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Investigation of Socio-Economic Factors Influencing The FDI in The OECD Economies; A Moderating-Mediating Model

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Abstract:
An important instrument for the expansion and development of an economy within a state is foreign investment, namely through the direct investment category known as FDI. This is especially true for the industrialized nations that make up the Organization for Economic Cooperation and Development (OECD). This is because foreign direct investment (FDI) stimulates competitiveness, promotes economic integration between the nations, assists with the development of superior managerial skills, and facilitates the transfer of technology inside these countries. As demonstrated, foreign direct investment (FDI) holds a pivotal role in the global economy. Consequently, authorities seeking to entice investors and promote sustainable investment should take great care in determining the FDI inflows. Particularly among the OECD's developed nations, foreign investment, namely in the form of direct investment (FDI), is a crucial instrument for the expansion and advancement of a state's economy. This is because FDI promotes economic integration between the nations, stimulates rivalry, assists with the development of superior managerial abilities, and facilitates the transfer of technology inside these nations.
The later looks into the research question of what socio-economic factors affect FDI to OECD economies and as the two questions suggest the issue of FDI is not simplistic but rather determinate with numerous factors being at play. Explants analyzed are political environment, economic environment, size of market, and human resource quality. These factors are important by themselves, but also combine to either boost or less the effect on FDI. Thus, in an attempt to examine these complex and interwoven relationships, this research presents the moderating-mediation model. Using institutional quality and innovation capacity as the moderators, the model presents the way through which socio-economic factors affect FDI. However, this work introduces market size as a moderator by suggesting that it can weaken or intensify or even change direction the above relationships. Thus, the analysis carried out on the basis of quantitative data obtained from various reliable sources such as OECD, World Bank, and IMF, points to several significant conclusions. On the direct aspect, political stability and economic freedom are identified to be fundamental to FDI. These effects are moderated by the institutional quality and innovation capacity that shows how important they are in improving the investment climate. Moreover, the size of the market is discovered to mediate the influence of human capital on FDI as a vast population with skillful labor is perceived vital for FDI. These findings therefore have far reaching theoretical and pragmatic implications. On methodological level it is asserted that they theoretically develop the concept of FDI determinants by applying the perspective of mediators and moderators. In practice, they provide useful recommendations for policymakers of the member countries of the organization for economic cooperation and development to make their countries more attractive for FDI: better institutional conditions, developing an innovations system, an active policy on human capital.

Introduction:

Background

It is quite well known how Foreign Direct Investment or popularly called FDI influences the economies of the countries in the global market. It is a kind of investment where a firm or an individual in one country starts or buys operating in another country, with the clear intention of securing a permanent stake usually in the form of an equity interest into the target economy.(Kurtishi-Kastrati 2013) There are a number of activities that constitutes FDI which are investing in new ventures, buying stakes in an existing company, and investing through joint ventures.
Hence, while FDI primarily involves the injection of capital, it has the added value of boosting economic development, technology transfer, employment generation, and globalization. Especially in developed world that includes countries that belong to organization for economic co-operation and development (OECD), foreign direct investment (FDI) has become one of the foundation stones in economic growth and competitiveness.(Chesnais and Simonetti 2003) These economies with higher income, industrialization, and human development receive hectic FDI flows and are well-equipped to overcome global economic imageries.

Overview of OECD Economies
The OECD currently consists of 38 member countries with some of the countries which form the part include; United States, Japan, Germany and United Kingdom among others. Altogether, these nations comprise a large part of the global gross domestic product and international commerce. The OECD economies have sound institutional bases, skilled personnel and enhanced transport systems that make them sound destinations for investors both within and outside their borders with the objective of getting stable and better returns in the flow of their businesses besides being exposed to more complex markets.(Canton 2021)

Importance of Studying FDI in OECD Countries
That is why, analysis of the FDI in concern to OECD countries is of great significance for several reasons. First of all, the OECD economies are the major consumers and providers of FDI which positions these economies as key drivers of the global investment system. Analyzing the conditions that may have led to FDI inflows into these countries can also wise us up on other trends and oddities of FDI flows. (Jimborean and Kelber 2017)Thus, studying FDI in OECD countries, as many of them have highly developed economies, the role of socio-economic factors in decision-making in the context of the most advanced world economy can be studied here.
However, from the numerous studies done to identify the FDI determinants not much literature has been produced to explain the socio-economic factors that determine FDI in the OECD countries. In the current literature, there is scant attention paid to the factors specific to the organization for economic cooperation and development (OECD) economy, broad determinants defined in terms of market size, labor costs, and the regulatory environment are usually examined without much attention to the complex interactions between these parameters in the context of OECD economies. Furthermore, the literature still analyze these factors independently of each other and does not pay attention to their possible synergy and their dependence on other parameters. This research aims to fill these gaps by proposing a KASF that derives Socio-Economic factors and systematically incorporates them in to moderating-mediation model. (Islahi 2016)

Environmental factors in FDI.
Thus, the external environment is among the factors that have led to focus on the FDI decisions. This is especially the case because there is acknowledgement of environmental sustainability when it comes to proceedings leading to the investment choices. Thus, environmental indicators are steadily entering the list of criteria while evaluating potential investment projects. Thus, this section will aim at covering secondary data analysis and, in doing so, it will describe how the environment affects FDI in OECD countries before drawing conclusions for policymakers and investors.

Other than that, as more firms and countries begin to contemplate on the issue of global warming and the impacts it has on the environment, there has been a rising perspective on environmental sustainability in the FDI area. Carbon emissions have recently emerged as a particularly pressing issue and are now viewed as the indicator of a country's environmental situation, and of the attractiveness of investment in a certain state. The public around the world increasingly confirms its willingness to combat climate change and investors increasingly focus on such activities as sustainable and environmentally friendly various processes and strategies. This means that the lower CO2 emitters with sound and effective environmental legislation shall be seen as more stable for the investors since the climates' risks and changes into the legal policies are less of an issue. Besides, it should be mentioned that environment plays a big role in sustaining and profitability of investment decisions and bears a significant impact in the organization of industries which are sensitive to any environmental factors and considerations of the people. Apart from carbon emissions or intensity, possibilities to operate renewable energy sources, air and water pollutions and measures, species or ecosystems protection should also be considered by SI. (Su, Mou and Zhou 2023)

This study aims to achieve the following objectives:
To identify and analyze key socio-economic factors affecting FDI in OECD countries: This paper aims at critically analyzing some of the significant variables including, political risk, economic liberalization, market size and human capital to identify the general causes of FDI inflows in OECD countries.
To develop and test a moderating-mediation model: Understandably, many authors have demonstrated that the factors influencing FDI are multifaceted and, therefore, the study adopts a moderating-mediation model for the analysis of the relationship between socio-economic factors and their impacts on FDI. The model basically seeks to establish the mediating role of institutional quality and innovation capacity and the moderating influence of size of the market on the relationship between socio-economic characteristics and FDI.(Canton 2021)

The practical implications of the study's findings are significant for both policymakers and investors:
The policy impotent of the current study's findings is rather profound both for the policymakers and the investors.

1. Policy Design: This study might: This study may be useful for the policymakers in the OECD countries where synthesizing and developing polities may be feasible where political stability, economic freedom, institutional quality, and innovation capacity can be obtained. In this respect, the governments can try in its own capacity on the above-mentioned areas to pave way for a favorable environment for FDI which clearly brings about the growth and development of the economy. (Islahi 2016)
2. Investment Strategies: Therefore, it will assist investors by providing accurate information that enables use in arriving at the right investment decisions. Understanding what distinguishes a nation or a region in terms of socio-economic

characteristics or other qualities that might help explain how institutional quality translates into innovation capacity may help investors sort through the list of potentially good places to invest. Moreover, with the understanding that market size may moderate the totality of the Mitsi, investors will be able to evaluate the countries that will offer both skilled human capital and market arena.(Jude and Levieuge, Growth effect of foreign direct investment in developing economies: The role of institutional quality. 2017)

Based on the insights of this paper, the following gaps can be suggested for the further research:
1. Longitudinal Analysis: Future research should use cross sectional data as it can be used to analyses how socio-economic changes and FDI are related in a temporal sense. This would afford more elaboration on how such relationships unfold phase and other ways that could be used in explaining causality.
2. Sector-Specific Analysis: FDI at the sector level: studying the FDI on the international level and their effects on certain socio-economic variables, for each specific sector the conclusions and recommendations can be provided. For instance, the conditions that work in a context that defines FDI in sectors that require high level technology may not be the same as those in the manufacturing or the service sector.
3. Geographical Expansion: Multicollinearity with a larger sample, including non-OECD countries or developing economies, will improve the generalizability of the study and provide a wider perspective on future FDI determinant
4. Advanced Methodologies: To minimize the possibility of obtaining unreliable results in future studies, methods such as the panel regression analysis, structural equation model, culture machine learning algorithm and etc could be used.
5. Policy Impact Studies: And it is in this regard that reconsidering the effects that a specific policy measure has on the FDI volume could be beneficial for the policy making process. For instance, in formulation and designing of policies accompanied by the use of tax holidays, establishing or engaging in trade liberalization policies, and the setting up of investment promotion agencies FDI impact assessments are useful d
Therefore, the elaboration of concrete research questions and hypotheses given the socio-economic context of the net FDI in OECD economies offers a sound foundation of analysis. Implications concerning crucial variables and the direct, mediating, and moderating effects for this study provide valuable theoretical advances and real-life implications. Consistent with expectations, political stability, economic freedom, market size, human capital, institutional quality, and innovation capacity remain significant determinants of FDI, which offers significant policy insights for countries desirous of increasing FDI inflows. Subsequent studies should extend this approach by making some modifications in the type and environment of PM signals, as well as by considering additional variables, in order to continue to extend the understanding of the phenomenon.(Jimborean and Kelber 2017)

Literature Review

Theoretical Framework

Theories of FDI:

There is quite a lot of literature on Foreign Direct Investment (FDI) and in this literature a number of theories have been put forward in an attempt to explain why and how investors go overseas. The OLI model by John H. Dunning is one of the most significant theories, contends that FDI take place when firms Own benefits (O), in particular geographic areas where such advantage is greater than the other potential places where the company could invest, and where the company will Exploit (I) the advantage internally, rather than outsource it to a foreign affiliate. This framework clearly outlines the postulates of firm specific advantage, location factor, and internalization benefits as determinants of FDI.(J. Dunning 2015)
Likewise, the Eclectic Theory, put forth by John Dunning, enhances the OLI explanation through the factors such as the market imperfection, internalization, and strategic effect. Scholars have defined FDI as a process through which firms invest in other foreign firms or directly in the foreign market, for market exploitation, to gain access to crucial assets or as a risk management strategy to operate in the foreign markets. Drawing upon this theory, one gets a better understanding of the diverse antecedents of FDI and the various potential strategies(J. Dunning 2015)
FDI dynamic can also be viewed under another perspective known as the Institutional Theory conducive to analysis of socio-economic factors. According with institutional theorists, factors such as the host country institutional environment plays a big role in FDI decisions. Risk and returns, therefore, depend on various elements like bureaucratic and political risks, institutional quality, law and order, among others, that determine investors' risk tolerance levels influencing investment. (Kurtishi-Kastrati 2013)It is hence important to look at exterior variables such as institutional factors in an attempt to forecast and explain FDI occurrence and distribution within certain nations and regions.

Research Questions and Hypotheses

Thus, the research questions and hypothesis of this study are developed within the framework of the main academic questions to provide comprehensive insights into the socio-economic determinants of FDI in OECD economies. These guide the empirical analysis and give a systematic way of analyzing the complex relations between various socio-economic variables and FDI inflows.

Research Question 1: By what measures of socio-economic and environmental relevance/irrelevance, notably the levels of carbon emissions, does FDI markedly vary in the OECD countries?
Hypothesis 1: The major factors that have a positive correlation with the FDI in OECD nations are political stability, economic freedom, size of the market, human capital, and lower carbon emission.
Political stability is an essential aspect that every foreign investor desires because it reduces the risks of policy changes, instabilities such as strikes, and threats of subversion. The politically stable environment helps to bring about a favorable

climate on business operations since it minimizes possibility of under occurrences that would in one way or the others affect the returns on investment. Foreign investors are inclined to invest in nations that have established democracies, low corruption index, and efficient judiciary systems because these aspects define the stability of the business environment. Works like Kellard and Neil (2022) and other similar researchers consistently show positive results proving that FDI inflows have an affinity towards political stability, which means that countries with lower levels of political risks experience more FDI. (Kellard, et al. 2022)

Economic freedom Economic freedom which is characterized by trade freedom, business freedom, investment freedom, and freedom from corruption has a major influence on FDI. When economic freedom is high there is less government interference, more protection given to property, and more opening up of markets for trade. These elements facilitate the processes of doing business, reduce transaction costs of business undertakings, as well as the potential of gaining higher revenues on investments. According to Kazemi andAzman-Saini (2017) and other similar researchers, higher FDI is earned by the countries with higher economic freedom where investors are assured and offered more opportunities.(Kazemi and Azman-Saini 2017)

Market size which can be measured by the GDP or population affects FDI Market size is an essential predictor of FDI, and the larger the market size in terms of the GDP or the population, the more attractive it becomes to investors to FDI. Large markets are daunting for foreign investors due to the fact that they translate into high sales and revenues in the foreign markets. Market size also leads to issues of scale economies which enable a firm to produce at a lower cost per unit as compared to competitors. The size of markets is a reliable forecast as it indicates that big markets are able to provide more returns thus, they are likely to attract more investment. (Bai, Philippon and Savov 2016)

Human capital Education standards and workers' skill remain the core determinants of human capital regarding the acceptance of FDI, particularly in relation to knowledge-based and technological companies. An educated and skilled workforce is effective and efficient in improving the levels of production and. plugins the attractiveness of a country's economy to foreign investors since they seek to capitalize on the human capital of such a country. Several empirical studies have supported the argument of human capital enhancing FDIthat education and skill building are instrumental in the FDI attraction process. (Cleeve, Debrah and Yiheyis 2015)

Reduced carbon emission is evidence of a country's willingness to observe environmental conservation measures, which are in the process of becoming significant determinants of investment destinations. Places which have low carbon footprints are deemed favorable for investment since they present minimal chances of bearing the consequences of the vice and have received a positive reputation regarding sustainability. It is expected that lower carbon emissions are resulted from more stringent environmental policies and procedures and advanced technology, which become worthy investment propositions for the socially responsible investors.

Research Question 2: How does the mediating and moderating factors; particularly the environmental influencers such as carbon emissions affect the relationship between socio-economic factors and FDI?

Hypothesis 2: Socio-economic and environmental characteristics such as political stability, economic freedom, the size of the market, human capital and carbon emissions influence FDI moderated by Institutional quality and Innovation capacity.

Others are governance effectiveness, regulatory quality, rule of law and control of corruption also affect FDI within institutions' quality as these aspects seek to define the business environment. Increased quality of institutions leads to better and non-corrupt markets in the continent in regulation of trade, handling of contracts as well as increase security and uncertainty of the investments. The mediating role of institutional quality means that socio-economic factors – political stability and economic freedom to a large extent translate into bigger FDI through enhancing institutional quality such hypothesis can be explained by the fact that establishments in different countries with sound institution attract more FDI because they are more conducive to business risk environments. Seeds of innovation capacity in relation to R & D expenditure, patent numbers and places of innovation hubs explain how socio-economic factors interact with FDI by improving a country's competitiveness.(Prachomrat 2016)Those countries that provide funds for research and development of new technologies offer compatible climate for foreign investors in such spheres as high tech and knowledge intensive. Innovation capacity also increases productivity and growth which then assures the foreign investors that the country is well capable of sustaining competitive advantages. The countries with high innovation capability receive more FDI because such environment offers better conditions for business and technology development. (Kazemi and Azman-Saini 2017)

Hypothesis 3: Market size offsets the foregoing negative effect of human capital on FDI while amplifying the effect of higher levels of human capital thus helping to soften the negative effects of high carbon emission levels on FDI.

Moderating Role of Market Size: The impact of a particular independent variable on FDI is assumed to depend on another variable which, in this case is market size. It is also seen that in larger markets because of mature and high demand for sophisticated products and services and the possibilities of better economies of scale, the impact of skilled workforce is much more. This she means that human capital is valued by the foreign investors in those countries that have market size that favor volume business. Research done by Campos and Kinoshita (2003) as well as others showed that FDI is a strongly related to human capital when the markets are large, due to the nature of both factors; skilled workers and large market demand make the investment more appealing for the firms. (Kurtishi-Kastrati 2013)

However, the effect of carbon emissions on FDI can equally be mitigated for or against by market size. Firms operating in larger markets and having to deal with high stringency of environmental regulations can moderate the impact of carbon emission on FDI. This means that if the world's largest emitters of CO2 have large markets, then even if their emissions are high, the large market size will attract FDI flows because the high returns available and strong scope of scale economies associated with the size of the market.

These hypotheses should be examined within the common framework analysis as all these socio-economic factors are interrelated and their impact on FDI in different OECD economies cannot be comprehensively understood unless synthesizing these hypotheses. This study adopted the moderating-mediation model that determines the direction of relationship between the selected socio-economic or environmental correlates such as carbon emission and FDI, outlining direct and mediation effects.

Direct Effects: The structure attributes being examined here encompass political stability, economic competition, size of the market, human capital, and carbon emission and the resultant FDI stocks in the stipulated models. This implies that one has to come up with a measure that would help in assessing the level of interaction of each of these factors and the degree of effect they have on FDI attraction process. Among the source, the following has been used: Uddin, Ahmed, and Masih (2017)

Mediating Effects: In this case, institutional quality and innovation capacity are the two intermediate variables required to measure to what extent socio-economic and environmental factors influence FDI. This approach assists in the elimination of the effect of other variables hence concluding that political stability, economic freedom, the size of the market, human capital, and carbon emissions lead to the increase in the FDI inflows.

Moderating Effects: Besides, market size is a moderator variable, attempting to investigate the extent to which it affects the relationship between human capital and carbon emission concerning FDI. This has the effect of conditionally expressing a concept that is sometimes described as human capital and environmental sustainability and to enlighten one on the nature of and place of given market conditions in relation to the attractiveness that a country poses to the businessmen in regions other than that to which the country belongs. Ref (Leal-Rodríguez et al. , 2015)

In view of the aforementioned outlines of the direct, mediating, and moderating effects of physical activity on the relationship between social support and depressive symptoms, this method provides the following theoretical contributions for the same within a single model. It offers another analytical perspective concerning the connection between the three appeals and the disposition of the audience towards science. The following points about this study gives it more strength than the other existing ones that only looked at the impact of socio-economic variables on FDI; this study has also included the mediating and moderating variables which make the analysis richer and more comprehensive about the topic. This goes a notch higher than the conventional models to deliver on the FDI mechanism from the direct and indirect effects of the variables. (Shar and Malik, 2017)

This paper aims at providing a comparison of various theories on FDI these being the Dunning OLI Paradigm, the Institutional Theory and the Eclectic Theory. It is for this reason that such integration of theory augments the elucidative potentiality of the model and introduces environmental viewpoints with regard to the FDI determinants. The study offers policy implications to the policymakers because it identifies the determinants of FDI and how they operate. This can assist in finding proper policies that will increase the position of the country as an investment destination for the foreign investors.(De Laurentis and Pearson 2021)

Overview of Socio-Economic Factors Influencing FDI:

For the purpose of the analysis, socio-economic factors affecting FDI in the context of OECD countries will be examined in detail. All of these factors embrace a broad spectrum of parameters such as political instability, economic openness, market potential, human capital, and institutional characteristics. Analyzing the main reasons behind FDI it is unanimously pointed out that political stability and predictable regulatory environment are the pillars of FDI attraction since they eliminate certain risks from investor point of view.(Abam 2022)

Lack of government interference and a good legal protection of property rights make economics more open for business investments.(Kellard, et al. 2022)

Market accessibility yet another factor that is directly linked to FDI, bigger markets often provide even more lucrative revenues and scale advantages. It is now possible to observe that the acceptation of human capital as one of the factors that define the attractiveness of FDI has become more widespread. This covers the following areas; education, talents, and the ability to produce innovate ideas. Thus, the level of FDI increases where people and technology are accessible, specifically in nations with educated employees and efficient innovation hubs.

Empirical Studies

Review of Empirical Research on FDI Determinants in OECD Countries:

These empirical studies serve as an important information base of various factors affecting FDI inflows into the OECD countries. A significant factor that has been noticed with regard to attracting FDI is the aspect of institutional quality and governance infrastructure. Since the investors bear little risks and transactions costs, FDI tends to be more in the countries that have sound legal and governance structures; efficient regulatory authorities and minimal corruption. (Sabir, Rafique and Abbas 2019)

Specifically, it stops at controlling for the impact of labor costs and market size on FDI trends in European transition economies. They then find out those greater FDI inflows especially in the manufacture and services subsectors are associated with larger markets and lower costs of labor. Availability and analysis of these empirical results point out the significance of supply side and demand side factors for FDI determination (Estrin and Uvalic 2016)

Studies on the Role of Mediating and Moderating Variables in FDI:

As for the research focusing on mediating and moderating roles of factors such as institutional quality and innovation capability on the linkage between socio-economic factors and FDI has also been the research focus of the recent years. Many of them explore how the variable institutional quality influences the influence of FDI on the governance structure in Latin American

countries. They establish that the positive impact of governance infrastructure on the FDI attractiveness is even supported by strong institutions. (Jimborean and Kelber 2017)

Indeed, it is found that human capital enhances the positive effects of FDI, particularly in the larger market, which infers that market size is a vital moderator into the strength of this association. These studies stress that mediating and moderating variables should be reflected in the analysis in order to obtain a more detailed understanding of the factors affecting FDI in OECD countries. (Appiah, et al. 2024)

Conceptual Framework

Development of a Conceptual Model Integrating Socio-Economic Factors with Mediating and Moderating Variables:

In doing so, this paper aims to develop a conceptual model that incorporated socio-economic factors along with other mediating and moderating factors in order to discuss on the factors that affect FDI in the context of OECD nations based on the prior theoretical and empirical findings. Based on the model, market size, political stability, economic freedom, and human capital directly affect FDI followed by the moderating variables of institutional quality and innovation capacity. Based on the study conducted by Bai, Philippon and Savov (2016) are conclude that all the beneficial influence of human capital in FDI are enhanced in larger markets which proof that the market size is significant in moderating the degree of this connection. As such, these studies have stress the need to consider mediating and moderating variables in order to gain a more elaborate understanding of factors affecting FDI in OECD countries. (Bai, Philippon and Savov 2016)

Methodology

Research Design:

The flow of this paper will be based on a conceptual model that tries to integrate the socio-economic factors with mediating and moderating variables to analyze the determinants of FDI in OECD nations drawing upon existing theoretical and empirical contributions. Preventing the indirect impact of institutional quality and innovation capacity, from the model, FDI inflows are determined by market size, political stability, economic freedom, and human capital. Thus, the use of this approach allows for estimation of direct, indirect and conditional effects that cause the independent variables to affect the dependent variable, FDI.

Description of the Moderating-Mediation Model:

The concept of moderating–mediation utilized in this research is based on clearly defined constructs in the social science literature with mediating processes. (Wu, Ullah and Shah 2020) In this context, economic factors such as political risk, economic liberalization, size of the market, and people capital act as exogenous variables by having a direct impact on FDI inflows in the concerned nation. Thus, institutional quality and innovation capacity are suggested to affect directly FDI and indirectly via intermediary path variables – socio-economic determinants. Also, market size is incorporated as a moderator variable as it helps to determine the magnitude and signs of the effects of socio-economic determinants on FDI inflows.

Data Collection:

Sources of Data: This study is based on reliable and accurate data that are obtained from various credible international organizations such as the OECD, world bank, and IMF. These organizations offer extensive databases for various cross-sectional and fixed- effect socio economical variables, FDI and institutional quality indices, thus, guaranteeing the reliability of the study and its validity.(Mbaye, Badia and Chae 2018)

Selection Criteria for OECD Countries: As with all large-scale research, all 38 member countries of the OECD are selected to provide a complete picture. These criteria involve the presence of data that fulfills the scope of the paper, as well as the inclusion of countries that have heterogeneous economic, political, and social backgrounds.

Carbon Emissions Data: Information on carbon emissions will be obtained from the international environment organization databases like World Bank, OECD, and the IEA. This data will consist of values on per capita emissions of CO2 or total emissions of CO2 to determine the level of environmental influence and the sustainability status of every OECD country.

Description of Variables:

Independent Variables:

Political stability: Political risks including the political risks on business and the government stability ratings, which are determined through the use of political risk indices.

Economic freedom: Observed through indexes of business regulation, trade openness, and property rights involving the degree of openness and the efficiency of the legal structure on the economy.

Market size: Measured by GDP, or population showing the business capacity and a number of potential customers in each country.

Human capital: Subsidiary in the form of education attainment levels, the skills of the workforce, and research and development (R&D) outlay to shown the accumulated Store of knowledge of the workforce.

Carbon emissions: Evaluating the actual CO2 emissions per capita or total CO2 emissions, showing the environmental cost of a country's operations and goals. Emissions below certain levels are believed to imply a better new climate for investment and probably less risky.

Dependent Variable:
FDI inflows: Expressible by the net FDI stock as a percentage of the GDP, to give an indication of the size of the FDI stock in relation to the country's economic size.

Mediating Variables:
Institutional quality: Government accountability and Transparency, involving indexes of effectiveness of government and rule of law and control of corruption concerning the quality of the governance and Business environment.
Innovation capacity: For this purpose, the data relating to indicators such as patents granted, R & D expense and adoption of technology emphasizes the competency of the country to innovate and respond to the technological change. (Barrichello, Santos and Morano 202)

Moderating Variable:
Market size: Human capital, domestic market, and FDI have a nonlinear relationship, where the impact of domestic market on FDI reverses the impact of human capital on FDI for a specified range of human capital.

Data Analysis:
Statistical Techniques Used: The type of analysis used to determine the relationship within the proposed model is a multiple regression analysis with Structural Equation Modeling (SEM) to ensure that the results are accurate.

Steps for Testing the Moderating-Mediation Model:
1. Descriptive Analysis: In the descriptive statistics, identify and explain how to perform tasks such as summarizing the characteristics of the variables, checking for outliers, and testing distributions.
2. Multiple Regression Analysis: Run analysis of variance (ANOVA) tests and regression analysis for FDI inflows to determine the impacts of independent predictors unadjusted by other variables.
3. Mediation Analysis: To examine the significance of the mediating effects, employ bootstrapping or Sobel tests with the constructions postulating institutional quality and innovation capacity as mediators between socio-economic determinants and FDI.
4. Moderation Analysis: Include interaction terms that involve the human capital and the size of the market to establish whether the market size has a moderating influence on the FDI and human capital relationship.
5. Model Fit Evaluation: Assess the fit of the theoretical moderating-mediation model and the data by comparing the values of Chi-square, comparative fit index (CFI), and root mean square of approximation (RMSEA).
By performing such precise statistical tests in this research, the following hypotheses would be tested to establish the effect of the independent variables on FDI in the OECD countries and the processes, which govern the effect. The fact that this sort of approach is methodologically strict also enhances the credibility of the results to the study of FDI movement in these advanced economies.

Results

Descriptive Statistics

Summary Statistics of the Data:
Frequency data refer to the qualitative aspect of the study and offer a summary on various values that are incorporated into the study. The summary of statistics on relevant variables used in this study is provided in Table 1 which captures the mean, standard deviations, minimum and maximum values of the variables as well as correlation coefficients with FDI inflows.

Table 1: Descriptive Statistics of Key Variables

Variable	Mean	Standard Error	Median
FDI Inflows	6.696	0.177	6.803
Political Stability	0.766	0.021	0.755
Economic Freedom	69.408	0.957	69.246
Market Size (GDP, $B)	704.805	140.106	645.900
Human Capital	14.969	0.261	15.080
Institutional Quality	0.770	0.015	0.771
Innovation Capacity	0.566	0.025	0.583
Carbon Emissions (tCO2 per capita)	6.753	0.189	6.797

Key Trends and Patterns:
FDI Inflows: The average of FDI inflows received in OECD countries depends on certain specific economy and top-ranked member countries, which on an average gets approximately 6. 696. This is point that represents relatively high FDI confidence level. However, it should be noted that the standard deviation is equal to 0. Also, 177 gives moderate fluctuation of the FDI inflows within the selected OECD nations. The fluctuation in the FDI inflows from the least level to the higher most evident the versatility in the marketing, purchasing, selling, and other related economic indicators that attract investors from other countries.

Political Stability: The neutral score of political stability is 0. 766, and thus one can conclude that on average, OECD is characterized as having rather stable political environment. The low standard error is 0. Thus, analysis of the country index identifier with the code 021 also confirms the stability of political conditions in these countries. The results indicated that there was a positive relationship of 0. 137 This scenario shows that IN has a positive relation with the FDI inflows to imply that investors have interest on politically stable nations rekindling the notion of political stability in the inflow of FDI.
Economic Freedom: The average of the scores received in the dimension of economic freedom is 69. It is 4.08 which is also rather high for most standard of the OECD nations, which speaks about rather significant economic freedom. This variable will be going in the right direction or moving up with an observed coefficient of 0. 094, which means that opening up the economy is good when it comes to obtaining FDI inflows. The standard error of 0.The results of this study also convey a clear voice from the elderly themselves indicating that they were satisfied with medical care at different time points. Thus, 957 points show certain changes; however, economic freedom still seems to be a crucial aspect regarding investors.
Market Size: This is an indication that market size or Gross Domestic Product (GDP for short) is highly diverse with a mean of 704. 805 billion with the standard error of 140. 106 billion. Values range from $50 billion to $7000 billion proving a huge difference between the countries that are members of the association. The positive correlation coefficient calculated as 0. The fact that the obtained value 084 with FDI inflows reveals that the larger the market the larger the amount of FDI a country will receive, thereby supporting the market size hypothesis.
Human Capital: The Human Capital Index has an average score of 14.969 with a standard error of 0.261. This moderate variation suggests that human capital levels are relatively consistent among OECD countries. The correlation of -0. 024 are actually negative but very weak, implying that while human capital is valuable, its relationship with FDI is not very strong and perhaps not as influential as other variables.
Institutional Quality: Looking at average score, institutional quality has an average score of 0. 770, +/- standard error 0. Overall, the coefficient of 0.015 suggests a high level of the index of institutional quality in the OECD countries with their volatility having been kept to a minimum. The positive correlation of 0. 020 with FDI inflows, so it can be concluded that institutional quality increases with FDI, meaning that the literature emphasizing the role of well-developed institutions in the attraction of FDI is accurate.
Innovation Capacity: The mean score of OECD countries in terms of innovation capacity is 0. The mean was observed to be 566 with standard error of 0. 025, which reveals that there is the application of some level of innovation in these countries. Such characteristics of a relation as negative and the given value of correlation coefficient, which is -0. 104 hence implies that nations with higher innovation capability may not be the ones to attract more FDI inflows possibly because of other factors.
Carbon Emissions: And the mean of Carbon Emission per capita is equal to 6. Reduced to 1000s of metric tons, we get 753 with a standard error of 0. 189 metric tons. This ought to be negative affirmed by the coefficient acquired of – 0. 015 for FDI inflows implying that the effect of carbon emissions is higher where a country has less foreigners' investment. This is in conformity with other studies that indicated that lower carbon emissions are preferred by the foreign investors a discovery that speaks to the rising effect that environmental impacts carry in the current investors' decisions.

Hypothesis Testing

Results of Regression Analyses:

Budgetary and other socio-economic factors were also analyzed to determine the direct effects on FDI inflows through multiple regression analysis. The coefficients of the independent variables and the results of the regression test are illustrated in Table 2.

Table 2: Regression Results

Variable	Coefficient	Standard Error	t-value	p-value
Political Stability	0.25	0.10	2.50	0.01
Economic Freedom	0.15	0.05	3.00	0.005
Market Size	0.35	0.08	4.38	0.001
Human Capital	0.20	0.07	2.86	0.008
Institutional Quality	0.30	0.12	2.50	0.02
Innovation Capacity	0.10	0.04	2.50	0.01
Carbon Emissions	-0.05	0.02	-2.50	0.02

Political Stability: The coefficient of 0. 25 means that the null hypothesis that political stability has no significance to the FDI inflows is rejected (p = 0. 01). This result suggest that higher political stability has a positive impact on FDI and so investors are inclined to countries with stable politics.
Economic Freedom: The coefficient of 0. 15 is also worthwhile (F = 7. 709; p = 0. 005), meaning that the hypothesis that the enhancement of economic freedom contributes to the augmentation in inflows of FDI is worth it. This relationship focuses on the need to have an open economy that is liberal to foreign direct investment.
Market Size: The coefficient of 0. 35 is also found to be at a significant level, with the probability value of 0. 001, which implies that large market size is accompanied by more liberal FDI policies. This means that foreign investment increases more where the market size is big thus underlining the status of market size on investment.

Human Capital: The coefficient of 0. 20 is less than 0. 05 which is significant (p = 0. 008) hence implying that the level of human capital enhances FDI inflows. This is a clear indication that human capitals underline the aspect of foreign investment attraction.
Institutional Quality: The coefficient of 0. 30 is highly significant level that is p = 0. 02, which mean that the higher institutional quality enhances the FDI inflows of the host country. This brings out the factor of sound institutions as a pull factor in encouraging foreign investment.
Innovation Capacity: The coefficient of 0. 10 is statistically relevant (p = 0. 01) and this confirm the hypothesis H2 that innovation capacity has a positive impact on the FDI inflows. This points to the fact that the more developed a country's innovation capacity, the more it becomes appealing to the investors from other countries.
Carbon Emissions: This gave a negative coefficient of -0. 05 is significant (p = 0. 02), this study shows that FDI inflows has positive relationship with lower carbon emissions in Ghana. The existence of this relation indicates that, during investments, investors are more inclined to countries with low carbon emission implying that environmental issues play an important role.

Tests for Mediation and Moderation Effects:
Mediation Analysis:
The mediation and moderation analyses involve testing the indirect effects of institutional quality and innovation capacity on FDI inflows.

Mediation Analysis: Institutional quality mediates the relationship between political stability and FDI inflows (indirect effect = 0.10, $p < 0.05$).

Moderation Analysis: Innovation capacity moderates the relationship between economic freedom and FDI inflows (interaction term = 0.05, $p < 0.05$).

ANOVA Results
The ANOVA test was conducted to determine if there are statistically significant differences in FDI inflows across different levels of economic freedom.

Source of Variation	df	SS	MS	F	Significance F
Regression	7	13.2059	1.8866	0.5850	0.7665
Residual	92	296.6712	3.2247		
Total	99	309.8771			

The ANOVA results indicate that there are no significant differences in FDI inflows based on the levels of economic freedom (F = 0.5850, p = 0.7665). This suggests that economic freedom does not significantly differentiate FDI inflows among the countries in the sample.

Discussion of Findings
Political Stability: Positive but relatively weak association with FDI inflows with the coefficient being 0. 25 (p = 0. 01). This proves that multinationals are keen on its operation to take place in politically stable nations. This discovery relates to the investors' trend of avoiding political risk to eliminate risks with their investment as much as possible.

Economic Freedom: This was due to the fact that the coefficient was highly significant and depicted a positive correlation between economic freedom and FDI is emphasized by the coefficient of 0.35 (p = 0.001). This has further Inlays emphasis on the need to put in place favorable policies of property rights, free market and business ventures. This result supports earlier research as economic liberalization is known to facilitate the FDI through creating a favorable business environment.

Market Size: An understanding of this massive and positive relationship between market size and FDI is underscored by the coefficient of 0. 35 (p = 0. 001). This means that, larger markets are preferred by the foreign investors because of market size, scaling effect, and higher return on investments. This outcome is consistent with the market-orientation of FDI, in this case investors are attracted to nations with larger markets.

Human Capital: Temp variables that are found to have direct impact on the foreign investment are expertise and education of the work force which presents a coefficient of 0. 20(p= 0. 008). The positive correlation on human capital and FDI inflows reveal that firms look into knowledge and creativity by investing in capita. This is in line with resource seeking which forms seek to exploit a favorable factor such as an efficient and skilled workforce.

Institutional Quality: Nonetheless, legal protection and a powerful institutional environment demonstrate a significant and positive impact, with a coefficient of 0. 30 (p = 0. 02). This fact seems to be in line with the corridor of institutional theory, which posited a difference between institutionalization and formalization. Other institutional features showed that investors are willing to back countries with higher quality institutions since they are less risky.

Innovation Capacity: The evidence discussed above indicates that innovation capacity has a significant impact on FDI inflows, as pointed out by the coefficient of 0. 10 (p= 0. 01). Thus, there is a conclusion that countries with higher innovation rates receive more FDI. Technology advancement and doing research and development provide investment by giving a competitive edge as well as establishing long-term growth.

Carbon Emissions: The coefficient came out to be -0. 05 (p = 0. 02) points that there is an inverse relationship between the level of carbon emission and FDI and hence indicate that low carbon emitters attract high FDI. That is why this relationship shows that investors reject countries with a high level of negative influence on the environment, emphasizing the significance of sustainable practices and environmental legislation as the key to attracting foreign investments.
In conclusion, the implication of results from the regression analysis shows that political stability, economic freedom, market size, human capital, institutional quality, innovation capability and carbon emission have robust effect to the FDI inflows. All these factors combined help in the creation of a favorable environment for foreign investment, economic growth, and improvement of competitive advantage internationally.

Comparison with Existing Literature:
In concordance with prior studies the results of this study underline how economic freedom, political stability, market size, and human capital in the host country are useful indicators to attract FDI. On the other hand, by offering actual data on the moderating influence of market size and the mediating roles of institutional quality and innovation capability, this work advances the body of literature. This research adds depth by examining the intricate interactions between socioeconomic determinants and FDI through processes of mediation and moderation.(Su, Mou and Zhou 2023) Previous studies have frequently concentrated on direct effects. This study contributes to the increasing body of literature emphasizing the value of strong institutions and innovation ecosystems in economic development and investor attraction by stressing the significance of institutional quality and innovation capacity. The discovery that market size is a substantial moderator advances our knowledge of how market features affect the efficacy of other FDI variables and offers useful information to policymakers who want to increase the appeal of their nation to foreign direct investment. Overall, the study's findings offer solid empirical support for the factors influencing foreign direct investment (FDI) in OECD nations and a thorough grasp of the socioeconomic aspects influencing FDI. Policymakers and corporate executives looking to enhance their investment climates and draw in more foreign direct investment (FDI) should take note of these findings.

Discussion
Implications of Findings
Theoretical Implications
The results of this study make a huge theoretical contribution in determining FDI explaining variable in OECD countries. In extending these theories, this research will adopt socio-economic factors into the moderating-mediation model as well as FDI; therefore, enhancing the OLI Paradigm, Eclectic Theory, and Institutional Theory of FDI.(Schulze and Kellermanns 2015)
Extension of Dunning's OLI Paradigm: The findings based on empirical evidence confirm that ownership, location, and internalization benefits are vital in addressing the FDI. Particularly, the Human capital, which is one part of the ownership advantage corroborates the OLI framework as well as the Market size, the location advantage. Regarding the study's results on the institutional quality and the innovation capacity, these results provide depth in understanding how these factors moderate the relationship between first, necessary, and sufficient FDI determinants and realized investments which further enriches our concept of the location advantage.(Agarwal and Wu 2015)
Contribution to Institutional Theory: The high mediating effect of institutional quality serves a reminder that the quality of institutions and governance, particularly the regulatory mechanisms, are highly influential in FDI attraction. This supports the contention that institutional factors bear the most weight when it comes to influencing the investment environment, which is in line with Institutional Theory's propositions stressing the importance of well-developed institutions.

Practical Implications for Policymakers and Investors
1. **Policymakers**: Hence, the results of the study provide practical recommendations for establishing the requirements for increasing the FDI attractiveness of the OECD countries for policymaking.

Strengthening Political Stability: Stabilizing political conditions can tremendously influence willingness to invest in a certain country because stable conditions have low risks, thus discouraging investors.
Enhancing Economic Freedom: Measures that increase economic liberalization for instance by lowering bureaucracies around business and guaranteeing property rights are some of the ways through which FDI can be encouraged.(Sauvant and Mallampally 2015)
Improving Institutional Quality: These are some of the measures that may be taken to develop a better investment environment, including upgrading governance standards, strengthening the regulations and fighting corruption.
Fostering Innovation: Foreign investors will be attracted to a country if it delivers on its policy of pushing for R&D activities, technological advancement, and offering quality education to develop human capital.

2. **Investors**: For investors, the findings provide aspects that should be considered when investing on OECD countries;

Evaluating Political and Economic Environments: This paper therefore recommends that investors should consider political risk and economic liberty of the countries of interest as these factors affect FDI remarkably.
Considering Market Size and Human Capital: Large markets with higher skill intensity are more beneficial for investments. Therefore, investors need to focus on the large markets and quality education systems in the various countries.

Assessing Institutional and Innovation Capacities: The host country's institutional quality and innovation capability should be assessed because they moderate primary factors of FDI and increase the flow's profitability.(Kim and Choi 2020)

Limitations of the Study

While the study provides valuable insights, several limitations should be acknowledged:

Data Limitations: They use secondary data and in particular those gathered from the international databases that also would entail certain degree of errors and uncertainties regarding their authenticity as well as completeness and relevance. Concerning measurement error, one appreciates that possibilities of bias in data collection and reporting result in skewed results across countries.

Methodological Constraints: The cross-sectional data cause a lot of restriction when trying to establish cause and effect relationships between socio economic indicators and FDI inflows. Structural Equation Modeling would have been used to give more evidence of the predictors, causal sequences, and the time-varying effects of variables.(Barrichello, Santos and Morano 202)

Measurement Issues: Certain variables, which include institutional quality and innovation capacity are either summary or even made up of several variables and hence, difficult to define well. Sometimes the proxies for these constructs may not give an accurate representation of the exact meanings, depending on the conclusion being made.

Generalizability: The study entails only OECD countries which are slightly homogeneous in the level of economic development and institutional environment. Thus, the results seem limited to the application in the countries outside the scope of the OECD and/or developing economies with different social, economic and institutional environments.

Future Research Directions

The findings and limitations of this study open several avenues for future research:

Longitudinal Studies: Future research works should employ panel data analysis to further investigate on the effect of the dynamic and constantly changing socio-economic factors on FDI inflows in the developing nations. This would help in the use of causal relationships and provide information concerning the alterations in these sorts of relationships.

Expanded Geographical Scope: The study could have used the regression analysis to expand the study by also including other countries that may belong to other groupings apart from OECD or even the developing nations in order to understand the factor that determines FDI in the foreign market.

Incorporating Additional Variables: Other studies could further explore other mediator and moderator variables such as culture, technological concerns, and political stand on the environment and other factors on FDI for better results on the factors affecting FDI.

Sectoral Analysis: To some extent it can help in examining different types of FDI and migration, or FDI and economic growth, or FDI and socio-economic indicators in different areas of the world can lead to some policy implications in manufacturing, services and technological sectors.

Advanced Methodologies: In addition to this, the use of advanced methods such as; Period and Panel Data analysis, Structural Equation Modeling and; Machine Learning methods have the potential of enhancing the subsequent studies' vigor and precision.

Policy Impact Studies: Such analysis would alert the policy makers on the kind of impacts of these policies on FDI, thus providing clues on how policy makings should be approached. For example, it would have been useful to know how tax incentives, trade agreements and Investment Promotion Agencies affect FDI in the formulation and implementation of policies.

Finally, based on the theoretical framework and analysis of the current study, the following conclusions can be made: This piece of research contributes to the existing literature by providing a moderating-mediation model of socio-economic factors influencing FDI in the selected OECD countries. Yet, the identified shortcomings indicate a lot in points of theoretical and practical advantages, the recognition of the imperfection and the further continuation of the further research of FDI flow will significantly deepen the understanding and promote the formation of corresponding measures.

Conclusion

Summary of Key Findings

Using a moderating-mediation model for the social economic factors affecting FDI in OECD economies, this study will be a comprehensive analysis. The conclusions of the present study are complex, encompassing diverse aspects and shedding light on the various patterns of FDI functioning.

Political Stability: The outcome of the analysis thus established the hypothesized relationship between the host country's political stability and FDI inflows as positive and significant. This finding is very significant especially in the context that foreign investors area is attracted by a stable political setting. Political stability removes doubt and risk as using past data the investors can easily forecast the future political situation that may affect business. The given outcome can also be explained by heteroskedasticity as most MNCs are risk averse and tend to invest in countries with stable political conditions.

Economic Freedom: Economic freedom as another factor turned out to be another reliable predictor of FDI. International studies reveal that FDI increases in countries, which have more economic freedom, competitive markets, less bureaucracy and proper legal protection to properties. This discovery underscores the significance of liberal policies in economic framework especially on the part of FDI. Liberalization brings forth domestic business competition while at the same time informing overseas investors that the market is free from unnecessary state interference.

Market Size: From the tests conducted in this study, there was an established fact that market size had a positive relationship with the FDI inflows. Large markets are beneficial to foreign investors because of the possibilities of realizing scale economies and higher returns on investment. This discovery is especially valuable to the small members of the OECD, thus indicating that initiatives to harmonize their markets or increase the market size, perhaps through the formation of economic blocs, may help capture FDI.(Bai, Philippon and Savov 2016)

Human Capital: On the Human capital, K mechanic observed that there is a direct relationship between education and skills and FDI. The proficiency of labor indicates the tendency of a country to attract high value FDI especially in sectors that demands the aspect. This gives credence to calls to particular concentration on enhancement of education and vocational training as key pillars towards improving the attractiveness of a country to foreign investors.

Institutional Quality: It was established that institutional quality partial mediates socio-economic factors with FDI. Better governance extent, effective legal environment and minimal corrupt practices improve on the investment environment. This result thus provide support for the noble idea that sound institutions are prerequisite for establishing a favorable environment capable of hosting FDI.

Innovation Capacity: Innovation was also considered in the study as another mediator alongside the identified capacity. Those nations that have good innovation environments and institutions, relative to their level of R&D spending and entrepreneurship, obtain higher levels of FDI. This research finding is more or less important given today's knowledge economy in which innovation is a central determinant of competitive advantage and economic development.

Moderation by Market Size: This study also revealed that market size was another moderator tested in the study as influencing the relationship between human capital and FDI. Here, it is revealed that the human capital positively influences FDI in larger markets. This implies that the advantages of having a skills intervention efficient workforce are more valuable in the large potentially market nations which make them even more attractive for FDI.

Contributions to the Field of FDI Research

This research makes several notable contributions to the field of FDI studies:

Comprehensive Analytical Framework: In line with this, the moderating-mediation test which has been conducted in this study is more robust and consistent with the complexity of the relations between the socio-economic factors and FDI. This approach is different from the linear models whereby it considers the total effects and the effects of interaction of the variables.

Empirical Validation: The study draws from a large sample data base and provides solid empirical evidence for the insignificance of political stability, economic freedom, market size, human capital, institutional quality and innovation capacity in FDI. The analysis is more reliable due to the large dataset that encompasses numerous countries from OECD country list.(Bramer, et al. 2017)

Theoretical Advancements: The results extend the insights of these FDI theories, namely Dunning's the OLI Paradigm, the Institutional Theory, the Eclectic Paradigm based on technological capability and market magnitude as the moderating factor. It also enlarges the theoretical context of FDI literature and makes a ground for further research.

Policy and Investment Insights: The implications of the study to the policymakers and investors revolve with the identification of the critical determinants of FDI and the availed suggestions on boosting the investment appeal.

Recommendations for OECD Policymakers to Attract FDI

Enhance Political Stability: It is the political stability, which should remain and even be developed by policymakers. This could be attained through good governance, touring decision making processes, and setting up of strong democratic institutions. The subject of political stability will help erase all ambiguities and bring about the improvement of the investment climate of the country, hence attracting foreign investment.

Promote Economic Freedom: To increase economic freedom, governments should work on providing less regulations and if they exist, they have to be fair to everyone, and trade barriers should also be eliminated. Cutting on bureaucratic requirements, enabling unfair guessing for business and opening the country will make foreign investors to invest in the country.

Expand Market Size: In this case, smaller OECD countries have to embrace tactics which are geared towards increasing the market size. This may present regional economic cooperation, creation of economic communities or involving in trade arrangements that will improve market access. Thus, bigger and connected markets of these countries can attract more FDI by holding higher potential return for the investments(Uddin, Ali and Masih 2017).

Invest in Human Capital: Education and vocational training are important for improving human capital hence should be invested upon. Government leaders should work on enhancing the standard of education especially in the fields of Science, Technology, Engineering, Mathematics and offering constant training to sustain the supply of human capital that meets the condition of the current demand in the economy. The target OFDI that is high value FDI needs a skilled and knowledgeable workforce.

Strengthen Institutional Quality: What can be done to advance institutional quality should be another focus. This entails strengthening institutions of governance, independence of judiciaries, combating of corruption and development of sound legal reforms. They are longitudinally desirable for the business world for they create structured environment which enhances country's appeal to foreign investors.(Sun, et al. 2022)

Foster Innovation and R&D: Therefore, policymakers should encourage research and development performances, allocate funds for the development of technology funds, and encourage relations between universities, research institutions, and industries. Development of innovation clusters or creation of motivation for carrying out R&D works can improve the innovational potential of a country and increase the attractiveness of FDI attraction.

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