diplomacy have a positive indirect effect on outward FDI flows.

Overall, the study provides a clear picture of the significant roles that business, cultural, and diplomatic conditions play in attracting foreign investment in emerging economies. However, there are some methodological concerns that need to be addressed. Several indicators used to measure soft power in this study appear to be rather business indicators, which include bureaucracy quality, government corruption, investment profile, government integrity, the business global competitiveness index.. etc. The issue with these indicators, particularly the global competitiveness index and the global entrepreneurship index, is that they focus on economic performance and competitiveness which are tangible instruments, which contradicts with the core characteristic of soft power which is, as discussed earlier, defined by its intangible form of influence.

#### *4.2.1 Contributions of Krum (2020)*

In his study, Krum (2020) attempts to assess soft power impact on inward FDI into the U.S. To measure soft power, Krum (2020) uses the approval ratings of U.S. leadership as measured

by a Gallup World Poll. This poll captures the attitudes of foreign populations towards U.S. leadership, serving as a proxy for soft power. Krum acknowledges that while this measure is not perfect, it provides a substantial dataset reflecting general foreign perceptions over time, which is crucial for understanding the dynamics of FDI. However, relying only on a single set of approval rating poll may risk oversimplify soft power which is multinational in nature. Its main sources, culture, political values and foreign policy are not captured here.
The primary hypothesis examined in the research is whether a decrease in U.S. soft power leads to a decrease in the amount of FDI flowing into the United States. The main findings of this study indicate a statistical and significant positive relationship between soft power and FDI inflows. Countries with higher approval ratings of U.S. leadership are more likely to invest in the U.S. This suggests that favorable opinions of U.S. leadership enhance the country's appeal to foreign investors. However, despite the significance of the results, they are sensitive to the inclusion of dyadic fixed effects in the regression model. When these effects are included, the magnitude of the relationship decreases, indicating that other bilateral factors also play a crucial role in FDI decisions.

**Table 8. Summary of the literature investigating soft power impact on FDI**

| Authors | Contribution | Results | Literature Gaps |
|---|---|---|---|
| Buitrago et al. (2023) | Uses PLS-SEM to analyze the relationship between soft power indicators (government, business, culture, diplomacy) and FDI flows in emerging economies. | Business, cultural, and diplomatic conditions positively influence inward FDI. Government conditions do not have a direct effect but do have an indirect effect via business conditions. | The overuse of tangible indicators such as business, and economic to capture soft power while soft power is intangible in nature. |
| Krum (2020) | Investigates the impact of U.S. soft and FDI using the Gallup World Poll approval ratings of U.S. leadership as a soft power measure | Positive relationship between soft power and FDI inflows; higher approval ratings of U.S. leadership are associated with increased FDI into the U.S. | Relying only on poll leadership approval rating risks neglecting the various aspects of soft power such as culture, political values and foreign policy |

Source: Author's review

## 5. Methodology, model, data and sources

### *5.1 Addressing time dependence and cross-country heterogeneity*

As our research aims to analyze the impact of soft power on inward FDI, it is important to choose a method that addresses the unique characteristics of foreign investment. Here, we are particularly referring to the time dependence nature of FDI as well as the impact of cross-country factors. FDI is indeed dynamic in nature, where past investment experience impacts future investment patterns. Plus, investors require time to adapt with the culture and to understand the mechanisms of the host country's market as well as the preferences of its consumers. To address this aspect of time dependence, it is essential to incorporate FDI past values (lagged) into the analysis. Additionally, FDI has a spatial dependence aspect to it, where FDI characteristics can change across countries and regions. A significant amount of research has identified various country-level macroeconomic and institutional factors, such as market size, trade openness, taxes, labor costs, exchange rates etc., This cross-sectional heterogeneity has to be addressed in order to provide reliable results. (Vujanović et al., 2021)

Another issue we need to address is regarding the possibility of reverse causality, which occurs when the dependent variable has an impact on the explanatory variables. For instance, by their activity, foreign investors may contribute to the host countries' income through an increase in production, labor creation or technology transfer (Findlay, 1978). If we consider static models, such as OLS or other panel techniques (RE/FE), we find that they are not capable of addressing this issue. These methods assume that the relationship between the dependent and independent variables is straightforward with a single direction. However, dynamic models, particularly the generalized method of moments (GMM), accommodates for this issue as well other endogeneities concerns. The main advantage of using GMM in our case is its ability to incorporate dynamic components while also resolving endogeneity issues using internal instruments. It is also important to mention that GMM models do not rely on distributional assumptions like normality and can accommodate for heteroscedasticity.[3] For these reasons, we select system GMM as the most suitable method for our analysis.

### *5.2 Model specifications*

Following examples from different FDI studies including Vujanović et al., (2021), Saini and Singhania (2018) and (Dellis et al., 2017), we apply system GMM to the following equation

$$log(FDI_{it}) = \beta_0 + \beta_1\, log(FDI_{it-1}) + \beta_2\, GSP_{it} + \beta_3\, log(GDP_{it}) + \beta_4\, OPENNESS_{it} + \beta_5\, INFRA_{it} + \beta_6\, INFL_{it} + \beta_7\, LABOR_{it} + \beta_8\, TAXES_{it} + u_i + \epsilon_{it}$$

The dependent variable $\boldsymbol{log(FDI_{it-1})}$ is the natural logarithm of the inward foreign direct investment for country i at time t. The explanatory variables are as follows: $\boldsymbol{FDI_{it-1}}$ : is the lagged value of FDI for country i at time t−1. $\boldsymbol{GSP_{it}}$ is the soft power for country i at time t measured by the Global soft power index. $\boldsymbol{log(GDP_{it})}$ is the natural logarithm of GDP for country i at time t, measured in current U.S. dollar. $\boldsymbol{OPENNESS_{it}}$ is the trade openness for country i at time t, calculated as the ratio of imports plus exports to GDP. $\boldsymbol{INFRA_{it}}$ is the infrastructure for a country i at a time t measured by mobile cellular subscriptions. $\boldsymbol{INFL_{it}}$ is the inflation rate for country i at time t, measured as the GDP deflator. $\boldsymbol{LABOR_{it}}$ is the labor force participation rate for the population aged +15 in country i at time t. $\boldsymbol{TAXES_{it}}$ represents the corporate tax rates for country i at time t. $\boldsymbol{u_i}$ is the country-specific random effect, capturing time-invariant factors specific to each country that affect FDI but are not included in the model. $\boldsymbol{\epsilon_{it}}$ is the error term for country i at time t, capturing all unobserved factors affecting the dependent variable that are not explained by the explanatory variables.

### *5.3 The database*

In our analysis we use annual data from 77 countries, including high-income and middle-income country groups, and we focus on the period 2020-2023. In the second analysis regarding the MENA region, we use data on 12 MENA countries for the same period. The selection of countries and the study period was determined by soft power and FDI determinants data availability. Table 9 provides description and sources for the variables used in the analysis. These variables have been selected based on their relevance to inward FDI flows as key economic, infrastructure and soft power FDI determinants. It is important to note that the Global soft power index includes institutional metrics such as governance, business climate and sustainability measures which are also crucial for inward FDI flows.

[3] For more information on GMM and instrumental variables, refer to works such as Pesaran and Smith (1995) and Greene (2008).

**Table 9. Variables definitions and sources**

| Variable | Proxy used | Description | Source |
|---|---|---|---|
| Foreign direct investment | FDI inward flows (FDI) | Total FDI inward flows into a country, measured in millions of current U.S. dollars. This includes equity capital, reinvested earnings, and inter-company debt from foreign investors. | UNCTADstat - United Nations Conference on Trade and Development database. |
| Soft power | The Global soft power index (GSP) | An index measuring soft power for more than 150 countries and covering the period 2020-2024 | Brand Finance official website |
| Market Size | Log(GDP) | GDP, measured in millions of current U.S. dollars. | UNCTADstat - United Nations Conference on Trade and Development data base. |
| | Trade openness (OPENNESS) | (Imports + Exports) / GDP | |
| Infrastructure | Mob subscriptions (INFRA) | Mobile cellular subscriptions (per 100 people) | World Bank – World development indicators |
| Macro-economic stability. | Inflation (INFL) | Inflation, GDP deflator (annual %) | World Bank – World development indicators |
| Employment | Labor force rate (LABOR) | Labor force participation rate for ages 15-24, total | World Bank – World development indicators |
| Tax levels | Corporate taxes (TAXES) | Corporate tax rates around the world | Tax Foundation |

## 5.4 Descriptive statistics

Table 10 presents descriptive statistics of the variables used in the econometric model.

**Table 10. Summary and descriptive statistics**

| Variable | Observations | Mean | Std. dev. | Min | Max |
|---|---|---|---|---|---|
| **Inward FDI** | 384 | 12567.66 | 48356.58 | -359330.6 | 389436 |
| between | | | 42149.5 | -100194.4 | 281507.8 |
| within | | | 24023.69 | -249968.8 | 134484.4 |
| **GSP** | 351 | 39.87236 | 10.1374 | 25.3 | 74.8 |
| **INFL** | 345 | 9.988618 | 27.19687 | -18.18941 | 401.5912 |
| **INFRA** | 350 | 120.962 | 26.73514 | 43.81009 | 212.2208 |
| **OPENNESS** | 346 | 89.5732 | 60.95985 | 10.541 | 394.106 |
| **GDP** | 350 | 1062584 | 3215824 | 13812 | 2.73e+07 |
| **LABOR** | 350 | 61.02847 | 9.074108 | 38.67 | 88.87 |
| **TAXES** | 352 | 23.14426 | 7.02557 | 0 | 35 |

Source: Author's calculations: Stata output
*Note* - period covered: 2020-2023 – 87 countries.

The results regarding FDI indicate high volatility which is expected since FDI flows are naturally dynamic, and the sample includes different country groups with different characteristics aiming to provide a more comprehensive worldwide perspective. As for multicollinearity, Table 11 presents the correlation matrix using the Pearson pairwise method.[4]

[4] Pearson pairwise correlation method ensures that we maximize the use of our dataset by calculating correlations even when some observations have missing values, leading to more accurate and comprehensive insights into the relationships between variables

**Table 11. Pairwise Correlation Matrix**

| | *GSP* | *INFL* | *INFRA* | *OPENNESS* | *GDP* | *LABOR* | *TAXES* |
|---|---|---|---|---|---|---|---|
| ***GSP*** | 1.0000 | | | | | | |
| ***INFL*** | -0.0886 | 1.0000 | | | | | |
| ***INFRA*** | 0.1818 | -0.1597 | 1.0000 | | | | |
| ***OPENNESS*** | 0.0501 | -0.1365 | 0.2261 | 1.0000 | | | |
| ***log(GDP)*** | **0.7905** | -0.0462 | 0.1144 | -0.1638 | 1.0000 | | |
| ***LABOR*** | 0.1306 | -0.1599 | 0.2960 | 0.2085 | -0.0406 | 1.0000 | |
| ***TAXES*** | 0.0168 | 0.0911 | -0.3023 | -0.4536 | 0.1960 | -0.2051 | 1.0000 |

Source: Author's calculations: Stata output
*Note* - period covered: 2020-2023 – 87 countries

All correlations between the independent variables are low and do not surpass 0.7, except the correlation between the log of GDP and soft power (0.79) which implies the presence of a multicollinearity problem. The VIF test results in table 12 below further confirm this conclusion.

**Table 12. VIF test for multicollinearity**

| Variable | VIF | 1/VIF |
|---|---|---|
| ***GSP*** | 3.11 | 0.321768 |
| ***Log(GDP)*** | 3.34 | 0.299230 |
| ***OPENNESS*** | 1.48 | 0.675308 |
| ***TAXES*** | 1.48 | 0.676610 |
| ***INFRA*** | 1.21 | 0.829003 |
| ***LABOR*** | 1.22 | 0.822093 |
| ***INFL*** | 1.07 | 0.936486 |
| **Mean VIF** | 1.84 | |

Source: Author's calculations: Stata output

The Variance Inflation Factor (VIF) test measures how much the variance of an estimated regression coefficient is increased due to collinearity among independent variables. If the highest VIF is greater than 5, or if the average of all VIFs is significantly higher than 10 (Hair et al., 1995), it indicates a multicollinearity problem among independent variables in the regression. According to the test results in table 12 none of the independent variables has a VIF value greater than 5, and the mean VIF is below 10, indicating the absence of multicollinearity. However, it is important to note that both GSP and the log of GDP present higher VIF values which aligns with the correlation matrix results. For more robust conclusions, in the estimation we include each variable exclusively to avoid any potential multicollinearity.

## 6. Estimation results and discussion

The empirical results based on system GMM estimates with the log of FDI as the dependent variable are reported in Table 13. Standard errors are adjusted for heteroscedasticity using Windmeijer's correction.[5] The diagnostics tests confirm the model's validity. All Hansen tests' present p-values greater than 5%, thus confirming that all instruments are valid and exogenous.

[5] Windmeijer's correction is a statistical method used to adjust the standard errors in two-step Generalized Method of Moments (GMM) estimators.

Columns 1 and 2 indicate a positive and significant impact of GDP and trade openness on FDI inward flows at the 1% level. These results further validate the expected assumption and confirm the importance of market size for attracting FDI. Columns 3 to 7 indicate a positive impact of lagged FDI values on inward FDI flows, which is consistent with the literature and the logical assumption, as past investment patterns are likely to impact future investment decisions. This relationship is positive, high in magnitude and statistically significant at the 5% level (see columns 5 to 7).

Columns 3 to 7 also indicate a positive influence soft power on inward FDI flows, with coefficients varying around 0.08 and significant at the 1% level. Additionally, columns 3 to 6 indicate a positive relationship between mobile subscription and inward FDI flows. High income country group dummy, which can be considered as a labor cost proxy[6], has the expected negative sign (see columns 3 to 7), though it is not significant. Corporate taxes, inflation and labor force participation rates are not statistically significant. Overall, market size, GDP, lagged FDI values and soft power have a significant and positive impact on inward FDI flows, although the impact of soft power and lagged FDI values can be sensitive to the inclusion of the log of GDP due to its correlation (See table 11).

Results in table 14 present system GMM estimations regarding the MENA region. As the determinants of FDI can change from one region to another, focusing only on MENA countries can provide a more nuanced understanding of the specific factors influencing investment flows in this area. The analysis reveals that for MENA countries, lagged FDI values have a positive and more significant impact at the 1% level (see columns 2 to 6). These results are aligned with both theoretical and empirical literature and indicate that past investment decisions play a pivotal role in attracting investments in the MENA region. It highlights that already established investment in MENA countries is a significant factor that builds investors' confidence and encourage further inward flows.

Soft power also emerges as a significant determinant of inward FDI in the MENA region. It is crucial to note that the Global soft power index includes a diverse range of factors beyond culture and foreign policy. The index also encompasses business and trade, governance and sustainable development initiatives, including investments in green energy and technology. The coefficients for soft power impact are consistently positive varying around 0.06 and 0.08. These findings highlight the importance of non-economic factors including cultural appeal, diplomatic efforts, and governance quality in shaping foreign investment decisions.

[6] The use of income group dummies as a labor costs indicator is supported by various studies, including Holland and Pain (1998), Resmini (2000), Janicki and Wunnava (2004), Bevan and Estrin (2004), and Carstensen and Toubal (2004).

## Table 13. System GMM estimation results – Worldwide (2020-2023)

Dependent variable: log(FDI)
FDI - inward flows - measured in millions of current U.S. dollars.

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| $log(FDI_{it-1})$ | -0.093 | -0.034 | 0.342 | 0.367 | 0.378 | 0.353 | 0.356 |
| | (0.22) | (0.20) | (0.203)* | (0.196)* | (0.192)** | (0.174)** | (0.163)** |
| $\boldsymbol{GSP_{it}}$ | -0.021 | -0.019 | 0.080 | 0.078 | 0.078 | 0.078 | 0.08 |
| | (0.03) | (0.03) | (0.019)*** | (0.018)*** | (0.018)*** | (0.016)*** | (0.017)*** |
| $INFL_{it}$ | 0.003 | 0.003 | 0.004 | | | | |
| | (0.00) | (0.00) | (0.00) | | | | |
| $INFRA_{it}$ | 0.005 | | 0.008 | 0.008 | 0.008 | 0.007 | |
| | (0.00) | | (0.004)** | (0.003)** | (0.003)** | (0.003)*** | |
| $OPENNESS_{it}$ | 0.01 | 0.01 | | | | | |
| | (0.002)*** | (0.002)*** | | | | | |
| $log(GDP_{it})$ | 1.16 | 1.114 | | | | | |
| | (0.307)*** | (0.273)*** | | | | | |
| $LABOR_{it}$ | 0.006 | | 0.004 | 0.003 | 0.001 | | |
| | (0.02) | | (0.02) | (0.02) | (0.01) | | |
| $TAXES_{it}$ | -0.006 | -0.013 | 0.005 | 0.005 | | | -0.008 |
| | (0.01) | (0.01) | (0.02) | (0.02) | | | (0.02) |
| _cons | -5.741 | -4.539 | 1.156 | 1.128 | 1.347 | 1.687 | 2.733 |
| | (2.046)*** | (1.242)*** | (1.45) | (1.45) | (1.03) | (0.873)* | (1.055)*** |
| High-Income country | 0.179 | 0.221 | -0.336 | -0.371 | -0.354 | -0.266 | -0.195 |
| group dummy | (0.36) | (0.35) | (0.34) | (0.34) | (0.32) | (0.29) | (0.29) |
| **Regional dummies** | | | | | | | |
| Asia | -0.641 | -0.707 | 0.461 | 0.423 | 0.378 | 0.366 | 0.413 |
| | (0.48) | (0.400)* | (0.42) | (0.41) | (0.40) | (0.37) | (0.40) |
| Europe | -0.302 | -0.52 | 0.285 | 0.288 | 0.207 | 0.115 | -0.039 |
| | (0.57) | (0.38) | (0.43) | (0.43) | (0.28) | (0.25) | (0.31) |
| Latin America & the Caribbean | 0.136 | 0.063 | 0.255 | 0.249 | 0.245 | 0.255 | 0.137 |
| | (0.41) | (0.39) | (0.30) | (0.28) | (0.29) | (0.31) | (0.32) |
| MENA | -0.538 | -0.774 | -0.066 | -0.037 | -0.125 | -0.201 | -0.328 |
| | (0.67) | (0.439)* | (0.49) | (0.48) | (0.30) | (0.21) | (0.30) |
| North America | 0.16 | -0.127 | 0.776 | 0.77 | 0.69 | 0.666 | 0.301 |
| | (0.64) | (0.49) | (0.55) | (0.54) | (0.47) | (0.43) | (0.44) |
| Oceana | 0.237 | 0.071 | 0.252 | 0.278 | 0.251 | 0.198 | -0.034 |
| | (0.45) | (0.38) | (0.45) | (0.44) | (0.42) | (0.42) | (0.43) |
| **Time Dummies** | | | | | | | |
| 2021 | 0.036 | | | | | | |
| | (0.11) | | | | | | |
| 2022 | | -0.049 | -0.09 | -0.08 | -0.079 | -0.06 | -0.056 |
| | | (0.10) | (0.13) | (0.13) | (0.13) | (0.13) | (0.13) |
| 2023 | 0.035 | -0.019 | -0.442 | -0.439 | -0.439 | -0.452 | -0.465 |
| | (0.12) | (0.14) | (0.141)*** | (0.140)*** | (0.138)*** | (0.131)*** | (0.131)*** |
| Observations | 206 | 210 | 208 | 212 | 212 | 214 | 216 |
| Number of countries | 75 | 76 | 75 | 76 | 76 | 77 | 77 |
| Instruments count | 22 | 20 | 20 | 19 | 18 | 17 | 17 |
| 1st order serial correlation p-level | 0.181 | 0.069 | 0.007 | 0.006 | 0.005 | 0.003 | 0.003 |
| Hansen instrumental validity test | 0.440 | 0.409 | 0.149 | 0.125 | 0.128 | 0.265 | 0.254 |
| Hansen tests for exogeneity | 0.243 | 0.150 | 0.079 | 0.051 | 0.053 | 0.124 | 0.112 |

Source: Author's computation - Stata output - *p<0.1; **p<0.05 ***p<0.01
*Note* - Robust standard errors between parentheses - Sub-Saharan Africa is a base region (to which other regions are compared) and is omitted from the table results. Middle-income countries are also the base income group. - The year 2020 is also the base year.

**Table 14. System GMM estimation results – MENA region (2020-2023)**

| | Dependent variable: log(FDI)<br>FDI - inward flows - measured in millions of current U.S. dollars. | | | | | |
|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** |
| $log(FDI_{it-1})$ | -0.264<br>(0.91) | 0.577<br>(0.170)*** | 0.532<br>(0.111)*** | 0.553<br>(0.130)*** | 0.611<br>(0.085)*** | 0.540<br>(0.103)*** |
| $\boldsymbol{GSP_{it}}$ | -0.205<br>(0.26) | 0.072<br>(0.031)** | 0.088<br>(0.029)*** | 0.070<br>(0.026)*** | 0.066<br>(0.015)*** | 0.080<br>(0.014)*** |
| $INFL_{it}$ | 0.003<br>(0.01) | | | | | |
| $INFRA_{it}$ | -0.046<br>(0.06) | 0.003<br>-0.02 | 0.009<br>(0.005)* | 0.005<br>(0.003)* | 0.004<br>(0.002)* | |
| $OPENNESS_{it}$ | 0.038<br>(0.03) | | 0.002<br>(0.01) | | | |
| $log(GDP_{it})$ | 3.318<br>(2.84) | | | | | |
| $LABOR_{it}$ | 0.163<br>(0.41) | 0.023<br>-0.26 | -0.051<br>(0.06) | -0.013<br>(0.03) | | |
| $TAXES_{it}$ | 0.012<br>(0.04) | 0.019<br>-0.14 | | | | 0.004<br>(0.01) |
| _cons | -28.218<br>(28.34) | -1.345<br>-12.35 | 1.287<br>(1.57) | 0.674<br>(0.77) | -0.101<br>(0.70) | 0.234<br>(0.65) |
| High-Income country group dummy | -2.517<br>(8.28) | -0.57<br>-4.33 | 0.937<br>(1.16) | 0.094<br>(0.80) | -0.304<br>(0.20) | -0.052<br>(0.34) |
| **Time Dummies** | | | | | | |
| 2021 | 0.410<br>(0.55) | 0.655<br>-0.47 | 0.630<br>(0.245)** | 0.534<br>(0.38) | 0.628<br>(0.39) | 0.662<br>(0.336)** |
| 2022 | | 0.108<br>-0.31 | | 0.034<br>(0.26) | 0.058<br>(0.25) | 0.147<br>(0.20) |
| 2023 | 0.756<br>(0.77) | | -0.250<br>(0.27) | | | |
| Observations | 33 | 36 | 34 | 36 | 36 | 36 |
| Number of countries | 12 | 12 | 12 | 12 | 12 | 12 |
| Instruments count | 16 | 13 | 13 | 12 | 11 | 11 |
| 1st order serial correlation p-level | 0.823 | 0.353 | 0.612 | 0.373 | 0.346 | 0.358 |
| Hansen instrumental validity test | 1.000 | 0.686 | 0.614 | 0.641 | 0.743 | 0.741 |
| Hansen tests for exogeneity | 1.000 | 0.794 | 0.269 | 0.740 | 0.728 | 0.689 |

Source: Author's computation - Stata output - *p<0.1; **p<0.05 ***p<0.01
Note - Robust standard errors between parentheses: – Middle-income countries are the base income group (to which other groups are compared) and is omitted from the table results. The year 2020 is also the base year.

## 7. Conclusion and Recommendations

In this research, we introduce the concept of soft power into the realm of foreign investment in the MENA region. Specifically, the analysis aims to investigate whether soft power has an impact on the flows of inward FDI into the region. To achieve this, we set an objective to first understand the evolution of soft power strategies in the region, as well as the trends shaping its perception on the global stage. The analysis reveals that MENA countries have recently adapted their soft power strategies, shifting from a reliance on culture and diplomacy to include investments in areas such as sports and entertainment. Several countries in the region are also

enhancing governance quality and working toward diversifying their economies away from oil dependence, prioritizing renewable energy initiatives. These elements have significantly contributed to improving the region's appeal on the global stage and attracting foreign investors.

Reviewing the literature regarding soft power impact on inward FDI, we find that studies investigating this topic are limited and suffer from several gaps. Economic and tangible metrics are frequently used to assess soft power, which contradicts with its core intangible nature. Another gap lies in the reliance on limited survey-based methods, often neglecting the multidimensional and different sources of soft power. To address these gaps, we conduct an empirical analysis using the Global soft power index as a proxy for soft power. This index captures the intangible aspects of soft power, including culture, familiarity, reputation, influence, diplomacy, and media, alongside institutional measures like governance, sustainability, and climate protection initiatives. By using this index, we ensure the inclusion of the intangible soft power impact as well as its diverse sources.

To analyze the influence of soft power on inward FDI in the MENA region, we apply a system GMM dynamic model. System GMM method is preferred for its ability to incorporate dynamic components and solve endogeneity issues. Our focus aims to analyze soft power's impact on inward FDI, not the reverse, which makes system GMM an optimal choice since it is also equipped with the tools to solve for reverse causality endogeneity issues. To address data constraints in the MENA region, we first perform an initial analysis covering balanced sample of 77 developed and developing countries, followed by the main analysis focused on 12 MENA countries exclusively. Our model incorporates common FDI determinants which are based on theoretical and empirical literature. These factors include market size, measured by GDP, trade openness, infrastructure (measured by mobile subscriptions), economic stability (measured by inflation), corporate taxes, and labor market characteristics such as income levels and labor force participation rates.

Both worldwide and MENA region analysis reveal that soft power indeed has a positive and significant impact on inward FDI flows. Lagged FDI values also show a significant positive impact. This effect is particularly pronounced in the MENA region, where the significance of lagged FDI values increases to 1%, highlighting the importance of past investment decisions in shaping foreign investors' behavior in MENA countries. Due to limitations in soft power metrics availability, this study covers a relatively short period, spanning only 4 years. Nonetheless, the sample is quite large, covering 77 countries, and is balanced between developed and developing countries. Furthermore, the global and the MENA-specific analysis demonstrate consistent results, indicating that this research could contribute to enhancing the region's appeal to foreign investors by leveraging soft power as a strategic instrument. FDI can play a crucial role in helping MENA countries overcome their dependence on oil revenues in a world that is increasingly shifting toward renewable energy sources. Along with traditional economic and hard power factors, MENA countries need to leverage their soft power resources, given that in the recent years, the region is often portrayed in the lens of instability due to frequent political changes. Addressing this image deterioration is essential to attracting investors and highlighting profitable opportunities. Policymakers in the MENA region are encouraged to leverage specific soft power channels to improve the region's image and effectively highlight its advantages and opportunities for foreign investors.

Overall, this research underscores the importance of considering both tangible and intangible factors in the context of inward FDI in the MENA region. The findings reveal that soft power is a vital instrument for MENA countries to enhance their global appeal and attract foreign investors, which is particularly essential to move beyond oil revenues dependency in a world that increasingly shifting toward renewable energy sources.

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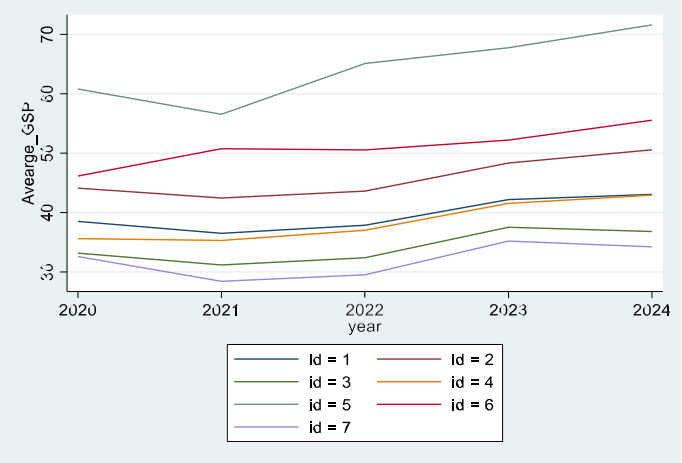
# Appendix

## Table A.1 Complete descriptive statistics for average soft power

| Regional statistics | | | | | | |
|---|---|---|---|---|---|---|
| Region | | Observations | Average | Standard deviation | Minimum | Maximum |
| **ASIA** | 2020 | 14 | 38.51 | 10.94 | 27.5 | 60.2 |
| | 2021 | 19 | 36.51 | 9.84 | 27.4 | 60.6 |
| | 2022 | 19 | 37.87 | 11.53 | 27.7 | 64.2 |
| | 2023 | 19 | 42.18 | 9.90 | 33.8 | 65.2 |
| | 2024 | 19 | 43.06 | 12.55 | 30.2 | 71.2 |
| **Europe** | 2020 | 25 | 44.12 | 9.50 | 30.4 | 61.9 |
| | 2021 | 32 | 42.45 | 9.31 | 29.8 | 62.2 |
| | 2022 | 32 | 43.61 | 10.54 | 29.3 | 64.9 |
| | 2023 | 32 | 48.34 | 8.29 | 36.9 | 67.3 |
| | 2024 | 32 | 50.57 | 10.28 | 35.3 | 71.8 |
| **Latin America & the Caribbean** | 2020 | 7 | 33.17 | 3.50 | 28.8 | 39.4 |
| | 2021 | 19 | 31.18 | 3.39 | 25.6 | 38.1 |
| | 2022 | 19 | 32.39 | 4.25 | 25.3 | 43.4 |
| | 2023 | 19 | 37.53 | 3.15 | 33.3 | 46.2 |
| | 2024 | 19 | 36.81 | 4.98 | 28.1 | 48.8 |
| **MENA** | 2020 | 7 | 35.61 | 6.80 | 27.7 | 45.9 |
| | 2021 | 14 | 35.31 | 5.88 | 29 | 48.4 |
| | 2022 | 14 | 37.02 | 6.95 | 31.1 | 52 |
| | 2023 | 14 | 41.55 | 6.50 | 33.7 | 55.2 |
| | 2024 | 14 | 42.93 | 8.20 | 34.2 | 59.7 |
| **North America** | 2020 | 2 | 60.80 | 8.91 | 54.5 | 67.1 |
| | 2021 | 2 | 56.55 | 0.92 | 55.9 | 57.2 |
| | 2022 | 2 | 65.10 | 7.92 | 59.5 | 70.7 |
| | 2023 | 2 | 67.75 | 9.97 | 60.7 | 74.8 |
| | 2024 | 2 | 71.60 | 10.18 | 64.4 | 78.8 |
| **Oceania** | 2020 | 2 | 46.15 | 3.75 | 43.5 | 48.8 |
| | 2021 | 2 | 50.75 | 2.05 | 49.3 | 52.2 |
| | 2022 | 2 | 50.55 | 3.04 | 48.4 | 52.7 |
| | 2023 | 2 | 52.20 | 3.39 | 49.8 | 54.6 |
| | 2024 | 2 | 55.55 | 4.31 | 52.5 | 58.6 |
| **Sub-Saharan Africa** | 2020 | 2 | 32.60 | 5.37 | 28.8 | 36.4 |
| | 2021 | 14 | 28.43 | 2.81 | 25.2 | 37.2 |
| | 2022 | 14 | 29.52 | 3.38 | 26.5 | 40.2 |
| | 2023 | 14 | 35.20 | 2.21 | 33.4 | 42.5 |
| | 2024 | 14 | 34.23 | 3.07 | 30.8 | 43.7 |
| **Income level groups statistics** | | | | | | |
| Income groups | | Observations | Average | Standard deviation | Minimum | Maximum |
| **High-Income countries** | 2020 | 26 | 49.11 | 7.71 | 36.6 | 67.1 |
| | 2021 | 32 | 47.15 | 8.54 | 25.6 | 62.2 |
| | 2022 | 32 | 48.95 | 10.18 | 25.3 | 70.7 |
| | 2023 | 32 | 52.59 | 8.62 | 33.5 | 74.8 |
| | 2024 | 32 | 55.87 | 10.24 | 28.1 | 78.8 |
| **Middle-Income countries** | 2020 | 32 | 34.32 | 6.54 | 27.7 | 58.7 |
| | 2021 | 63 | 32.55 | 4.99 | 26 | 54.3 |
| | 2022 | 63 | 33.81 | 6.45 | 26.5 | 64.2 |
| | 2023 | 63 | 38.92 | 5.31 | 33.3 | 65 |
| | 2024 | 63 | 38.98 | 6.85 | 30.2 | 71.2 |
| **Low-Income countries** | 2020 | 1 | 27.50 | . | 27.5 | 27.5 |
| | 2021 | 7 | 27.41 | 1.54 | 25.2 | 29.2 |
| | 2022 | 7 | 28.11 | 1.11 | 26.5 | 29.1 |
| | 2023 | 7 | 34.37 | 0.76 | 33.4 | 35.6 |
| | 2024 | 7 | 32.44 | 1.56 | 30.3 | 34.7 |

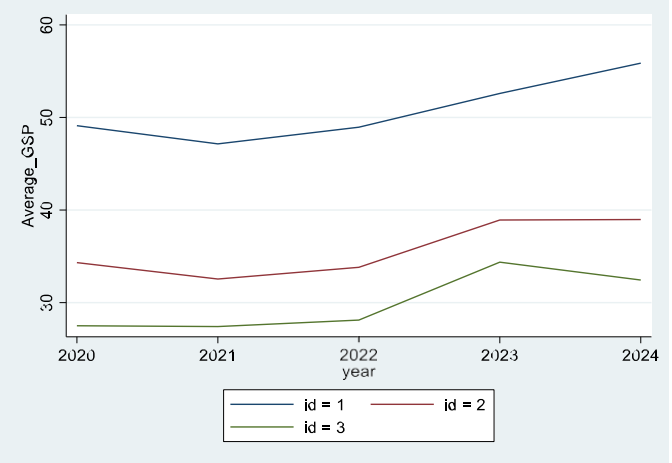
Source: author's calculations based on the Global soft power index

**Figure 1. Average soft power evolution by region**




Source: Author's computations – Stata output - id 1: Asia - id 2: Europe - id 3 : Latin America & the Caribbean id 4 : MENA id 5 : North America - id 6: Oceana id 7: Sub-Saharan Africa Note - Ocean represented by only New Zealand and Australia

**Figure 2. Average soft power evolution by income-level groups**




Source: Author's computations – Stata output – id 1: High-income country group – id 2: middle-income country group – id 3: Low-income country group

**Table A.2 MENA complete soft power ranking and pillars' scores (2024)**

| Country | MENA Rank | Global Rank | Index Scores | Familiarity | Reputation | Influence |
|---|---|---|---|---|---|---|
| United Arab Emirates | 1 | 10 | 59.7 | 6.4 | 7.1 | 5.9 |
| Saudi Arabia | 2 | 18 | 56 | 6.7 | 6.6 | 5.8 |
| Qatar | 3 | 21 | 54.5 | 5.9 | 6.9 | 5.3 |
| Kuwait | 4 | 37 | 45.3 | 4.9 | 6.2 | 4.5 |
| Egypt | 5 | 39 | 44.9 | 7.3 | 6.2 | 4.4 |
| Oman | 6 | 49 | 40.6 | 3.6 | 5.9 | 3.9 |
| Morocco | 7 | 50 | 40.6 | 5.7 | 5.9 | 3.9 |
| Bahrain | 8 | 51 | 40 | 3.6 | 5.8 | 3.9 |
| Iran | 9 | 62 | 38.5 | 6.5 | 4.7 | 4.3 |
| Jordan | 10 | 63 | 38.5 | 4.6 | 5.7 | 3.7 |
| Algeria | 11 | 73 | 36.8 | 4.6 | 5.5 | 3.7 |
| Tunisia | 12 | 77 | 36.6 | 4.5 | 5.7 | 3.6 |
| Lebanon | 13 | 91 | 34.8 | 4.9 | 5.0 | 3.6 |
| Iraq | 14 | 99 | 34.2 | 6.4 | 4.5 | 3.8 |
| Syria | 15 | 129 | 31.2 | 5.7 | 4.2 | 3.5 |
| Libya | 16 | 139 | 30.1 | 4.8 | 4.5 | 3.4 |
| Yemen | 17 | 149 | 28.8 | 3.9 | 4.7 | 3.2 |

Source: Brand finance (2024) – The Global soft power index

**Table A.3 MENA complete soft power drivers' scores (2024)**

| | Business & Trade | International Relations | Education & Science | Culture & Heritage | Governance | Media & Communication | Sustainable Future | People & Values | Net Positive/Negative Impact |
|---|---|---|---|---|---|---|---|---|---|
| United Arab Emirates | 7.7 | 6.3 | 4.5 | 4.5 | 5.3 | 4.2 | 5.5 | 4.5 | 42 |
| Saudi Arabia | 6.8 | 6.2 | 3.6 | 3.8 | 4.7 | 3.9 | 4.7 | 4 | 28.3 |
| Qatar | 7 | 5.7 | 4 | 4 | 4.9 | 4 | 5 | 4.4 | 40.5 |
| Kuwait | 5.7 | 4.5 | 3 | 3.1 | 4 | 3.2 | 3.9 | 3.8 | 20.8 |
| Egypt | 4 | 4.1 | 2.8 | 4.7 | 2.9 | 3.2 | 3.1 | 3.6 | 30.2 |
| Oman | 4.8 | 4.1 | 2.9 | 3.3 | 3.9 | 3.3 | 3.8 | 4.2 | 25.6 |
| Morocco | 3.9 | 3.4 | 2.5 | 4.3 | 2.9 | 2.9 | 3.2 | 3.9 | 24.2 |
| Bahrain | 5 | 4 | 2.8 | 3.1 | 3.6 | 3.2 | 3.5 | 3.9 | 23.5 |
| Iran | 3.1 | 3.6 | 2.6 | 2.5 | 2.5 | 2.8 | 2.6 | 2.4 | -21 |
| Jordan | 3.9 | 3.9 | 2.7 | 3.4 | 3.3 | 3.1 | 3.1 | 3.8 | 14.9 |
| Algeria | 3.4 | 3.3 | 2.5 | 3.2 | 2.9 | 3 | 3.2 | 3.6 | 15.3 |
| Tunisia | 3.4 | 3.2 | 2.4 | 3.7 | 2.7 | 3 | 3 | 3.8 | 13.8 |
| Lebanon | 2.9 | 3.1 | 2.2 | 3.4 | 2.3 | 2.8 | 2.6 | 3.2 | 0.4 |
| Iraq | 2.5 | 2.9 | 2.1 | 2.3 | 2 | 2.6 | 2.2 | 2.5 | -29.2 |
| Syria | 2 | 2.4 | 1.8 | 2.5 | 1.7 | 2.5 | 1.9 | 2.7 | -31.4 |
| Libya | 2.2 | 2.4 | 1.7 | 2 | 1.8 | 2.3 | 2.1 | 2.6 | -15.6 |
| Yemen | 2.3 | 2.3 | 1.7 | 2.2 | 1.8 | 2.3 | 2 | 2.8 | -5.8 |

Source: Brand finance (2024) – The Global soft power index