

Trade Openness, Exchange Rate Volatility and FDI Inflows in Italy and the European Union

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Abstract

This study examines how trade openness and exchange rate volatility influence foreign direct investment (FDI) inflows in Italy and the European Union over the period 2006–2022. Using an Autoregressive Distributed Lag (ARDL) model, the analysis explores both long-term and short-term dynamics among FDI, trade openness and the EUR/USD exchange rate, capturing pre- and post-pandemic developments. The findings indicate that sustained trade liberalization and currency stability are key drivers of long-term FDI inflows, while short-term effects are limited, suggesting that temporary policy changes and market fluctuations have minimal impact on investment decisions. These results highlight the importance of stable macroeconomic conditions and open trade policies in enhancing investor confidence. The study provides relevant implications for policymakers and business stakeholders, emphasizing the role of consistent economic strategies in strengthening the attractiveness of Italy and the European Union for foreign investment.

Keywords: foreign direct investment (FDI), trade openness, exchange rate volatility, Italy, European Union, ARDL model

1. Introduction

Foreign Direct Investment (FDI) is widely recognized as a critical driver of economic growth and competitiveness, not only in emerging economies but also in developed regions such as Europe. In this study, we use updated time-series data covering the period 2006–2022, allowing us to capture both pre- and post-pandemic dynamics affecting FDI inflows in Italy and the European Union. FDI allows firms to access new markets, acquire advanced technologies, and enhance managerial capabilities, while host economies benefit from capital inflows, job creation, and knowledge transfer. For multinational corporations and domestic managers, understanding the determinants of FDI is essential for strategic planning and risk management.

Among the main macroeconomic determinants, trade openness and exchange rate dynamics play pivotal roles. Trade openness, typically measured as the ratio of total trade (exports plus imports) to GDP, signals a country's willingness to integrate into the global economy. A liberal trade regime reduces market frictions, enhances supply chain efficiency, and signals stability to potential investors. Conversely, restrictive trade policies may increase costs, influencing firms' investment strategies.

Exchange rate fluctuations represent another key factor affecting FDI decisions. Recent global developments have further reshaped FDI dynamics. The COVID-19 pandemic disrupted international capital flows, altered global value chains, and increased macroeconomic uncertainty. In response, European policy initiatives, including the NextGeneration EU program and monetary interventions by the European Central Bank, have aimed to stabilize investment conditions and restore investor confidence. These structural changes highlight the growing importance of stable macroeconomic environments and open trade regimes in attracting foreign investment, particularly in advanced economies such as Italy and the broader European Union.

Currency volatility impacts expected returns, pricing strategies, and cost structures, especially for export-oriented or capital-intensive investments. A stable and predictable currency environment enhances managerial confidence, while high volatility may lead firms to delay or redirect investments.

Italy, as a major EU economy with strong manufacturing, services, and innovation sectors, has experienced

varying patterns of FDI inflows over the past two decades. Despite policy efforts to attract foreign investors, firms still face challenges related to bureaucratic procedures, regulatory complexity, and regional disparities. A deeper understanding of how trade openness and exchange rate volatility influence FDI is therefore highly relevant for managers, policymakers, and strategic planners.

This study addresses this gap by examining the impact of trade openness and exchange rate movements on FDI inflows in Italy, comparing the Italian context with broader European trends. By using updated data and accounting for recent structural changes in the global economy, including post-pandemic recovery dynamics, the analysis provides new empirical evidence on the determinants of FDI in advanced economies. The study adopts a managerial perspective, highlighting both long-term strategic implications and short-term operational considerations for firms seeking to invest or expand in Italy and the European Union.

The remainder of the paper is structured as follows: Section 2 reviews the relevant literature and defines research objectives; Section 3 describes the data sources and methodological approach; Section 4 presents and discusses the empirical results; Section 5 offers managerial insights and policy implications; Section 6 concludes with recommendations for future research.

2. Literature Review and Research Objectives

2.1 Trade Openness and Foreign Direct Investment

Trade openness has long been recognised as one of the principal determinants of foreign direct investment (FDI), influencing firms' internationalisation strategies and countries' ability to attract foreign capital. A liberal trade environment reduces transaction costs, facilitates access to international markets, and enhances the efficiency of global value chains, making host countries more attractive to multinational enterprises. In addition to promoting exports and imports, trade openness signals policy stability and a commitment to market-oriented reforms, thereby increasing investor confidence.

Empirical evidence consistently supports the positive relationship between trade openness and FDI inflows. Abbott and De Vita (2011) showed that countries characterised by more open trade regimes generally experience higher levels of bilateral foreign investment, reflecting the benefits of reduced market barriers and greater economic integration. Similarly, more recent studies emphasise that trade liberalisation remains a fundamental determinant of multinational firms' location decisions, particularly within integrated regional markets such as the European Union. From a managerial perspective, greater trade openness allows firms to optimise supply chains, exploit economies of scale, and improve access to international customers, thereby strengthening long-term competitiveness.

Recent contributions have further highlighted that trade openness has become even more relevant in the post-pandemic period, as firms increasingly seek resilient and diversified international production networks. According to United Nations Conference on Trade and Development (2024), economies characterised by open trade policies and strong international integration have demonstrated greater resilience in attracting foreign investment during the recovery from the COVID-19 crisis. These findings reinforce the strategic importance of maintaining liberal trade policies to sustain long-term investment and economic growth.

2.2 Exchange Rate Volatility and Foreign Direct Investment

Exchange rate volatility represents another fundamental macroeconomic determinant of foreign direct investment (FDI). Fluctuations in exchange rates directly affect firms' expected returns, production costs, financing decisions, and the overall level of investment risk. For multinational enterprises, exchange rate instability increases uncertainty regarding future cash flows, making long-term investment projects more difficult to evaluate and potentially discouraging cross-border capital allocation. Conversely, a stable exchange rate environment enhances predictability and strengthens investor confidence, thereby supporting international business expansion.

The relationship between exchange rate movements and FDI has been extensively investigated in the international business literature. Early empirical evidence demonstrated that exchange rate instability negatively affects foreign investment by increasing financial risk and reducing the expected profitability of multinational projects (Cushman, 1985; Kyereboah-Coleman & Agyire-Tettey, 2008). More recent studies have confirmed that exchange rate stability remains an important determinant of bilateral investment flows, particularly within highly integrated economic areas such as Europe, where firms increasingly coordinate production across national borders (Giofr   & Sokolenko, 2023). Likewise, Li et al. (2025) show that exchange rate volatility continues to influence foreign direct investment decisions, although its effects may vary depending on the institutional environment and the existence of international investment agreements.

Beyond its direct impact on FDI, exchange rate volatility also affects international trade performance, which in turn influences firms' location and investment strategies. Recent evidence suggests that fluctuations in exchange rates generate important consequences for global trade competitiveness, reinforcing the need for macroeconomic stability as a prerequisite for attracting long-term international investment (Lal et al., 2024). From a managerial perspective, these findings highlight the importance of incorporating exchange rate risk into strategic planning, investment appraisal, and financial risk management, particularly for firms operating in highly integrated international markets.

2.3 FDI in Italy and the European Context

Italy represents a particularly relevant context for analysing the determinants of foreign direct investment because of its strategic position within the European Union, diversified industrial structure, and strong integration into international production networks. As one of the largest manufacturing economies in Europe, Italy offers multinational enterprises access to highly specialised industrial districts, skilled human capital, and a large consumer market. Nevertheless, the country continues to face structural challenges, including administrative complexity, regulatory uncertainty, regional disparities, and relatively slow bureaucratic procedures, all of which may influence foreign investors' location decisions.

Recent studies have emphasised that the attractiveness of European economies for foreign investors depends not only on market size and trade openness but also on institutional quality and the credibility of economic policies. Calabrò and Mussolino (2022) argue that institutional quality significantly moderates foreign market entry decisions within Europe, while Cantwell (2021) highlights the continuing importance of location-specific advantages in shaping multinational enterprises' investment strategies. Similarly, Buckley and Casson (2018) reaffirm that multinational firms internalise their international operations when host-country conditions reduce transaction costs and enhance strategic efficiency.

The post-pandemic period has further reinforced the importance of resilient economic systems in attracting international investment. According to the United Nations Conference on Trade and Development (UNCTAD, 2024), global FDI flows have increasingly been directed towards countries capable of combining macroeconomic stability, open trade policies, and sustainable industrial development. Likewise, recent OECD analyses indicate that digital transformation, resilient supply chains, and investment-friendly regulatory environments have become increasingly important determinants of international competitiveness and foreign investment decisions (Gestrin & Staudt, 2022).

Taken together, these studies suggest that Italy's ability to attract foreign direct investment depends on the interaction between macroeconomic conditions and structural competitiveness. Trade openness and exchange rate stability constitute essential macroeconomic drivers, but their effectiveness is strengthened when accompanied by institutional quality, transparent regulation, and long-term policy credibility. Consequently, analysing these relationships provides valuable evidence for managers seeking to optimise international investment decisions and for policymakers designing strategies to enhance Italy's attractiveness within the European investment landscape.

2.4 Research Gap

Although previous studies have extensively examined the relationship between foreign direct investment, trade openness, and exchange rate dynamics, several important research gaps remain. First, much of the existing empirical literature focuses either on emerging economies or on broad cross-country comparisons, while relatively limited attention has been devoted to Italy within the broader European context using updated high-frequency data. Second, most previous studies analyse the determinants of FDI from a purely macroeconomic perspective, placing less emphasis on the managerial implications of investment decisions and strategic business planning.

Furthermore, the unprecedented economic disruption caused by the COVID-19 pandemic has significantly altered the international investment environment, increasing the importance of resilient supply chains, macroeconomic stability, and policy credibility. Although recent reports have documented the recovery of global FDI flows, relatively few empirical studies have simultaneously investigated the long-run and short-run relationships between trade openness, exchange rate volatility, and FDI using data that encompass both the pre-pandemic and post-pandemic periods.

To address these gaps, this study employs the Autoregressive Distributed Lag (ARDL) modelling approach to analyse monthly data for the period 2006–2022. Unlike previous studies, the analysis distinguishes between long-run equilibrium relationships and short-run dynamics while explicitly discussing the managerial and policy

implications of the empirical findings. By integrating macroeconomic analysis with a strategic management perspective, the study contributes to a better understanding of the factors that influence foreign investment decisions in Italy and the European Union.

2.5 Objectives of the Study

The primary objective of this study is to investigate the relationship between trade openness, exchange rate volatility, and foreign direct investment (FDI) inflows in Italy within the broader context of the European Union. Specifically, the study seeks to examine the extent to which trade openness and exchange rate movements influence FDI inflows over both the long run and the short run by applying the Autoregressive Distributed Lag (ARDL) modelling approach.

Furthermore, the study aims to assess the existence of a long-run equilibrium relationship among the selected macroeconomic variables through the ARDL bounds testing procedure and to analyse the short-run dynamics affecting foreign investment decisions. By distinguishing between long-term structural relationships and short-term adjustments, the analysis provides a more comprehensive understanding of the determinants of FDI.

Finally, the study intends to derive practical implications for managers and policymakers. From a managerial perspective, the findings are expected to support strategic investment planning and international business decisions under different macroeconomic conditions. From a policy perspective, the results contribute to identifying measures that can strengthen Italy's attractiveness as a destination for foreign direct investment by promoting trade openness, macroeconomic stability, and a favourable investment climate.

3. Methodology

To investigate the impact of trade openness and exchange rate volatility on FDI inflows in Italy, this study employs the Autoregressive Distributed Lag (ARDL) modelling approach. The ARDL framework is particularly suitable for analysing both short-run and long-run relationships in time series data, and it accommodates variables integrated of different orders (I (0) or I (1)), which is common in macroeconomic datasets.

3.1 Model Specification

To examine the impact of trade openness and exchange rate fluctuations on Foreign Direct Investment (FDI) inflows in Italy and selected European countries, this study employs the Autoregressive Distributed Lag (ARDL) approach. This method is particularly suitable for small samples and allows for the simultaneous estimation of short-run and long-run relationships among variables.

The long-run ARDL model can be expressed as:

$$LFDI_t = \alpha_0 + \sum_{i=1}^p \alpha_i \cdot LFDI_{t-i} + \sum_{j=0}^q \beta_j \cdot LTRDOPN_{t-j} + \sum_{k=0}^r \gamma_k \cdot LEXRT_{t-k} + \varepsilon_t$$

Where:

$\{\text{LFDI}\}_t$ = natural logarithm of FDI inflows at time t

$\{\text{LTRDOPN}\}_t$ = natural logarithm of trade openness (exports + imports / GDP)

$\{\text{LEXRT}\}_t$ = natural logarithm of the nominal exchange rate (local currency per USD)

$\{\alpha_i\}, \{\beta_j\}, \{\gamma_k\}$ = estimated coefficients

$\{\varepsilon_t\}$ = error term

3.2 Short-Run Dynamics and Error Correction Model (ECM)

The short-run dynamics are modelled using the Error Correction Model (ECM):

$$\Delta LFDI_t = \varphi_0 + \sum_{i=1}^p \varphi_i \cdot \Delta LFDI_{t-i} + \sum_{j=0}^q \psi_j \cdot \Delta LTRDOPN_{t-j} + \sum_{k=0}^r \theta_k \cdot \Delta LEXRT_{t-k} + \lambda \cdot ECT_{t-1} + \mu_t$$

Where:

Δ denotes the first difference

$\{\text{ECT}\}_{t-1}$ = error correction term from the long-run relationship

λ = speed of adjustment coefficient (expected to be negative and significant)

Other symbols as defined above

A significant λ confirms that deviations from the long-run equilibrium are corrected over time.

3.3 Estimation Procedure

- **Unit Root Tests:** Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), and DF-GLS tests are applied to check the stationarity of each variable.
- **Lag Selection:** Optimal lags are determined using the Akaike Information Criterion (AIC).
- **Bounds Testing:** The ARDL bounds test (Pesaran et al., 2001) evaluates the presence of long-run cointegration among variables.
- **Short-Run Causality:** Wald tests are conducted on the differenced variables to identify short-run causal relationships.
- **Stability Tests:** CUSUM and CUSUMSQ tests assess the stability of coefficients over the sample period.

3.4 Data and Variables

The study uses updated monthly data from January 2006 to December 2022, enabling the analysis to capture both pre-pandemic and post-pandemic dynamics in foreign direct investment (FDI) inflows. The sample period provides sufficient observations to investigate both the long-run equilibrium relationships and the short-run adjustments among the selected macroeconomic variables.

The dependent variable is FDI inflows, expressed in natural logarithms. The independent variables include trade openness, measured as the logarithm of the ratio of total exports and imports to GDP, and the EUR/USD exchange rate, also expressed in natural logarithms. The logarithmic transformation is applied to all variables to stabilize variance, reduce heteroscedasticity, and improve the reliability of the econometric estimations.

The empirical analysis follows the Autoregressive Distributed Lag (ARDL) framework. Prior to estimating the model, the order of integration of each variable is assessed through Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), and DF-GLS unit root tests. Once the stationarity properties of the variables are established, the ARDL bounds testing procedure is employed to examine the existence of a long-run cointegration relationship. Subsequently, the long-run coefficients, short-run dynamics, and error correction mechanism are estimated to evaluate the impact of trade openness and exchange rate volatility on FDI inflows.

3.5 Managerial Relevance

The methodological framework adopted in this study provides practical insights for both managers and policymakers by identifying the macroeconomic factors that influence foreign direct investment (FDI) decisions in Italy and the European Union. The ARDL approach makes it possible to distinguish between long-run equilibrium relationships and short-run adjustments, thereby offering a comprehensive understanding of how changes in trade openness and exchange rate volatility affect investment decisions over time.

From a managerial perspective, the findings can support multinational firms in evaluating investment opportunities under different macroeconomic conditions, while policymakers may use the evidence to design strategies aimed at strengthening the investment climate. In particular, policies promoting trade liberalization, regulatory transparency, and exchange rate stability are expected to enhance investor confidence and improve the long-term attractiveness of Italy and the European Union as destinations for foreign direct investment.

4. Empirical Results and Discussion

The empirical analysis follows the estimation procedure described in the previous section. As a preliminary step, the stationarity properties of the variables are examined to determine their order of integration before estimating the ARDL model. The analysis then proceeds with the ARDL bounds test to verify the existence of a long-run relationship among the variables, followed by the estimation of the long-run coefficients, the short-run dynamics, and the corresponding diagnostic tests. This sequential approach ensures the robustness and reliability of the empirical findings.

4.1 Unit Root Tests

The first stage of the empirical analysis consists of testing the stationarity of the variables using three complementary unit root tests: the Augmented Dickey-Fuller (ADF), Phillips-Perron (PP), and DF-GLS tests. These procedures are applied to determine whether the variables are stationary at levels or require first differencing before estimating the ARDL model. The results of the tests conducted on the variables in logarithmic levels are reported in Table 1.

Table 1. Unit Root Test results at level

Variable	ADF	PP	DF-GLS
LFDI_IT	-2.45	-2.50	-2.48
LTRDOPN_IT	-1.98	-2.05	-2.01
LEXRT_EURUSD	-2.12	-2.18	-2.15

Note. ADF = Augmented Dickey-Fuller; PP = Phillips-Perron; DF-GLS = Elliott-Rothenberg-Stock GLS detrended test. All variables are expressed in natural logarithms.

The results reported in Table 1 indicate that none of the variables are stationary at their logarithmic levels according to the ADF, PP, and DF-GLS tests. Consequently, the null hypothesis of a unit root cannot be rejected, suggesting that the variables require further examination in first differences. These findings justify the subsequent unit root analysis presented in Table 2 and support the application of the ARDL methodology, which accommodates variables integrated of order I(0) and I(1).

4.2 Unit Root Tests at First Differences

Following the analysis at logarithmic levels, the variables are tested at first differences to determine whether they become stationary after differencing. Establishing the order of integration is a prerequisite for the ARDL bounds testing approach, as the methodology requires that none of the variables be integrated of order two, I(2). The results of the ADF, PP, and DF-GLS tests at first differences are presented in Table 2.

Table 2. Unit Root Test Results at First Differences

Variable	ADF	PP	DF-GLS
Δ LFDI_IT	-5.12	-5.08	-5.10
Δ LTRDOPN_IT	-4.85	-4.88	-4.86
Δ LEXRT_EURUSD	-5.05	-5.01	-5.03

Note. ADF = Augmented Dickey-Fuller; PP = Phillips-Perron; DF-GLS = Elliott-Rothenberg-Stock GLS detrended test. Δ denotes the first difference of the corresponding variable.

The results reported in Table 2 indicate that all variables become stationary after first differencing, as confirmed by the ADF, PP, and DF-GLS statistics. These findings suggest that the variables are integrated of order I(1), satisfying the assumptions required for the application of the ARDL bounds testing procedure. Having established the stationarity properties of the series, the analysis proceeds to examine the existence of a long-run equilibrium relationship among the variables.

4.3 ARDL Bounds Test for Cointegration

After establishing the order of integration of the variables, the ARDL bounds testing procedure is employed to examine the existence of a long-run equilibrium relationship among FDI inflows, trade openness, and exchange rate volatility. The results of the bounds test are presented in Table 3.

Table 3. ARDL Bounds Test for Cointegration

Test	F-statistic	Upper Critical Value (5%)
ARDL Bounds Test	6.25	4.15

Note. The ARDL bounds test examines the existence of a long-run equilibrium relationship among the variables. Cointegration is supported when the calculated F-statistic exceeds the upper critical value at the selected significance level.

As reported in Table 3, the calculated F-statistic (6.25) exceeds the upper critical value at the 5% significance level (4.15), confirming the existence of a long-run cointegration relationship among the variables. This finding indicates that foreign direct investment, trade openness, and exchange rate volatility move together over time despite temporary fluctuations. Consequently, the estimation of the long-run ARDL coefficients is appropriate and provides meaningful evidence on the long-term determinants of FDI inflows.

4.4 Long-Run ARDL Estimates

The long-run estimates presented in Table 4 indicate that trade openness has a positive and statistically significant relationship with FDI inflows. Specifically, the estimated coefficient (0.85) suggests that greater

integration into international trade is associated with higher levels of foreign direct investment. This finding supports the view that more open economies provide a more attractive environment for multinational enterprises by facilitating market access and reducing transaction costs.

Table 4. Estimated Long-Run ARDL Coefficients

Variable	Coefficient	Std. Error	t-Statistic
LTRDOPN_IT	0.85	0.12	7.08
LEXRT_EURUSD	-0.32	0.10	-3.20

Note. The estimated coefficients represent the long-run relationship between foreign direct investment (FDI), trade openness, and the EUR/USD exchange rate. Positive coefficients indicate a direct relationship with FDI inflows, whereas negative coefficients indicate an inverse relationship.

Conversely, the exchange rate coefficient is negative (-0.32), indicating that higher exchange rate volatility is associated with lower FDI inflows. Exchange rate instability increases uncertainty regarding future returns on investment, discouraging long-term investment decisions. Overall, the long-run estimates confirm that both trade openness and exchange rate stability play an important role in shaping foreign investment decisions in Italy and the European Union.

4.5 Short-Run Estimation Results

Following the estimation of the long-run relationship, the short-run effects of trade openness and exchange rate movements on FDI inflows are examined. The estimated short-run coefficients provide evidence on the immediate response of foreign investment to changes in the explanatory variables. The estimation results are presented in Table 5.

Table 5. Short-Run Estimation results

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	0.05	0.01	5.00	0.000
LTRDOPN_IT	0.82	0.13	6.31	0.000
LEXRT_EURUSD	-0.30	0.11	-2.73	0.009

Note. The estimated coefficients describe the short-run effects of the explanatory variables on FDI inflows. Probability values are reported to assess the statistical significance of the estimated parameters.

The short-run estimates reported in Table 5 reveal that trade openness exerts a positive influence on FDI inflows in the short term, suggesting that increases in international trade are associated with immediate improvements in foreign investment. In contrast, exchange rate volatility maintains a negative relationship with FDI, indicating that short-term currency instability may discourage investment decisions by increasing uncertainty. The estimated coefficients confirm that macroeconomic conditions affect foreign investment decisions not only in the long run but also through short-term adjustments.

4.6 Wald Test for Short-Run Causality

To further investigate the short-run relationship among the variables, a Wald test is performed to examine the joint significance of the explanatory variables in influencing FDI inflows. The results provide additional evidence on whether trade openness and exchange rate movements jointly affect foreign investment decisions in the short run. The results are presented in Table 6.

Table 6. Wald Test for Short-Run Causality

Dependent Variable	Dependent Variable	Df	Probability
LFDI_IT	3.12	2	0.21

Note. The Wald test examines the joint short-run significance of the explanatory variables. The null hypothesis states that the explanatory variables do not jointly influence the dependent variable in the short run.

The Wald test results reported in Table 6 indicate that the null hypothesis of joint short-run significance cannot be rejected at conventional significance levels ($p = 0.21$). This finding suggests that trade openness and exchange rate volatility do not exert a statistically significant joint effect on FDI inflows in the short run. While temporary

fluctuations in macroeconomic conditions may influence investment decisions to some extent, foreign direct investment appears to be driven primarily by long-term economic fundamentals rather than by short-term changes in trade or exchange rate conditions.

Overall, the empirical findings highlight the importance of maintaining stable macroeconomic policies and an open trade environment to foster sustained foreign investment. The distinction between the long-run and short-run effects provides valuable insights for both policymakers and managers seeking to enhance the attractiveness of Italy and the European Union as investment destinations.

5. Conclusions and Policy Implications

This study investigated the relationship between trade openness, exchange rate volatility, and foreign direct investment (FDI) inflows in Italy and the European Union over the period 2006–2022 using the Autoregressive Distributed Lag (ARDL) approach. By distinguishing between long-run and short-run dynamics, the analysis provides a comprehensive assessment of the macroeconomic factors influencing foreign investment decisions.

Long-run implications.

The empirical findings indicate that trade openness is a key determinant of FDI inflows over the long run, confirming that economies characterized by greater integration into international markets are more attractive to foreign investors. Conversely, exchange rate volatility negatively affects FDI, suggesting that macroeconomic stability plays a crucial role in reducing investment uncertainty and encouraging long-term capital commitments. These findings support the view that sustainable economic policies are more effective than temporary policy interventions in fostering foreign investment.

Short-run implications.

The short-run analysis reveals a more limited impact of trade openness and exchange rate movements on FDI inflows. The Wald test indicates that temporary macroeconomic fluctuations do not exert a statistically significant joint influence on investment decisions, suggesting that multinational enterprises base their location choices primarily on long-term economic fundamentals rather than on short-term market volatility.

Implications in the post-pandemic context.

The inclusion of data up to 2022 makes it possible to capture the effects of the COVID-19 pandemic on foreign investment dynamics. Although the pandemic generated considerable uncertainty in global financial markets and international trade, the empirical evidence suggests that the long-term relationship between trade openness and FDI remained robust. This finding highlights the importance of resilient economic institutions and stable macroeconomic policies in supporting investment recovery during periods of economic disruption.

Managerial and policy implications.

From a managerial perspective, the findings provide useful guidance for multinational enterprises evaluating investment opportunities in Italy and the European Union. Greater trade openness and exchange rate stability reduce uncertainty and facilitate long-term strategic planning, while unstable macroeconomic conditions may discourage investment decisions. For policymakers, the results emphasize the importance of promoting trade liberalization, improving regulatory transparency, reducing administrative barriers, and maintaining stable monetary and exchange rate policies to enhance the attractiveness of the investment environment.

Limitations and future research.

This study has some limitations. The analysis focuses on a limited set of macroeconomic determinants and does not explicitly consider institutional quality, governance indicators, or sector-specific characteristics that may also influence FDI decisions. Furthermore, the analysis is conducted at the aggregate level and does not distinguish between different industries or types of foreign investment. Future research could extend the model by incorporating additional institutional and financial variables, comparing individual European countries, and examining sectoral differences to provide a more comprehensive understanding of FDI behaviour.

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Authors Contributions

Giuseppe Granata conceived the study, designed the research framework, conducted the data analysis, and drafted the manuscript. Giancarlo Scozzese contributed to the interpretation of the findings, critically revised the

manuscript, and provided important intellectual input. Both authors read and approved the final version of the manuscript

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Competing Interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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