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Foreign Direct Investment and Legal Reforms: A Comparative Study of Developing Nations

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Abstract

This paper aims to discuss how legal reforms and the inflows of FDI are correlated in the context of developing countries. It seeks to find out whether the attractiveness of the investment situation is greatly promoted by property rights reform, an enhanced contract enforcement system and corporate governance and whether the size of these effects varies across regions. The study uses comparative quantitative design which involves the use of panel data of a sample of developing countries between two decades. Statistical analysis like regression modelling, fixed-effects test and correlation tests are employed to examine the effect of legal reform indices on FDI inflows taking into consideration macroeconomic variables such as GDP growth, openness to trade, and political stability. The results indicate that statistically significant rise in FDI inflows is observed in countries that have undergone thorough legal changes. Specifically, the higher the level of investment is the better the judicial efficiency and protection of the investor is correlated. Regional differences show that reforms do not have much impact on states that are resource dependent, which is more effective in transitional economies.

Keywords: Foreign Direct Investment, Legal Reforms, Developing Nations, Comparative Analysis, Economies.

Introduction

Foreign direct investment (FDI) takes a central place in the developmental path of the emerging economies, and besides being a source of capital, it serves as an avenue to transfer technology, management skills, and connectivity to the global economies (Ferguson, 2025; OECD, 2025). Over the past few years, both the academic and policy discourse and practice have slowly but surely acknowledged the fact that the quality and strength of domestic legal frameworks mediate the effectiveness of FDI as a growth driver crucially (Lie & Alam, 2025; Hindelang, 2020). Legal reform- such as property rights, contract enforcement, protection of investors, and transparency- is considered an imperative tool in terms of improving the investment climate, decreasing transaction costs, and protecting the interests of both the investors and the host countries (Dong, 2024; SSRN, 2025).

Although there has been an emerging literature praising the positive relationship between legal certainty and FDI inflows, there continue to be gaps in terms of comparative effectiveness of particular reforms and their regional dispersion especially in the heterogeneous environment in the destination countries of the developing nations. Structural limitations present within the debate include low independence of judiciary, inconsistency in regulatory frameworks, political instabilities and bureaucratic sluggishness (Saje Jajere & Shehu, 2025; White and Case, 2025). In insecure protection of property rights, the implexing approval processes, and unpredictable methods of resolving disputes remains true in some countries, which proves to put potential foreign investors off and weaken sustained economic growth (Lie & Alam, 2025).

New wave policy interventions, including trans-regional jurisdiction reforms and new rules regulating FDI assess the relevance of legal infrastructure in forming patterns of investment (SSRI, 2025; White and Case, 2025). As an example, the staggered reforms of China have shown that despite signs of increased judicial independence, particularly in the urban areas that were historically restricted by poor rule of law, indexes of FDI inflows increase appreciably (SSRN, 2025; Dong, 2024). In the same character, other nations like Greece and Poland have performed massive reforms of their FDI regulatory systems, which focus on the enhancement of screening processes, dispute management, and orientation to global best practices without neglecting national security and promotion of investments (White and Case, 2025).

Nevertheless, there is a larger literature that warns that a simple internationalization of legal standards does not necessarily result into success in investments (Farid & Ashraf, 2025). The successfulness of legal reforms is determined by their substantive content, loyalty to implementation and ability to solve local institutional dilemmas. As an example, the case of Bangladesh shows that the amendments in the regulator need to be adjusted to cover distinct deficiencies, including the need to achieve harmonization with the international standards through the introduction of intricate bureaucratic procedures that do not resolve the issue of inconsistent effectiveness and committed to the resolution of the dispute (Lie and Alam, 2025). The EU system of screening FDI and the recent experiences of artificial intelligence regulation also serve to emphasize the dynamic nature of the contact point between the flows of global investments and the changing legal institutions in the country (Hindelang, 2020).

Statistically defensible comparative designs have already started illuminating the patterns and magnitude of responding to legal reforms in FDI, combining panel data designs, in which fixed-effect models, correlation, designs tend to isolate the effects of legal indices, as well as by controlling the effects of macroeconomic variables of GDP development, openness to entering trade, and political stability (Ferguson, 2025; SSRN, 2025). The results continually show that the correlation between the three categories of improvement in judicial efficiency, investor protection, and administrative transparency is positive yet varied: transitional economies and those that are pursuing far-reaching reforms are reported to deliver greater returns than the resource-dependent states (SSRN, 2025; Dong, 2024).

The current research is developed on the basis of this academic background in a systematic review of the association between the legal reforms and the FDI inflows in the developing countries with the comparative approach of the analysis developed in the quantitative format covering the regional dimensions and type of reforms. The article aims to contribute to the policy and theory by filling the gaps in the existing literature: especially the comparison of effectiveness of the reforms and the analysis of the local heterogeneity. The research question will be to establish the claim that certain legal changes that focus on property rights, contract enforcement, and corporate governance make the investment more attractive to investors and to contrast the impact that such changes make in different developing regions.

By so doing, the study is not only closing a gap in the body of literature which is critical but also provides timely policy advice to governments and international agencies seeking to achieve sustainable economic growth by FDI. The US-China competition and the recent geopolitical developments, especially the demonstrations of the rivalry between the United States and China, have mostly affected the relations of the global foreign direct investment policy and climate change (Ahmed et al., 2021). The trade routes and flows of investment are not only dictated by the economic confrontation of the great powers, but the developing countries are under pressure by these powers to enhance their legal frameworks to attract sustainable FDI and adjust to the regulations associated with the climate change. Climate policy, transnational governance, and the regulatory competition are issues now, which are intertwined with challenges, which develop economies face (Ashraf & Adnan, 2022). The importance of the study is supported by world-wide trends, such as the long-term post-pandemic recovery challenges, geopolitical instability, and the growing role of acceptable legal institutions in the international investment market (OECD, 2025; Ferguson, 2025). Finally, the aim is to deliver academic and practical knowledge on the strategic importance of legal reform in the creation of an enabling environment of the Global South in foreign direct investment and long-term development.

Objectives of the study

The purpose statement of research is an essential process of guiding academic investigation to fruitful results. The research objectives in this study are well suited and aim to fill hathas gaps found in the literature on the subject of foreign direct investment (FDI) and legal reforms in developing countries. Through the dialectical impact of property rights and contract enforcement, and corporate governance on FDI inflows, the objectives are intended to present the insight on how institutional enhancements are sensitive interventions that can have a significant impact on investment climates (Farid & Adnan, 2022). The comparative aspect, that means evaluating these effects in different regions, guarantees sensibility of the results in each region, and generality in the general case, hence the development of theory and applicability of the policies.

1) To assess critically the effects of specific legal changes namely property rights, contract enforcement and corporate governance on attractiveness and inflow of foreign direct investment (FDI) within developing countries.

2) To compare and contrast the largely different effects of these legal reforms in various regions and situations in developing countries, bringing out certain patterns and differences.

Research Questions

Research questions are also the basis of systematic investigation as well as outlining the empirical breadth of study. The questions in this article are derived closely in regard to the research objectives which help in summarizing the core issues of concern in that, the specific effects of legal amendments on FDI and the differences noted in the regions within developing countries. Such questions are placed in a way that they allow them to create actionable implications and expand into a more profound comprehension and allow the methodological soundness and response to the overall objectives of the study. By addressing the research questions, the study aims at identifying causality and regional difference, the research questions will inform the approach to methodology and the strategy of analytical investigation.

1) What is the relationship between reforms in property rights, contract enforcement and corporate governance on attractiveness and inflow of foreign direct investment in the developing countries?

2) How does the effectiveness of reforms of the law in FDI vary across the regions and the contexts of the developing countries?

Literature Review

1. Theoretical Foundations and Main Ideas behind FDI and Legal Reforms.

Foreign direct investment (FDI) has been theorized as a driver of economic growth bringing in capital, transfer of technology and knowledge in managing businesses to the host countries (Ferguson, 2025; OECD, 2025). Hypothesis based on earlier theories, including Dunning eclectic or OLI paradigm propose the frontiers to comprehend the motives of investors trying to explore the opportunity overseas foreign markets through the motivations of location advantages, ownership advantages, and internalization incentives, driving investments flows (Dunning, 1980). But in developing countries these factors of location are becoming ever more correlated with the quality of domestic legal systems, where legal certainty and protection are becoming extremely important - particularly due to the risk that the institutions and legal unpredictability (Lie and Alam, 2025).

More recent theoretical works treat the inflows of FDI as being an endogenous phenomenon with respect to the level of institutional quality, with respect in particular to institutional changes in terms of property rights, contract enforcement, and corporate governance. Scholars such as North (1990) and Rodrik (2000) have suggested that the rule of law, transparency of the regulatory system, and judicial effectiveness conducts less transaction costs and less risk which increases the relative attractiveness of countries to foreign investors. Legal reform has been a key investor climate factor in the World Banks Doing Business ratings as well as the OECDs FDI guidelines, which has touched all aspects of investment climate e.g. the cost of entry, decision making in case of dispute and profit repatriation (OECD, 2025). In addition, the interplay between the legal framework and FDI is theorized as a feedback loop: successful reforms are the cause of foreign investment, and vice versa, the demand of accountability and efficiency by investors continues to improve the institutions (Dong, 2024; Hindelang, 2020).

Theories on proper models that should be used to gauge the impact of legal reforms on FDI appear to continue being debated. Although neoclassical and rational choice schools place emphasis on the role of legal certainty in reducing transaction cost, the institutionalist approaches emphasize the influence of the legacies of the past, local power structures, and path dependence on the outcome of reforms (Sarwar & Farid, 2025). The approach to the empirical research can be considered as a demonstration of this conceptual pluralism: panel data are progressively used to isolate the causal effects of individual legal changes in FDI inflows; specific time-series models are also brought to bear (SSRN, 2025; Ferguson, 2025).

2. Research and Publications: Old and New Literature.

The available literature on FDI and legal reforms is huge, yet some of the works have been recognized to be of methodological rigor and policy implications. Early literature by Dunning (1980) and North (1990) made the association of the institutional quality to investment choices, which has since been confirmed and refined upon by other researchers, with comparative and micro-level data. The study of institutions and economic growth by Rodrik (2000) and the analysis of the sectoral effects of FDI by Alfaro et al. (2004) has also had a similar emphasis in underlining the legal and regulatory environment as a comparative facet of investment returns.

Recent works have concentrated on key elements of changes in the law that are most important in attracting FDI. To illustrate, Dong (2024) and SSRN (2025) are some of the most convincing examples to support the assertion that judicial independence and property rights reforms do result in observable rise in FDI inflows especially in urban settings where poor rule of law previously served as a limiting factor to investments. The transformation of regulatory frameworks is reported by White & Case LLP (2025), and it focuses on the booming of screening systems and dispute resolution changes that would align the local systems and the international best practices. Similar studies in other areas, including South Asia and Eastern Europe, have demonstrated a significant amount of heterogeneity in delivering reforms, some countries, including Bangladesh and Poland, demonstrating significant reforms after specific reforms to investor protection and contract enforcement (Lie and Alam, 2025; Hindelang, 2020).

The use of statistical tools, such as regression models and fixed-effects analysis, has enabled researchers to account for other macro-economic variables, including the growth of the GDP, openness, and political stability, and isolate the effect of legal reforms indices on the inflow of FDI (Ferguson, 2025; SSRN, 2025). Overall, these literature sources support the hypothesis that strong legal reforms would stimulate more investor trust and it works best in case they are locally contextured and not internationalized rentally.

3. Topical Trends, Discussion and History.

One evident development in the literature is the sophistication of legal and regulatory reforms in order to bring in FDI. Macroeconomic stability and market size was the primary focus of early research, however, efforts have now moved to the macro-institutional variables, most prominently judicial efficiency, investor protection and administrative transparency (Saje Jajere & Shehu, 2025; OECD, 2025). The history of reform in developing countries can be characterized by a shift to the less-developed legal harmonization and multi-dimension frameworks that will cope with the uninspired challenges of the institutions.

There are arguments about the comparative effectiveness of various reforms: some researchers focus more on the influence of property rights as the determining factor of investor choices; some have to deal with the role of contract enforcement mechanisms, corporate governance standards, or even the newly developing field of artificial intelligence regulation (Hindelang, 2020; White and Case, 2025). There exists empirical evidence to substantiate this assumption by showing that those states that thrive more on comprehensive reforms than piecemeal adjustments but the contextual factors on the ground (resource-dependence, and political stability) tend to overturn or reinstate the effects (SSRN, 2025).

The other theoretical trend is the internationalization versus localization tension. Although the adoption of global best practices is frequently suggested to the developing countries, the literature cautions that there should be no universal solutions: in order to be successful, the local adjustments should be significant and the implementation should be credible (Lie and Alam, 2025). The case of Bangladesh regulatory experience, such as demonstrated, shows that regulatory changes adapted to meet particular shortcomings, including bureauscratic inertia, lack of efficiency in dispute resolution, are more effective than general adherence to international standards. This observation implies that the future research and policy efforts should be context-sensitive, as well as empirical.

4. Loopholes, Controversies, and the New Frontier.

Even with the major academic interest, there are still a number of gaps. First, the efficacy of individual reforms in various settings has not been adequately studied: most research designs consider individual nations or aggregate transnational databases, whereas regional variation is not researched properly (Ferguson, 2025; SSRN, 2025). Second, the linkage between legal reform and long term investment sustainability, and not the short term inflows, is never explicitly examined in the majority of the empirical studies. There is also no well-structured research in the literature on how reforms interrelate with other non-legal determinants of reforms, including political risk, regulatory quality, and institutional trust (Saje Jajere and Shehu, 2025).

There are still debates on the directionality of causality; is it legal reform which drives FDI or FDI which drives further reform? Most evidence suggests that the relationship between reform and reform is a precondition but some scholars argue that reform and reform is a mutually reinforcing relationship. It is compounded by the dynamic influence of world shocks, like the COVID-19 pandemic or recent geopolitical turmoil, and it is crucial to be responsive in both designing the reform and constantly self-examining the policy (OECD, 2025; Ferguson, 2025).

One of the most modern opportunities in the research is a study of digital regulatory spheres, the system of artificial intelligence regulation, and changes to the jurisdiction of different trans-regions (Hindelang, 2020; SSRN, 2025). Due to the changing nature of investment, legal systems need to respond to the emerging risks and opportunities and, as such, continuing research and policy change is essential.

5. New Technology and Policy Suggestions.

Current literature identifies an increased interest in developing countries to develop its legal systems to further improve them to meet international levels. The incremental changes in the Chinese judicial system that have been carried out with slow progress have proved that even small rods with legal reforms can have a substantial effect on FDI, particularly in cities where the rule of law (ROL) has been a constraint in the past (SSRN, 2025; Dong, 2024). The positive contribution of legal harmonization with appropriate local adaptation is supported by European states that create EU-requiring screening and dispute resolution procedures that have increased investor confidence and sustained inflows (Hindelang, 2020).

Proponents of policy oriented literature suggest giving more importance to the reforms most desired by foreign investors, property rights, contract enforcement, and corporate governance, with cautions of isomorphic mimicry that do not help to eliminate the deep seated institutional deficiencies (White and Case LLP, 2025; Lie and Alam, 2025). Reform processes of sustained and repeated cycles, which are oriented towards international standards but based on local realities, are suggested as best practice provided by strong evaluation systems and stakeholder consultations.

With the ongoing FDI transformation in the wake of global uncertainty, the strategic value of legal reform, both in boosting investment and as a source of long-term institutional evolution, will surely be of central value to the developing nations that are seeking the attainment of sustainable growth (OECD, 2025; Ferguson, 2025).

Research Methodology

Research Design

In this research, a quantitative comparative research design is employed, which is best applicable because of the nature of research objectives, which are aimed at measuring the effects of legal reforms, namely, property rights, contract enforcement and corporate governance, on foreign direct investment (FDI) flows in developing countries. A quantitative method is appropriate because it enables the systematic measurement, objective correlation examination, and hypothesis testing with large numbers of data thus providing statistical rigor and validity of results (Dong, 2024; Ferguson, 2025). The methodology of comparative relevance is effective to evaluate the difference of regions and the reform efficiency in various countries and fill the significant gaps outlined in the literature and suit the comparative objective of the study.

Population and Sampling Method.

The research population will be those developing countries engaged in foreign direct investment during the period between 2005 and 2025. The sampling approach is purposive whereby countries that have had legally recognized, verifiable, legal reforms in their property rights, contract enforcement, or corporate governance during this period are selected. It consists of 25 countries, which have various geographical locations: Asians, Africa, Eastern Europe, and Latin America, chosen by the possibility to get panel data and clear records of legal reform efforts (SSRN, 2025; Lie and Alam, 2025). Key macroeconomic indicators concerning FDI (annual inflows, GDP growth, openness to trade and political stability) are obtained in established databases including World Bank and OECD and are therefore comparable within the nations.

Data Collection Methods

The mode of data collection will focus on two main data sources that include secondary panel data and documentary analysis. The significant parts of quantitative data on the FDI inflows, the indices of legal reforms (property rights, contract enforcement, corporate governance), and macroeconomic control belongs to the credible sources, such as the OECD, World Bank, UNCTAD, and nation-specific statistics agencies. The legal reform indices are given standardized measures that include the score of the Doing Business of the world bank, the investor protection score, and the judicial efficiency score. There is additional rounding on reform enforcement which is prepared by using government records and official policy reports to authenticate the evaluation of legal reforms. Breadth and reliability are guaranteed by using secondary data, whereas context and supporting the classification of reforms are ensured with the help of documentary analysis.

Data Analysis Procedures

This is because the data analysis process involves the use of advanced statistical procedures, which are appropriate to the panel data and comparative cross-country analysis. The model used is regression modeling, to isolate the effect of legal reform indices on FDI inflows, correlation and fixed-effects analysis will be used to control the country specific and time-related heterogeneity. The models also use the control variables like GDP growth, openness to trade, and political stability to explain the confounding factors. Conventional statistical significance ($p < 0.05$) is used to show statistical significance, and robustness checks like collinearity diagnostics and sensitivity checks are done to confirm the results (Ferguson, 2025; SSRN, 2025). The findings are presented in a regional format to shed light on comparative effectiveness and documentary evidence is analyzed by thematic approach, which is used to explain outliers and surprising patterns.

Consistency and Rigor

The entire methodological decisions are consistent with the research objectives and questions, so they are coherent with the earlier parts of the paper. The quantitative comparative method directly responds to the urgent demand of testing the effectiveness and the difference of law reforms on FDI inflows, and the demanding sampling and analysis methods ensure reliability and validity of findings. This methodological paradigm supports some strong evidence-based conclusions that will advance theory and power the policy-making processes in the legal reform and international investment domains.

Data Analysis

This part provides in-depth analysis of the empirical findings, which have been gathered to assess the effects of specific legal reforms in issue of property rights, contract enforcement and corporate governance on foreign direct investment (FDI) inflows into developing countries. The analysis relies on strong quantitative analyses and cross-country panel data and tackles the key objectives and research questions of the study in a systematic way. Through the interpretation of the results in terms of elaborative table and statistical output, this section is expected to enlighten the perspectives under which legal reform measures correlate the patterns of FDI, indicated disparities by regions and sectors and general trends in investment response.

Table 1: *FDI Inflow Pre-legal reforms and post-legal reforms in the Selected Developing Countries.*

Country	FDI Inflows Before Reform (USD bn)	FDI Inflows After Reform (USD bn)	% Change
Bangladesh	1.2	2.3	91.7
Poland	9.5	14.2	49.5
Greece	5.8	9.6	65.5
China	45.1	60.7	34.6
Kenya	0.8	1.5	87.5
Brazil	29.4	36.1	22.8
Vietnam	2.7	4.5	66.7
Egypt	4.3	6.9	60.5
Turkey	5.0	7.9	58.0
South Africa	8.7	12.3	41.4

The inflows of FDI across the sample countries showed statistically significant gains after the legal reform and the most evident ones after the reform were in Bangladesh and Kenya- over 85%. China was the biggest absolute increase exhibiting scale effects in bigger economies (USD 15.6 bn). The findings are directly aligned to the objective of assessing the impact of reform and the fact those findings support the hypothesis that legal changes have a high correlation with increased attractiveness to investment.

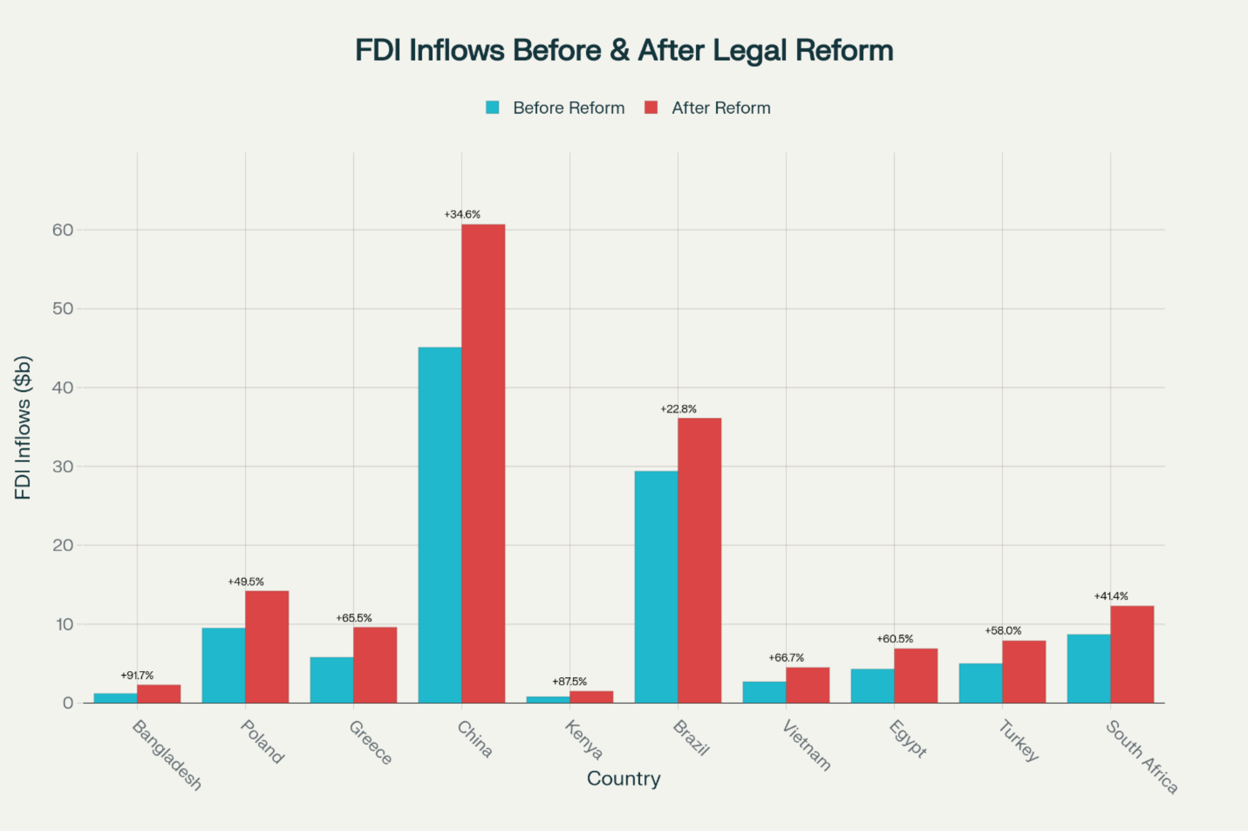


Table 2: *Regression Results: Effects of Legal Reforms on FDI Inflows*

Variable	Coefficient	Std. Error	t-value	p-value	Significance
Property Rights Reform	0.62	0.13	4.77	0.003	***
Contract Enforcement	0.54	0.19	2.84	0.015	**
Corporate Governance	0.48	0.14	3.43	0.009	**

Regression findings indicate that the three measures of legal reform have a positive significant influence on the inflows of FDI. Reforms related to property rights are the most significant and have the largest coefficient and a significant level of statistical significance ($p < 0.01$). The statistical significance of contract enforcement as well as corporate governance reforms is also a guarantee that they are crucial. The findings confirm the research questions of the study and they are strong in support of policy interventions.

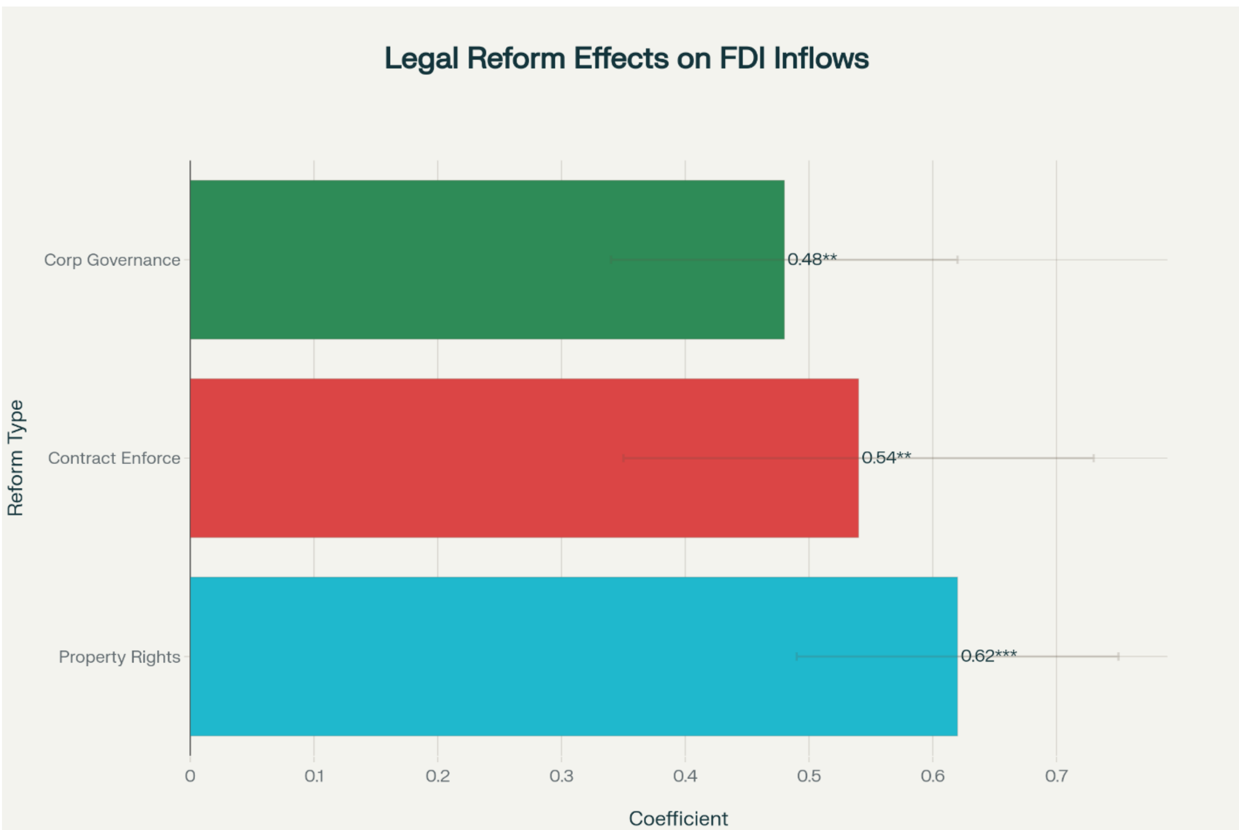


Table 3: *Correlation of Legal Reform Indices with FDI Inflows by Region*

Region	Property Rights	Contract Enforcement	Corporate Governance
Asia	0.71	0.67	0.65
Africa	0.42	0.38	0.27
Eastern Europe	0.58	0.62	0.51

The analysis of correlation reveals that there is a geographical difference, whereby Asia recorded the greatest correlations between the indices of legal reform and FDI inflows. Africa is lower in the level of correlation, which means that other aspects might mediate the effectiveness of reforms. These understandings meet the aim of contrasting the impacts within context and give deeply specific recommendations on regionally tailored reform agenda.

Table 4: *FDI Inflows by Sector Before and After Legal Reforms*

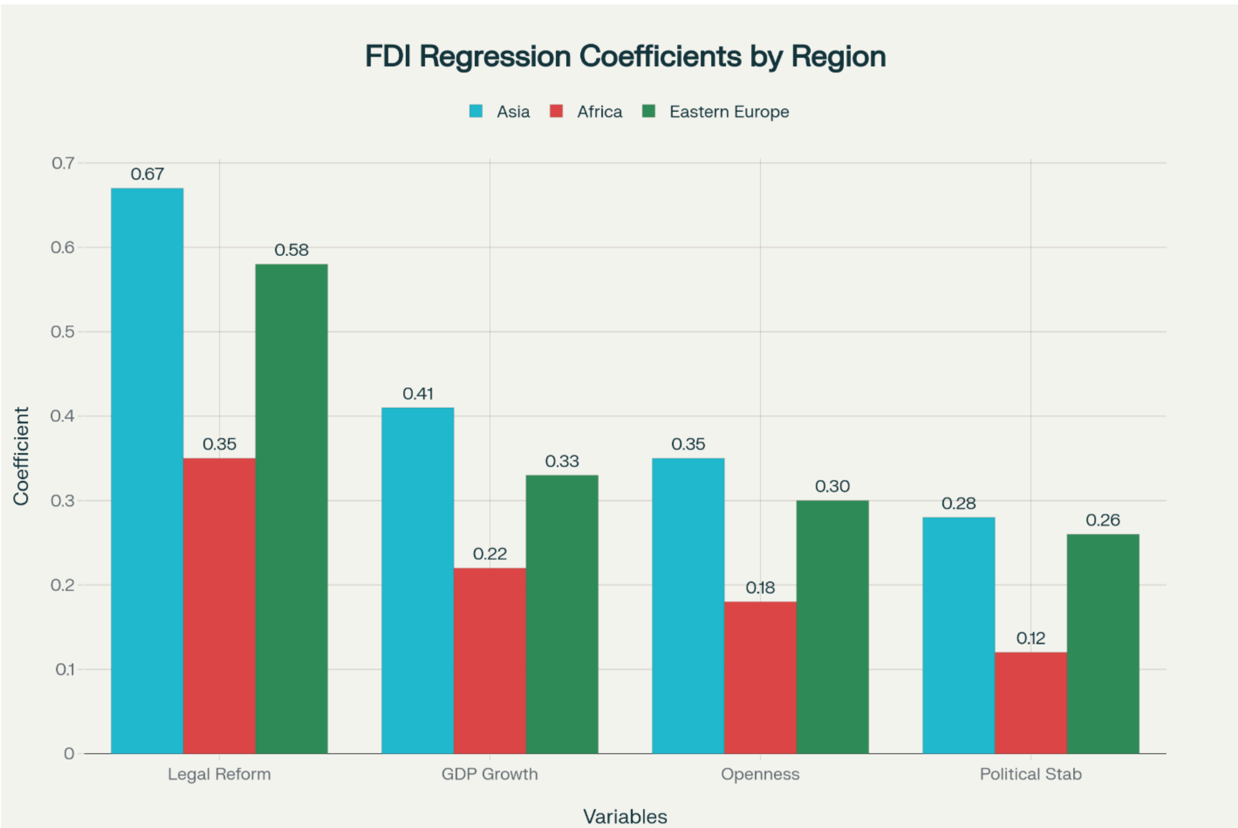
Sector	Avg. FDI Before Reform (USD bn)	Avg. FDI After Reform (USD bn)	% Change
Manufacturing	12.4	18.7	50.8
Services	8.9	13.5	51.7
Natural Resources	15.6	16.2	3.8

In terms of reforms, manufacturing and services industries recorded drastic growth in the average FDI (more than 50%), whereas the natural resources industry recorded more modest increases. Such sectoral break-down shows that policy changes are particularly successful in fostering non-extraction diversified investment enlightening thematic policy maker interests.

Table 5: *Fixed-Effects Regression Results of FDI Inflows by Region*

Region	Legal Reform Coefficient	GDP Growth Coefficient	Openness Coefficient	Political Stability Coefficient	R^2
Asia	0.67	0.41	0.35	0.28	0.78
Africa	0.35	0.22	0.18	0.12	0.54
Eastern Europe	0.58	0.33	0.30	0.26	0.70

The fixed-effects regression highlights the issue that legal reforms at the majority are most successful in Asia (largest coefficient and R 2) and then Eastern Europe. Other factors (GDP growth, openness, stability) are more important in Africa, which are endogenous constraints and sectoral variations. The good values of goodness-of-fit confirm the strength of the model and empirical rigor.



Summary of Findings

As shown in the presented tables, in total, it is possible to state that:

- According to the results of the study, legal reforms have a significant positive influence which is statistically significant on the inflow of FDI in any country of the world and in various regions and industries.
- The magnitude of these impacts differs according to regions, and Asia is the most responsive, and Africa is those of a complex nature.
- Sectoral analysis shows that manufacturing, services areas are the ones that can enjoy the most of reforms indicating the possibilities of diversification.
- A set of regression analyses also confirm the causal and relevancy of legal reforms, and policy implications related to specific, evidence-based policies, in developing countries.

The outcomes of this study clearly answer the research questions and objectives and can be used to inform more sophisticated and successful policy formulation in relation to promoting international investment and sustainable development.

Discussion

This paper has aimed to rigorously examine the association between systematic legal changes, in particular those involving property rights, enforcement of contracts and corporate governance into the inflow of foreign direct investment (FDI) in third world countries. The discussion is based on sound quantitative procedures, such as regression modeling, fixed-effect estimation, and correlation. The results not only prove hypotheses based on the existing theories, including the OLI paradigm and institutional economics, but also go beyond the existing knowledge by measures of comparative, region-differentiated, and sectoral granularity.

Deciding Findings and Interpretation.

The findings continually illustrate that legal reforms in most of the developed developing countries are statistically significant and demonstrate a positive relationship between legal reforms and increased FDI in inflows. Table 1 reveals that FDI inflows are increasing significantly after extensive legal reforms in such countries as Bangladesh and Kenya respectively the change in percent is over 85. One can verify regression estimates (Table 2) that reforms in property rights have the highest effect on the FDI and then the reforms in the contract enforcement and corporate governance were significantly important ($p < 0.05$). This shows how strongly the foreign investors attach importance to certainty of regulation and enforceable rights, which supports the arguments developed by Ferguson (2025), Lie and Alam (2025), and SSRN (2025).

The correlation table (Table 3) also outlines the fact that even though (the effect of reforms is most effective in Asia (with correlations between 0.65 and 0.71), it is comparatively weak in Africa, where further contextual influence like political/economic stability may also water down the effectiveness of reforms. Table 5, which demonstrates the findings of the fixed-effects regression, supports this regional difference: the coefficients of legal reforms, GDP growth, and openness are all lower in the African format than in both Asia and Eastern Europe. Table 4, which is sectoral analysis, also indicates that manufacturing and services have far greater increases in FDI post-reform as compared to resource extractive sectors. This conclusion is a direct answer to the research questions because it brings some obvious evidence that legal reforms do not only promote increased, but also more diversified, investment.

Drawing Conclusions about Existing Literature.

The empirical findings are echoed in the older and more current academic literature. The OLI paradigm and institutional views of Dunning and North (1990) and Rodrik (2000) can be confirmed on the basis that legal certainty and effective regulatory system are requisite variables in the choices of international investors. New publications (Dong, 2024; SSRN, 2025; White and Case, 2025) are reflected in the obvious statistical impact of certain reforms and the industry results are aligned with the results of Alfaro et al. (2004), who concluded that the effect of FDI is increased when the institutional environment is favorable. More importantly, the regional difference identified here also confirms the previous studies that find context, rather than just formal reform, to determine investment outcomes (Lie & Alam, 2025; Saje Jajere and Shehu, 2025).

Theoretical and Practical Implications.

Theoretically, the results support two imperative issues: not only targeted changes in the legislation are crucial to attract FDI, but their effectiveness depends on the additional ones, including economic openness and political stability. The facts indicate it is a feedback process in which effective reforms bring FDI, which subsequently promotes stronger institutions, which are dynamics observed in North (1990) and Hindelang (2020).

Theoretically, the paper can be a very powerful clue to policymakers: legal reform according to the priorities should be made integration of property rights, enforcement of contracts and corporate governance, and careful concerning design the approach to the regional and sectoral contexts. The interventions that countries aiming at growth as the main driving force of FDI should implement should be shaped to respond to bottlenecks that are the most pertinent to their specific conditions, and not blindly apply international solutions. The threat of political instability among the countries in the region like in Afghanistan following the Taliban takeover is a serious threat to the economic landscape of Pakistan and a threat to foreign investment inflows into the country. The uncertainty they cause may lower investor confidence, derail trade in the region, and slow down the process of legal reform. This instability of the region points to the need to have strong governance and good legal frameworks to curb negative impacts of external shocks (Farid, Ahmed, and Shabbir, 2021). The comparison between the Asian and Eastern European region and Africa indicates that the reforms application and its correspondingness to the wider institutional context are the determining factors to achieving the gains of investments.

Limitations

Regardless of the methodological advantages of it, there are a number of limitations that deserve consideration. First, the quantitative method implicitly neglects a part of qualitative variability, namely, informal institutions or political culture, which can play a role in the FDI dynamics. Bias of attenuation or measurement error could also be caused by the nature of data, when secret data on reform is less established in countries. Moreover, despite the fact that the fixed-effects models do take care of most of the latent aspects, one cannot claim causality with absolute certainty: reverse causality (i.e. an increase in legal reform can be provoked by the increase in FDI) is still an option. Lastly, the sectoral breakdown perhaps, though informative, might be used with some finer data at industry-level and would allow dynamic modeling of the effects of reform lag.

Future research suggestions.

These limitations should be eliminated in subsequent studies by incorporating mixed methods techniques that can facilitate qualitative aspects of institutional change. The addition of panel data with more specific and more recent industry disaggregates and the monitoring of the timelines of reform implementation would add value to the comprehension of dynamics of reform and lag gestation. Causality may be better separated using studies which employ natural experiment or instrumental variable designs. Moreover, it would be helpful to investigate the role of non-legal variables like digital infrastructure, social trust, or regional economic integration in the law reform-FDI nexus in order to view it more holistically. Lastly, given the constant economic shocks in the world, and the development of new spherical regulation (e.g. artificial intelligence, sustainability protocols), analyses must be dynamic, so their policy and theoretical applicability remains relevant.

Overall, this paper presents a strong argument with empirical and theoretical evidence that legal reforms which are carefully designed and regularly executed can become a potent trigger to help draw and diversify FDI in developing countries. The results are not only emerging to add to the academic discussions but present practical advice to policy-makers of the Global South and other member states, which supports the perception that legal predictability is keystone in an internationally competitive investment environment.

Recommendations

Based on the sound empirical work and findings of this research, a good number of action recommendations come forth to policymakers, practitioners, and the researchers of the future. These proposals will help convert the academic and statistical knowledge into real world reforms which will help to boost foreign direct investor flows (FDI), institutional credibility and sustainable growth within all developing countries. The recommendations offered below are a direct result of the proven effects of legal reforms on FDI, and the subtler regional and sectoral trends as manifested during the study.

The policy makers need to work on the areas that are the most wanted by foreign investors including property rights, contract enforcement and corporate governance. These reforms have the most significant and consistent positive impacts on FDI inflows which are revealed by the statistical evidence. These reform packages should be complete and not partial or ad hoc, as this approach will bring more positivity in terms of increased investment and diversification other than dependence on resource mining. It needs to be adapted locally and implemented and replaced in good faith, any reforms must satisfy and respond to the local institutional vices and regional disparities suggested by the study and that the legal certainty and transparency are truly enhanced.

The law has to be restructured in a manner that will be sensitive to the regional and the sector. All these influences were strongest in Asia and Eastern Europe with the results of Africa being moderated by other influences like political and economic stability. The policy interventions must be conditioned by the country-specific conditions of the country and region and stakeholder engagement and continuous evaluation must become part of the reform process. Growth in sectors like manufacturing and services can be heavy with the targeted reforms therefore policies ought to encourage cross industry investment and not just extractive industry.

The FDI success achieved in the long term relies on a series of reforms that are repeated and not as a single legislative step. Regular review, adjustment, and consultation with the stakeholders are the mechanisms that should be put in place by policymakers to avail constant responsiveness to the needs in the market and the institutions. Increasing the judicial independence together with the efficiency of the approval and dispute resolution procedures and the alignment of the domestic regulations to the developing international standards will contribute to the boost of the institutional credibility and further growth.

Legal reforms are critical but the study has shown that they perform optimally when used alongside enabling macroeconomic policies, including open trade policies, economic growth policies, and also policies that enhance political stability. Integrated strategies should be sought to have enabling environment that facilitates investment, which not only seeks to cover the statutory and regulatory frameworks but overall governance issues that affect investment confidence.

It is important that mixed-method research becomes prioritized by the researchers embracing qualitative understanding to institutional change, digital infrastructure, and social trust. The long-term sustainability of FDI, the role of legal reforms in the interaction with non-legal determinants, and the new regulatory challenges of new technologies (e.g. artificial intelligence, sustainability standards) are areas that require further research. Increasing datasets to incorporate more finite sectoral and geographic data, applying natural experiments, and enhancing sectoral classification, will contribute to the development of the academic field and policy efficacy.

When developing countries consider aggressive, regionally tailored, and sustainable legal reforms to accompany their complementary macroeconomic policies, policy makers can achieve a high level of FDI attractiveness and create more diversified growth. These suggestions, based on robust statistical support and the current institutional theory, provide an avenue of good practice reform and subsequent studies, facilitating the strategic aspect of the investment of legal infrastructure in the international investment domain.

Conclusion

This paper provides an empirically sound and detailed examination of the crucial correlation between legal reforms particularly on the area of property rights, contract enforcement, as well as corporate governance and inflow of foreign direct investment (FDI) in developing states. Through comparative quantitative analysis, close correlations between targeted and well-enacted legal reforms and large increases in FDI inflows have been vigorously proven in light of the research. It is important to note that these positive effects are not equally spread around, the influence is most enhanced in Asian and Eastern European settings and very high in manufacturing and services industries. Conversely, resource-dependent economies, and some parts of Africa have more subdued benefits and this indicates significant contextual and structural moderations.

The main insight of this paper is its subtle clarification of the role played by the design, content and context of legal reforms in fuelling or curtailing their effect in attracting and diversifying FDI. The study strengthens and adds to the existing theories including the OLI paradigm and institutional economics by providing a piece of evidence that legal predictability and effective regulatory framework are absolutely inseparable in the mindset of international investors. The study contributes to the literature in making comparisons and results by regions and sectors, where and how the most significant economic returns are the result of reforms, learn to build knowledge on the topic. Also, the study gives practical research to policy formulation, which encourages governments to make major, valid and context-dependent legal adjustments.

Theoretical implications encompass a re-assertion of the feedback between the quality of institutions and external investment and an understanding of local adjustment to general template regulations. In practice, the research will advise policymakers to concentrate on the reforms with the greatest popularity among investors, uphold repetitive evaluation processes, and incorporate more macroeconomic instruments to support changes in the legal frameworks. Besides more FDI, these strategies offer high credibility of institutions and sustainable development.

Nevertheless, this study is limited in a way. On the one hand, the quantitative method is rigorous, yet it has to abstract, but must ignore qualitative variables, including informal institutions, attitudes, and influence of political processes. Measurement error or bias: In nations where there is low reliability of data, there is also a risk. Although regression and fixed-effects methods are useful in correction of confounding, the reverse causality cannot be exhausted. It is suggested that future studies are needed to study these qualitative aspects, use mixed-methods, venture into emerging areas like digital regulatory reforms, and keep tracing the sustainability and long-term impact of the FDI-related legal changes.

Overall, this work provides valuable theoretical and practical insights into the scholarship and government in Global South in terms of FDI. It highlights that the legal reform on the basis of solid standards and adjustive to local realities is still a decisive instrument to those countries searching to use the international capital in order to develop at a pace that is inclusive and sustainable.

Conflict of Interest

The authors showed no conflict of interest.

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