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Abstract

Driven by climate change concerns and the transition toward renewable energy, the dynamics of global investment are shifting significantly. This rapid change is particularly concerning for MENA countries, as their dependence on oil revenues exposes their economies to substantial sustainability risks. In this context, soft power—an intangible form of influence rooted in a country's attractive qualities—emerges as a critical yet underexplored factor influencing the decisions of policymakers and investors. Using a dynamic panel model, the research first analyzes data from 77 countries, then narrows the focus to the MENA region to explore the relationship between soft power trends and inward FDI flows. The System GMM estimation results reveal that soft power has a positive and significant influence on inward foreign direct investment flows, with this effect being particularly strong in MENA countries. As such, this study highlights the strategic importance of leveraging soft power to enhance investment appeal on the global stage and serves as a reference for policymakers aiming to attract foreign investors, especially for MENA countries, where the need to move beyond oil dependence is becoming increasingly critical.

Keywords: Inward FDI, Soft power, Culture, Influence, Reputation, Cultural diplomacy.
JEL Classifications: F2, E2, H5, Q4.

ملخص

بدافع من مخاوف تغير المناخ والتحول نحو الطاقة المتجددة، تشهد ديناميكيات الاستثمار العالمي تحولات ملحوظة. ويثير هذا التحول السريع قلقًا بالغًا لدول منطقة الشرق الأوسط وشمال أفريقيا، إذ يُعرّض اعتمادها على عائدات النفط اقتصاداتها لمخاطر استدامة كبيرة. في هذا السياق، تبرز القوة الناعمة - وهي شكل غير ملموس من أشكال التأثير المتجذر في خصائص الدولة الجاذبة - كعامل حاسم، وإن كان لم يُستكشف بعد، فهو يؤثر على قرارات صانعي السياسات والمستثمرين. وباستخدام نموذج مسح ديناميكي، يُحلل البحث أولًا بيانات من 77 دولة، ثم يُضيّق نطاق التركيز على منطقة الشرق الأوسط وشمال أفريقيا لاستكشاف العلاقة بين اتجاهات القوة الناعمة وتدفقات الاستثمار الأجنبي المباشر الواردة. وتُظهر نتائج تقديرات نظام GMM أن القوة الناعمة لها تأثير إيجابي وهام على تدفقات الاستثمار الأجنبي المباشر الواردة، مع قوة هذا التأثير بشكل خاص في دول منطقة الشرق الأوسط وشمال أفريقيا. وبناءً على ذلك، تُسلّط هذه الدراسة الضوء على الأهمية الاستراتيجية للاستفادة من القوة الناعمة لتعزيز جاذبية الاستثمار على الساحة العالمية، وتُشكّل مرجعًا لصانعي السياسات الذين يسعون إلى جذب المستثمرين الأجانب، وخاصةً لدول منطقة الشرق الأوسط وشمال أفريقيا، حيث تتزايد أهمية تجاوز الاعتماد على النفط.

1. Introduction

Since the early 1990s, the global investment landscape has undergone a significant transformation in the dynamics of foreign direct investment (FDI). Driven by globalization and market liberalization, this shift led 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 have been rapidly enhancing their image and appeal. Thus, the concept of "soft power" has emerged as an unconventional yet significant factor influencing the decisions of governments, policymakers, and investors.

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 recent years, countries such as Turkey and Qatar have been leveraging cultural and diplomatic soft power channels to improve their image and influence around the world. By promoting television dramas, cuisine, and historical heritage, Turkey has become a popular destination for tourists around the world, which significantly contributes to its economic growth. Qatar has also leveraged its soft power by investing in entertainment and sports, including hosting the 2022 FIFA World Cup, which led to positive regional economic spillovers, infrastructure investments, and a significant boost in tourism. Other MENA countries, including the United Arab Emirates (UAE) 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 focuses on broad indicators of soft power, often conflating them with economic or business factors. Since soft power is intangible in nature, the overuse of the 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 a global scale. On the other hand, Krum (2020) uses the approval ratings of US leadership as a proxy for soft power. The issue with this approach is that soft power is a multidimensional concept that cannot be captured by only relying on a set of survey questions. Our research aims to address these gaps by employing both descriptive and empirical analyses covering a sample of 77 developed and developing countries during the period 2020-23.

To assess soft power, we use the Global Soft Power Index, which is a metric provided by Brand Finance specifically designed to capture soft power, its intangible nature, and its key drivers. We also aim to narrow the analysis to the MENA region, given the growing influence and reputation of many of its countries.

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 shed light on the impact of soft power on inward FDI flows using a system GMM model. The model includes different FDI determinants—such as lagged FDI values, market size metrics like GDP and trade openness, and other macroeconomic and infrastructure factors—as well as measures of soft power. 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 current dependency on oil revenue poses several risks as the world is shifting more toward 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.

The paper is structured as follows. First, we introduce the concept of soft power, its definition, its key sources, and the methods used for its measurement. The second section narrows the focus to the MENA region, highlighting its key soft power strategies and recent trends. In the third section, we conduct a literature review on the determinants of inward FDI and the impact of soft power on FDI. Afterward, 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 context 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. In recent decades, however, the concept of soft power has emerged as an unconventional yet significant factor influencing the decisions of governments, policymakers, and even investors.

According to Nye (2004), soft power refers to a country's ability to influence and persuade others without resorting to force or coercion. In other words, it’s a 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) explains that "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 Coercion Deterrence Protection	Inducement Coercion	Co-opt Attraction Agenda setting
Resources / Primary Currencies	Threats Force	Payment Sanctions	Values Culture Policies Institutions
Government Policies	Coercive diplomacy War Alliance	Aid Bribes Sanctions	Public diplomacy Bilateral diplomacy 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 high culture such as literature, theater, and visual art, which is more appealing to elite audiences. It also includes 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 a country and thus on its soft power. When institutions effectively uphold and convey values such as transparency, justice, and equality in 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 morally in its conduct with other nations. In other words, is the country acting as a global force for good or not? (McClory, 2015).

Vuving (2009) suggests a refinement for the concept by introducing three 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, thereby desiring 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 when they 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

The multidimensional and intangible nature of soft power makes it difficult to measure, as it requires capturing how others perceive a nation across several psychological dimensions. 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 toward 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 toward a country and can be considered 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 (2015-19)

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 2015-19. 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 was developed based on Nye's model for the conversion of soft power and a survey of existing academic literature on the subject (McClory, 2015).

2.3.4. The global soft power index (2020-24)

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, it captures the 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 main dimensions of the global soft power index

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: (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 cultural and diplomatic factors to 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' global presence, reputation, and impact (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 primarily tied to its rich cultural heritage and unique geo-economic positions. The region stands as a beacon of cultural diversity and civilization, yet in recent years, it has suffered from several challenges and has often been portrayed through the lens of conflict and instability. MENA countries are 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 globally.

From a historical perspective, the MENA region's 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, has 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 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 have succeeded in preserving their unique cultural identities under colonial forces, which currently serves as an asset that further promotes these countries' image and their 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

Although Iran has always been viewed in the lens of hard power due to its involvement in wars, the country is slowly but steadily moving toward 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 3,000-year-old civilization and a ranking among the top 10 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

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 to 2010 by the 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 an international level, Oman’s neutrality and advocacy for dialogue have enabled 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

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

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. Leveraging culture, media, and sports has enabled Qatar to establish 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 global influence (Zinser et al., 2023).

3.2.5. The UAE

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.[3]

3.2.6. Egypt

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

3.2.7. Bahrain

Bahrain's soft power strategies are driven by its strong diplomatic ties with the US, the UK, and the 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. Morocco

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

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

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

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 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 added a layer of national pride and resilience. These historical narratives, together with the country's political achievements—including the 2011 revolution that sparked the Arab Spring and resistance against corruption across the Arab world—and 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

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 to 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

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

Jordan's 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 globally.

3.3. The evolution of soft power in the MENA region

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 UAE, which ranked 10 out of 170 nations evaluated in the Global Soft Power Index in 2024. According to the index, the UAE is the leading among MENA countries, followed by Saudi Arabia and Qatar. For the past four years, these three countries have demonstrated great advancement in leveraging their soft power assets. In just three years, the UAE managed to jump eight 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 that contributed the most to this advancement. Primarily, these areas include business and trade, governance, and international relations.

Saudi Arabia followed a similar path, climbing from a rank of 26 in 2020 to 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 has also experienced a significant rise, with its ranking going from 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. The MENA region's soft power ranking and pillars' scores (2024)

Country	MENA Rank	Global Rank	Index Scores	Familiarity	Reputation	Influence
UAE	**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 the Appendix (Table A.1).

Source: Global Soft Power Index 2024 Report.

Table 4. The MENA region's soft power drivers' scores (2024)

	Business & Trade	International Relations	Education & Science	Culture & Heritage	Governance	Media & Communication	Sustainable Future	People & Values	Net Positive/Negative Impact
UAE	**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 the Appendix (Table A.2).

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 UAE, 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, while Morocco 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

Given that the Soft Power 30 index only provides data for 30 countries and the period 2019-20, 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 2020-24. Tables 5 and 6 provide descriptive statistics on soft power for different regions and income-based country groups during the period 2020-24.

Table 5. Average soft power evolution across different regions (2020-24)

Region		2020	2021	2022	2023	2024
Asia	Average Soft Power Score	38.51	36.51	37.87	42.18	43.06
	Number of Countries	14	19	19	19	19
Europe	Average Soft Power Score	44.12	42.45	43.61	48.34	50.57
	Number of Countries	25	32	32	32	32
Latin America & Caribbean	Average Soft Power Score	33.17	31.18	32.39	37.53	36.81
	Number of Countries	7	19	19	19	19
MENA	**Average Soft Power Score**	**35.61**	**35.31**	**37.02**	**41.55**	**42.93**
	Number of Countries	**7**	**14**	**14**	**14**	**14**
North America	Average Soft Power Score	60.8	56.55	65.1	67.75	71.6
	Number of Countries	2	2	2	2	2
Oceania	Average Soft Power Score	46.15	50.75	50.55	52.2	55.55
	Number of Countries	2	2	2	2	2
Sub-Saharan Africa	Average Soft Power Score	32.6	28.43	29.52	35.2	34.23
	Number of Countries	2	14	14	14	14

Source: Author's calculations based on the Global Soft Power Index.

Table 6. Average soft power evolution across income level groups (2020-24)

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

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 by 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.[4]

According to Table 6, and as evidenced by the evolution graph in Figure B.2 in the 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 that hard power has a "soft" side to it. In other words, hard power, whether expressed through military force or economic strength, can create an impression and aura of invincibility that attracts others and enhances countries' overall appeal.

4. Literature review: FDI determinants and soft power impact

4.1. FDI determinants

The theoretical and empirical literature on inward FDI covers a wide range of determinants. Since each region and time period has its specific characteristics, FDI theories continue to evolve. In our study, we 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.

[4] Figure B.1 in the Appendix illustrates the evolution of average soft power scores across different regions during the period 2020-24 and indicates the order in which these regions are ranked.

Table 7. FDI determinants based on empirical literature

Determinant	Author(s)	Impact and Significance
Market Size	Sharma and Bandara (2010); Riedl (2010); Artige and Nicolini (2010)	Significant positive influence on FDI
Inflation	Kersan-Skabic (2013) Kok and Ersoy (2009)	Positive impact on FDI Negative impact on FDI
Trade Openness	Güriş and Gözgör (2015) Kok and Ersoy (2009); Noorbakhsh and Paloni (2001) Kersan-Skabic (2013)	Significant positive impact on FDI
Labor Costs	Du et al. (2012); Hayakawa (2013); Mateev (2009); Khachoo and Khan (2012); Riedl (2010)	Significant negative impact on FDI
Exchange Rate	Bayoumi et al. (1996) Lajevardi and Chowdhury (2024)	High exchange rates (currency depreciation) attract FDI Significant impact of the real effective exchange rate and its volatility on FDI
Natural Resource Endowment	Morisset (2000) Asiedu and Lien (2011) Makonda and Ngakala (2021)	Positive influence on resource-based FDI May deter non-resource FDI due to currency appreciation Mixed effects depending on the region and context
Infrastructure	Kok and Ersoy (2009) Du et al. (2012)	Significant positive impact on FDI (telephone mainlines) 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) Gropp and Kostial (2001) Mandinga (2015) Arbatli (2011)	Significant negative impact on FDI Higher tax rates discourage FDI Higher tax rates reduce FDI proportion Significant negative impact on FDI
Political Risk	Riedl (2010); Arbatli (2011)	Lower political risk attracts FDI
Population	Aziz and Makai (2012) Bhasin and Garg (2019) Polloni-Silva et al. (2022)	Larger population and growth attract more FDI Positive influence on FDI stock 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

4.2.1. The mechanisms through which soft power attracts FDI

To examine how soft power dynamics can influence a country's ability to attract FDI, we analyze how the main channels of soft power identified by Nye (2004)—namely culture, political values, and foreign policy—may shape the patterns of inward FDI flows.

Culture, expressed through media, education, language, lifestyle, and values, helps foster familiarity and emotional connection, thus reducing the perceived psychic distance between foreign investors and the local market. When a country's culture is globally recognized and respected, it builds brand value that can enhance investors' confidence and create a more welcoming environment for foreign businesses.

Political values can also play a significant role. The promotion and consistent practice of political values such as democratic governance, rule of law, transparency, and especially protection of property rights signals institutional stability and predictability. These attributes are crucial in lowering the risk of expropriation, corruption, or arbitrary policy changes, which are often key concerns for investors considering long-term commitments. A country with strong political institutions and widely respected values becomes more credible and trustworthy, encouraging multinational firms to establish or expand operations.

Finally, foreign policy plays a vital role in shaping a nation's international image and strategic relationships. When a country pursues peaceful, cooperative, and multilateral foreign policies, it conveys openness to global economic integration and reduces the perception of geopolitical risk. Active participation in international organizations, trade agreements, and diplomatic initiatives enhances a country's reputation and signals commitment to a stable global order, which reassures potential investors.

Together, these soft power channels, culture, political values, and foreign policy create a favorable perception of the host country and enhance its appeal as an investment destination. By influencing not only how a country is viewed, but also how secure and profitable investment there is likely to be, soft power becomes a strategic asset in attracting foreign investors.

4.2.2. Literature review

Before presenting the literature investigating the impact of soft power 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 in the scarcity of the literature. In fact, we were 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 US leadership on FDI in the US. Most of the remaining literature does not specifically address soft power but rather focuses on institutional aspects influencing FDI, or it analyzes the impact that FDI has on soft power, not the reverse.

For these reasons, 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 several 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.

4.2.2.1 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 2016-19. The main findings of the study regarding 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 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; this contradicts with the core characteristic of soft power, which is, as discussed earlier, defined by its intangible form of influence.

4.2.2.2. Contributions of Krum (2020)

In his study, Krum (2020) attempts to assess soft power's impact on inward FDI into the US. To measure soft power, Krum (2020) uses the approval ratings of US leadership as measured by a Gallup World Poll. This poll captures the attitudes of foreign populations toward US 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 polls may risk oversimplifying 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 US soft power leads to a decrease in the amount of FDI flowing into the US. The main findings of this study indicate a statistically significant positive relationship between soft power and FDI inflows. Countries with higher approval ratings of US leadership are more likely to invest in the US. This suggests that favorable opinions of US 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 metrics to capture soft power, while soft power is intangible in nature.
Krum (2020)	Investigates the impact of US soft power and FDI using the Gallup World Poll approval ratings of US leadership as a soft power measure.	Positive relationship between soft power and FDI inflows; higher approval ratings of US leadership are associated with increased FDI into the US.	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 Methodology

5.1.1. 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. Additionally, investors require time to adapt to the culture and 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. FDI also 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).

5.1.2. Addressing potential reverse causality

Another issue that needs to be addressed is the possibility of reverse causality, which occurs when the dependent variable has an impact on the explanatory variables. For instance, foreign investors may contribute to the host countries' income through an increase in production, labor creation, or technology transfer (Findlay, 1978). There is also the possibility that FDI inward flows contribute to enhancing a country's soft power, not only by fostering economic success and development but also by increasing the country's global visibility, credibility, and attractiveness as an investment destination.

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), address this issue as well as other endogeneity concerns.

GMM models use lagged levels and differences of variables as instruments, which are assumed to be correlated with the endogenous regressors but uncorrelated with the error term. Using lagged variables as instruments helps separate the cause and effect by relying on past information that is not influenced by current outcomes. Additionally, including past values of the dependent variable allows the model to capture how earlier changes affect current ones. This way, the GMM handles reverse causality better than static models, giving more reliable results when variables influence each other over time.

It is also important to mention that GMM models do not rely on distributional assumptions like normality and can accommodate for heteroscedasticity.[5] For these reasons, we select a system GMM as the most suitable method for our analysis.

5.1.3. Addressing potential overlaps between soft power and FDI determinants

Another concern in this analysis is whether certain dimensions of the Global Soft Power Index may overlap with conventional economic determinants of FDI. To address this, it is crucial to consider the methodology used in constructing the index.

According to Brand Finance (2023), the index is constructed based on large-scale survey data reflecting the perceptions of 111,364 individuals across 101 countries, evaluating various nation brand attributes across three dimensions and eight soft power pillars. These surveys were conducted in 54 languages to ensure accessibility and cultural relevance. The index captures how these dimensions are perceived by the global public rather than measuring their objective or institutional quality. For example, the governance pillar in the index does not assess a nation's actual governance performance; rather, it examines how its governance is viewed and perceived internationally. This perceptual nature distinguishes soft power from tangible economic determinants and highlights its unique role as an intangible factor shaping FDI flows.

5.1.4. Addressing period limitations and COVID-19 effects

We acknowledge that the period covered in our analysis (2020-23) is relatively short, as the Global Soft Power Index only started in 2020, and the most recent available data for several other key variables only extends to 2023. To address this, we begin by analyzing the impact of soft power on FDI globally before focusing on the MENA region. This approach enables us to expand the sample to 77 countries, thereby increasing the number of observations and reducing potential biases caused by small sample sizes. This global analysis also serves as a robustness check that can further support the findings on the linkage between soft power and FDI in the MENA region.

Another consideration is the potential disruption caused by the COVID-19 pandemic. To address this, we incorporate year dummies in our empirical models to control for unobserved, time-specific shocks that may have simultaneously influenced both FDI flows and soft power.

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

In this context, it is also important to highlight that the Global Soft Power Index itself accounts for COVID-19 during the data collection process. According to Brand Finance (2023), the index included a specific pillar evaluating global perceptions of each country's response to the pandemic. Although this COVID-19 response metric has since been removed following the decline in the pandemic's immediate relevance, its presence during the early years ensures that pandemic effects were explicitly captured in the soft power scores.

Together, these methodological adjustments help mitigate potential biases introduced by the pandemic and enhance the robustness of our findings, despite the limited time frame.

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 a system GMM to the following equation:

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

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 US dollars. $\boldsymbol{OPENNESS_{it}}$ 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 over the age of 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 2020-23. 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 descriptions 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.

Table 9. Definitions and sources of variables

Variable	Proxy Used	Description	Source
Foreign Direct Investment	FDI inward flows (FDI)	Total FDI inward flows into a country, measured in millions of current US dollars. This includes equity capital, reinvested earnings, and inter-company debt from foreign investors.	United Nations Conference on Trade and Development database (UNCTADstat)
Soft Power	The Global Soft Power Index (GSP)	An index measuring soft power for more than 150 countries and covering the period 2020-24	Brand Finance official website
Market Size	Log(GDP)	GDP, measured in millions of current US dollars.	UNCTADstat
	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: 2020-23 – 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.[6]

[6] The 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: 2020-23 – 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.

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. The diagnostic tests confirm the model's validity. All Hansen tests' present p-values greater than five percent, thus confirming that all instruments are valid and exogenous.

Columns 1 and 2 indicate a positive and significant impact of GDP and trade openness on FDI inward flows at the one percent 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 five percent level (see columns 5 to 7).

Columns 3 to 7 also indicate a positive influence of soft power on inward FDI flows, with coefficients varying around 0.08 and significant at the one percent level. Additionally, columns 3 to 6 indicate a positive relationship between mobile subscription and inward FDI flows. The high-income country group dummy, which can be considered a labor cost proxy, 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).

Table 14 presents 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 one percent 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 encourages 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 between 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.

Table 13. System GMM estimation results – worldwide (2020-23)

	Dependent variable: log(FDI) FDI - inward flows - measured in millions of current US 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 Group Dummy	0.179 (0.36)	0.221 (0.35)	-0.336 (0.34)	-0.371 (0.34)	-0.354 (0.32)	-0.266 (0.29)	-0.195 (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 are employed – GSP coefficients remain significant at the same level of magnitude when introducing time dummies (see Appendix Table A.4) - 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.

Table 14. System GMM estimation results – MENA region (2020-23)

	Dependent variable: log(FDI) FDI - inward flows - measured in millions of current US dollars					
	1	**2**	**3**	**4**	**5**	**6**
$log(FDI_{it-1})$	-0.264	0.577	0.532	0.553	0.611	0.540
	(0.91)	(0.170)***	(0.111)***	(0.130)***	(0.085)***	(0.103)***
$\boldsymbol{GSP_{it}}$	**-0.205**	**0.072**	**0.088**	**0.070**	**0.066**	**0.080**
	(0.26)	**(0.031)****	**(0.029)*****	**(0.026)*****	**(0.015)*****	**(0.014)*****
$INFL_{it}$	0.003					
	(0.01)					
$INFRA_{it}$	-0.046	0.003	0.009	0.005	0.004	
	(0.06)	-0.02	(0.005)*	(0.003)*	(0.002)*	
$OPENNESS_{it}$	0.038		0.002			
	(0.03)		(0.01)			
$log(GDP_{it})$	3.318					
	(2.84)					
$LABOR_{it}$	0.163	0.023	-0.051	-0.013		
	(0.41)	-0.26	(0.06)	(0.03)		
$TAXES_{it}$	0.012	0.019				0.004
	(0.04)	-0.14				(0.01)
_cons	-28.218	-1.345	1.287	0.674	-0.101	0.234
	(28.34)	-12.35	(1.57)	(0.77)	(0.70)	(0.65)
High-Income Country	-2.517	-0.57	0.937	0.094	-0.304	-0.052
Group Dummy	(8.28)	-4.33	(1.16)	(0.80)	(0.20)	(0.34)
Time Dummies						
2021	0.410	0.655	0.630	0.534	0.628	0.662
	(0.55)	-0.47	(0.245)**	(0.38)	(0.39)	(0.336)**
2022		0.108		0.034	0.058	0.147
		-0.31		(0.26)	(0.25)	(0.20)
2023	0.756		-0.250			
	(0.77)		(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 within the context 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 global appeal and attracting foreign investors.

Reviewing the literature regarding the impact of soft power 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 impact of intangible soft power 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. The system GMM method is preferred for its ability to incorporate dynamic components and solve endogeneity issues. Our focus aims to analyze the impact of soft power 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 a 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 that 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 analyses 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 one percent, highlighting the importance of past investment decisions in shaping foreign investors' behavior in MENA countries. Due to limitations in the availability of soft power metrics, this study covers a relatively short period, spanning only four years. Nonetheless, the sample is quite large, covering 77 countries, and is balanced between developed and developing countries. Furthermore, the global and MENA-specific analyses 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 are encouraged to leverage their soft power resources, given the context of recent years, as the region is often portrayed through a 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 sheds light on 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.

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Appendices

Appendix A: Complete soft power ranking and scores

Table A.1. MENA complete soft power ranking and pillars' scores (2024)

Country	MENA Rank	Global Rank	Index Scores	Familiarity	Reputation	Influence
UAE	**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.

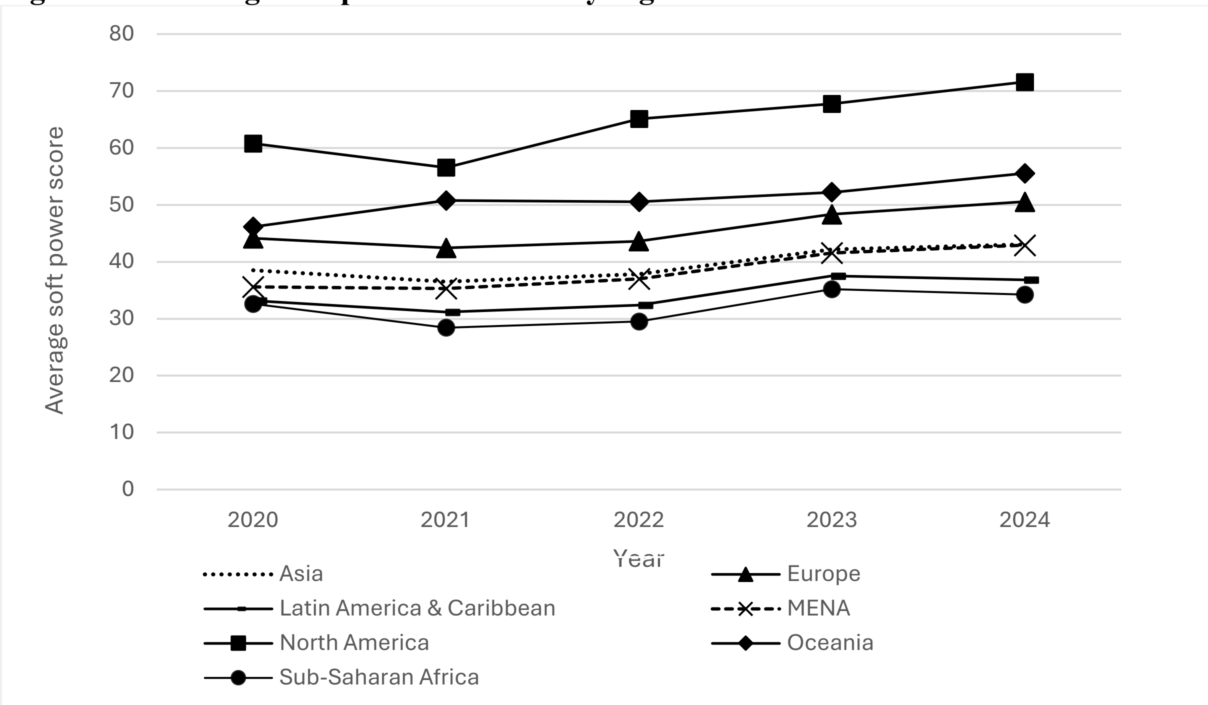
Table A.2. MENA complete soft power drivers' scores (2024)

	Business & Trade	International Relations	Education & Science	Culture & Heritage	Governance	Media & Communication	Sustainable Future	People & Values	Net Positive/ Negative Impact
UAE	**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.

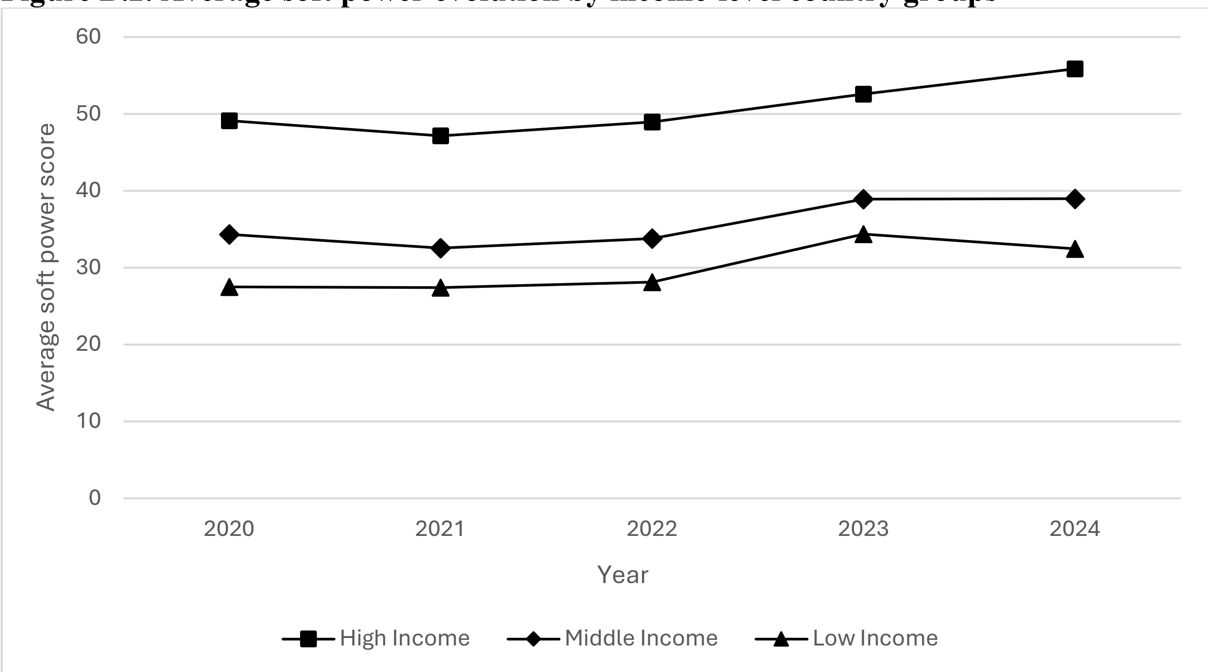
Appendix B: Average soft power evolution by region and income-level groups

Figure B.1. Average soft power evolution by region



Source: Authors' calculations based on the Global Soft Power Index (check Table 5).

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



Source: Authors' calculations based on the Global Soft Power Index (check Table 6).