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Trade and Export-Platform Effects in European FDI

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Abstract

This study analyzes the factors shaping foreign direct investment (FDI) in Europe, emphasizing export-platform strategies, trade integration, and the influence of nearshoring and geopolitical shocks. Using bilateral FDI data for 39 European host countries and their global partners from 2010 to 2023, together with annual export and import ratios and a newly developed Export-Platform Indicator, the analysis shows that European economies increasingly serve as strategic bases for re-exports within global value chains. Central and Eastern Europe—including both EU and non-EU members—emerges as a growing hub for global investment, particularly attracting Asian investors seeking integration into European production and export networks. Export-platform potential significantly enhances host-country attractiveness, while trade linkages and regional complementarities shape investment patterns. Overall, the findings highlight a shift from traditional horizontal and vertical FDI motives toward platform-oriented strategies, offering insights for policymakers and investors navigating Europe's evolving investment landscape.

Keywords: Gravity Model, Bilateral Trade Ratios, Export-Platform Indicator, Central and Eastern Europe, Asian Investors, Nearshoring, Global Value Chains.

Introduction

In the pursuit of global competitiveness, leading economies are reshaping foreign direct investment (FDI) frameworks to reinforce supply-chain resilience, with Asian economies playing an increasingly significant and strategic role. Recent US–China trade tensions have accelerated the trend of reshoring production back to domestic markets or nearshoring to neighboring countries, with the aim of reducing reliance on geographically distant or geopolitically vulnerable regions [1, 2].

However, simply re-localizing of production within European borders may weaken rather than enhance resilience, underscoring the continued importance of cross-border investment [3]. In recent years, Asian investors—particularly from China, Japan, and other key Asian economies—have played an increasingly prominent role, using European locations not only to serve local markets but also as export platforms to third countries.

In this context, non-European countries are increasingly investing in Europe, supplying intermediate inputs, and generating final demand as evidenced by the relocation of exports and FDI to third countries and the reorientation of supply chains toward Eastern Europe [4-6].

To illustrate how Europe is becoming not only a production base but also a key export platform within global value chains, we calculated annual export and import ratios for each host country and its partners, along with the Export-Platform Indicator introduced in this study. Export ratios capture outward market orientation; import ratios reflect reliance on inputs, a key feature of vertical FDI; and the platform indicator measures the extent to which hosts serve as bases for re-exports to third markets.

Together, these metrics move beyond aggregate FDI inflows to show how trade linkages shape Europe's emerging export-platform role within global value chains. Our study demonstrates that the shift in FDI patterns reflects this trend: while EU core countries (Germany, France, and the UK) absorbed over 60% of non-EU (mostly Chinese) FDI between 2010 and 2019, recent evidence points to the rising importance of Central and Eastern

European destinations as emerging hubs for non-EU investors.

Indeed, in 2023, much of the new FDI inflows into Hungary, Poland, Slovakia, Czechia, and Romania originated from Asian investors, with Hungary alone capturing 44% of Chinese investment into Europe [7]. Such benefits, however, are likely to be partly offset by spatial spillovers from competitive neighbors, such as Turkey and the Balkans.

This study examines how traditional gravity determinants—market size, trade integration, distance—and export-platform motives shape FDI flows across 39 European host countries and their global partners from 2010 to 2023. A novel Export-Platform Indicator is introduced to capture a host's potential to serve third-country markets, reflecting the growing preference of both European and Asian firms for locations that support re-exports and supply-chain diversification.

The main research question is: How do gravity-model determinants and export-platform potential shape FDI across European economies, and what is the role of Asian investors in the rise of Central and Eastern Europe as investment hubs?

This paper makes three key contributions. First, it provides updated gravity-model evidence on European FDI flows from 2010 to 2023. Second, it introduces a novel Export-Platform Indicator to measure host countries' potential to serve third-country markets. Third, it highlights the increasing involvement of Asian investors in Europe and how their presence shapes the FDI patterns of Central and Eastern European economies.

Furthermore, by explicitly measuring export-platform effects, we demonstrate how foreign affiliates in Europe increasingly serve not only local demand but also function as bases for re-exports to third markets. Understanding these dynamics is crucial for European policymakers, as FDI screening mechanisms typically operate at the national level, export-platform effects illustrate why diversification from Asian investors across smaller European economies could still provide leverage over the broader European market, even if larger member states tighten restrictions.

The paper is structured as follows. Section 2 reviews the literature and descriptive analysis. Section 3 develops the conceptual framework and hypothesizes. Section 4 outlines the empirical strategy and presents the results. Finally, Section 5 concludes with policy implications and suggestions for future research.

Literature Review

Beyond classical vertical and horizontal motives, recent trends and observed trade–FDI patterns suggest that nearshoring, supply chain restructuring, and geopolitical shocks are increasingly shaping FDI inflows [6, 8, 9]. As US–China tensions escalate, firms reliant on global supply chains may seek to diversify their production bases to mitigate risks associated with geopolitical uncertainties [10]. In Europe, Böeckelmann et al. (2024) and Fletcher et al., (2024) analyses the role of geopolitics in shaping FDI and show that geopolitical distance has become more pronounced over the last time.

While gravity-model-based studies emphasize the role of bilateral trade volumes, economic size, and distance in determining FDI location, and prior research emphasizes the role of export-platform FDI, where host countries serve as bases for re-exporting to third markets, yet its relevance has been limitedly analyzed, particularly in the context of Central and Eastern Europe [11-14].

In this study, we test the export-platform hypothesis in emerging European hubs, where foreign firms establish affiliates in smaller economies—not only to serve local markets, but also as bases for exports to other destinations. While several studies confirm the growing attractiveness of these emerging hubs, less is known about how their trade profiles interact with FDI inflows [5, 6]. Together, these findings highlight that analyzing trade–FDI interactions requires moving beyond bilateral flows to account for network-wide linkages.

While recent research has focused primarily on the effects of FDI on export platforms—showing how foreign investment can enhance host-country exports and upgrade the quality of exports—less attention has been given to the reverse effect. Specifically, a country becomes an attractive destination for foreign investment because it already possesses strong trade connections, efficient infrastructure, and integration within supply chains [15-17]. For example, Hungary and Poland, well-connected within EU automotive networks, attract foreign investors who establish production facilities to serve broader European markets such as Germany or France.

Moreover, an investment from China in Hungary may increase the likelihood of Chinese FDI in nearby countries like Serbia, while it could also compete with potential Chinese investment in Turkey, depending on the trade and supply-chain networks. Our approach highlights the importance of considering pairwise interdependencies in understanding FDI patterns. Export-Platform Indicator is providing a comprehensive assessment of how trade and investment jointly shape Europe's role in global value chains.

Trade and Export-Platform Dynamics in Europe

Despite the drop in investment in recent years, most sharply across developed economies and particularly in Europe (UNCTAD, 2025), trends vary significantly across regions and periods. Western Europe experienced a decline in FDI, reflecting a slowdown in investment in core EU economies, whereas Southeastern Europe—including emerging non-EU markets and the Balkans—recorded strong growth between 2010 and 2023, with trade in goods increasing by 79% and FDI —by 63% (Figure 1, left panel).

This suggests that investors are increasingly turning to peripheral European economies, likely attracted by their growing integration into supply chains and export platforms.

Focusing on 2022–2023, all four regions—Europe, the US, China, and ASEAN—experienced a year-on-year decline in both FDI and trade compared to 2022. Europe recorded the steepest fall in FDI, while China saw the largest drop in trade flows (Figure 1, right panel). The diagram highlights the role of global interdependencies, as FDI inflows from China and ASEAN are closely linked to trade relationships and parallel investments across multiple European destinations.

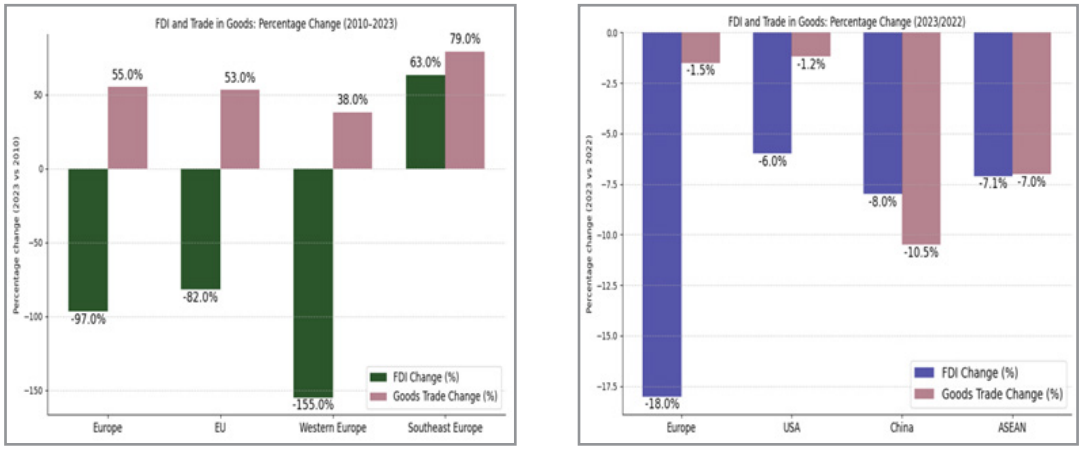

Figure 1: FDI and Trade Percentage Changes by Region and Period

Caption: Left panel: Europe, 2010–2023. Right panel: World, including Europe, US, China, and ASEAN, 2022–2023.

Source: Prepared by the author using data from the United Nations Commodity Trade Statistics Database (UN Comtrade) and UNCTAD FDI statistics.

Overall, the two diagrams jointly demonstrate that European FDI is not uniform: while core Western European economies face stagnation or decline, emerging Southeastern European markets are benefiting from both trade expansion and complementary FDI inflows, illustrating the spatial and networked nature of investment in Europe.

This reconfiguration of regional investment patterns reflects broader structural changes in global trade and FDI. European supply chains are being restructured, and rather than merely reinforcing internal EU integration, new global actors are increasingly engaging.

The development of new trade corridors—such as Türkiye–China, Poland–South Korea, and Hungary–China—signals a structural reconfiguration of Europe's external economic relations. Indeed, FDI from Asia increased substantially from 3.3% to 12.5% between 2010 and 2023 (Figure 2), alongside a rise in imports from Asia (from 26% to 33%). This surge in imports underscores the growing importance of vertical FDI linkages in trade and investment patterns. At the same time, the trend highlights the export-platform effect: countries with strong trade integration and re-export potential tend to attract additional FDI.

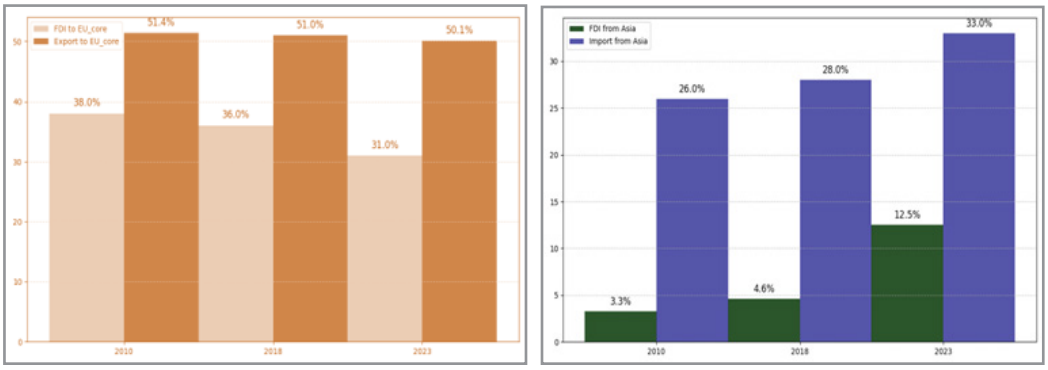

Figure 2: FDI and Trade in Europe: EU Core and Asia, 2010–2023

Caption: Left panel: Share of FDI and exports to EU core, 2010–2023. Right panel: FDI inflows and imports from Asia to Europe, 2010–2023.

Source: Prepared by the author using data from the United Nations Commodity Trade Statistics Database (UN Comtrade) and UNCTAD FDI statistics.

Taken together, these diagrams demonstrate that FDI inflows are not independent but shaped by spatial and network interdependencies, with well-connected export platforms in both Southeastern Europe and Asia-linked markets driving FDI growth, while core Western European economies face declining shares of FDI.

Indeed, Germany, France, and the UK lost their leading positions as Chinese investment destinations, with their combined share dropping to 20 percent, down sharply from 52 percent in 2019. By contrast, Hungary accounted for the highest share of any country in Europe [6].

Methodology

Indicators and Hypotheses on FDI Determinants

This study models European FDI flows as the outcome of direct economic drivers, including market size, geographic distance, and bilateral trade intensity. To capture trade-related investment motives, the gravity model incorporates both the bilateral export and import ratios, as well as a newly developed Export-Platform Indicator (Z_ijt) that measures each host's capacity to serve

third-country markets. These variables are included directly in the empirical specification to assess how bilateral trade links and export-platform potential shape FDI patterns in Europe. To operationalize these concepts, the following variables are constructed from bilateral trade and macroeconomic data.

The bilateral export ratio ($ExportRatio_{ij}$) measures the share of the host country's exports going to the source country, capturing horizontal FDI motives and export-platform potential (1):

$$ExportRatio_{ij} = \frac{Exports\ from\ host\ i\ to\ origin\ j}{Total\ exports\ of\ host\ i} (1)$$

The bilateral export ratio is specific to each host–source pair. It captures how important the origin country's market is for the host country's exports. High values indicate that the host has a significant trade link with the origin country, which can influence FDI decisions through both horizontal and vertical motives.

Namely, it may reflect strong market demand from the origin country (horizontal FDI, where firms invest in the host to serve the origin market more efficiently) or a vertical strategy (where the host functions as a production hub for exports). Beyond the bilateral relationship, the high ratio may also signal the host country's potential role as an export platform, serving not only the origin country but also third-country markets.

The bilateral import ratio ($ImportRatio_{ij}$) measures the share of the host country's imports coming from the source country, reflecting vertical FDI motives through integration into supply chains (2):

$$ImportRatio_{ij} = \frac{Imports\ to\ host\ i\ from\ origin\ j}{Total\ imports\ of\ host\ i} (2)$$

The bilateral import ratio is also defined at the host–source pair level. It measures the share of the host country's total imports that come from a given origin country. High values indicate that the host relies heavily on the origin country as a supplier. This can influence FDI decisions in several ways. On the one hand, strong import dependence may encourage vertical FDI, as firms invest in the host to integrate into supply chains or reduce transaction costs associated with cross-border sourcing. On the other hand, it may also signal the importance of the origin country as a strategic partner in production networks, reinforcing the host's attractiveness as part of a broader export platform.

However, traditional horizontal and vertical motives are no longer sufficient to explain investment and trade patterns. Firms increasingly choose strategic locations as production hubs, taking advantage of regional trade agreements. In these cases, FDI and trade are driven less by local market access or production fragmentation and more by regional or global strategies, with the host country serving as a platform for exports to third markets. This trend is particularly relevant for Asian investors, as our analysis shows that they invest in European host countries not only to reach local consumers but also to re-export across Europe.

For this, the bilateral export and import ratios may not fully capture these indirect motives and risks underestimating a country's strategic value as an export platform.

To address this limitation, we introduce the Export-Platform Indicator (Z_{ijt}) , a third-country measure designed to capture the host country's capacity to serve as a re-export base. Formally, for a given host country i, origin country j, and year t, we compute:

$$Z_{ijt} = \sum_{k \neq j} \frac{Exports_{ikt}}{Distance_{ik}^{\delta}} (3)$$

In th otes the export-platform indicator for host country i with respect to origin country j in year t. The term $\sum_{k \neq j} Exports_{ik}$ represents the value of exports from host i to third countries k, excluding the origin country j, in order to avoid directly capturing bilateral trade between i and j, which may be endogenous. $Distance_{ik}$ refers to the geographic or effective distance between country i and third country k. The parameter t indexes the year (2010–2023 in this study). Finally, δ is the distance-decay parameter, typically set to 1 or 2, which reflects the extent to which distance reduces trade. In our case, δ=1, meaning the indicator emphasizes countries that export heavily to nearby third markets—consistent with the logic of regional export platforms.

Based on the conceptual framework, we formulate the following hypotheses (H) regarding FDI flows in Europe:

- **H1:** FDI flows are positively related to host country market size, EU membership, and negatively related to geographic distance, reflecting standard gravity model expectations. The impact of FDI determinants, including the export-platform indicator, nearshoring trends, and geopolitical shocks, varies across origin and host-country groups and is not uniform across all countries.
- **H2:** FDI flows are positively associated with bilateral trade links (export and import ratios), reflecting vertical and horizontal FDI motives.
- **H3:** FDI flows increase with the host country's export-platform potential (Z_{ijt}), indicating the attractiveness of the country as a base for re-exports. Hosts with stronger export-platform potential attract more FDI.
- **H4:** FDI flows increase in hosts more connected to nearby EU suppliers (nearshoring) and in hosts with stronger trade links to Asia (diversification), reflecting post-2020 supply-chain adjustments and the role of export platforms.

Data and Empirical Stages

Our dataset covers 39 European host countries and 40 global origin countries over the period 2010–2023. In addition to all 27 EU member states, we include the United Kingdom (considered an EU member until 2020), EU candidate countries such as Albania, Bosnia and Herzegovina, Moldova, Montenegro, North Macedonia, Serbia, Turkey, and Ukraine, as well as other European economies with strong ties to the Eurozone, including Norway, Switzerland, and Iceland.

For descriptive statistics, trend analysis, and the calculation of the Export-Platform Indicator (Z_{ijt}), we use the full yearly panel from 2010 to 2023. Before turning to the empirical analysis, it is important to note that the export-based indicator (Z_{ijt}) should be viewed as a limited proxy for export-platform-oriented FDI. Since Z_{ijt} reflects part of the factors shaping actual investment flows, other determinants, such as sectoral specialization, host-country fundamentals, and firms' strategic motives, often play a stronger role. The differing behavior of Asian in-

vestors illustrates that FDI does not uniformly follow trade- or export-driven logic. Overall, while Z_{ijt} offers useful signals, the empirical approach incorporates multiple heterogeneous drivers and their interactions.

FDI flow data are drawn from UNCTAD (2025) and supplemented by the CEPII Gravity Database. GDP figures are obtained from the World Bank's World Development Indicators, while trade data are sourced from UN Comtrade [18, 19].

Empirical Analysis and Results

In addition to vertical and horizontal motives, we examine whether recent trends such as nearshoring, strengthening EU integration, and geopolitical shocks influence FDI inflows to European hosts between 2010 and 2023.

We begin with the baseline gravity model, including GDP of the host and origin countries, bilateral distance, and EU membership indicators. However, when using host-time, origin-time, and dyad fixed effects, these time-varying and time-invariant characteristics are absorbed by the fixed effects and therefore do not enter the regression explicitly.

The specification, represented in Equation (1), is more appropriate for our main hypothesis, as it controls for unobserved country- and bilateral-level heterogeneity, allowing us to capture how origin and host characteristics jointly shape FDI flows.

The equation (1) specifies the model as:

$$FDI_{ijt} = exp(\beta_0 + \beta_1 EU\_pair_{ijt} + \beta_2 ln\_ImP_{ijt} + \beta_3 ln\_ExR_{ijt} + \beta_4 lnZ_{ijt} + \beta_5 lnExR\_Core_{ijt} + \beta_6 lnZ\_Asia_{ijt} + \beta_7 ExpPlatfm + \beta_8 Nearshoring_{ijt} + \beta_9 GeoShock_{ijt} + \alpha_{it} + \delta_{jt} + \lambda_{ij}) \cdot \epsilon_{ijt} (1)$$

where FDI_{ijt} is the dependent variable, measuring foreign direct investment from origin country j to host country i in year t. Table A1 (Appendix A) summarizes the independent variables used in the model, including dyadic indicators as well as interaction terms. Fixed effects include host-year (α_{it}), origin-year (δ_{jt}), and dyad (λ_{ij}) effects, which absorb unobserved country- and bilateral-level heterogeneity. The multiplicative error term (ϵ_{ijt}) captures idiosyncratic shocks.

We estimate Equation (1) using the Poisson Pseudo-Maximum Likelihood (PPML) estimator with high-dimensional fixed effects (*ppmlhdfe* in Stata), which accounts for host-, origin-, and dyad-level heterogeneity.

While some studies use only specific time intervals and others rely on consecutive years, our analysis adopts a combined approach. First, we focus on selected intervals (2010, 2013, 2016, 2019, and 2023) for the main analysis. Second, for robustness, we extend the estimation to include all consecutive years from 2010 to 2023. This approach allows us to take advantage of both strategies and ensures the robustness of the results [20].

Moreover, as a contribution at this stage, building on standard gravity effects, we examine how the export-platform indicator, nearshoring trends, and geopolitical shocks influence FDI, and whether these effects vary across origins and host-country groups.

For this purpose, we classify host and origin countries according to their role in EU FDI dynamics and their response to nearshoring and export-platform potential.

Host countries are grouped as follows:

- EU core, representing highly integrated and central hosts;
- Established hubs, such as Ireland, Hungary, Poland, and other EU countries, which are experienced recipients of FDI with strong export-platform functions;
- Potential export-platform hubs, like Turkey and Balkan countries, which are emerging locations benefiting from nearshoring and re-export opportunities.

Investor origins are categorized as European, Asian (with Chinese investors distinguished), and neutral/other, allowing us to identify heterogeneous effects of FDI determinants that are often obscured in aggregate analyses.

Table 1 reports the results of the FDI gravity model, highlighting the effects of host and origin characteristics, trade linkages, and subgroup interactions.

As seen from Table 1, the results provide strong support for Hypothesis 1 (H1). Host GDP (0.40, significant) and origin GDP (0.36, significant) show the expected positive relationship with FDI inflows, confirming that larger economies both attract and generate more investment. EU membership is positive and significant, highlighting the role of EU integration in enhancing FDI attractiveness. Geographic distance is negative and significant, consistent with gravity model predictions.

Together, these results validate the core premises of the standard gravity model and demonstrate that traditional determinants remain robust baseline drivers of FDI flows in Europe.

While the export ratio (lnExR) and import ratio (lnImp) are mostly positive but insignificant in their standalone form, their interactions with host-country groups expose stronger effects. Specifically, import ratios become strongly positive and significant across Established Hubs and Potential Hubs (Model 2), highlighting vertical motives: investment is more likely when host imports are integrated into production networks within these country groups. Moreover, when European hosts export primarily to EU core markets (*lnExR_Core*), they may attract FDI from non-EU origins that seek both local production integration and re-export opportunities.

In such cases, the motive can be twofold: vertical FDI, where imported intermediate goods from the EU are processed and sold back into EU supply chains, and export-platform FDI, where inputs are imported from non-EU countries but the host is used as a base to access EU markets. For example, a Chinese firm investing in Hungary as an Established Hub may import parts from China, assemble them locally, and then export finished products to Germany or France. Similarly, a firm could import components from Germany and export the assembled products back to Germany. This mechanism provides empirical support for Hypothesis 2 (vertical FDI) and Hypothesis 3 and 4 (export-platform FDI)

Table 1: Gravity Model Estimates with Subgroup and Interaction Effects

Model	(1)	(2)	(3)	(4)	(5)	(6)
Sample	**Selected Years Sample**			**Full Sample**		
Dep. variable	FDI	FDI	FDI	FDI	FDI	FDI
ln_gdp_h	0.4009***			0.4291***		
	(0.0946)			(0.0776)		
ln_gdp_o	0.3570***			0.4232***		
	(0.1271)			(0.1146)		
EU_host	0.7616***			0.4787***		
	(0.2048)			(0.1843)		
EU_origin	-0.9308***			-0.8898***		
	(0.2811)			(0.2754)		
lnExR	0.2135			0.1511		
	(0.1861)			(0.1413)		
lnImp	-0.0175			-0.0625		
	(0.1409)			(0.1296)		
ln_d	-0.6654***			-0.7726***		
	(0.1710)			(0.1384)		
GeoShock	-0.3379**			-0.3237***		
	(0.1551)			(0.1214)		
lnZ	0.0016	-1.5003***	-1.6977***	-0.0086	-0.9062**	-1.1159***
	(0.1280)	(0.4733)	(0.3813)	(0.1183)	(0.3940)	(0.3685)
Nearshoring	-0.0117		0.0050	0.0157		0.0383**
	(0.0317)		(0.0194)	(0.0264)		(0.0154)
Diversification	0.1006**		0.1480***	0.0816		0.1217***
	(0.0488)		(0.0398)	(0.0504)		(0.0348)
EU_pair		0.2394	-0.3073		0.4336***	0.0758
		(0.2861)	(0.3179)		(0.1522)	(0.1639)
lnExR_Core		0.1622**			0.0701*	
		(0.0681)			(0.0426)	
EU Core # lnImp		0.1346			0.2472***	
		(0.0819)			(0.0743)	
Established Hubs # lnImp		0.3144***			0.2609***	
		(0.0894)			(0.0751)	
Potential Export-platform Hubs # lnImp		0.2461**			0.2854***	
		(0.1124)			(0.0971)	
Other # lnImp		0.0519			0.2744***	
		(0.0980)			(0.0722)	
lnZ_Asia		0.1698**			0.0335	
		(0.0691)			(0.0580)	
ExpPlatfm			0.0510***			0.0446***
			(0.0145)			(0.0120)
Non-China_origin # lnExR_Core			0.0142			0.0235
			(0.0503)			(0.0414)
China_origin # lnExR_Core			0.1961**			0.1724**
			(0.0921)			(0.0860)
GeoShock # lnZ_China			-0.2052**			-0.2055**

			(0.0935)			(0.0889)
_cons	3.0463	37.8906***	41.9951***	2.6129	26.7351***	30.8782***
	(1.9310)	(8.9305)	(7.2209)	(1.7099)	(7.4424)	(6.9918)
N	4820	4804	4804	13216	13168	13168
r2_p	0.3577	0.8175	0.8196	0.3769	0.8202	0.8231

Source: Author's elaboration. Note: Standard errors in parentheses + p < 0.10, * p < .05, ** p < .01.

The export-platform indicator (lnZ) further illuminates these dynamics. While its aggregate effect appears negative in Models 2–3, disaggregated results reveal nuanced patterns: lnZ_Asia is positive and significant in selected models, indicating that Asian investors respond strongly to host-country export-platform potential. In parallel, the constructed ExpPlatfm index consistently shows a positive and highly significant effect, confirming that hosts with robust re-export capabilities attract markedly higher FDI inflows. This emphasizes the critical role of export-platform strategies in Europe, particularly for Asian investors and Established Hubs (H3) [21].

Regarding supply-chain adjustments, Nearshoring is small and insignificant in Models 1 and 3, suggesting that nearshoring remains an emerging but uneven driver of FDI. In contrast, Diversification is consistently positive and significant, showing that Asian and non-European investors diversify across European host groups (H4).

Finally, geopolitical shocks (GeoShock) are negative and significant, implying that major events (e.g., the US–China trade war in 2019 and heightened geopolitical uncertainty in 2023) reduced FDI inflows overall (H4). Importantly, the interaction GeoShock × lnZ_China is negative and significant, confirming that shocks particularly constrained Chinese FDI strategies that relied on export-platform motives.

As seen in Models 4–6 (Table 1), the results for the full sample (2010–2023) not only confirm the earlier findings but also provide stronger support for the hypotheses. Hypothesis 1 (gravity fundamentals) is clearly supported, while the persistence of strong effects from trade linkages (H2) and export-platform potential (H3) across the full sample further underlines the robustness of the model and the consistency of the results.

Most notably, Nearshoring becomes statistically significant (Models 5–6), marking a clear shift compared to the selected-years sample (Models 1–3). This suggests that since 2010—particularly in the post-2020 period—FDI inflows have increasingly reflected supply-chain adjustments through nearshoring. At the same time, Diversification remains consistently positive and significant. Taken together with the negative and significant effect of GeoShock, these results provide robust evidence for Hypothesis 4 (supply-chain adjustments).

Overall, these results show the robustness of the FDI gravity-framework across both selected years and the full 2010–2023 sample. While the current analysis focuses on bilateral FDI relationships, it would be valuable in future work to explore spatial interdependencies. Extending the model to a spatial gravity specification could account for spillovers between neighboring host countries and pairs, as well as competition among nearby locations. Such an approach would allow researchers to capture investment dynamics beyond bilateral dyads and offer deeper insights into the patterns and drivers of export-platform FDI

Conclusion

Global geopolitical shocks, particularly US–China tensions, are reshaping Europe's FDI landscape, not only directly but also through spillover effects across its integrated trade networks. Our analysis shows that FDI inflows are interdependent and shaped by export-network similarities.

The study contributes to the literature on international investment and integration by applying a combined spatial analysis and gravity FDI model to 39 European countries and their global partners from 2010 to 2023. It provides empirical evidence on the emerging role of Central and Eastern Europe—including both EU and non-EU members—as rising hubs in global supply chains, and shows that countries with trade profiles similar to well-invested neighbors are more likely to attract additional FDI.

Using gravity analysis, we show that FDI in European hosts is shaped by both vertical and horizontal motives. Export-platform potential (Z) and export ratios to the EU core positively drive FDI inflows, consistent with vertical FDI. Imports from the EU core, however, are negatively associated with FDI, reflecting substitution by exports. Import links with Asia and emerging hubs are weaker, suggesting that European FDI remains largely regionally integrated rather than globally diversified.The results also show that nearshoring and diversification trends influence FDI allocation, reflecting post-2020 supply-chain adjustments and the broader impact of geopolitical shocks.the study underscores the complexity of Asian FDI patterns in Europe and highlights the need to account for multiple heterogeneous drivers when analyzing investment flows.

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Appendix A

Table A1: Description of independent variables in the in the FDI gravity model

Variable	Subscript	Description
EU membership	EU_pair_{ijt}	Dummy = 1 if both countries are EU members, 0 otherwise
Import ratio (log)	ln_ImP_{ijt}	$\text{ImportRatio}_{ij} = \frac{\text{Imports to host ifrom origin j}}{\text{Total imports of host i}}$
Export ratio (log)	ln_ExR_{ijt}	$\text{ExportRatio}_{ij} = \frac{\text{Exports from host i to origin j}}{\text{Total exports of host i}}$
Export-platform indicator (log)	lnZ_{ijt}	$Z_{ijt} = \sum_{k \neq j} \frac{\text{Exports}_{ikt}}{\text{Distance}_{ik}^{\delta}}$
Geopolitical Shock	$GeoShock_{ijt}$	Dummy variables for major geopolitical shocks (2019 = 1, US–China trade tensions; 2023 = 1, geopolitical instability/war-related shocks; 0 otherwise)
Interaction terms		
ExR_Core(log)	$lnExR\_Core_{ijt}$	Interaction between log of export ratio and dummy for core EU host countries (lnExR × EUCore)
Z_Asia (log)	lnZ_Asia_{ijt}	Interaction of the export-platform indicator (lnZ) with Asia dummy, capturing effects specific for Asian origins (lnZ* Asia)

Z_China (log)	lnZ_China_{ijt}	Interaction of the export-platform indicator (lnZ) with the China origin dummy, capturing effects specific to Chinese investors (lnZ* China)
Export_Pl	$ExpPlatfm_{ijt}$	Interaction of lnZ_Asia with HostGroup dummy, capturing the combined effect of Asian origin countries' export platforms and host countries (lnZ_Asia × HostGroup)
Nearshoring	$Nearshoring_{ijt}$	Interaction of Export Ratio with Host Group dummy, capturing the combined effect of exports to host countries (ExportRatio × HostGroup)
Diversification	$Diversification_{ijt}$	Interaction of Export Ratio with Origin Group dummy, capturing effects by showing how FDI responds to exports from origin groups (ExportRatio × OriginGroup)

Source: Author's own description