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From Market Access to Productive Investment EU Economic Integration, Investment Facilitation and Commercial Justice in Selected Developing Economies

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Abstract

This article analyzes the reasons for the varied patterns of foreign direct investment (FDI) in Pakistan, Bangladesh, Vietnam, India and Morocco between 2015 and 2025 with an integration process into European Union (EU) market. It combines three aspects that are usually treated separately: the productive conditions that make investment commercially viable, regulatory and administrative conditions under which investment can be established and operated, and institutions under which contractual risk is managed. The article adopts comparative institutional and policy analysis with descriptive quantitative evidence, which is based on Dunning's Location Advantages Framework (DTAD), North's Institutional Analysis (NIA) and Williamson's Transaction Cost Economics (TCE). It has been suggested that EU market access can provide a complement to a location proposition and can lead to productive investment; it is not a prerequisite for productive investment, nor a condition of sustained productive investment. Productive capabilities influence the value of market access, infrastructure and connectivity and production networks influence the nature of the market access, facilitation and uncertainty influence the administrative costs and commercial justice governs the nature of the contractual risk. The evidence is consistent with a configurational interpretation, rather than an independent-effects causal estimate. It makes implications for the EU Global Gateway, in terms of the alignment of infrastructure and financial de-risking with productive capabilities and investment facilitation and commercial risk governance. Foreign investors may be drawn to a developing economy because of preferential access to a major external market, without this market access leading to a sustained stream of productive investment. This article explores the rationale behind the divergent investment paths taken in Pakistan, Bangladesh, Vietnam, India, and Morocco during the period 2015-2025. It combines three aspects that are typically considered separately: i) productive capabilities and connectivity; ii) administrative and regulatory framework for the setting up and management of investment; iii) institutions to manage contractual and commercial risks. The article adopts, first, the location based eclectic paradigm of Dunning, and, second, institutional analysis of North and Williamson's transaction cost perspective to delineate mechanisms, to provide a theoretically configurational explanation. The comparison shows that a location proposition can be improved by the EU market access, but it is not a precondition or a sufficient condition for the foreign direct investment (FDI) to generate productive effects. Its value lies in the ability of firms to use this access efficiently via their competitive productive capabilities, infrastructure, skills, supplier network, and integration into the production system. Another, though smaller, risk category is contractual risk under the influence of investment facilitation and the predictability of the regulatory environment; courts, mediation, arbitration and enforcement mechanisms play a role in that area. The evidence, therefore, substantiates a functional rather than one factor explanation of investment integration. The article highlights the implications for the EU's Global Gateway concerning infrastructure and financial de-risking, which is likely to lead to productive investment only when complemented by sector specific facilitation, productive-capability development and credible commercial risk governance.

Keywords: EU's Global Gateway; GSP+; foreign direct investment; commercial justice; EU market access; investment facilitation; regulatory predictability; productive capabilities; developing economies.



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Introduction

Foreign direct investment (FDI) continues to provide sources of external finance, technology, managerial skills and involvement in international production networks, albeit with a growing focus on geography. According to the United Nations Trade and Development (2026b), FDI increased by 6% to about \$1.6 trillion globally in 2025 and 80% of the global inflows went to the 20 largest host economies. The same report highlights that the importance of FDI in development is not just about capital mobilization, but also about whether investment will increase productive capacity, jobs, skills and technology transfers. In the case of developing economies, the policy issue is thus not simply one of increasing foreign investment but how to put in place the conditions for such investment to become permanent and economically integrated.

Access to a large external market appears to be one component of such a location proposition. Preferential tariffs can make the production of a product more profitable in one country to export to another, and especially when the export market is a large market with high demand. However, market access is not synonymous with investment appeal. Firms can take advantage of preferences by domestic production, and foreign investors can invest a country for other reasons other than having a preferred export market. Multiple factors have been identified in the international investment research: market size, trade arrangements, infrastructure, labour and skills, institutions and government commitments (Büthe & Milner, 2008; Dunning, 1988, 2000).

The EU is a suitable context to look at this distinction as its external economic ties include various types of integration. Since 2014, Pakistan has been enjoying the privileges of the ‘Generalised Scheme of Preferences Plus (GSP+)’ by the EU, whereas Bangladesh has enjoyed the advantages of the ‘Everything But Arms (EBA)’ scheme by the EU. In August of 2020, the ‘EU Free Trade Agreement (FTA)’ came into effect, but the export oriented FDI has been developed significantly prior to the agreement. India did not have any Free Trade Agreement with the EU in effect during most of the 2015-2025 period, but had a considerable amount of investment that was made by the EU in India. Morocco's proximity, transport infrastructure, industrial integration, historical preferential trade agreements, and ongoing investment reforms (European Commission, 2026b, 2026c, 2026d, 2026e, 2026f) make it an ideal partner for Europe.

These cases form a comparative conundrum. Deep preferential access to trade and smaller or less diversified investment relations can co-exist in Pakistan and Bangladesh. Vietnam proves that productive FDI can grow in a country that still suffers from regulatory and administrative issues. When domestic market size and productive capacity is good, preferential access to the EU market is not a requirement for significant European investment, as India has shown. In Morocco, proximity, connectivity, industrial development, and institutional reform do reinforce each other.

Why does integration into the EU market entail varying degrees and forms of productive investment in developing economies and how do market access, productive capabilities, the facilitation of investment, the predictability of regulations and institutions for managing commercial risk interact with this?

The article makes three contributions. First, it separates trade integration from investment integration, and holds that trade integration is not necessarily a mechanical driver of investment integration. Second, it draws a clear line between formal investment openness and effective investment facilitation, by focusing on the gap between rule adoption and effective implementation. Third, it distinguishes between commercial justice and the rule of law as a generic concept, and applies the concept of commercial risk governance: a group of institutions which comes into play when long-term contractual relationships are in disagreement, non-performance, or enforcement issues. The analysis is comparative and theory-informed rather than in terms of causes. It relies on five cases that were purposefully chosen to highlight alternative configurations and likely scenarios, 2015-2025. The argument is then expressed in terms of patterns, mechanisms, and theoretical propositions, instead of estimates of the independent causal effect of any one institution.

Literature Review and Research Gap

Market access, trade integration, and foreign investment

There is a theoretical ambiguity between trade and FDI. Firms can invest in another country for marketing purposes in that market, to take advantage of cost-effective stages in production or to manage cross-border production chains. Trade agreements may then serve as a substitute for some categories of investment or work alongside investment to improve market access and market access assurances. Bütte and Milner (2008) do find a correlation between membership in international trade agreements and increased FDI flows, and they suggest that trade agreements can enhance the credibility of the commitments made to investors in a developing economy using a large cross-country panel of developing economies. This facilitates a commitment mechanism where institutionalized market access can be a location advantage.

The unilateral preference is not a bilateral trade agreement. GSP+ and EBA membership for Pakistan and Bangladesh respectively gives significant tariff benefits but are not equal to the reciprocal benefits of a broad free trade agreement. Unilateral preferences can also be interpreted in a conditional manner. Research by Gnangnon (2022), based on 108 developing countries covered by the EU unilateral preferences between 2002 and 2019, shows that the relationship between the use of unilateral trade preferences and FDI is different depending on the characteristics of beneficiary countries. The message for this study is important: preferential access should be regarded as a possible location advantage, the investment impact of which relies on the ability of the host economy to translate the investment in access into viable commercial production.

The literature thus does not support a strong "market access causes FDI" thesis or the opposite one that preferences aren't relevant. A more reasonable suggestion is that conditional; market access alters opportunity set, and other attributes determine whether opportunity can be profitably exploited by firms.

Productive capacities and production networks

International production also requires conditions that tariffs can't establish. Reliable electricity, transport and logistics, skilled labor, specialized suppliers, digital infrastructure, access to inputs and links to regional or global production networks are among the items that might be necessary for export-oriented investment. These abilities could be accumulated place benefits. After a certain point, firms, suppliers, skills and specialized services group around specific activities and, at that stage, another investor is more likely to be interested in the whole ecosystem than any single policy incentive (Dunning, 1988, 2000).

FDI also has the potential to increase productive capacities by creating jobs, developing suppliers, introducing new technologies, management practices, and joining production networks. The linkage can thus be bi-directional: skills can draw investment or investment can further enhance skills. This is also the reason why the amount of FDI is not a complete indicator of development impact. UN Trade and Development (2026b) notes that the developmental benefit of investment is related to whether it increases productive capacity and to the overall economic benefit.

Investment liberalization and investment facilitation

The difference between investment liberalization and investment facilitation lies in the problems they solve. Under the liberalization provision, investors are free to come in and buy and operate under certain restrictions. Facilitation relates to the administrative mechanism's investment originates, runs, grows and exits through. Formally open regimes may be expensive to maneuver regardless of the absence of clarity on the regulatory information, lack of coordination between agencies, and inconsistencies in regulatory implementation. OECD (2023) equates investment facilitation with transparent and predictable regulations, efficient administrative procedures and support to investors on the ground.

The distinction also warns against viewing institutional reform as a ‘checkable off the list’ approach’ where the number of laws, portals, one-stop shops, or investment agencies are counted. These instruments can lower administrative expenses but not by themselves do anything to make the system predictable for investors. The pertinent analytical question is whether institutional arrangements influence the real costs and risk of investment.

Institutions and regulatory credibility

North (1990) defines institutions as a set of formal and informal barriers to interaction and/or uncertainty. This view is pertinent to investment, while paying attention to the difference between rules on paper and rules as implemented. Investors don't need policy to stay constant, they need a valid reason to expect what policy will do, how it will be interpreted, how it will be enforced. Regulatory change that occurs in a transparent fashion carries a different risk than if it is arbitrary or inconsistent. The term “institutional credibility” is thus applied in a narrowly defined “operational” sense, namely the extent to which investors can make reasonable expectations about how rules are implemented. The idea is not taken as a license for the investor to choose to ignore proper public regulation. Instead, it defines predictability as a part of the investment environment.

Commercial justice and contractual risk governance

The concept of commercial justice has a more limited role than the institutional quality. While contract enforcement, judicial independence, commercial mediation, arbitration and other dispute resolution mechanisms are often part and parcel of investment climate assessments, they are not necessarily linked to the commercial opportunity that first draws investment. However, by analyzing 150 countries as 2000-2016, Tag (2021) finds strong relations between FDI and judicial independence and impartiality, and the overall relations between FDI and enforcement of contracts are weaker and more relevant in developing countries. Likewise, My burgh and Paniagua (2016) conclude that the availability of international commercial arbitration is linked to increased FDI, especially in the absence of strong domestic institutional mechanisms.

The results of these findings indicate a more exact position for commercial justice. When expectations do not get met, courts, arbitration, mediation, and enforcement mechanisms are used to resolve issues. They are therefore capable of having an impact on the anticipated cost of non-performance, as well as the capacity for a party to maintain or alter commercial relationship. This is an important confidence building factor among the investors. In the present article, these institutions are acknowledged as instruments of governance of commercial risk and not as universal determinants of FDI levels.

Research gap

Much of the puzzle of investing has already been explained in existing literatures, but these literatures typically focus on one aspect of the puzzle at a time. Trade research means researching on issues of market access and commitment, investment research means researching location advantages, institutional research means researching on issues of credibility and transaction costs, and the ‘rule flaw’ research means researching on the institutional aspect of the judicial and dispute resolution system. A comparative account of how these conditions work together when the countries have significantly different experiences with the same important external market is less developed.

The article is therefore integrative, but not descriptive. It creates a theoretically configurational model that posits that various conditions serve different purposes: market access opens opportunity; productive capabilities relate to whether or not opportunity can be taken up; facilitation and regulatory predictability influence the establishment and operating costs of investment relationships; and commercial risk institutions are responsible for addressing the uncertainty of contracts once they are formed.

Theoretical and Conceptual Framework

Advantages of Dunning and Location

The international production paradigm according to Dunning is based on ownership, location and internalization advantages. The market size, labor and skills, infrastructure, supplier networks, connectivity and institutional conditions components play a central role in this study as they are able to change the relative attractiveness of host economies (Dunning, 1988, 2000). EU market access is thus formulated as one advantage of location and not as an investment explanation.

Market access is also considered more important depending on the investment motivation. Preferential access may be more valuable than market seeking investment with a primary focus on domestic demand for a certain export-oriented efficiency seeking investment. The Indian experience cannot be paralleled without taking into account the various business offers available to investors in Bangladesh and Vietnam.

North and institutional credibility

North's institutional view introduces this difference between the rules and how they are applied. The country could allow foreign investments as long as investors still have to deal with uncertain approvals or disjointed administration. However, at the same time, in sectors that are still open, there could be effective facilitation, in parallel with the statutory restrictions. Institutional credibility is thus seen not as a dichotomy of good or bad countries, but as a state of affairs in the course of operation that affects expectations.

Williamson and transaction costs

The transaction cost literature of Williamson (1985) describes the interest investors have in the costs of information, negotiation, monitoring, adaptation, and enforcement. Investment builds long-term supply and customer relationships, and establishes enduring relationships with lenders, employees, governments, landlords, and joint venture partners. These institutions that shape those relationships can impact expected costs if circumstances shift, or contractual performance falls short.

A functional configuration

Therefore, the article is limited to suggestions for a functional configuration and not a list of determinants. The size and value of the commercial opportunity is influenced by market access. Productive capabilities influence the possibility that the opportunity can be exploited competitively. Infrastructure and connectivity impact physical and logistical production feasibility. Costs and uncertainty of establishing and operating the investment are impacted by investment facilitation and regulatory predictability. A more narrowly drawn category of contractual risk follows the establishment of investment relationship and is known as commercial justice.

This setup allows for partial compensation, but not full replacement. The absence of preferential access to exports can be remedied in part by a large domestic market. Regulatory frictions are only partially compensated by a mature manufacturing ecosystem. However, a well-functioning administrative portal can't offset inconsistent power or lack of electricians. The theoretical expectation is therefore, complementarity and partial compensation.

Propositions

P1: EU market preference can reinforce the location advantages of a host economy, but is not enough or necessary for sustained productive FDI.

P2: Productive capacities, infrastructure, connections, skills, supplier networks and production systems influence

the investment value of market access.

P3: The impact of investment facilitation and regulatory predictability on investment is mainly on the basis of lowering the administrative costs and uncertainty of investment, but not the commercial viability of investment itself.

P4: The importance of commercial courts, arbitration, mediation and enforcement is limited to a smaller part of investment risk, that of contractual arrangements and confidence building mechanism, and therefore depends on the broader investment structure.

Research Design and Methodology

Comparative institutional and policy analysis and descriptive quantitative evidence for the period 2015-2025 will be used for the study. Reflects different phases of the EU economic integration process, such as Pakistan's ongoing GSP+ membership, Bangladesh's EBA participation, the EU-Vietnam FTA that came into force in 2020 and the lack of an EU-India FTA during most of this period, and ongoing institutional and industrial integration between the EU and Morocco.

The five cases are purposefully chosen for analysis because they are in contrast. The focal case is Pakistan as it's a country with high likelihood of having EU preferences and low investment in the EU member countries. Bangladesh offers an interesting comparison among the countries in South Asia, where EU integration is very deep. Vietnam is another example of a country that experienced a successful integration of productive FDI and production despite regulatory issues. In India, the EU has invested scale-wise in their absence, and the country offers a perfect comparator for market size. Proximity and industrial integration comparison is provided from Morocco.

Not just annual FDI, but what the article calls “productive investment integration” is the dependent phenomenon. It is an analytical construct that incorporates four dimensions: scale, persistence, new productive commitment and productive embeddedness. Where similar official data are available, the data used are annual FDI flows and accumulated stocks. The growth of commitments, as reflected in the number of Greenfield announcements, is not considered actual investment. Where authoritative evidence allows, sectoral composition, exports, supplier relations, skills and the integration into production networks are taken into consideration.

The quantitative and descriptive evidence is based mainly on UNCTAD and European Commission sources. Analysis for investment policy and regulations is made using OECD reports. The claims and legal and institutional information from the national level are preserved only when supported by authoritative sources. No attempt is made to measure the independent causal effect of market access, facilitation or commercial justice. It is used to detect similarities and differences and to evaluate the consistency of the evidence with the mechanisms.

There are a number of drawbacks to the design. There are significant differences between the economies in terms of their size, geography, sectoral makeup, political economy and development path. FDI stocks are not comparable with FDI flows, greenfield announcements may not be realized, and the sum of investments does not create domestic linkages. The result should therefore be considered as comparative evidence and mechanism-based inferences, not causal estimates.

able 1: Case Selection and Analytical Function

Economy	EU relationship during 2015–2025	Analytical function

Pakistan	GSP+	Focal case: considerable preferential access and high level of EU trade integration; EU FDI-stock is not reported for the cited EU profile.
Bangladesh	Everything But Arms (EBA)	The closest South Asian comparator is the very high level of export integration and utilization of preferences, coupled with a relatively low level of EU FDI stocks relative to bilateral goods trade.
Vietnam	EU-FTA from 2020	Contrasting case: continued FDI and production network integration prior to FTA and in spite of regulatory tension.
India	No EU FTA in force, between 2015–2025	Market-scale benchmark: significant EU investment without any preferential EU market access during the study period.
Morocco	Association Agreement and extensive economic integration	Proximity and industrial integration comparator: connectivity, industrial ecosystems and new investment institutions.

Comparative Empirical Analysis

Pakistan and Bangladesh – deeper market access, shallower investment integration

There is a strong differentiation between export integration and investment integration in terms of scale and trade composition. The scale and composition of trade further reinforces the difference between export integration and investment integration. Bangladesh's relationship with the EU is also very export-oriented: in 2024, about €19 billion of exports were covered by Everything But Arms (EBA) preferences, with a reported preferenceutilisation rate of 96%, of which textiles accounted for approximately 94% of EU imports from Bangladesh in 2025 (European Commission, 2026b). These signs suggest preferences are being exercised, but do not imply that FII stakes should increase in line with these preferences. Domestic apparel base can support exports with both domestic businesses and foreign owned businesses.

The absence of reform cannot be an explanation for Pakistan's reform agenda. These have encompassed regulatory impact assessment, administrative easing, digitization, a business portal and investor after care. The Pakistan Regulatory Modernization Initiative has been trying to identify and streamline registrations, licenses, certificates and permits on different levels of government. The main issue is whether they result in consistent implementation and coordination. They run in parallel with constraints which administrative reform can't solve alone such as energy reliability, logistics, access to imported inputs and macro-economic instability and protected domestic market activity.

The best comparison of the central proposition exists with regard to Pakistan and Bangladesh. The EU was Pakistan's second largest trade partner in 2025 and 21.5% of Pakistan's total trade with the EU was with Bangladesh in absolute terms. Goods trade between the EU and Bangladesh was recorded €23.3 billion in 2025, with nearly 94% of EU imports from Bangladesh coming from textiles. In 2024, Bangladesh also had a stock of EU-FDI of €2.5 billion (European Commission, 2026b, 2026e).

The figures show that integration of trade doesn't necessarily mean foreign ownership. It is possible to uphold Bangladesh's big relation with apparel export with local production without having such a huge proportion of Europe's equity in the corresponding apparel stock. It is thus not a failure of EBA to attract FDI, but rather that the ownership structure, sectoral composition, and embeddedness of export production is not necessarily due to

preferences for tariffs.

The same difference is reflected in Pakistan as well. GSP+ has availed considerable tariff preference since 2014, and in 2025, the EU was Pakistan's second largest trading partner (European Commission, 2026e). Due to the absence of a similar EU FDI-stock value for Pakistan in the cited European Commission country profile, this study does not estimate a trade-to-investment ratio. The case is instead used to illustrate that a significant market access alone does not constitute, as such, proof of ongoing productive investment.

The comparison can thus be interpreted conditionally as relating to market access. However, preferences are important because they change the economics of an export location and the size of the resulting investment effect depends on the production system and the credibility and usability of the investment environment.

Bangladesh has created the Bangladesh Investment Development Authority (BIDA), set up one-stop service arrangements and implemented customs and digitalization reforms. These institutions can alleviate some of the process costs, but they cannot per se resolve issues of policy coordination, land, infrastructure, institutional capacity, competition, or greater integration between foreign and domestic firms. These are also issues that require policy attention in the implementation report (UN Trade and Development, 2026a), while the energy availability and foreign exchange conditions also influence the investment environment. This comparison, then, highlights a gap between formal investment facilitation mechanisms and the broader context to increase investment depths.

Vietnam: productive capabilities and partial compensation

Vietnam is also a reminder that openness to investment is not synonymous with facilitation. Statutory restrictions on foreign direct investment in 2023 are over four times the OECD average, according to OECD analysis reports. As companies experience implementation challenges, 69% report inconsistent laws, regulations or enforcement, 49% report inefficient bureaucracy, and 47% report compliance risks or insufficient time to meet requirements (OECD, 2025). These constraints exist alongside manufacturing ecosystems and production network connections that have enabled the country to remain attractive. They should not be interpreted as an argument that institutions do not matter, but as an argument that certain costs can be offset by strong productive advantages.

Vietnam is a good test case for the case that institutional quality should be considered as one of several conditions. In 2025, EU goods trade with Vietnam amounted to €76 billion and EU FDI stock in Vietnam was at €13.1 billion (European Commission, 2026f). Vietnam has a very strong export oriented FDI base that predates the entry into force of the EU-Vietnam FTA, which took effect on 1st August 2020.

On the other hand, OECD (2025) indicated that the inflow of FDI to Vietnam has averaged around 4.8% of GDP during the period 2015-2023, and Vietnam was heavily integrated with the world economy. Meanwhile, companies persisted in citing regulatory issues: One-third of companies in an OECD business survey cited by 2024 were concerned about the inconsistencies of laws, regulations and enforcement, while 47% were concerned that new rules impose risks on compliance or a lack of time to comply, and 49% were concerned about inefficient bureaucracy. The key takeaway from these observations is that substantial FDI flows can coexist with institutional tensions.

It is not as though regulation was not important. Instead, Vietnam's manufacturing ecosystems, labour force, infrastructure, connectivity, and its past involvement in production networks can partially offset the institutional limitations. The case thus confirms P2 and challenges a dichotomy between "good" and "bad" institutions, that explains investment outcomes.

India: Market size with no preferential access to EU

India has initiatives in place to facilitate investments, such as the 'National Single Window System', which aims

to integrate approvals and clearances into a more streamlined process. Other instruments of commercial risk governance are the Commercial Courts Act 2015 and a broader arbitration and mediation framework. These institutions are likewise relevant to the issue of administrative and contractual risk, but do not necessarily mean that each of them performs uniformly across jurisdictions or sectors. The EU–India FTA negotiations completed during the observation period (2015–2025) are therefore context rather than explanation for investment outcomes during the study period (1995–2025) (European Commission, 2026c).

The counter example most forcefully brought forth from India is that despite having opened up the Indian market with preferential access, the EU failed to get significant investment from India. The EU and India negotiated a Free Trade Agreement (FTA) just on 27 January 2026. In the time span analyzed, the EU–India FTA was not in effect, however. However, FDI stock in India from the EU stood at €132.8 billion in 2024, compared with the level of €105.1 billion in 2021, with around 6,000 European companies operating in India (European Commission, 2026c). In 2025, the value of EU–India goods trade amounted to €118 billion.

It is not that institutions don't matter in India. Instead, it has a business proposition of a different magnitude: a large domestic market, a variety of production, skills, and business networks. The investment potential can be used even without the EU export preference. This case thus highlights the difference between an opportunity in investment and the institutional ability to efficiently leverage that opportunity.

Morocco: nearness, links and industrial integration

The reform of investments in Morocco involves the launch of a new ‘Investment Charter’, reinforcement of Regional Investment Centers, and the implementation of administrative simplification, decentralization and digitalization. It has a commercial risk framework with special commercial courts, arbitration and traditional mediation. The OECD's review, however, still reveals that there are ongoing issues related to implementation, transparency, institutional coordination and land and judicial efficiency (OECD, 2024). Morocco is thus not described as frictionless and not as a model to be exported as a whole. Its comparative worth is how it may reinforce each other through proximity, transport systems, industrial ecosystems and emerging institutions.

Another route is through Morocco. In 2025, goods trade between the EU and Morocco was valued at €62.2 billion and EU goods trade represented 33.7% of Morocco's goods trade. European imports from Morocco were valued at €12.9 billion, 50.6%, of which was made up of machinery and transport equipment (European Commission, 2026d). In 2000, the ‘EU–Morocco Association Agreement’ was signed, establishing the basis for a long-term trade integration agreement.

Moroccan Government has also made major investment policy reform efforts. OECD (2024) mentions the ‘Investment Charter of 2022’ and ongoing actions toward improving investment institutions and the investment environment. There are specialized commercial courts and systems for arbitration and traditional mediation in the country, and there are ongoing concerns about judicial efficiency and enforceability highlighted by the OECD. But it is exactly this mixed institutional setting that the present arrangement is designed to allow: commercial institutions have a role, but they play in a larger environment, which includes geography, connections, infrastructure, and industrial integration.

It is therefore not possible to copy Morocco as a model for South Asian economies. Institutional transfers are not geographically transferrable. An underlying economic opportunity could enable the reinforcement of connectivity, industrial ecosystems, facilitation, and commercial risk governance in the context of the relevant lesson.

Comparative synthesis

The cases taken together show that single-factor explanations are not sufficient. Bangladesh demonstrates that

significant preferences can be combined with a relatively low EU FDI stock vis-à-vis bilateral trade in goods and Pakistan with a high degree of trade integration but a relatively low EU FDI-stock indicator in the cited profile. Productive FDI is possible alongside regulatory tensions, as Vietnam demonstrates. India provides evidence that if market size and productive opportunities are exceptionally high, EU access is not required. Morocco illustrates how the three can reinforce each other: Proximity plus Connectivity plus Institutional reform, may be called the ‘PCIR formula’.

The evidence is thus consistent with a configurational explanation in line with theory. The conditions are not used exactly the same. Changes in market access constitute opportunity; productive capabilities are required to turn opportunity into competitive implementation; facilitation and regulatory credibility have an impact on establishment and operating costs; and commercial justice refers to a subset of contractual risk equivalent to investors’ trust building. The empirical comparison lends weight to a complementarity hypothesis of partial compensation rather than total substitutability between the different conditions.

Table 2: Selected Indicators of EU Economic and Investment Integration

Indicator	Pakistan	Bangladesh	Vietnam	India	Morocco
EU Goods Trade, 2025	€12.2 billion	€23.3billion	€76 billion	€118 billion	€62.2 billion
EU Share of Country Goods Trade, 2025	14.1%	21.5%	13.7	11.1%	33.7%
EU-FDI Stock, Latest Cited Official, 2024	€0.2 billion	€2.5 billion	€13.1 billion	€132.8 billion	€22.2billion
Selected Structural Feature	GSP+; Export Integration	~94% Textiles in EU Imports	Machinery/ Appliances > Half of EU Imports	Large Diversified Domestic Market	Machinery/Transport 50.6% of EU imports

Note: These figures are based on the European Commission country profiles in the reference list. Instead of comparing FDI-stock between two years, reference years vary between countries. No such EU FDI-stock data is reported in the cited Pakistan profile therefore estimate has been taken from external source. Trade and investment indicators do not substitute productive investment integration indicators.

Indicator	Pakistan	Bangladesh	Viet Nam	India	Morocco
Metals & Minerals	Diamond	Diamond	Diamond	Diamond	Diamond
Vietnam’s EU relationship status	GSP+	EBA	EVFTA from 2020	No EU FTA in force during 2015-2025	Association Agreement

Principal advantage	Preferences, labor, domestic market	Preferences, established apparel base	Manufacturing ecosystems, GVCs	Market scale, diversified productive base	Proximity, connectivity, industrial integration
Initiatives informed by facilitation	Regulatory modernization, portals, aftercare	BIDA, one-stop services, customs/digital reforms	Facilitation alongside regulatory frictions	National Single Window and wider reforms	Investment Charter, Regional Investment Centers, simplification
Commercial justice and ADR reforms evolving	Commercial-risk institutions	Contractual institutions in addition to other investment factors	Court constraints; scope for ADR development	Court constraints; scope for ADR development	Judicial Inefficiency; commercial courts, arbitration evolving

Note: This table highlights some policy and institutional characteristics, but should not be used as a ranking or as a measure of the consistency of the implementation of formal adoption. GVCs: global value chains, ADR: alternative dispute resolution.

Discussion: From Market Access to Productive Investment

Market access creates opportunity, but doesn't dictate investment

The comparison justifies P1. Market access may make the economics of producing for an external market better, but it depends on the investment proposition. The case of Pakistan and Bangladesh demonstrates that significant preferences can be used without generating depth of investment for exports. India is the proof that there's a lot that can be done with substantial EU investment in absence of preferential access. Vietnam is a case in point that investment can come first of trade integration, as FDI has been instrumental in enhancing production capacity that enables exports to grow.

Productive capabilities condition the value of institutional reform

There is strong evidence supporting P2. It is hard to understand how Vietnam has developed without the prior building up of manufacturing skills and the integration into production networks. Indian market size also offers a location advantage to them and the proximity and industrial connectivity is a plus for Morocco. These conditions are not non-existent of institutional quality, but rather it alters the commercial weight of institutional costs. This distinction has policy implications. No administrator can deliver dependable energy, niche professionals or supplier networks. However, high quality infrastructure does not eliminate the price of opaque approvals. Productive and institutional interventions are aimed at different factors of constraints, and are best implemented when there is a clear investment opportunity.

Formal openness, facilitation and credibility are different.

The five cases show that institutional reform is not a one-size-fits-all issue that can be neatly summed up in the number of laws adopted, agencies established, portals created or specialized courts. It is important to understand whether those provisions have an impact on the actual expense and certainty of investment. This is the functional dimension of North's (1990) separation between formal institutions and their implementation in practice.

Commercial justice matters through contractual risk governance

The evidence does not support the view that commercial courts, arbitration or mediation are the most important drivers of aggregate FDI. They have a more limited role. Long-term investment involves contractual exposure, and the cost of non-performance, enforcement, restructuring and commercial dispute resolution is a risk of investment. This is a more restricted claim which finds support in the empirical literature: Judicial independence and access to an dispute resolution and arbitration may be linked to investment, but the link is not uniform and is not strong enough to account for the aggregate volume of investment (Myburgh & Paniagua, 2016; Tag, 2021).

Productive investment is greater than annual FDI

Annual FDI flows are helpful but not comprehensive. Individual transactions, reinvested earnings and intra-company financing are all potential causes of flows. Greenfield announcements may not actually materialise and stockpiled inventory does not equate to depth of domestic supplier relationships or technology transfer. Scale, persistence, new productive commitment and embeddedness are thus all taken as one analytical construct in the analytical construct of productive investment integration. This is in line with the focus of UN Trade and Development on the development impact of investment as opposed to capital mobilisation. (2026b)

A theoretically configurational explanation

The main result is not that all determinants are equally important. Instead, various conditions have different roles, and each one has more or less significance depending on the investment opportunity. Market access is the expansion of opportunity. That opportunity can be exploited competitively if it possesses productive capabilities. There is a relationship between facilitation and regulatory credibility and the ability to establish and operate investment in a predictable manner. Once investments are made, relationships are regulated by commercial risk institutions. Whilst one dimension may make up for a lack in another, no one dimension can be used in place of the others.

This term is 'configurational' and used as a 'theoretical explanatory logic' only and is not to be taken as the study itself is a formal qualitative comparative analysis. The evidence will support the notion that investment results are the product of combinations of conditions and not just one single condition.

Implications for Global Gateway and Productive Investment Partnerships

Connect infrastructure to the wider investment ecosystem

Global Gateway has been initiated by the EU in 2021 with a goal to mobilize up to €300 billion between 2021 and 2027 in the fields of digital, climate and energy, transport, health, and education and research (European Commission, 2026g). This ambitious aim must not be regarded as proof of the money having been spent or projects having created productive additionality. The 'European Fund for Sustainable Development Plus (EFSD+)' offers guarantees and other risk sharing support; the Commission claims that it can provide guarantees of up to €40 billion, and it is "ambitious" to be able to mobilize up to €135 billion in public and private investment (European Commission, 2026a). These instruments can help to enhance finance conditions, but not replace commercially viable projects, reliable infrastructure services, capable suppliers or predictable implementation.

The EU's Global Gateway Strategy will mobilize up to €300 billion in new investments and priorities investment in digital, climate and energy, transport, health, and education and research (European Commission, 2026g). Its investment architecture involves both public and private investments, financial tools and technical and policy assistance. The analysis presented here indicates that the evaluation of infrastructure should be done in conjunction with the complementary conditions necessary for the productive use of infrastructure by firms.

The time to set up a business, secure industrial land, acquire sectoral approvals and settle contractual disputes can remain the same regardless of the adoption of a transport corridor. Also, there may be fragmented regulatory information and at the same time expanded connectivity via digital infrastructure. Therefore, when preparing a project scheme, it is important to identify the binding complementary constraints surrounding strategic infrastructure.

Diagnose the binding constraint before selecting the instrument

The comparison challenges a typical investment climate package. Pakistan and Bangladesh have no market size, no geography like India and Vietnam's production ecosystems are the result of cumulative development. Investment policy should start with a sector specific diagnosis: Is it infrastructure, energy, skills, suppliers, market access, administration, finance or contractual risk that is binding?

View financial and institutional de-risking as complementary

Global Gateway has risk sharing instruments to catalyze private investment. For instance, the EFSD+ Framework makes use of guarantees, and other tools, in order to facilitate sustainable investment in partner countries (European Commission, 2026a). But even financial de-risking cannot ever overcome arbitrary licensing or administration that is capricious. However, it is not possible to make an economically unviable project financeable with predictable regulation. Financial and institutional de-risking should therefore be viewed as complementary, and not synonymous, interventions.

Integrate commercial risk governance into investment policy

Commercial justice is typically considered to be a distinct rule of law axis, while investment policy is concerned with the promotion, promotion incentives and licensing. It seems from the cases that the separation is not complete. Investment establishes long-term partnerships with suppliers, moneylenders, public administrations and business partners. The institutions that emerge in the absence of those relationships may influence expected risk. Such a tailored approach, however, would evaluate the contractual risk that exists in priority sectors and would consider if the courts, arbitration, mediation, enforcement, and contract management capacity are sufficient.

Measure productive additionality, not capital mobilization alone

The size of announced or mobilized capital is not the only criterion to measure investment partnerships. Other measures of the impacts of development, including employment, skills, technology, supplier networks, export diversification and production networks, may be even more significant. The concepts of 'financial additionality' and 'productive additionality' can be helpful as a policy concept, but need further operationalization and testing before it can be used as a formal indicator.

From project pipelines to investment partnerships

The overall message is one of transitioning from project-centred to 'investment ecosystem thinking'. The various components of the investment problem are covered by infrastructure, finance, regulatory reform, productive capability, and commercial risk governance. They gain value when they are ordered in regard to some economic opportunities. In EU Global Gateway, this translates to supporting project pipelines with country and sector level investment architecture that translates connectivity into commercially viable, developmentally integrated investment.

Conclusion

The purpose of this article was to explore the reasons behind the different foreign investment flows to developing economies for integration with the EU market, and to understand the interactions between market access, productive capabilities, investment facilitation, regulatory predictability, and commercial justice/dispute resolution. There is no single factor explanation for the comparison. Having access to a market does not guarantee the emergence of productive investment in the market, but it can enhance the attractiveness of a location.

Countries like Pakistan and Bangladesh demonstrate that significant exports can be achieved with substantial preferential access, without leading to the same depth of investment and diversification. Vietnam demonstrates that productive FDI is possible while the regulatory and administrative issues remain. India shows that "preferential market access" by EU alone is not required for significant investment in EU in the context of scale and productive opportunity of the domestic market. The example of Morocco demonstrates the synergy of the factors of location, connectivity, industrial integration, and new investment institutions.

The main theoretical stance of the article is thus configurational. Aside from opportunity and ability to respond (productive capabilities), market access has to do with the costs and predictability of establishment and operation (facilitation and regulatory credibility), and commercial justice is a category of contractual risk. These conditions are complementary in nature and not interchangeable. In the case of Pakistan and after the Bangladesh unrest 2024, peace and security could have been an important exploratory factor, but would have diverted the thematic focus of this article, which can be seen separately.

The results also qualify traditional investment climate reform. While a more open format may not lead to effective facilitation, the introduction of a portal, one-stop shop or a specialized court does not create a certain implementation. Likewise, investment in institutional reform cannot replace productive capabilities if the economic fundamentals of the investment are not strong enough. The question of the relevant policy is not whether an economy has a specific institutional model, but whether the combination of productive and institutional conditions of the economy makes investments commercially viable and offers enough predictability over time?

The study is unable to identify independent causal impacts, and general investment statistics do not capture productive embeddedness. Future studies should therefore focus on sector level analysis and firm level evidence to establish when specific institutional restrictions are important vis-à-vis market access, infrastructure, skills, suppliers, production networks, etc. The EU sees Global Gateway not as just a financing or infrastructure project but as a chance to come together and link physical connectivity, financial de-risking, investment facilitation, productive capability building and commercial risk governance. However, the problem for developing economies is not accessing markets, or drawing in capital, but establishing the conditions in which market access translates into productive opportunity, productive opportunity translates into investable opportunity, and investable opportunity translates into sustainable linkages with the home economy.

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