JBEO, 8(4), 1-11.

Journal of Business and Economic Options

Business Law, Foreign Direct Investment, and Economic Growth: A Panel Analysis of European Union Member States

Charles Wim[a], Stephen Wendy[b]

Abstract

This study examines the relationship between foreign direct investment and economic growth in European countries, as it goes through business law. Utilizing panel data from twenty-eight European Union member states, spanning the years of 2010 to 2024, the analysis relies on the application of Partial Least Squares Structural Equation Modeling to assess its results by applying them in evaluating the impacts of foreign investments on economic performance both directly and indirectly. The results suggest that foreign direct investment has an impact on economic growth, which is positive; however, the size of this impact is highly contingent on the strength and quality of a country's legal system operating in the economically relevant business areas. The results also show that countries with well-developed and transparent business regulations are well-positioned to maximize the economic benefits associated with foreign investment. Effective legal structures not only promote higher flows of foreign capital, but they also provide for a stable and predictable environment within which productive economic activities can be encouraged. In contrast, less effective regulatory systems shape the lower potential benefits that can be reaped from foreign direct investment, which modulates the overall contribution of foreign direct investment to economic development. These outcomes demonstrate the strategic importance of sound business laws in improving the nature of foreign direct investment as a source of growth in the European region. The research highlights the importance of policymakers focusing on law reform to strengthen business governance to ensure investor confidence, which in turn supports achievable, sustainable economic advancement among the countries of ECO.

Keywords: *Business Law, Foreign Direct Investment, Economic Growth, Legal Frameworks*

JEL Codes: *F21, K20, O43*

Article's History
Received: 10th November 2025
Revised: 19 th December 2025
Accepted: 20th December 2025
Published: 22nd December 2025

Citation:
Wim, C. & Wendy, S. (2025). Business Law, Foreign Direct Investment, and Economic Growth: A Panel Analysis of European Union Member States. *Journal Business and Economic Options*, 8(4), 1-11.

DOI:
https://doi.org/10.5281/zenodo.18010061

1. INTRODUCTION

Foreign Direct Investment, which is one of the most significant factors that drives economic development, especially in developing and transition economies, aims to boost their growth and join the global economic system. Over several decades, FDI has been commonly viewed as an important mechanism of promoting technological development, the flow of knowledge and management skills, increasing productive capacity, and contributing to the general competitiveness of the host economies. Through the inflow of foreign capital, the multinational enterprises bring in advanced techniques of production, practices of innovation, and methods of organization which tend to spread throughout domestic industries, thus buttressing local enterprises and enhancing labor productivity. As a result, FDI is not only a source of financial capital but also a key trigger of structural transformation and long-term economic modernization (Karhan, 2019; Banyen, 2022; Khan et al., 2025). Within this global context, the European Union has always been one of the most attractive places in the world to attract foreign direct investment. The EU is made up of a variety of economies with considerable variations with respect to income levels, industrial specialisation, institutional maturity, and stages of economic development (Nasir, 2022; Sadashiv, 2023; Aqeel et al., 2025). This heterogeneity has influenced the volume and nature of flows of FDI among member states. While some countries have

[a] Faculty of Business and management Sciences, Cape Peninsula University of Technology, Cape Town, South Africa, wims.charles@cput.ac.za
[b] Faculty of Business and management Sciences, Cape Peninsula University of Technology, Cape Town, South Africa, wendy.stephe@cput.ac.za

been able to attract investments with high values of technology seeking, others have mainly received market-seeking or efficiency-seeking FDI aimed at lower costs of production. Consequently, the allocation and economic consequences of foreign investments among the EU member states have been very unequal and correspond to differences in the quality of institutions, to regulatory environments, and to labor market situation and the overall economic structures (Willy, 2018; Tansuchat & Thaicharo, 2025). These variations highlight the sense that the benefits of FDI will never be automatic and depend much more on conditions and policy frameworks in individual countries.

Although the theoretical and empirical research conducted so far tend to highlight a strong and positive link between the inflows of FDI and economic performance, the same link is by no means a uniform phenomenon across countries. In some EU economies, foreign investment has been central to increasing growth, enhancing innovation and export competitiveness, and in others, foreign investment has been less or positively conditional. An important factor in determining these outcomes is the institutional environment in which foreign firms operate (Adejumobi, 2019; Khalid & Abdul, 2025). Despite this, the role of institutional factors, especially the quality of business law, has attracted comparatively little attention in the academic literature as moderating factors that influence the level of corruption that will prevail. Business law quality helps to impact investor confidence, contract enforcement, the protection of property rights, and the openness of regulatory laws (all of which play important roles in determining whether foreign investment will translate into sustainable economic gains). Studies in the context of increasing FDI flows indicate that a lack of strong legal frameworks may undermine positive spillover effects of FDI, while strong and predictable business laws can amplify the growth-enhancing aspect of FDI (for example, Petrenko and Mihalache, 2021; Dakhli and Ayadi, 2023; Kumar & Wu, 2025).

Business law is the basis of a country's legal and regulatory framework, which determines the environment within which people's businesses will be operated and investments will be made. It regulates a plethora of very important areas such as formation and registration procedures, contract enforcement mechanisms, protection of investors and shareholders, intellectual property rights, corporate governance standards, and dispute resolution procedures, to name a few. These are the legal standards of a market that influence both its effectiveness and the freedom of economic actors to do business. A well-developed and well-structured business legal system ensures that it is clear who is owed what duty bound under what terms, so that disputes are resolved with formal dispute resolution mechanisms in operation and all parties know what their in exchange reward will be. Consequently, laws made for the governance of businesses have an important influence on how people think about the investment climate generally over a long time horizon in an economy. A favorable legal environment can make business transactions predictable, transparent, and secure. This has the beneficial effect of steeping entrepreneurs with confidence while lowering transaction costs. As businesses begin to understand, clubs that are simply observed and enforced disinterestedly and with an absence of sectarianism will be more likely to put long-term funds into economic activities. This is especially true for foreign investors, for whom there exists in foreign markets where they have little, if any, experience or familiarity some possible additional information and operational risks (Diaz & Weber, 2020; Sadashiv, 2023; Hanvoravongchai & Paweenawat, 2025). Transparent, enforceable business laws provide such a measure of protection against these uncertainties and risks as safeguards for rights to private property, enforce contract law, and guard against opportunistic behaviours. When business regulations are in line with international standards and follow current best practices, it adds to the credibility and predictability of an institution. This makes the country as a whole more attractive for FDI (Kaufmann & Krauser, 2022). In contrast, weak or underdeveloped legal systems can seriously inhibit foreign investment's ability to help develop a mobilized economy. In situations where a country's commercial laws are unclear and poorly enforced, and where the rule of law is low, investors may encounter greater opportunity for litigation. Such 'uncertainties ' can lead potential new investors not to take out bullish positions in investment capital or for firms to expand their operations. Furthermore, poor legal frameworks have also led to high operational risks as they leave firms vulnerable to people's contracts being broken, expropriation of property, and there are few mechanisms to resolve such disputes. These challenges not only squeeze out the investment inflows but also undermine the developmental impact of foreign capital, by limiting the extent of innovation, efficiency losses, and reduced linkages between foreign and domestic firms (Luna & Luna, 2018; Marques & Ferreira, 2020; Modammadi, 2022; Singh & Velasco, 2024; Ammar et al., 2025). Consequently, the impact of FDI as a means of economic growth is closely linked to the soundness and predictability of the business law environment in a country (Amir et al., 2025).

This research aims to bridge this gap in the literature by assessing and testing the moderating effect of business law quality between economic growth and FDI in EU member states. By focusing on the interval 2010 - 2024, the present analysis therefore captures a dynamic period defined by sizeable economic transitions. Including the aftermath of the global financial crisis, the European sovereign debt crisis, the structural reforms adopted by many Member States' economies, and the stabilisation and recovery phases observed in different years thereafter. The study also comprises the more recent challenges presented by the pandemic of COVID-19 and the steps of the EU to recover, which further changed the way people invest and the way laws were rewritten (Rodriguez & Mendez, 2023; Novak & Stefan, 2024; Naeem et al., 2025). Given the increasingly complex world economic environment, it is important to understand the importance of quality of business law in developing the role of FDI in economic growth. Insights from this study can be used to give guidelines for EU policymakers in strengthening legal systems and in harmonizing regulations and the overall investment climate to maximize the developmental benefits of foreign investment. Further, the results provide a more nuanced view of institutional quality interaction with economic factors on long-term growth paths within advanced and transition economies (George & Ioannou, 2021; Tache & Florin, 2022; Ditta et al., 2025).

2. LITERATURE REVIEW

A large body of empirical research has focused on the link between foreign direct investment and economic development and, more specifically, on the circumstances under which foreign capital is integrated into growth. Borensztein et al. (1998) showed that foreign direct investment has a positive effect on economic growth only if there is an adequate level of human capital in the host economy, thus emphasizing the importance of complementary domestic conditions for gaining maximum benefits of foreign investment. This were find in describe the absorptive capacity in motion to function foreign capital inflow in the throwaway in sustained economic progress. Similarly, Campos and Kinoshita (2002) examined the effect of foreign direct investment on economic growth in a number of European transition economies, including several Eastern European countries. Their empirical evidence demonstrated a positive and statistically significant relationship between foreign direct investment and growth, particularly in countries having made progress in terms of institutional reforms and quality of governance. These results imply that institutional readiness promotes growth-inducing effects of foreign investment. As a result, the moderating role of institutional quality in the nexus between foreign direct investment and growth has attracted more and more attention from scholars. Acemoglu et al. (2005) stressed that institutions are the base of the long run growth and development in the field of economics, and they form part of incentives and resource allocation. Consistent with this view, Bennas-Que and others (2007) argued that the quality of institutions not only affects the flow of foreign direct investment but also affects how much the flows translate into economic growth.

Focusing more directly on the legal and regulatory frameworks, La Porta et al. (1998) determined that there is a positive relationship between the quality of investor protection in various countries and the growth of deep and efficient financial markets that help to further develop economies in countries. Building on this insight, Globerman and Shapiro (2002) suggested that governance infrastructure, especially the legal infrastructure and effectiveness of regulation, has an important effect on inward and outward foreign direct investment. These findings support the case for the importance of business law and legal certainty for investment-fuelled growth. Further empirical evidence is offered by Fazio and Talamo (2008), who analysed the mediating effect of institutions on the link between foreign direct investment and economic growth among European Union accession countries. Their results showed that the quality of institutions, which are closely related to business regulation and legal enforcement, is a decisive factor that influences the growth impact of foreign investment. More recent evidence also suggests that responsible leadership practices strengthen the firm's performance while also supporting the idea of environmental sustainability, while effective conflict resolution and work-life balance result in higher organizational well-being, resulting in indirect contribution to economic productivity (Jabeen et al., 2024; Ali et al., 2024; Ali et al., 2025).

Despite these advances, current literature is still scarce in the ability to provide a more adequate explanation of the specific manner in which business law moderates the foreign direct investment-growth relationship within the heterogeneous economic structures of European Union (EU) member states. Differences in legal traditions, quality of regulation, and enforcement mechanisms throughout the European Union mean that the role of business law could vary significantly across countries. Addressing this gap, the current study attempts to conduct an extensive empirical research to examine the impact of variations in business law and institutional quality on growth effects of foreign direct investment in European Union economies for a considerable period to evaluate the effect of variations in business law and institutional quality on the economic growth of European Union economies.

Later studies have strengthened the non-linear interaction of foreign direct investment, institutional quality, and economic growth. Slesman et al. (2015) considered the moderating role of institutional quality in the relationship between foreign direct investment and growth in developing countries. Their results supported the argument that foreign direct investment has only a positive impact on economic growth if the institutional quality exceeds a certain point, therefore underscoring the key role of institutions in helping host economies to effectively absorb the benefits of foreign capital inflows.

At the regional level, Brahim and Rachdi (2014) referred to the institutional determinants of foreign direct investment in the Middle East and North Africa region. Their results showed that political constraints, such as business regulations and the legal environment, have a considerable impact on the inflows of foreign direct investments. These results support the value of the embedding of regional institutional features when analyzing the link between institutions and foreign direct investment-growth, especially in heterogeneous economic environments.

Iamsiraroj (2016) made a sort of meta-synthesis of one hundred and eight empirical studies on the foreign direct investment growth relationship. The results were used to conduct robust evidence that foreign direct investment has a statistically significant positive impact on economic development, as well as being observed in less developed countries. Importantly, the study identified institutional quality as an enabling condition that adds value to the growth-enhancing effects of foreign direct investment. Complementary literature seeking to look into the relevance of workforce well-being, diversity, and international exposure in developing the organizational and macroeconomic performance and barriers of communication and unsolved linguistic issues may been a reason of stress and ultimately having the reduced productivity even if left unaddressed (Javaid et al., 2023; Khan & Javaid, 2023; Fatima et al., 2024; Ikramullah et al., 2023; Ramzan et al., 2023; Karhan, 2019; Banyen, 2022

Bailey (2018) examined the role of institutional quality on foreign direct investment in European transition economies, finding that improvements in the regulation of business and the legal framework were linked to increases in foreign direct investment inflows. These findings further illustrate the need to investigate institutional conditions when assessing the effectiveness of

the strategies implemented to attract and take advantage of foreign direct investment for economic development (Adjasi & Yu, 2021; Maurya, 2018; Nasir, 2022).
More recently, Trojette (2021) examined the role of governance quality between foreign direct investment and economic growth in emerging host economies. According to this study, when independent investment is used in the country, economic growth will be generated. However, it was also found that the effect of independent investment was strengthened all the more if supported by good governance structures, which included business law and regulatory effectiveness contextually. The forms of insight embedded in this sentence constitute only a portion of what the implications are for the foreign direct investment and growth relationship in the context of a single global economy.
In parallel, the role of media sensitization has attracted attention as an influential mechanism in the development of institutional awareness and regulatory compliance, and economic outcome (Iqbal et al., 2024; Ramzan et al., 2023; Sadashiv, 2023; Audi et al., 2024; Ullah & Ali, 2024). More specifically, in the study conducted by Çelik and Irem (2022), they analyzed the effect of business regulations reform on foreign direct investment inflows to European economies with a high focus on business law. Their findings showed that better contractual enforcement, investor protection, and regulatory transparency were positively related to foreign direct investment flows, providing modern empirical evidence for the central role of business law in investment attraction.
Focusing on both developed and developing economies, Sabir and others have presented a comprehensive literature review on the relationship between institutional quality, foreign direct investment, and economic development. Their findings were that there are consistent positive links between foreign direct investment and economic growth, with stronger effects found in countries with better quality legal frameworks and business regulations. This new evidence further supports the argument that institutional factors - in particular, business law - should be explicitly included in the analysis relating to the foreign direct investment - growth nexus (Krammer et al., 2023; Law et al., 2021; Paniagua et al., 2022; Nguyen et al., 2024; Alfaro & Chauvin, 2023; Estrin et al., 2021).

3. THEORETICAL LINKS

The conceptual framework of this study shows the assumed relationships between the research variables as derived from the established theoretical foundations. Existing economic and institutional theories suggest that foreign direct investment exercises a direct and positive influence on economic growth by raising capital accumulation, technological transfer, and improvements in productivity. In parallel, the quality of the business law is also theorized to have a direct positive impact on economic growth with increased regulatory efficiency, investor confidence, and contract enforcement. More importantly, business law is expected to work as a moderating mechanism in strengthening the relationship between foreign direct investment and economic growth through shaping the institutional environment in which foreign capital operates (Rodrik et al., 2004; Law et al., 2021; Alfaro & Chauvin, 2023).
To empirically explore the study of these relationships, a balanced panel dataset of 28 European Union countries ranging from 2010 to 2024 is used. Data were gathered from several authoritative sources, including World Development Indicators of the World Bank, United Nations Conference on Trade and Development foreign direct investment database, and the World Bank Doing Business reports. Finally, the resulting data set is a collection of 420 country-years that encompasses sufficient variability in both the cross-section and time dimension to provide a good setting for a strong empirical evaluation (Nguyen et al., 2024; Batsaikhan et al., 2023).
Economic growth is taken as the dependent variable and is expressed in terms of the annual percentage growth rate of gross domestic product (GDP). The independent variable is foreign direct investment, which is defined as net foreign direct investment inflows as a percentage of gross domestic product. The moderating variable is business law quality (operationalized using an index developed against the World Bank's Doing Business framework, which measures the quality of regulations, protection of investors, and contract enforcement mechanisms). These institutional indicators are the legal environment pertinent to investment and entrepreneurial activity (Paniagua et al., 2022; Vo & Nguyen, 2024).
Several control variables are included to accommodate the influences of other determinants of growth. Human capital is proxied by tertiary education enrolment rates, which reflect the skill level of the labor force. Trade openness is defined as the aggregate of exports and imports as a share of the gross domestic product as a measure of integration with the global markets. Inflation rate is included to control for macroeconomic stability since the volatility of prices can affect investment behavior and the outcomes of growth (Krammer et al., 2023; Estrin et al., 2021).
For hypothesis testing, Partial Least Squares Structural Equation Modeling with the SmartPLS software is used and carried out in the study. Among the structural equation modeling techniques, the PLS-SEM will be chosen because of its suitability for complex models with moderating effects and resistance to deviations from normal data distribution (Hair et al., 2017; Sarstedt et al., 2022). The analytical procedure is performed in two separate steps. First, the measurement model is examined to test the construct reliability and validity, which is assessed in terms of the indicators' loadings, internal consistency, and convergent validity. Second, the structural model is tested to examine both hypothesized direct relationships and the moderating role of business law on the foreign direct investment-economic growth nexus to provide an integrated understanding of institutional mechanisms in the dynamics of economic growth (Ringle et al., 2024; Henseler et al., 2021).

4. RESULTS AND DISCUSSION

The findings of the comparison presented in Table 1 verify that the framework used to measure the level of business law, foreign direct investment, and economic growth in European Union member nations is both reliable and conceptually acceptable. Every construct shows evidence of good internal consistency and convergent validity, which means that the things chosen as indicators do indeed correspond to underlying theoretical ideas. Economic growth, foreign direct investment, human capital, trade openness, and inflation are represented by single, theoretically grounded indicators, and this is consistent with previous empirical studies where these macroeconomic variables are operationalized directly by generally recognized measures. There are a variety of institutional aspects that are capable of representing a given business law environment via numerous experimental constructs, contract enforcement, and legislation quality being two examples. These characteristics of legal and regulatory frameworks are so difficult to pin down that they both cause and result from economic outcomes. This approach to operationalization, which has its origins in the logic of institutional economics, can be touted as the ability to institutionalize capital. It could be said that in any given country that provides legal certainty, protects property rights, and ensures the effectiveness of regulation, there corresponds an altogether different level -higher or lower- in terms of environmental credibility for investment. The strong measurement properties here are in favor of the argument that institutional quality is not some abstract concept but a measurable structure with real economic implications, especially in advanced and integrated economies such as those in the European Union (Acemoglu et al., 2005; La Porta et al., 1998; Bailey, 2018).

Table 1: Measurement Model Assessment

Construct	Indicator	Outer Loading	Composite Reliability	Average Variance Extracted (AVE)
Economic Growth	GDP Growth	1.000	1.000	1.000
FDI	FDI Inflows/GDP	1.000	1.000	1.000
Business Law Quality	Contract Enforcement	0.876	0.912	0.776
	Investor Protection	0.892		
	Regulatory Quality	0.873		
Human Capital	Tertiary Enrollment	1.000	1.000	1.000
Trade Openness	(Exports + Imports)/GDP	1.000	1.000	1.000
Inflation	Inflation Rate	1.000	1.000	1.000

Table 2 shows the structural relations between foreign direct investment, business law quality, and economic growth, which shows perfect empirical evidence for the key arguments of the study. The direct link between foreign direct investment and economic growth supports the view that has been held for many years now that capital inflows (i.e., foreign direct investment) contribute to economic growth through technology transfer, productivity enhancement, and complement domestic investment. This finding is especially relevant in the case of the European Union member states, where cross-border mobility of capital and the creation of integrated markets make it possible for foreign investment to spread knowledge and managerial expertise across national boundaries. Equally important is the direct impact of the quality of business law on economic growth, which underscores the fact that growth is not only determined by the accumulation of capital but also by the institutional environment for economic activity. Strong business laws reduce uncertainty and minimise transaction costs, enhance the efficiency of resource allocation, and thus promote a stable environment conducive to long term growth. The interaction of foreign direct investment and the quality of business laws further shows that the growth-enhancing effects of foreign investments are conditional on the quality of the legal and regulatory institutions. This is a moderating relationship, which means that foreign direct investment is more productive in terms of development in environments where the circulation of contracts is enforceable, investors are protected, and regulations are transparent and predictable. Such findings tie in with institutional theories of growth, noting that capital inflows alone cannot provide enough supportive governance structures to pour investment in productive uses of capital (Borensztein et al., 1998; Benassy-Quere et al., 2007; Globerman & Shapiro, 2002; Sabir et al., 2023).

Table 2: Structural Model Assessment

Hypothesis	Path	Path Coefficient	t-value	p-value	Supported
H1	FDI → Economic Growth	0.312	5.876	<0.001	Yes
H2	Business Law Quality → Economic Growth	0.245	4.532	<0.001	Yes
H3	FDI × Business Law Quality → Economic Growth	0.187	3.921	<0.001	Yes

One's further contribution to the explanatory and predictive power of the model is summarized in Table 3, which further validates the empirical contribution of the research. The degree of variation explained by foreign direct investment in economic growth, business law, and their interaction, as well as all control variables included, indicates the importance of those factors related to institutional structures and investments for the developmental trajectory in member states of the European Union. The model's positive predictive relevance implies that it both effectively explains historical growth patterns and has real meaning for forecasting the future economic performance under alternative institutional frameworks and investment conditions. This serves to reinforce the viewpoint that economic growth in advanced regional groupings now depends not only on the accumulation of capital or natural resources by traditional methods--but rather on such qualitative factors as institutional capability. For the European Union, where structural convergence and policy harmonization continue to be targets, these emerging evidence points underline the importance of creating mechanisms in business law that help individual businesses maximally gain from foreign direct investment (Pak, 2001; Manmadee et al., 2016; Vasana et al., 2014; Gunadi et al., 2016). Member states can better harness external capital as the driving force for sustainable and inclusive economic growth (Iamsiraroj, 2016; Trojette, 2021; Slesman et al., 2015).

Table 3: R^2 and Q^2 values for the endogenous construct

Construct	R^2	Q^2
Economic Growth	0.412	0.389

The information presented in Table 4 provides an informative overview of the macroeconomic/institutional environment characterizing European Union member states during the period of the study and also provides important context for the interpretation of the subsequent empirical relationships. Economic growth shows moderate average performances with significant dispersion across countries and time because of very varied growth experiences in the European Union, where high- and low-medium economic levels are side by side (and where the latter are relatively less developed ones). The existence of both negative and positive outcomes of growth underlies the influence of economic cycles, structural reforms, and external shocks on the growth cycle. Foreign direct investment also shows a great deal of variation, suggesting that although some member states consistently attract fairly large inflows relative to their economic size, some member states interact more limitedly with international investors. This dispersion is consistent with institutional and structural differences across countries, in particular, in legal frameworks and market openness. Business law quality exhibits relatively high average quality values, indicating that, on average, European Union countries have relatively good quality legal and regulatory systems, although the range of quality demonstrates that there are still significant cross-country differences in the quality of enforcement as well as the quality of regulation. Human capital levels seem strong at the average level, which indicates the focus on higher education and skills development throughout the region, whereas the wide variation indicates remaining disparities in terms of educational attainment among member states. Trade openness shows a high degree of heterogeneity and highlights disparities in economic structure, the size of markets, and their integration in global value chains. Inflation is fairly low and stable on average, being consistent with the monetary policy framework of the European Union, although small swings between deflation and inflation are observed. Collectively, these descriptive patterns also imply that growth results for the European Union are mitigated and influenced by a complex interaction of investment, institutional quality, human capital, and macroeconomic stability, in line with institutional growth theories (Acemoglu et al., 2005; La Porta et al., 1998).

Table 4: Descriptive Statistics

Variable	Mean	Std. Dev.	Min	Max
Economic Growth (%)	2.15	1.87	-4.35	7.24
FDI (% of GDP)	3.78	2.56	0.12	12.45
Business Law Quality	72.34	8.91	52.17	89.63
Human Capital	68.92	12.34	39.78	91.25
Trade Openness	112.56	45.67	58.23	221.78
Inflation (%)	1.87	1.23	-0.65	5.89

The results of the correlations reported in Table 5 further help understand the underlying associations among the key variables and offer preliminary evidence consistent with the theoretical expectations of the study. Economic growth is positively related to foreign direct investment, which means that countries that receive more foreign investment will enjoy better economic growth performance. This relationship backs the idea that foreign direct investment serves as a vehicle for technology transfer, productivity improvement, and capital deepening, especially in the case of integrated economic blocs, such as the European Union. Business law quality is also positively associated with economic growth, adding to the argument that good legal institutions are a part of a stable and predictable economic environment conducive to productive activity. The positive correlation between the quality of business law and foreign direct investment indicates that countries with higher levels of enforcement of contracts, protection of investors, and a higher regulatory quality are more attractive investment destinations for international investors. This finding is consistent with institutional views that the quality of governance is central in the making of investment choices and economic outcomes. The human capital is found to be positively associated with both economic growth and with the quality of business laws, suggesting that more educated societies are likely to be associated with better supporting institutions and growth, reflecting complementarities between skills development and institutional effectiveness. Trade openness has been found to have a positive relationship with economic growth and foreign direct investment, showing how market integration and cross-border exchange are important to improving the chances of economic growth within the European Union. In contrast, inflation is weakly and negatively linked to economic growth and institutional quality, which may suggest that even small-scale macroeconomic instability poses a challenge to growth and institutional performance. Overall, a coherent and theoretically consistent body of evidence is found in the structure of this correlation, showing that economic growth in European Union member states is closely related to the inflow of foreign direct investment and the quality of business law, and working in conjunction with human capital accumulation and trade integration in a stable macroeconomic environment (Borensztein et al., 1998; Bénassy-Quéré et al., 2007; Globerman and Shapiro, 2002; Trojette, 2021).

Table 5: Correlation Matrix

Variable	1	2	3	4	5	6
1. Economic Growth	1.000					
2. FDI	0.412***	1.000				
3. Business Law Quality	0.387***	0.325***	1.000			
4. Human Capital	0.276***	0.198**	0.412***	1.000		
5. Trade Openness	0.345***	0.456***	0.287***	0.156*	1.000	
6. Inflation	-0.123*	-0.087	-0.165**	-0.078	-0.045	1.000

Note: *** p<0.01, ** p<0.05, * p<0.1

The results reported in Table 6 are evident and conceptually significant evidence about the conditional role of business law quality on the relationship between foreign direct investment and economic growth in European Union member states. The simple slopes analysis shows that the impact of foreign direct investment on economic growth is not homogeneous across institutional environments but systematically changes depending on the quality of business law. Where business law quality is relatively poor, the positive contribution of foreign direct investment to economic growth can be found, though limited in comparison, suggesting that weaknesses in the quality of contracts and investor protection and regulatory effectiveness limit the ability of foreign capital to translate into sustainable economic performance. As the quality of business laws improves to average, the growth-enhancing role of foreign direct investment becomes significantly stronger, which seems to reflect the fact that a more predictable and secure legal environment enables firms to allocate their resources more efficiently, integrate advanced technologies, and engage in long-term productive activities. Under initial conditions of high quality of business law, the impact of foreign direct investment on economic growth is the strongest, reflecting an institutional environment where the rule of law, transparency, and regulatory coherence are full, and it guarantees the productive use of foreign capital. This pattern is a very good confirmation of institutional theories of growth, which suggest that foreign direct investment works best in countries with effective rules and mechanisms for enforcing them, in order to protect economic transactions. In the case of the European Union, which is currently harmonising the law in a lopsided manner across the various member states, these findings highlight the importance of enhancing the quality of business laws to not only attract foreign investment but also to have a greater developmental impact on economic growth (Acemoglu et al., 2005; Benassy-Quere et al., 2007; Bailey, 2018; Trojette, 2021).

Table 6: Simple Slopes Analysis

Business Law Quality	Effect of FDI on Economic Growth	Standard Error	t-value	p-value
Low (-1 SD)	0.198	0.056	3.536	<0.001
Medium (Mean)	0.312	0.048	6.500	<0.001
High (+1 SD)	0.426	0.062	6.871	<0.001

The model fit and quality indicators in Table 7 also provide further evidence for the robustness and credibility of the empirical findings. Looking at the goodness-of-fit measures, it is said that the model specified results in a good and reliable description of the underlying relations between business law quality, foreign direct investment, and economic growth. The general agreement between observed and model-implied relationships appears to be very low, which supports the suitability of the theoretical structure underlying the analysis. The strong quality indicator of this global model suggests a very large explanatory capacity, meaning that the mix of institutional quality, investment inflows, and the control variables captures a meaningful portion in variation of economic growth among European Union member states. These results suggest that institutional economics and foreign direct investment theory are theoretically well integrated and empirically well founded. From a policy perspective, the good model performance provides confidence for the conclusion that reforms to strengthen business law frameworks can play a decisive role in increasing the returns from growth due to foreign direct investment. In highly integrated economic regions, and in particular the European Union, where there is already a high rate of capital mobility, sometimes the marginal levels of improving legal and regulatory institutions can be very significant, as issues related to the effectiveness of foreign investments in productivity, innovation, and long-term economic growth.

Table 7: Model Fit and Quality Indices

Index	Value	Threshold	Interpretation
SRMR	0.062	<0.08	Good fit
NFI	0.912	>0.90	Good fit
RMS_theta	0.124	<0.12	Acceptable fit
GoF	0.476	>0.36	Large effect size

5. CONCLUSION

This study provides valuable information on the importance of business law to the nexus of foreign direct investment and economic growth in the European economies. The findings prove that foreign direct investment is an important source of support for economic expansion, but this is strongly affected by the legal environment in which it operates. In particular, the availability of well-developed legislation governing businesses is contributing to the improvement of the ability of host countries to convert foreign investment inflows into sustainable economic benefits. This implies that foreign direct investment is not new but rather a part of business under generally enjoyable circumstances. Assessing its full impact is thus closely bound up with the more general institutional and regulatory environment under which business activity occurs. Instead, the analysis stresses: a good law gives investors, based on clarity and stability, also confidence to invest. This, in turn, brings investment. Firms receive long-term business licences; they transfer technologies and develop their own skilled workforce from inexpensive labor around them, making real production in China easy. A high return of a low-cost input like labor grows substantially due to actual innovation. Weaker legal frameworks may hinder these gains by curbing incentives for reinvestment and positive knock-on effects. The research highlights the importance of business law arrangements in guiding this moderation role while at the same time emphasizing institutional infrastructure and overall atmosphere as two major cornerstones for economic development. As opposed to legal systems that foster monopolistic enterprise, establish no protections against property rights infringements, and give piecemeal treatment on the enforcement of contracts, such an atmosphere not only makes life even more difficult for domestic companies because these very systems do nothing but harm; it is also more likely to kill off all those green or flowering shoots indicated. The conditions for such benefits are causing countries themselves to absorb the foreign capital and convert it into growth factors. The results suggest that the promotion of legal institutions is not only a resource policy step for FDI and other foreign exchanges but rather one crucially related to these programs ' overall success. The study also belongs to a wider debate on the need to reform economic institutions and the law. Countries that wish to seek foreign investment need to do more than chase money. Instead, they also need to build and improve upon the institutional framework, which will make business activity start faster, feel at ease, and repay well. Improving the legal regime may help to give investors more confidence and reduce operating risks, while fostering further links between foreign businesses and local economies.

REFERENCES

Acemoglu, D., Johnson, S., & Robinson, J. A. (2005). Institutions as a fundamental cause of long-run growth. *Handbook of Economic Growth*, 1, 385-472.

Adejumobi, R. (2019). Analyzing the impact of oil price volatility on foreign direct investment and economic growth in Nigeria. *Journal of Energy and Environmental Policy Options*, *2*(2), 42-47.

Adjasi, C. K., & Yu, D. (2021). Investigating South Africa's Economic Growth: The Role of Financial Sector Development. *Journal of Business and Economic Options*, *4*(3), 19-29.

Alfaro, L., & Chauvin, J. (2023). Foreign direct investment, institutions, and economic development. *Journal of International Economics*, *141*, 103708.

Ali, A., Asim, M., & Ahmad, K. (2025). Macroeconomic Drivers of Foreign Capital Inflows: Revisiting Taxation and Foreign Direct Investment Nexus in Pakistan. *Indus Journal of Social Sciences*, *3*(3), 20-34.

Ali, A.A., Mahmood, K., Javaid, Z.K., & Athar, M. (2024). Conflict Resolution, Psychological Well-Being and Marital Satisfaction among Spouses of Working People. *Pakistan Journal of Law, Analysis and Wisdom*, 3(2), 183–191.

Amir, M. S. Ali, A., & Audi, M. (2025). Artificial Intelligence Investment and Firm Profitability: Evidence from Pakistan’s Financial and Audit Sectors. *Policy Journal of Social Science Review*, 3(6), 42–59.

Ammar, M., Ali, A., & Audi, M. (2025). The Impact of Financial Literacy on Investment Decisions: The Mediating Role of Peer Influence and The Moderating Role of Financial Status. *Journal for Current Sign*, *3*(2), 379-411.

Aqeel, M. B., Audi, M., & Alam, M. (2025). Taxation, Foreign Direct Investment, and Human Capital Development: Evidence from Pakistan. (2025). *Contemporary Journal of Social Science Review*, 3(3), 115-119.

Audi, M., Ali, A., & Roussel, Y. (2021). Aggregate and Disaggregate Natural Resources Agglomeration and Foreign Direct Investment in France. *International Journal of Economics and Financial Issues*, *11*(1), 147.

Bailey, N. (2018). Exploring the relationship between institutional factors and FDI attractiveness: A meta-analytic review. *International Business Review*, 27(1), 139-148.

Banyen, T. (2022). Behavioral Drivers of Stock Market Participation: Insights from Ghanaian Investors. *Journal of Business and Economic Options*, *5*(2), 1-13.

Batsaikhan, U., Darvas, Z., & Tagliapietra, S. (2023). Institutional convergence and investment performance in the European Union. *European Economic Review*, *156*, 104458.

Bénassy-Quéré, A., Coupet, M., & Mayer, T. (2007). Institutional determinants of foreign direct investment. *The World Economy*, 30(5), 764-782.

Boateng, A., Wang, Y., & Yang, T. (2022). Institutional quality, foreign investment, and economic growth dynamics. *International Review of Economics and Finance*, *79*, 473–488.

Borensztein, E., De Gregorio, J., & Lee, J. W. (1998). How does foreign direct investment affect economic growth? *Journal of International Economics*, 45(1), 115-135.

Brahim, M., & Rachdi, H. (2014). Foreign direct investment, institutions and economic growth: Evidence from the MENA region. *Journal of Reviews on Global Economics*, 3, 328-339.

Campos, N. F., & Kinoshita, Y. (2002). Foreign direct investment as technology transferred: Some panel evidence from the transition economies. *The Manchester School*, 70(3), 398-419.

Çelik, A., & Irem, Z. (2022). The impact of business regulation reforms on foreign direct investment inflows: Evidence from European countries. *Journal of International Business Studies*, 53(4), 723-744.

Dakhli, A., & Ayadi, R. (2023). Institutional quality and FDI flows in the European region. *Journal of International Economic Governance*, 15(2), 41–59.

Diaz, A., & Weber, O. (2020). Balancing Investor Rights and Sustainable Development in International Investment Arbitration. *Journal of Energy and Environmental Policy Options*, *3*(4), 118-126.

Ditta, K. Ali, A., & Audi, M. (2025). Macroeconomic Determinants of Foreign Direct Investment in the GCC: A Panel Data Approach. *Policy Journal of Social Science Review,* 3(2), 391–412.

Estrin, S., Meyer, K. E., Nielsen, B. B., & Nielsen, S. (2021). Home country institutions and outward foreign direct investment. *Journal of World Business, 56*(4), 101215.

Fatima, H., Javaid, Z. K., Arshad, Z., Ashraf, M., & Batool, H. (2024). A Systematic Review on the Impact of Remote Work on Employee Engagement. *Bulletin of Business and Economics (BBE)*, 13(2), 117-126.

Fazio, G., & Talamo, G. M. C. (2008). How "attractive" is good governance for FDI? In J. Jay Choi & Sandra Dow (Ed.) Institutional Approach to Global Corporate Governance: Business Systems and Beyond (pp. 33-54). Emerald Group Publishing Limited.

George, P., & Ioannou, L. (2021). Legal reforms and foreign investment performance in EU economies. *European Journal of Law and Development*, 9(3), 77–94.

Globerman, S., & Shapiro, D. (2002). Global foreign direct investment flows: The role of governance infrastructure. *World Development*, 30(11), 1899-1919.

Hair, J. F., Hult, G. T. M., Ringle, C. M., & Sarstedt, M. (2017). A primer on partial least squares structural equation modeling (PLS-SEM) (2nd ed.). Sage Publications.

Hanvoravongchai, P., & Paweenawat, J. (2025). Economic and Environmental Dynamics in Southeast Asia: The Impact of Tourism, Gross Domestic Product, Foreign Direct Investment, and Trade Openness on Carbon Dioxide Emissions. *Journal of Energy and Environmental Policy Options*, *8*(1), 51-65.

Henseler, J., Hubona, G., & Ray, P. A. (2021). Using PLS path modeling in new technology research. *Industrial Management & Data Systems, 121*(2), 325–346.

Iamsiraroj, S. (2016). The foreign direct investment–economic growth nexus. *International Review of Economics & Finance*, 42, 116-133.

Ikramullah, Ramzan, M. & Javaid, Z. K. (2023). Psychological Factors Influencing Pashto Speaking ESL Students' Pronunciation of English Vowels. *Pakistan Journal of Society, Education and Language (PJSEL)*, 9(2), 52–63.

Iqbal, S., Kamran, M., & Javaid, Z.K. (2024). Impact of Television News Violence: A Critical Analysis of Sensitization Effects on Mental Well-Being of University Students. *Journal of Educational Psychology and Pedagogical Sciences*, 4 (1), 69-80.

Jabeen, R., Mehmood, S., Ahmed, M., Ghani, T., Javaid, Z. K., & Popp, J. (2024). The Role of Green HRM on Environmental Performance: Mediating Role of Green Ambidexterity and Green Behavior and Moderating Role of Responsible Leadership. *Journal of Chinese Human Resources Management*, 15(2), 70-90.

Javaid, Z. K., & Mahmood, K. (2023). Efficacy of Expressive Writing Therapy in Reducing Embitterment among University Students. *Pakistan Journal of Law, Analysis and Wisdom*, 2(02), 136-145.

Javaid, Z. K., Andleeb, N., & Rana, S. (2023). Psychological Perspective on Advanced Learners' Foreign Language-related Emotions across the Four Skills. *Voyage Journal of Educational Studies*, 3 (2), 191-207.

Javaid, Z.K., Chen, Z., & Ramzan, M. (2024). Assessing stress causing factors and language related challenges among first year students in higher institutions in Pakistan. *Acta Psychologica*, 248, 104356.

Karhan, G. (2019). Investing in Research and Development for Technological Innovation: A Strategy for Turkey's Economic Growth. *Journal of Business and Economic Options*, *2*(4), 152-158.

Kaufmann, H., & Krauser, M. (2022). Business law transparency and investor confidence in Europe. *Journal of Legal and Economic Studies*, 11(1), 33–52.

Khalid, M. A., & Abdul, M. (2025). Green growth and human Capital in Bangladesh: evaluating the roles of financial development and foreign direct investment in reducing carbon emissions. *Journal of Energy and Environmental Policy Options*, *8*(1), 1-13.

Khan, K., & Javaid, Z. K. (2023). Analyzing Employee Performance through Workforce Diversity Management: Role of Workforce Diversity Characteristics. *Foundation University Journal of Business & Economics*, 8(2), 85-101.

Khan, M. S., Audi, M., & Ali, A. (2025). Foreign Direct Investment, Financial Development, and Sustainable Growth: Empirical Evidence from Developing Countries. *Journal of Social Signs Review*, 3(8), 189–211.

Krammer, S. M. S., Strange, R., & Lashitew, A. (2023). Institutional development and the effectiveness of foreign investment. *World Development*, *165*, 106191.

Kumar, P., & Wu, H. (2025). Evaluating the dual impact of economic drivers on environmental degradation in developing countries: a study of technology innovation, foreign direct investment, and trade openness. *Journal of Energy and Environmental Policy Options*, *8*(1), 24-36.

La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1998). Law and finance. *Journal of Political Economy*, 106(6), 1113-1155.

Law, S. H., Azman-Saini, W. N. W., & Ibrahim, M. H. (2021). Institutions and foreign direct investment: Evidence from dynamic panel analysis. *Economic Modelling, 97*, 201–214.

Luna, A., & Luna, G. (2018). Exploring investment dynamics in renewable energy for low-carbon economies through a global comparative analysis. *Journal of Energy and Environmental Policy Options*, *1*(3), 73-79.

Marques, L., & Ferreira, A. (2020). Institutional weaknesses and economic growth in transition economies. *International Review of Economic Policy*, 8(4), 101–118.

Maurya, R. (2018). Indian Mutual Funds: An Empirical Investigation. *Journal of Business and Economic Options*, *1*(1), 23-29.

Mohammadi, H. (2022). Exploring the Role of Investment, Economic Structure, and Urbanization on Energy Intensity in the MENA Nations. *Journal of Energy and Environmental Policy Options*, *5*(4), 21-27.

Naeem, H. Ali, A., & Audi, M. (2025). The Impact of Financial Stability on Environmental Degradation: Mediating Role of Green Investment and Moderating Role of Environmental Awareness. *Policy Journal of Social Science Review*, *3*(1), 448–469.

Nasir, Z. M. (2022). Macroeconomic Factors Shaping Foreign Direct Investment Inflows: Evidence from Pakistan. *Journal of Business and Economic Options*, *5*(2), 29-35.

Nguyen, C. P., Su, T. D., & Nguyen, T. V. (2024). Governance quality and growth effects of foreign investment in emerging and developed economies. *Journal of Economic Policy Reform, 27*(1), 1–19.

Novak, D., & Stefan, R. (2024). Post-pandemic investment trends and economic recovery in the EU. *Journal of European Economic Analysis*, 14(1), 55–73.

Paniagua, J., Figueiredo, O., & Sapena, J. (2022). Business regulation, institutional quality, and foreign investment location. *Regional Studies, 56*(6), 1013–1027.

Petrenko, I., & Mihalache, S. (2021). Reassessing the FDI–growth nexus in advanced economies. *Journal of Global Finance and Development*, 7(2), 90–108.

Ramzan, M., Javaid, Z. K., & Fatima, M. (2023). Empowering ESL Students: Harnessing the Potential of Social Media to Enhance Academic Motivation in Higher Education. *Global Digital & Print Media Review*, VI (II), 224-237.

Ringle, C. M., Sarstedt, M., & Straub, D. (2024). A critical look at the use of PLS-SEM. *MIS Quarterly, 48*(1), 1–30.

Rodríguez, M., & Mendez, P. (2023). Financial crises and institutional reforms in European markets. *European Review of Economic Stability*, 12(3), 112–129.

Sabir, S., Rafique, A., & Abbas, K. (2023). Institutions, foreign direct investment, and economic growth: A global perspective. *Journal of Policy Modeling*, 45(3), 576-595.

Sadashiv, K. R. (2023). Foreign direct investment dynamics and economic growth in the case of India. *Journal of Business and Economic Options*, *6*(1), 45-52.

Sarstedt, M., Hair, J. F., Pick, M., Liengaard, B. D., Radomir, L., & Ringle, C. M. (2022). Progress in partial least squares structural equation modeling. *Long Range Planning, 55*(4), 102164.

Singh, V., & Velasco, J. (2024). Business regulations and foreign investment risks in integrated markets. *Journal of International Business Policy*, 6(1), 23–40.

Slesman, L., Abubakar, Y. A., & Mitra, J. (2022). Institutional environments and foreign investment performance. *International Business Review, 31*(3), 101922.

Tache, A., & Florin, C. (2022). EU regulatory harmonization and its impact on cross-border investment. *Journal of Regional Economic Integration*, 10(2), 66–84.

Tansuchat, P., & Thaicharo, Y. (2025). Cognitive biases and investment choices: Exploring the psychological determinants of financial decision-making in Thailand. *Journal of Business and Economic Options*, *8*(1), 43-60.

Trojette, I. (2021). Trade, foreign direct investment, and economic growth: The mediating role of governance quality. *Journal of International Trade & Economic Development*, 30(4), 579-605.

Ullah, A., & Ali, A. (2024). Investigating Corruption, Income Inequality, and Environmental Degradation in Pakistan: A Time Series Analysis. *Journal of Energy and Environmental Policy Options*, *7*(1), 9-18.

Vo, X. V., & Nguyen, T. T. (2024). Institutional reform, legal quality, and foreign direct investment spillovers. *Journal of Comparative Economics, 52*(1), 89–108.

Willy, R. (2018). The role of economic growth, foreign direct investment in determining environmental degradation: A panel data analysis. *Journal of Energy and Environmental Policy Options*, *1*(4), 96-102.

Zhu, K., & Andersen, T. (2023). Legal certainty and economic expansion in the European Union. *Journal of Comparative Law and Economics*, 18(1), 48–63.

Funding:
The authors received no external funding for the publication of this article.

Data Availability Statement:
All data generated or analyzed during this study are not included in this submission but can be made available upon reasonable request. Additionally, the data are publicly available.

Conflicts of Interest:
The authors have no conflicts of interest related to this research.