



universität
wien

MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

„Are Central and East European Countries
underestimated from investors - a comparison of foreign
direct investment determinants“

verfasst von / submitted by

Radina Mihneva, BSc

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of
Master of Science (MSc)

Wien, 2022/ Vienna 2022

Studienkennzahl lt. Studienblatt /
degree programme code as it appears on
the student record sheet:

UA 066915

Studienrichtung lt. Studienblatt /
degree programme as it appears on
the student record sheet:

Masterstudium Betriebswirtschaft

Betreut von / Supervisor:

ao. Univ.-Prof. Mag. Dr. Josef Windsperger

Mitbetreut von / Co-Supervisor:

Mag. Oksana Galak, PhD



With the support of the
Erasmus+ Programme
of the European Union

The research on this Master's Thesis with the title "Are Central and East European Countries underestimated from investors - a comparison of foreign direct investment determinants" was conducted by Radina Mihneva, under the supervision of Prof. Windsperger, and co-supervision of Mag. Oksana Galak, PhD within the framework of the Erasmus+ Jean Monnet Project "International Business – Strategies for Integrated Europe" (IBSIE).

Jean Monnet Module IBSIE (620581-EPP-1-2020-1-AT-EPPJMO-MODULE) is a project being implemented throughout 2020-2023 at the Faculty of Business, Economics and Statistics of the University of Vienna with the support of the European Commission.

The European Commission's support does not constitute an endorsement of the contents, which reflect the views only of the authors, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

Acknowledgements

Foremost, I would like to express my gratitude to my supervisor, a.o. Univ.-Prof. Mag. Josef Windsperger for helping me develop the idea for this topic and for the opportunity of writing this master thesis under his supervision. Further, I would like to express a sensuous gratitude to my co-supervisor Mag. Oksana Galak, PhD for her generous and valuable guidance and engagement throughout the whole process of writing this thesis.

I would like to express my profound gratitude to my family for providing me with unconditional love and support through my years of study and fostering me to be persistent and to have perseverance against all odds. I would like to thank my mother and my father for all the support they provided me with, I am more than thankful for all the opportunities that you have given me in my life. I would also like to thank my brother for his continuous encouragement and all the advice that he has ever given to me! I would like to thank him for always being there for me and encouraging me to keep pursuing my goals. Dear family, my academic journey would not have been possible without your help. Thank you!

Last, but not least, “thank you” to all my friends for showing me the bright side of life and making me laugh even when I thought the sky was falling down!

Radina Mihneva

Table of Contents

<i>List of Tables</i>	<i>vi</i>
<i>List of Figures</i>	<i>vi</i>
<i>List of Abbreviations</i>	<i>vii</i>
1. Introduction	8
1.1 Problem Statement and Objectives	8
1.2 Methodology	9
1.3 Structure and Organization	9
2. Definitions and Theories of FDI	11
2.1 Definitions of Foreign Direct Investment	11
2.2 FDI Theories	13
2.2.1 Vernon's Life Cycle Theory	14
2.2.2 Stephan Hymer 's contribution to FDI theories	17
2.2.3 Dunning's Theory	18
2.2.4 Institutional Theory	21
3. Motives for FDI	24
3.1 Market-seeking motive	24
3.2 Efficiency-seeking motive	25
3.3 Resources-seeking motive	26
3.4 Strategic assets-seeking motive	27
4. Determinants of FDI	29
4.1 Review on Selected FDI Determinants	29
4.2 Institutional Quality	33
4.3 Empirical Research on the Relationship Between the Institutional Quality and FDI	39
5. Foreign Direct Investment and Institutional Quality in Central and East European Countries	46
5.1 Central and East European Countries	46
5.2 Institutional Quality, Business Environment and FDI inflows in CEE Countries: Strong and Weak Points	47
6. Empirical Part	70
6.1 Empirical Methodology and Sample Description	70
6.2 Results	74
7. Conclusion	79

<i>8. Bibliography</i>	<i>82</i>
<i>9. Appendix</i>	<i>93</i>
Abstract English.....	93
Abstract German/ Zusammenfassung Deutsch.....	94
Dataset.....	95

List of Tables

Table 1: OLI Approach as per Dunning (1981a: 32).....	19
Table 2: Economic Freedom Scores.....	38
Table 3: List of Selected Papers Observing the Relationship Between FDI and Institutional Quality	42
Table 4: Variable Description	73
Table 5: Variance Inflation Factor	74
Table 6: OLS Regression.....	75
Table 7: Fixed Effect Regression	76
Table 8: Hausmann (1978) Specification Test.....	76
Table 9: Breusch-Pagan Test.....	77
Table 10: Random Effect Regression.....	78

List of Figures

Figure 1: Product Life Cycle (according to Vernon)	15
Figure 2: Determinants of FDI as per Dunning (Dunning 1988, 2001)	20
Figure 3: Connected Papers graph representation	40
Figure 4: Index of Economic Freedom and FDI inflows, net for Bulgaria, 2000-2019.....	49
Figure 5: Index of Economic Freedom and FDI inflows, net for Croatia, 2000-2019	51
Figure 6: Index of Economic Freedom and FDI inflows, net for Czech Republic, 2000-2019	53
Figure 7: Index of Economic Freedom and FDI inflows, net for Hungary, 2000-2019.....	54
Figure 8: Index of Economic Freedom and FDI inflows, net for Poland, 2000-2019.....	56
Figure 9: Index of Economic Freedom and FDI inflows, net for Slovakia, 2000-2019.....	58
Figure 10: Index of Economic Freedom and FDI inflows, net for Slovenia, 2000-2019.....	60
Figure 11: Index of Economic Freedom and FDI inflows, net for Romania, 2000-2019	61
Figure 12: Index of Economic Freedom and FDI inflows, net for Estonia, 2000-2019	63
Figure 13: Index of Economic Freedom and FDI inflows, net for Latvia, 2000-2019	65
Figure 14: Index of Economic Freedom and FDI inflows, net for Lithuania, 2000-2019.....	66

List of Abbreviations

BLUE	Best Linear Unbiased Estimator
CEE	Central and East European countries
EU	European Union
FDI	Foreign Direct Investment
FPI	Foreign Portfolio Investment
FTA	Free Trade Agreements
GDP	Gross Domestic Product
HO	Heckscher-Ohlin
ICT	Information and Communication Technology
MNC	Multinational Company
OECD	Organization for Economic Cooperation and Development
IBA	Invest Bulgaria Agency
ICRG	International Country Risk Guide Index
IEF	Index of Economic freedom
IQ	Institutional Quality
OLS	Ordinary Least Squares
PLC	Product Life Cycle theory
R&D	Research and Development
UNCTAD	United Nations Conference on Trade and Development
V4	Visegrad Four
VIF	Variance Inflation Factor
WGI	Worldwide Governance Indicators

1.Introduction

The first Chapter introduces the reader to the problem statement, the objectives, and the research question of the thesis. In addition, information on the structure and the used methodology of this work is provided.

1.1 Problem Statement and Objectives

Foreign direct investment (FDI) has been in the spotlight of researchers for many years. Investors are very cautious when they choose the country to invest in. Various determinants are influencing the choice of the direct investors when choosing a host country. Peres et al. (2018) state that transitioning countries and developing countries are aiming to improve the quality of their institutions in order to attract more FDI. Besides, Dorozynski et al. (2020) argue that: there are many papers that observe the influence of the institutions over the FDI inflows around the globe. Most of those papers are focused on developing and developed countries. However, the authors state, that countries in transition are also considered. Dorozynski et al. emphasizes, that researchers have observed countries from Eastern Europe, South-East Asia and parts of Africa. The authors continue stating that not much research has been done in the countries from Central and Eastern Europe.

The main objective of the thesis is to add to the already existing literature that observes the impact of institutional quality over FDI inflows in Central and East European countries (CEE) countries. To the best of the author's knowledge no research papers have observed this impact for the time period from 2009 to 2019.

This thesis aims to provide an answer to the following research question: Does institutional quality have an effect on the volume of the on attracted FDI inflows in Central and East European countries between 2009 and 2019?

In accordance with the research question the following hypothesis is developed:

H: Institutional quality had a positive effect on FDI inflow in CEE countries between 2009-2019.

1.2 Methodology

The methodology used in the literature review part of this thesis is done with the use of the visual tool, which is called Connected Papers. The tool gives a graphical representation of topic-related papers based on a search query. The tool works in the following way: Connected Papers builds a graph and orders the papers based on their similarity. That means that even papers that do not directly cite each other can be strongly connected and very closely positioned. Connected Papers is not a citation tree. According to (*Connected Papers | Find and Explore Academic Papers*, n.d.) the similarity metric is based on the concepts of that rests on co-citation and grouping the texts based on their bibliography. The algorithm that Connected Papers uses, puts papers that are close to each other in the graph that represents a tree. By contrast, papers that are less similar to each other are positioned by the algorithm away from each other.

Using the Connected Papers visual tool, the literature review part of this thesis will be conducted in a more precise and accurate and time-saving way. More information about how Connected Papers is used is provided in Chapter 4.3.

What is more, in order to present the quantitative data for FDI and the institutional quality in more reader-friendly way I have used two tools. These are: Microsoft Excel and Tableau. Using them allows representing better the data via charts, graphs and figures. Both tools are representing quantitative data.

In addition, the empirical part of this thesis is done with the software for statistics and data analysis - Stata. More information, regarding the empirical part is presented in Chapter 5.

1.3 Structure and Organization

This thesis is organized as follows: The second Chapter presents relevant definitions and topics that are intended to provide the reader with a better understanding of the problem statement and the research question.

Chapter three provides information on the motivations of investors when making investments abroad. In addition to the four motives presented by Dunning (1993/1998) other determinants, that rest on the theories and motives are presented in Chapter four. The second subchapter of Chapter 4 is focused on the institutional quality as an important determinant for direct investors when selecting the country to invest in. A

brief description based on already existing studies of what institutional quality is, how it is measured and the existing literature regarding this topic is presented. In addition, a summary of empirical studies which have examined the importance of institutional quality in various countries/regions worldwide is also provided.

The fifth chapter is one of the two main chapters of this thesis. It provides information related to countries of Central and Eastern Europe. In the chapters' subchapter the reader is introduced to the strong and weak points in the business environment of the CEE countries as an important driver of FDI attraction. Aspects that are considered as components of the institutional quality are in focus. After that the reader is introduced to the FDI inflows for the countries from CEE for the time period 2009-2019.

Chapter six is the second main chapter of this study and sets out the empirical part of the thesis. The Chapter gives details on the data used, the methodology and the results of the empirical part. Moreover, this subchapter analyses the results of the hypothesis tests and thus aims to give an answer to the research question of the thesis.

Lastly, chapter eight concludes this thesis. Summarized results from both the literature review part and the empirical part are presented as well as a discussion. In addition, recommendation for future research is also discussed.

2. Definitions and Theories of FDI

In this chapter definitions of FDI are presented. What is more, to provide the reader with a better understanding of the essence of the theory, some of the FDI theories that are related to the research question are presented. The aim of this chapter is to provide a theoretical bridge that connects the overall theory regarding FDI and the determinants of FDI that rest on those theories, which are presented in Chapter four.

2.1 Definitions of Foreign Direct Investment

There are different explanations that exist in the academic literature regarding what FDI is. Most of the academic literature uses the definitions that the Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) have adapted in order to explain FDIs. The Organization for Economic Cooperation and Development gives the following official definition:

“Foreign direct investment (FDI) is a category of investment that reflects the objective of establishing a lasting interest by a resident enterprise in one economy (direct investor) in an enterprise (direct investment enterprise) that is resident in an economy other than that of the direct investor. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the enterprise” (OECD 2009, p. 234).

Important part of the OECD (2009) definition considers the lasting interest of the investor. To have a lasting interest the investor should have at least ten percent of the shares of the company or voting rights. Even though sometimes owning less than ten percent of the voting powers could provide the investor with enough influence over the decisions of the company, in order to have a consistent methodological recommendation globally the percentage threshold should be considered.

Besides, FDI is also defined as:

“... an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)” UNCTAD (2017, p. 3).

In addition, Ragazzi (1973) provides the following definition of FDI: “Foreign direct investment is the amount invested by residents of a country in a foreign enterprise over which they have effective control” (Ragazzi 1973, p. 471).

There are no other strict definitions of what FDI is, to the best of the authors knowledge. When considering the types of flows of FDI one should be aware that the FDI flows can be either inward or outward. UNCTAD Handbook of Statistics 2019, Fact sheet #9 emphasize, that if a foreign affiliate receives capital from an investor, then this is FDI inflow, if the capital flows to another, foreign economy, then it is FDI outflow.

The UNCTAD report (2007) explains the changes in the balance of payments regarding FDI inflows and outflow as follows:

“Net decreases in assets (outward FDI) or net increases in liabilities (inward FDI) are recorded as credits (recorded with a positive sign in the balance of payments), while net increases in assets or net decreases in liabilities are recorded as debits (recorded with an opposite sign in the balance of payments)” (UNCTAD report 2007, p. 246).

It is important to distinguish between foreign direct investment and foreign portfolio investment (FPI), as sometimes they are mixed up. Both FDI and FPI are a vital element of the foreign funding of an economy. “Portfolio investment is defined as cross border transactions and positions involving debt or equity securities, other than those included in direct investment or reserve assets” International Monetary Fund (2009, p.110). An important feature of the securities is the negotiability. It allows investors to diversify their portfolios. The negotiability enhances an easy trade of the securities and as a result a security can be held in different portfolios during their lives. Unlike FDI, FPI is rather a passive ownership of a company. This means that the investor cannot influence the decision taken by the management. Most common FPI investments include bonds, mutual funds, stocks, etc.

2.2 FDI Theories

There are different theories on which the concept of FDI is built. Those theories also help for a better understanding of what determines FDI and how exactly FDI works. According to Makoni (2015) there is no consensus among the scholars on one general theory that explains FDI. Makoni (2015) argues, that some early explanations of how FDI works can be found in the works of Adam Smith and David Ricardo¹. However, Denisia (2010) notes that Ricardo's theory is unable to explain FDI, because his theory is too specific, focusing on two countries and specific conditions, such as exchange of goods between them. Denisia (2010) argues that such model is unable to represent FDI. Faeth (2009), claims that the first theoretical explanation of FDI was based on the Heckscher-Ohlin (HO)² model. According to Giri (2007) the Heckscher-Ohlin model is different from the Ricardian model in two aspects. Giri (2007) claims that the HO model is more realistic in comparison to the Ricardian model, because a second factor of production, namely the capital is introduced in the HO model. Another reason that the researcher points out is the fact that comparative advantage is in terms of factor allocation between the countries, but not in differences in the technology. What is more, the Heckscher-Ohlin model assumes that the production technologies that are available for the countries are the same.

Undoubtedly, researchers find it difficult to agree upon one single theory that explains the origin of foreign direct investment. According to Marandu and Ditshweu (2018) an agreement upon one single theory that explains FDI may be conducted only in a way in which terms and definitions are borrowed from different scientific fields. The authors mention some fields from which a possible definition might be built up: economics, some of the subfields of economics and behavioral science.

Cywiński and Harasym (2012) and Denisia (2010) point out that FDI theories could be separated as macroeconomic and microeconomic. According to the authors

¹In his most remarkable work "The Wealth of Nations" from 1776 Adam Smith describes the idea of the absolute advantage and trade between two nations. David Ricardo introduces in his work "On the Principles of Political Economy and Taxation" (1817) the idea about the comparative advantage and trade between countries, specializing in different sectors.

²Heckscher-Ohlin theory was firstly developed by Eli Heckscher in 1919 and later in 1924 Heckscher's student Bertil Ohlin expanded on his professor's concept. The model describes how a country should function and trade when resources are unevenly distributed around the world.

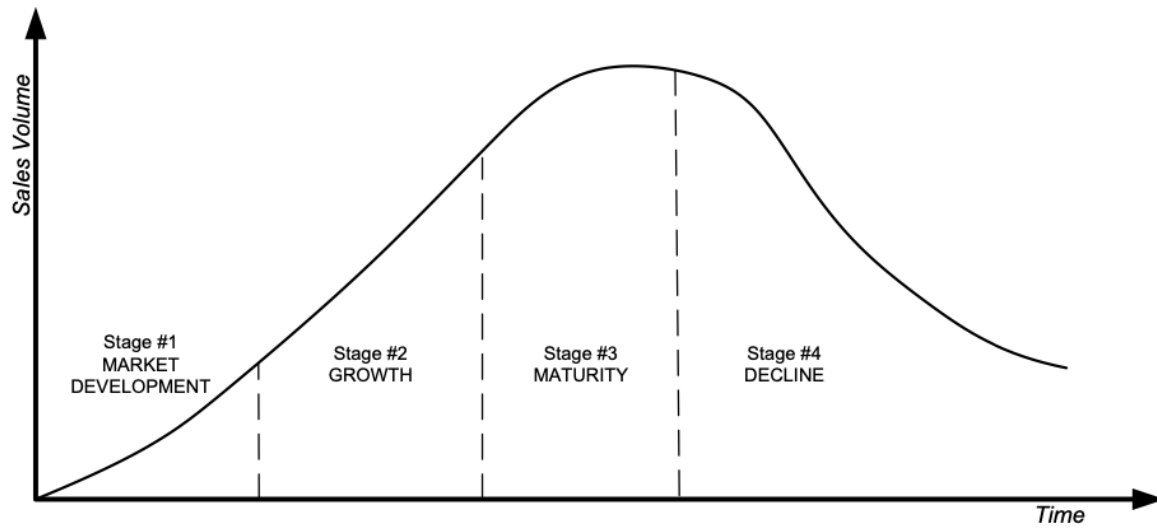
microeconomic theories are adapting a bottom-up approach, while macroeconomic theories are using a top-down approach in order to explain the FDI. Cywiński and Harasym (2012) also point out that microeconomic theories are considered to be more progressive. Makoni (2015) states that microeconomic theories look at FDI from firm-perspective. They rather consider ownership advantages of the firm. Cywiński and Harasym (2012) remind us that Hymer's monopolistic advantage theory is considered to be one of the most popular theories that observes FDI from a microeconomic angle. Both scholars continue stating that other microeconomic FDI theories are the Ownership Advantage Theory, Vernon's product life cycle theory, the Eclectic theory of international production and the Internalization theory. By contrast, according to Makoni (2015) macroeconomic foreign direct investment theories are focused on factors or advantages at country level.

Gorynia, et al. (2007) states that the reasons why firms invest in specific countries have been in the spotlight of many international production theories and paradigms developed by S.H. Hymer, R. Vernon, J.H.Dunning, J.F.Hennart, A.M.Rugman and many more. In order to gain a better understanding of what drives the direct investors to invest in specific countries, in the following subchapters I will provide a short overview of some of the FDI-related theories.

2.2.1 Vernon's Life Cycle Theory

Raymond Vernon introduced the product life cycle theory (PLC theory) in the second half of the last century. Vernon (1966) frames a theory that is used to describe the life cycle of a product and to outline the incentives of firms to produce the product in foreign markets in a specific stage of the product's life. Vernon states that each product has a life cycle, and he divides the product life into four stages. According to the Vernon PLC theory, these stages are development, growth, maturity and the decline stage. In the figure representation below the four stages are presented.

Figure 1: Product Life Cycle (according to Vernon)



Source: reprinted from Cao and Folan 2012, p. 12

The following explanations of the life cycle theory are based mainly on Vernon (1966, 1979).

In the development stage a new product is invented. The product is available domestically because there is less uncertainty in the domestic market. Prices are generally high at this point since there is no mass production. According to Vernon (1966, 1979) firms would choose in this phase developed countries to produce the new products. He underlines the fact as a reason, that those countries not only have human capital that could be used in the development phase, but also research and development institutions and technological advantages from which a firm can benefit. Once the product has gained popularity and is successful and recognizable on the market, then the sales and the production will go up. The scholar argues that a logical step after that is for the product to go abroad and reach new markets and customers, i.e., the product to be exported. This, according to Vernon (1966, 1979) marks the transition from growth stage to the maturity stage. So, the product can then be offered also in other foreign countries. As the product grows in popularity, competition arises, and so other competing products enter the market. If a firm decides to invest abroad in a product that is in the growth phase, then as a result the overall expenses of the multinational company (MNC) will decrease. One of the possible reasons for the cost minimization could be the lower transportation cost. Let's take as an example a French firm that produces goods that are highly demanded in the Indian market. The firm

decides to invest in India and moves its production there, due to the increased demand for the produced goods. This will result in lower transportation costs. Another reason for the cost minimization could be the fact that the labor costs in India are going to be lower than the labour costs in France. Should the company decide to introduce the mass production, then the costs will decrease further.

In the maturity stage the sales volume reaches its peak and starts to decline gradually. The production cost in this stage could be reduced further if the enterprise decides to relocate the mass production to developing countries. Reason for that is the fact that, the production costs there will be lower, leading to overall decline in the costs. Once the mass production is relocated to the developing countries, then the developing countries will supply the developed ones with production, i.e., exporters will begin to import.

In the final stage, the phase of decline, there is less or even no demand for the product, as the market is already satisfied. A decline in the sales volume is likely to be observed. However, developed countries can at that point invest time and human capital in order to develop new, innovative products. Vernon's theory aims to provide more insight about the decision why certain companies undertake FDI at certain stages of the life cycle of the product that they have invented.

Marandu and Ditshweu (2018) argue that the stages in the PLC theory show how the comparative advantage is at first in possession of one nation, later moves to the second nation. The authors state, that investors are usually driven by the comparative advantage, but should be aware of the regulations that domestic government sets in order to prevent domestic investors. However, Blomström (2002) states, that investors are usually attracted by host country governments, which offer lucrative conditions for an investment.

According to Cantwell (1995, as cited in Doh 2005), many scholars are interrogating the validity of Vernon's PLC theory. Makoni (2015) argues, that the PLC theory considers only the aspects related to the location of an investment, but not the aspects of the ownership rights of the production. In addition, Dhalla & Yuspeh (1976) argue that when brands are considered, then the PLC is even less valid. Both scholars argue that the vast majority of potentially good products die in the first stage, due to improper product development or poor market planning, or both. Even Vernon himself questioned his theory after its first publication. Vernon (1979) states that the PLC

theory might lose its relevance due to the constantly changing environment of international trade.

However, the PLC theory brings with itself important factors that have an influence over the decision of FDI investment. Makoni (2015) argues, that the determinants for FDI that are associated with the PLC theory are technological innovation, in this regard the technologies used in the development of new products and the market size.

2.2.2 Stephan Hymer 's contribution to FDI theories

Stephan Hymer (1934-1974) was a Canadian economist. His focus was mainly on the multinational firms and their activities. His PhD thesis "The International Operations of National Firms: A Study of Direct Foreign Investment" published only after his death in 1976 is a pioneering contribution in the field of MNE and foreign direct investments (Dunning & Pitelis 2008).

Hymer (1960) argues that firms differ in the advantages that they hold.

In addition, Hymer (1960) has acknowledged the importance of the advantages that domestic firms possess, compared to foreign companies. The researcher argued about the importance of main advantages that a national firm has regarding prevalent information about its own country - knowing the culture, laws, and the economy of the country. By contrast a foreign MNC may have to acquire this general information at a specific cost. However, according to the Hymer (1960), the cost that needs to be paid will not be a continuous payment, but rather a fixed payment. The phenomenon that describes the lack of knowledge in such a situation is known as liability of foreignness. According to Hymer's theory, in order to overcome the disadvantages that arise from the liability of foreignness, a firm that wants to invest in a foreign market should possess specific advantages. These advantages need to bring more profit for the company than the incurred expenses, so that the investment can be profitable.

Hymer (1960) states that a FDI will be profitable for a firm, only when the firm possess the already mentioned specific advantages. The possession of specific advantages will allow MNC to outplay the advantages, that a local firm has.

Important is to mention, that Hymer's contributions shaped some of the determinants of FDI, such as raw materials, access to cheap labour force and firm-specific assets like trademarks (Makoni, 2015).

2.2.3 Dunning's Theory

The Eclectic paradigm or the OLI Framework was initially introduced by John H. Dunning³. Dunning (1979) states that he was not satisfied by the already existing theories that explain the international production and as a result he developed the eclectic paradigm. The paradigm is viewed as a comprehensive framework that explores foreign direct investment and the incentives of the companies to invest in a foreign country. According to Sharmiladevi (2017) the theory aims to bring more insight regarding the decisions of direct investors to invest abroad and how those decisions are influenced by an ownership, location and internalization advantages. As stated by Wenke et al. (2005), the eclectic paradigm has been used as a base for many researchers for analyzing and studying the determinants behind the FDI.

In addition the aim of the theory is "... to offer a holistic framework by which it was possible to identify and evaluate the significance of the factors influencing both the initial act of foreign production by enterprises and the growth of such production" Dunning (1988, p.1).

As mentioned before, the paradigm is also known as OLI Framework. The acronym OLI stands for: ownership advantages (or firm-specific advantages), location advantages and internalization advantages. According to Sharmiladevi (2017), the OLI variables, that build up the OLI Framework are tightly connected. What is more, Wenke et al. (2005) state that the three components of the OLI framework should be considered all together and not separately.

Dunning (1979) looks at the OLI advantages as conditions, which a firm should carry out when interested to invest in a foreign country. According to Dunning (1979) these advantages are the following:

- 1) Ownership advantages (O advantages), are advantages in form of intangible assets. Important is to be mentioned that, according to Dunning (1979) only the firm that owns those assets has the right to use them.
- 2) Internalization advantages (I advantages) are those advantages, according to Dunning (1979) if the firm already owns ownership advantages, then the firm should not sell or exchange them, but rather use and benefit from them.

³John Dunning is recognized in the academic fields as the father in the field of International Business (Henley Business School, 2020, December 17).

- 3) Location advantages (L advantages) - If the firm already possess ownership advantages and uses them, then as per Dunning (1979), the firm should benefit from those advantages while combining them with other factors for example raw materials.

Under O advantages Dunning (1979) lists: ownership and patent rights and trademark. Examples of L advantages according to Dunning (1979) include size of the market, availability of labour force, exchange rates, availability of natural resources, political stability, government intervention, etc. I advantages are considered as situations in which the MNC can avoid costs related to property rights, tax or various quotas Dunning (1979).

The Table below provides a representation of the already described OLI Approach.

Table 1: OLI Approach as per Dunning (1981a: 32)

Ownership advantages	Location advantages	Internalization advantages	Route of serving market
yes	yes	yes	⇒ Foreign direct investment
yes	no	yes	⇒ Exports
yes	no	no	⇒ Contractual resource transfers

Source: reprinted from König 2003, p. 478

Clearly, if the MNC posses all three of the mentioned advantages, namely O advantage, L advantage, and I advantage then the MNC should engage in a foreign direct investment. If the L advantage is missing, then the route of serving the market will be with exports. If only O advantage is persistent, then the route of serving the market, according to Dunning's paradigm, will be a contractual resource transfer.

As claimed by König (2003) if a certain firm produces a wide range of goods, then there wouldn't be only one universal internalization strategy, but rather different combinations of the O, L and I advantages.

König (2003) states that the Location and Internalization advantages may lead to a decision between the internalization strategies mentioned above – exports or contractual resource transfers.

Important is to note, that Dunning's paradigm has been modified many times since its first version. According to Wenke et al. (2005) the eclectic paradigm should be flexible and can be reshaped, in accordance with the situation to which it is applied.

However, Wu (2014) argues that the OLI paradigm, or the location internalization and ownership advantages can be used to describe all the possible forms of FDI.

Each of the FDI related theories is usually associated with set of FDI determinants. Gorynia et al. (2016) argue that there are some important determinants that are based on the OLI paradigm. These are presented in Figure 2. The authors explain that the determinant contractual risk is made up from the control of the production and the possible costs of hiring new employees. Investing in a country that has a short cultural distance to the direct investor's country may for sure influence the decision of the direct investor. Neighboring countries usually have similar preferences and trends, and this will help the direct investor when taking decisions regarding the FDI in the host country. The host country market may be associated with risks that may be seen as a stumbling block for the investor. Gorynia et al. (2016) also consider risks associated with the host-country currency or political tensions. Such factors may influence the decision of an investor to enter a new market. In addition, an experience in the host country may help the investor predict better the market or the customer behavior. Thus, the investor will be able to make a decision considering past experience. The same goes for the experience with FDI. Owning a firm-specific resources may also determine the decision of an investor to enter a new market. The possession of such resources – for example technological resources, e.g., software used only by the investor, may play a vital role when investing abroad. Let's consider the case in which the investor has the ownership rights of a software, which is a crucial part of the production cycle. Investing in a new market in which firms do not have the right to use that software will give the investor comparative advantage.

Figure 2: Determinants of FDI as per Dunning (Dunning 1988, 2001)

Ownership	Location	Internalization
• Experience in the host country • Experience with FDI • Firm-specific resources	• Cultural distance • Risk associated with the host country • Host country market attractiveness	• Contractual risk

Source: adapted from Gorynia et al., 2016, p.70

Following the OLI Paradigm Dunning & Lundan (2008) introduce the concept of an investor that seeks an opportunity to invest. According to both scholars such an investor is driven to engage in FDI by four motives. The four motives will be briefly explained in Chapter 3.

2.2.4 Institutional Theory

Alongside with the already mentioned theories related to FDI important is to discuss also the institutional impact over FDIs. It is essential for the reader to understand what institutions are. According to Scott (2010) different scholars have their own vision of a definition that explains the institutions.

“Institutions are social structures that have attained a high degree of resilience [and are] composed of cultural-cognitive, normative and regulative elements that, together with associated activities and resources, provide stability and meaning to the social life” Scott (2008, as cited by Scott 2010, p. 6).

Moreover, Scott (2010) states that the three pillars of the institutions - regulative, normative, and cognitive. The author mentions that those pillars are interdependent and very important as they are the foundation of the social order. Trevino et al. (2008) argue that institutions whose foundation is based on the three pillars may be used to reassure foreign investors that a market is stable.

North (1990) emphasizes, that institutions are defining a set of broad rules that are used to guide humans in their interpersonal interactions. In addition, he mentions that institutions may be seen as the humanly designed limitations that influence the human interactions in the society.

In addition, North (1990) argues that the main purpose of the institutions is to lower the level of uncertainty in the society. This may be achieved by creating a solid framework that will guide people when it comes to interactions between individuals. In addition, the scholar mentions that such a framework should not be at not at any price efficient. Considering this, it could be concluded that institutions are a needed element of the formal or informal interaction between humans as they assist and set the rules in a society. In addition, Nelson & Sampat (2001, as cited by Cantwell, et al. 2010) state that institutions pave the way of the interactions between humans and also set limits and coordinate those interactions.

North (1990) separates the institutions as formal and informal institutions. According to the scholar it is much easier for the individuals to outline the formal rules rather than

to describe the informal rules on which human interaction is based. According to Henisz & Williamson (1999) and Ali et al. (2010) formal rules are the political rules, economic rules, laws, and contracts. By contrast, the authors state that, traditions, norms and even religion are informal rules. In addition to the informal ones, they add also the code of conduct.

North (1990) believes that it would be very difficult to change informal rules compared to formal ones. Reason for that is the fact, that the traditions and customs (which are seen as informal rules) are part of the life and culture of the humans from many more years than the formal rules. They were developed over decades and are embedded in the life of the humans. As a result, changing informal rules will be much harder.

By contrast, the formal rules are developed by other people or institutions and as a result might become victims of political tensions and undergo changes overnight, according to North (1990). Changing a law overnight is rather an easier task but changing a tradition or a custom will take generations until some changes become visible.

In addition, the researcher sees the formal rules as a complement of the informal ones and at the same time the formal rules can contribute to an improvement of the efficiency of the informal rules.

North (1990) mentions another important feature – the ability of the formal rules to change or modify the informal ones. Traditions and customs have been formed many years ago and seen from the perspective of the society nowadays some of them might be inappropriate or even dangerous to celebrate. At the same time the formal rules were formed not that long ago and so they may be the right tool to modify the informal constraints.

Arslan & Larimo (2011) argue, that institutions play a major role in international business environment, as they can affect the interactions of a foreign firm with other players in the new foreign market. The business traditions and culture in Japan differ from those in Italy for example. When it comes to informal rules, both countries actions are aligned to the already established international business laws. This examples once again highlights the importance of both formal and informal institutions.

Indisputable, having a solid knowledge of both formal and informal institutions in a new market is a vital element for success. Perhaps one should also consider the business culture as a form of informal institution, as the business culture varies from country to country, even from company to company. In order to have a successful direct

investment in the host country, the direct investor should take into consideration and habituate both formal and informal institutions.

3. Motives for FDI

Understanding the underlying theories of FDI is crucial for researchers. Gorynia et al. (2007) state, that the motives of FDI are seen as a part of the theories that investigate the reasons that stay behind the FDI decision. In fact, the separation of FDI motives was introduced firstly by Dunning (1993/1998). As some of the mentioned theories have been observed in the previous chapter, in the following the reader will be introduced to the motives that drive direct investors to invest abroad. After that the reader will have more consistent and coherent understanding of the theoretical part. This allows the reader to better understand the theories and motives on which form the determinants for FDI.

Anderson & Gonzalez (2013) argue that in the literature there are four separations of FDI motives. These are:

- Market-seeking motive
- Efficiency-seeking motive
- Resource-seeking motive
- Assets-seeking motive

In addition, to the mentioned motives, Hanson & Hedin (2007) introduced a fifth motive, namely the network-seeking motive. According to both researchers, network-seeker companies aim to extend and develop further the already existing networks that the MNC has. Hanson & Hedin (2007) are stating that typical examples of network relations are the relationship between customer and supplier, personal connections and other kinds of relationships that are founded on mutual benefits. The network-seeking motive rests on the Network theory, which is not in the scope of this research and will not be discussed.

For the purpose of this study, I will explain in detail the four motives introduced by Dunning that drive investors to invest abroad.

3.1 Market-seeking motive

Behind the market-seeking motive for FDI is the interest of the direct investor to access new markets. Anderson & Gonzalez (2013) argue that usually the market-seekers decision to invest abroad rests on the country location and its size. Expressed otherwise, they are opt to invest in countries with big markets, or in countries with specific market characteristics, e.g., neighborhood country. Walsh & Yu (2010) state

that usually bigger countries tend to attract higher amounts of FDI. The mentioned reason is the fact, that in whose countries the demand is higher compared to smaller countries with smaller markets. New, unexplored, and large markets provide new possibilities for the MNC and will help promote the products or the services among new target groups. This may also lead to increased influence of the company in the local market. Franco et al. (2008) also argue that for some direct investors it is important to have presence in more markets, as this may deter a possible entry of competitors in those market.

The cultural distance between neighborhood countries is usually short, meaning that similar customer preferences could be found. This could provide the MNC with an opportunity for a possible expansion to the neighboring countries. If an American MNC undertakes a FDI, let's say in Romania, the direct investor will have in the short term an overview of the Romanian market, but in the long run the investor can make predictions, if other unexplored neighborhood markets are worth investing.

According to Chakrabarti (2001 as cited by Akin (2009, June) market size is considered to be one of the important determinants of FDI. As already stated, the size of the market is also associated with bigger and new customer groups and more possibilities for the investor. For example, the investor might include new product lines, depending on the demand in the bigger market.

3.2 Efficiency-seeking motive

Another motive described by Dunning is the efficiency-seeking one. According to Gorynia, et al. (2007) direct investors prefer to place their production facilities in such a strategic way, so that a synergy between the production and other activities like distribution and marketing is achieved. Hanson & Hedin (2007) state that efficiency-seeking FDI usually benefits from cultural, institutional arrangements and economic systems. Dunning & Lundan (2008) argue that in most cases the efficiency seekers are experienced companies with diversified and standardized product lines.

Furman (2016) points out that efficiency-seeking FDI may have a significant role in the export diversification. What is more, Furman (2016) continues defending the argument that efficiency-seeker investors could be seen not only as a source of capital, but they could also create new job possibilities that are more valuable. Efficiency-seeking FDI could promote greater technology transfers and increase the research and development (R&D) possibilities. Furman (2016) gives examples of such FDIs in

Honduras and Mexico, stating that FDIs in those countries were of great importance for boosting the technology-intensive industries.

According to Anderson & Gonzalez (2013) the efficiency-seeking FDIs are usually driven by the determinants of FDI - human capital and infrastructural quality. The authors argue that good physical infrastructure in the sense of ports, streets, bridges as well as good telecommunicating infrastructure (cellular providers and internet providers) are of crucial importance when it comes to FDI.

3.3 Resources-seeking motive

Gorynia et al. (2007) points out that the intention of the resource-seeking companies is to get cheaper access to specific resources. What is more, those resources may not be even available in the home country of the direct investor. Dunning (1993) separates in three categories the resource-seeking firms: 1) firms seeking physical resources, 2) firms seeking motivated, but unskilled labour that can be hired at lower price, 3) firms seeking organizational skills, management skills and technological capacity.

Under physical resources Dunning (1993) distinguishes natural resources under which raw materials, fossil fuels or precious metals. Seeking physical resources is very logical. Those resources are unevenly distributed around the world and countries have different deposits of them. This means that not every company will have equal access to those resources. Import of such materials is usually associated with high transportation costs. What is more, sometimes if the used raw material has run out the company should stop the production and wait until the next delivery of the material. That is why, many MNCs prefer to invest abroad, close to where for example precious metals are extracted. By doing so the production will always be supplied with what is needed and the business can operate without problems from that manner. According to Poelhekke and van der Ploeg (2010, as cited by Asiedu, 2013), natural resources enhance FDI in the resource sector, but at the same time contribute to decrease FDI in the non-resource sector. The result is, according to the authors, that in resource-rich countries the aggregate FDI is lower. Moran (2010) claims that FDI associated with natural resources could be seen as a curse. Reason for that may be that the expectations promising high economic growth may not meet the reality and so the results in different resource - rich countries may vary. The explanation continues mentioning that a possible reason for the negative result of FDI in resource-rich

countries could be the Dutch disease⁴. Anyhow, Campos and Kinoshita (2003) argue that one of the primary factors attracting FDI is the natural resources.

As already mentioned, the strive for motivated, but unskilled (or semi-skilled) labour that at the same time can be hired at lower cost is an important FDI determinant. According to Carstensen & Toubal (2004) it is not a surprise that MNC are motivating their choice to invest for example in Central and East European countries due to the cheap labour force. What is more, the authors state that a proper education of the labour force in those countries positively affects FDI. As stated by Eckel (2003, cited by Bayraktar-Sağlam & Sayek Böke 2017), direct investors are interested only in the cheap labour force. From the perspective of the direct investor, lower labour cost means a decrease in the cost of production, that will lead to decrease in the overall cost of the company and so the MNC could increase its profit. According to Hanson & Hedin (2007) an important factor that determines the decision of an investor to enter new market is the labour force. The authors state, that well trained labour force, that is unexpensive will help for the profit maximization.

The third group of resource seeking motives captures firms that are seeking organizational skills, management skills and technological capabilities. According to World Bank (2008) the countries from the CEE group for example, have a strongly established tradition in technical training, even though some researchers (Lacasa et al., 2017) claim that in CEE countries there was a drastic decline in the technological activities after 1990. Considering this, one can state, that an important determinant of FDI is the technological capabilities, which host countries have to offer.

3.4 Strategic assets-seeking motive

Dunning & Lundan (2008): argue that the goal of the motive is to make bigger the portfolio of the company and to acquire strategic human competences or technological capabilities. In this way the company should have an advantage compared to the competitors in the local market Cleeve (2008) states that strategic-seeking investors are rather attracted by the R&D capabilities of the host country and the technological opportunities that they possess. However, Meyer (2015) states that the concept of strategic asset-seekers is not consistently developed and might also be seen as

⁴ According to Corporate Finance Institute (2021, February 12): Dutch disease is a concept that refers to a situation in the economy of a country where the development of one sector is inversely proportional to the development of another sector. The concept usually describes the fast growth in the natural resources sector and the sharp decline in other sectors.

redundant. The reason for the redundancy is the fact that the strategic asset-seeking concept and its main determinants can be explained by the other three motives for FDI investments. Those determinants are the technological progress, R&D capabilities. Clearly, having a good understanding of the theories and motives of FDI is important, as the determinants that drive investors to invest in a specific country rest on those theories and motives. As already explained the determinants that rest on Vernon's theory are the technological and R&D capabilities, that a host country possess. In addition, Vernon's Lifecycle Theory underlines the importance of the size of the host country market as an important driver for FDI decision. Hymer's theory points out as an important factor that determines the decision of FDI the deposits of raw materials in the host country. Firm specific assets and cheap labour force are also important determinants that according to Hymer drive investors to invest in a foreign country. Technological capabilities and size of the host country market are determinants, which importance is underlined by Dunning's OLI paradigm. In addition, the four motives for FDI investment introduced by Dunning emphasize the importance not only the technological capabilities and the market size, but also the infrastructural quality and the availability of cheap labour force in the host country. Those, alongside with the R&D opportunities, natural resources and well-educated labour force are the determinants for FDI which are associated with the four motives introduced by Dunning and the OLI paradigm. Last, but not least, the Institutional theory highlights the importance of the institutional quality as an important driver for FDI investor.

4. Determinants of FDI

This chapter provides information about the main drivers that have influence over the decisions of the direct investors when investing abroad. Main definitions and some of the FDI-related theories, on which the determinants rest, have been already discussed in Chapter 2. Besides, in the previous Chapter the motives that drive investors to invest in a foreign country also have been discussed. In conclusion of the last discussed chapter the determinants of FDI that rest on the discussed theories or motives were summarized. This chapter introduces the reader to those determinants of FDI and most specifically to the institutional quality determinant, which is of central importance in this study.

4.1 Review on Selected FDI Determinants

Main point of interest for researchers are the factors that attract direct investors. When does a MNC see a tempting condition in a host country and what are the determinants that allure investors? There are many studies that emphasize the importance of FDI determinants. Some of them are the technological capabilities, R&D capabilities, size of the host country market, human capital and cheap labour force and last, but not least the institutional quality.

Technological capabilities

The importance of technology innovation and the technological capabilities of the host country is an important determinant for FDI. This determinant rests not only on Vernon's theory discussed in Chapter two, but also on the Resource-seeking motive discussed in Chapter three.

Kim & Choi (2020) argue that technological capabilities include different patents, licenses, various technological documentation for example those, that are specific for the production process. Archibugi & Coco (2005) state, that technological capabilities of a country are related and associated with the technological infrastructure of the country, the technological goods used in it and human technological skills. The authors give as an example of technological goods, the usage of computers and different production machinery. Technological infrastructure is represented, according to the authors by the internet and mobile network. The technological skills of the population of the host country are also very important, since the technological goods should be used by someone. In addition, Archibugi & Coco (2005), state that the different

technological capabilities of a country are interdependent on one another. This should not be surprising since usage of technological goods such as computers or production machinery very often depend on the internet access. What is more, technological expertise is also needed, so that those computers or machines can work.

It should be emphasized that Nguea (2020) also points out the importance of the telecommunication infrastructure. The author states, that under telecommunication infrastructure one should consider mobile and internet networks. This is not surprising, as nowadays telecommunication infrastructure is a vital element for the performance of a business. In practice, every business entity is highly dependent on the mobile and internet networks.

Palit & Nawani (2007) argue, that investors prefer to choose a country with good technological capabilities to invest in. By doing so investors can use and benefit from those local capabilities. If this is not the case, the investor may need to transfer the capabilities that already possess.

However, Coe et al. (2009) state that very often reason for technological spillover is FDI. When investing abroad usually investors have a well-developed production process and technologies that they use in that process. Investing in another country means that all the technologies and production processes will be transferred to the host country and the host country will also benefit from it. Combination of well-developed technological capabilities in the host country and transfer of such from investor's side will probably end up in more efficient results.

Park et al. (2020) state, that alongside with the technological capabilities, the R&D capabilities are also a factor that drive investors to invest in a specific country.

Research and Development

Research and development capabilities are also considered to be an important driver for FDI. As already discussed in Chapter two Vernon's theory argues that alongside with technological capabilities the R&D capabilities are also a driver for FDI. In addition, the assets-seeking motive introduced in Chapter three also highlights the importance of the R&D capabilities of the host country.

Barrell & Nahhas (2020) examine the relationship between R&D in the host country and FDI attraction. The authors find out, that there is a positive relationship between R&D capabilities of the home country and the level of attracted FDIs.

Park et al. (2020) also underline that R&D is a factor that investors consider, when choosing a country to invest in. The authors state, that countries in which R&D is well

developed offer an advantage for the investors. The stated reason is the fact, that with R&D researchers may improve an already existing product or process and this may provide better results. Besides, an innovation may bring a cost reduction in the production process. Erdal & Göçer (2015) also emphasize the importance of R&D when it comes to FDI. They state that R&D brings innovation, and this is also important for investors. This is not surprising, since innovation bringing with itself new horizons for investors, new products, and new customer groups. All this is a possibility for the investors to benefit from the innovation. In addition, innovation may help investors stay competitive on the host country market.

Market Size

Size of the host country market is also considered to be an important determinant for FDI. As stated in the previous chapters, this determinant rests on Vernon's theory discussed in Chapter two and on the market-seeking determinant discussed in Chapter three.

Petrović-Ranđelović et al. (2017), consider the size of the market to be one of the important FDI determinants. The authors argue, that the larger the host country market, the bigger the investment opportunities for investors. Investing in a larger market means that the investor can reach more customer groups in those market. For example, more production lines can be produced, so that a bigger number of customer preferences can be satisfied. Petrović-Ranđelović et al. (2018) argue, that investors are considering economies of scale when selecting a country to invest in. This means that for investor the size of the market is crucial, so that they can benefit from the amount of produces goods. Expressed otherwise, the investor will benefit from the size of its production. For instance, it would be more efficient for a company to produce large amount of items as they will generate more profit, which can be used to cover the production costs. If a company produces only limited number of items, then it would be not efficient for investor as it will be impossible to cover the generated production costs.

Nunnenkamp (2002) state, that the market size is one of the leading determinants for FDI since the beginning of the globalization. This statement should not be surprising, since the globalization made it easier for investors to invest abroad. Each investor is seeking profit-maximization and such one can be achieved easier in a larger host country market.

Human capital and cheap labour force

In the economic literature factors that drive investors to invest in a foreign country have been in the spotlight of the researchers. Diaconu (2016) emphasize, that alongside with the cheap labour force, human capital is a key determinant of FDI. According to Kedia et al. (2012, as cited by Diaconu 2016), human capital has always been one of the leading skills that will ensure sustainability and competitiveness of firms. In addition, human capital is also a key element for prosperity and growth.

Having well-educated employees will provide the investor with more possibilities. This will allow the firm to be more efficient. As already stated in the previous chapter, one of the investment motives for FDI is namely the efficiency-seeking motive. Investors search a way to be more efficient, when investing abroad and the determinant that rests on this motive is exactly the human capital.

Diaconu (2016) argues, that the easiest way for post-communist countries to become competitive on the market is to offer investors well-educated labour force.

Chidlow et al. (2009) gives an example with the FDI inflows in Poland in the beginning of the twenty-first century. The authors have examined around 100 investors in the country and have concluded, that in the observed cases human capital was positively correlated with the FDI inflows in the country. Having well-educated labour force will not only keep the firm competitive, but the firm's operations should be also more sustainable. Reason for that is the fact that skills and knowledge are seen as drivers for innovation.

Miningou et al. (2017) state, that attraction and FDI inflows are positively correlated with the acquired education. Human capital can be gained by formal and informal education. In addition, human capital is also accumulated, and people are often learning and acquiring new skills in different stages of their life in order to be competitive on the market. Ravindranath (2018) emphasize the importance of tertiary education for FDI attraction. Hiring well-educated employees is a good strategy, but the question is at what cost are they hired.

Key driver for FDI attraction is undoubtedly the human capital, but at the same time Navaretti et al. (2010) argue, that it is a common practice that investors prefer to invest in countries in Europe, where the labour costs are lower.

By doing so investors will be able to offer competitive or even higher for the host market remuneration. From the one side, offering attractive for the market salaries should help for the selection of better candidates. From the other side, offering such competitive remuneration in country with lower labour costs, will result in lower costs for the investor. As a result, both sides will win – from the one side the employees will receive competitive for the local market salaries and from the other side the employer will reduces the expenses for salaries.

However, Diaconu (2016) points out that alongside with the human capital investors are keeping an eye also on the institutional environment before selecting a country to invest in.

4.2 Institutional Quality

Among all mentioned factors that influence and determine FDI, researchers like Kurul & Yalta (2017), Ali et al. (2010), Buchanan et al. (2012), Arslan & Larimo (2011) have acknowledged the importance of the quality of the institutions in the host countries. Kurul & Yalta (2017) point out that many researchers have examined the relationship between institutional quality and FDI. In addition, the discussed theories in Chapter two have showed that investors consider also the institutional environment in the host country.

Ali et al. (2010) argues that there are mainly three factors that have influenced the interest of the researchers to examine the link between FDI and the quality of the institutions. The first factor is the study done by North from 1990, which pointed out the relationship between the role of the institutions and the incentive for investments. Secondly, the rapid growth worldwide of FDIs after the 1990s and thirdly the rising awareness of investors that the quality of the institutions are important when selecting the host country to invest in. In addition, Ali et al. (2010) mention that for investors it is important to have some kind of an interactions management in the host country. According to the scholar institutions are the ones that can help in such situations.

Various researchers have been interested in the link between the quality of institutions and the economic performance of a country, Sabir et al. (2019). Buchanan et al. (2012) also underlines the importance of a good institutional environment for attracting foreign direct investments. Ali et al. (2010) point out that most of the studies have confirmed that institutional quality is an important determinant of FDIs. Groznykh et al. (2019, September) express their opinion that the institutional environment is a vital element,

when it comes to FDI inflows in a specific country. In addition, the authors continue, stating that direct investors prefer to choose countries for FDI with good institutional quality. By doing so, the assets of the company and the rights of the investors won't be exposed to risk. As a result, nations with better institutional quality attract more FDIs (Groznykh et al., 2019). Other authors like Busse & Hefeker (2007) also point out that high amounts of FDI inflows are associated with a good institutional quality. Arslan & Larimo (2011) argue that because of the threats and penalties involved with corporate deviance from legal codes, formal institutions may affect MNE strategies. Furthermore, host country governments can use the institutions in the country so that they have a direct impact over the investing behavior of the investor (Arslan & Larimo, 2011). For example, host country governments can encourage direct investors to choose their country, by giving them specific investment rights or investment protection.

Important is to note, that institutional quality may have an indirect effect on attracting FDI inflows in the host country (Mahmood et al., 2019). According to the scholars institutional quality influences human capital and some public goods like for example physical infrastructure. Those factors have a direct impact over FDI – specialists that need further training or road repairs are additional costs that a direct investor should consider covering.

However, it is important to distinguish the factors that measure institutional quality.

Dorozynski et al. (2020) claim that very often the results from empirical studies are ambiguous, as researchers face difficulties when measuring the institutional factors. What is more, it is more likely that investors make their investment decisions based on one index that incorporates many aspects of the institutional quality, rather than only basing those decisions on an index measuring the corruption for example (Dorozynski, 2020). The author states, that if only one indicator is taken into consideration this may result in misleading predications of the impact of the institutions on the FDI inflows. Therefore, incorporating many factors would provide a better insight.

What defines the institutional quality is a question that is worth considering. The term institutional quality refers to a wide notion that may encompass the aspects like rule of law, individual rights, government effectiveness and others (Bruinshoofd 2016, January 20). OECD (2013) states that, the rule of law is a guard of the fundamental human rights. In addition, it is mentioned, that one of the implications of the rule of law is the fact that all people or institutions are treated equally, and no one is above the acting law.

According to Huther & Shah (1998, as cited by Garcia-Sanchez et al., 2013) government effectiveness aims to achieve a better match between the government services and the preferences of the people. It is also emphasized, that a good government effectiveness provides more public accountability.

Individual rights are recognized to be from greater importance for each individual and are guaranteed by the law (Longley, 2021). Personal property and privacy, religion, and belief and right of free speech are some of the most important individual rights that everyone must have by law.

Institutional quality captures indeed many aspects, so measuring it might be challenging. Ali et al. (2010) and Dorozynski et al. (2020) state that the indicators that measure institutional quality vary a lot. In the academic literature two indices are used mainly to measure the institutional quality. The first one is the World Bank Worldwide Governance indicators (WGI) and the second one is the Index of Economic freedom (IEF). Both indicators are aggregate indicators and does not present single paraments that define the quality of the institutions.

Researchers like Gani (2007), Buchanan et al. (2012), Daude & Stein (2007), Lehne et al. (2014) have used in their studies the World Bank Worldwide Governance indicators. Those indicators have been developed and first published by Kaufmann et al. in 1999 in a research paper of the World Bank. The reason behind developing the index was the lack of one objective measurement that can be used (Kaufmann et al., 1999). The data incorporated in the index is from 300 governance metrics collected from a wide range of sources (Kaufmann et al., 1999).

WGI consists of six aggregate indicators. The indicators are based on average values that were obtained via surveys examining the importance of government-related topics (Kaufmann et al., 1999). The six indicators are:

- 1) Voice and Accountability
- 2) Political Stability and Absence of Violence
- 3) Government Effectiveness
- 4) Regulatory Quality
- 5) Rule of Law
- 6) Control of Corruption

The first WGI indicator measures to what extent the inhabitants of a country participate and are allowed to participate in the process of the government selection, i.e., if they are active citizens in the society (Kaufmann et al., 1999). Indicators that are

responsible for media independence are included in the Voice and Accountability indicator. The researchers explain that it is important to have an objective opinion about the actions and policies of different authorities and the media can keep the authorities strictly responsible for their actions.

Political Stability and Absence of Violence is the second aggregated indicator, in which are combined indicators that assess the possibility of destabilization of the current country's administration (Kaufmann et al., 1999). As per Nazeer & Masih (2017) political instability is associated with frequent policy changes which will cause volatility. Such a business environment cannot be attractive to direct investors, as it is associated with high unpredictability. Unpredictability is also associated with risk that may cause high unexpected costs.

According to Kaufmann et al. (1999) the third and fourth indicators are designed to give information about capacity of the government to create and implement specific policies that will regulate the interactions between the citizens. Last two indicators - Rule of Law and Control of Corruption, are giving information about the citizen's and government's reverence for the institutions that regulate their interactions.

It should be mentioned that the selected six indicators that form the WGI are carefully selected. What is more, they aim to regulate each other. For example, political stability and control of corruption might be correlated e.g., politically unstable countries are more likely to have higher levels of corruption. Corruption is a dangerous event, that cause it is hazardous and cannot be controlled or predicted easily and so direct investors prefer to avoid it (Nazeer & Masih, 2017).

According to Habib and Zurawicki (2001, as cited by Nurudeen et al., 2015) corruption can have not only a negative effect on the domestic business environment, but also may discourage foreign investors to invest in the country.

Corruption may also undermine the government effectiveness and the rule of law, leading to a very unstable business environment. In addition, the authors emphasize that the level of corruption may be diminished, if the country is politically stable. Wei (2000) argues that there is a negative link between the level of corruption and the attraction of foreign direct investment. In addition, Buchanan et al. (2012) state that institutional quality and FDI volatility are negatively correlated.

Anyhow other researchers like Zghidi et al. (2016), Herrera-Echeverri, et al. (2014), Beheshtitabar & Irgaliyev (2008), Chaib & Siham (2014) prefer using the Index of Economic freedom as a measurement for institutional quality. The authors did not

mention an exact reason why they have chosen this measurement of Institutional quality.

The Economic freedom index is an annual index published for the first time in 1995. According to the Executive Summary of the Index from 2008 the index was developed by a joint think-tank of the World Heritage Foundation and the Wall Street Journal. The basic idea for the creation of the index, as per the Executive Summary of the Index from 2008 is inspired by the most famous work of Adam Smith - The Wealth of Nations from 1776. The index is an aggregate index, that has twelve pillars - measuring qualitative and quantitative factors, divided into four categories:

1) Rule of Law

- property rights
- judicial effectiveness
- government integrity

2) Government size

- tax burden
- government spending
- fiscal health

3) Regulatory Efficiency

- labor freedom
- business freedom
- monetary freedom

4) Open Markets

- trade freedom
- investment freedom
- labor freedom

The first category Rule of Law observes the following aspects: property rights, judicial effectiveness, and government integrity. According to Perry (2000) direct investors prefer investing in a country with an effective legal system, as the actions of such one can be easily predicted and cannot lead to additional costs for the investors. An effective and predictable judicial legal system is essential for a stable and secure business environment, as there are no hidden stumbling stones or hidden risks for the investors. Perry (2000) contends that the goal of a good judicial system is to diminish the transaction and enforcement costs associated with any new business transaction. Lehne et al. (2014) point out that countries that have better institutions and

effectiveness of the rule of law have higher chances to attract direct investors, as they offer business conditions that create trust in the investors. Trust is something upon which good business relationship is built.

The second category incorporates the tax burden, government spending and fiscal health. The third category explores regulatory efficiency like labor freedom, business freedom and monetary freedom. The last category is the open market category, paying attention to trade freedom, investment freedom and financial freedom. A weighted average result is obtained from the 12 components of the index that represents the economic freedom result for each country (Miller et al., 2021).

According to Miller et al. (2021) the economic scores can be interpreted as presented in Table 3.

Table 2: Economic Freedom Scores

Score	
80 - 100	Free
70.0 - 79.9	Mostly Free
60.0 - 69.9	Moderately Free
50.0 - 59.9	Mostly Unfree
0 - 49.9	Repressed

Source: Miller et al. (2021, p. C2)

There is also another index that some authors use to measure institutional quality, namely the International Country Risk Guide Index (ICRG). This index incorporates 22 variables, that are separated into three categories (Markets, 2021, January 11). The index provides information regarding risk categories related to the financial, political even military and ethnical risk. Due to the scope of this analysis this index is not observed in detail, as the variables that are considered, that build up the index are too broad and out of scope of this analysis. This is why only the IEF and WGI will be compared in the following.

Clearly, the WGI considers six aggregate indicators, while the IEF takes into account only four aggregate indicators. According to (WGI-FAQ, n.d.) the aggregated by the WGI data is collected via surveys that were filled out by households, firms public/private companies, or by individuals themselves.

Important is to note, that WGI has been criticized by authors like Arndt & Oman (2006), Knack (2006) and by Thomas (2010). They point out, that using the WGI index is not always the best decision, as the index suffers from some insufficiencies.

For example, Arndt and Oman (2006) and Knack (2006) express a concern regarding the used data sources, when constructing the WGI index. All of the authors argue that the collected data from commercial risk rating firms may suffer from errors and may be insufficient. As a result, misinformation regarding the given evaluation of the governance of an observed country may be expected.

What is more, Arndt and Oman (2006) and Knack (2006) state that the comparison of the governance among the countries using WGI might be misleading. The authors argue that measuring the governance using different datasets for different countries won't result in a consistent governance measurement.

Unavailability of some of the used data, when constructing the WGI index is another concern expressed by Thomas (2010). The author argues that there is no direct access to all the used data that is underlying the index. This does not allow other researchers to have an objective opinion regarding the data used by the WGI and cannot use it for their own purpose.

By contrast, as already mentioned, the IEF index considers qualitative and quantitative factors that form the twelve pillars observed by the index. What is more, to the best of the author's knowledge there is no concern regarding the usage of the index in the academic literature by far. Taking into consideration the above mentioned I decided to use the IEF in my thesis. More information about the usage of the IEF in my empirical part will be presented in Chapter 5.

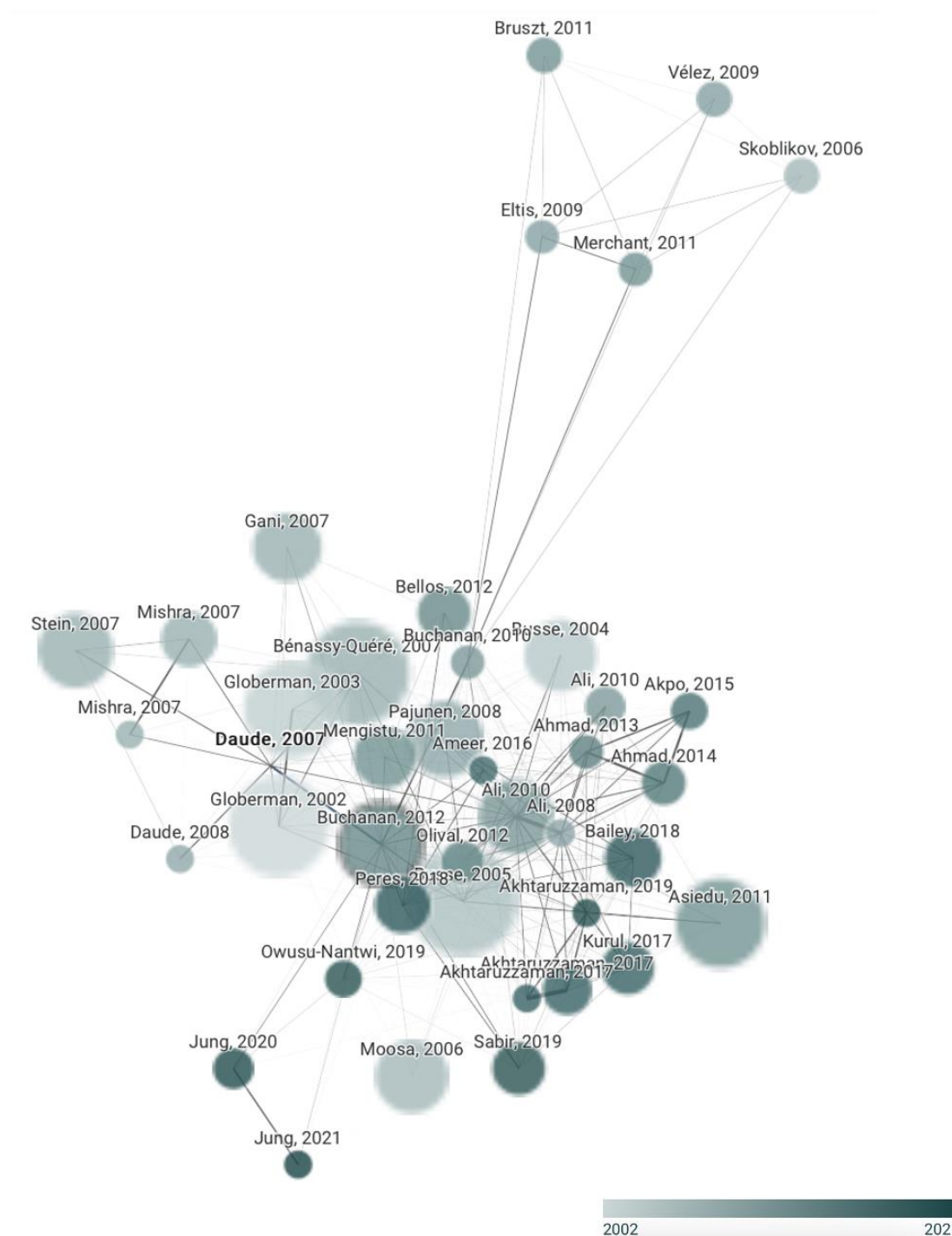
4.3 Empirical Research on the Relationship Between the Institutional Quality and FDI

There are many studies that aim to analyze the impact of institutional quality over foreign direct investment. In Table three I have summarized the results from fifteen research papers that examine the relationship between institutional quality and FDI. The idea of summarizing the results in a table is that in this way the reader can be introduced to the essence of research papers that investigate the relationship between FDI and institutional quality. What is more, providing the results in a table enables the reader to read and analyze the information quicker.

Due to the fact that in the research databases a considerable number of papers that observe the institutional quality and FDI, I have used the Connected papers tool to provide better results. The basic idea behind Connected papers is explained in Chapter 1.2. In the following I will explain how I have used Connected papers to summarize the information provided in Table 3. As already mentioned in Chapter 3.1 Buchanan et al.

(2012) argue the importance of institutional quality for FDI attraction. So, I took the paper “Foreign direct investment and institutional quality: Some empirical evidence” from Buchanan et al. (2012) as a starting point. I build up my search in the Connected papers database with the mentioned paper and the result that I got is presented in Figure 3.

Figure 3: Connected Papers graph representation



Source: Own elaboration using Connected papers

As it could be seen from Figure 3 the paper of Buchanan et al. (2012) is presented in the middle. The information regarding how such a graph is to be read is explained in (Connected Papers | Find and Explore Academic Papers, n.d.) and in the following the reader will be introduced to that.

Each bubble in Figure 3 is labeled with the name of the author and the year of publishing of a paper, i.e., each bubble represents a paper. The color of the bubble indicates the year of publishing and can be easily indicated by the legend provided next to the bubble graph. With an increase in the year of publication the color of the bubble gets darker. The size of the bubble corresponds to the number of times the paper has been cited: the bigger the node, the more times it has been cited by different authors. What is more, papers that have similar content are connected with thicker lines. The first connected paper that I have observed, which is connected with the one of Buchanan (2012) is the one from Daude & Stein (2007). After reading and summarizing the paper from Daude & Stein (2007) the latter becomes a starting point of a new search. New graph is created, having in the middle the paper of Daude & Stein (2007). This process is repeated until I have read and summarized the fifteen papers presented in Table 3. The papers are organized in the table based on the observed time period in the study in ascending order.

Table 3: List of Selected Papers Observing the Relationship Between FDI and Institutional Quality

Authors and year of publication	Period of observation	Countries of observation	Method	Institutional quality measurement	Result Relationship between IQ and FDI
Zghidi et al. (2016)	1980-2013	5 developing countries	Panel data study - Generalized Method of Moments	Index of Economic Freedom (IEF)	Positive relationship between IQ and FDI
Ali et al. (2010)	1981-2005	107 countries	OLS with panel-corrected standard errors (PCSE)	International Country Risk Guide Index (ICRG)	IQ has no effect on FDI in the primary sector, but it has in manufacturing and services sector.
Busse & Hefeker (2007)	1984-2003	83 developing countries	Panel data study – fixed effects model	Variables taken from the ICRG	Only government stability, religious tensions, and democratic accountability have effect on FDI
Chaib Siham (2014)	1995-2011	1 developing country	Johansen cointegration test, vector error correlation	IEF	Institutional quality does have positive effect on FDI
Gani, A. (2007)	1996-2002	17 developing countries	Pooling estimation technique adopted from Kmenta (1986)	World Governance Indicators (WGI)	Indicators for institutional quality are strongly and positively correlated with FDI

Kahsai et al. (2011)	1996-2007	45 developing countries	Panel data, fixed effect model	Some of WGI	Relationship was not established
Buchanan et al. (2012)	1996-2006	164 developed and developing countries	OLS, fixed effect, random effect regression	WGI	IQ has positive effect on FDI
Daude & Stein (2007)	1997-2008	58 countries	Gravity model	WGI plus additional variables	Better institutional quality has positive and significant effect on FDI
Kurul & Yalta, (2017)	2002-2012	113 developing countries	Dynamic panel methodology , OLS	WGI	Some factors measuring the institutional quality matter more than others
Herrera-Echeverri et al. (2014)	2004-2009	84 countries	Panel data study	IEF	Positive relationship between FDI and institutional quality
Dorozynski et al. (2020)	2007-2017	17 former countries in transition from CEE	Hierarchical cluster analysis, panel models	Global Competitive Index (World Economic Forum)	IQ do have an effect on FDI inflows
Owczarczuk (2020)	2007-2019	8 developed/former transition countries from CEE	Qualitative analysis	Global Competitive Index (World Economic Forum)	Positive relationship between IQ and FDI

Popovici (2015)	1994-2013	11 former transition countries from CEE	Panel data, fixed effects model	IEF	Institutional quality does have an effect on FDI
Owusu-Nantwi (2019)	1996-2015	Developed and developing countries	OLS estimation, fixed effects, 2SLS estimation	Set of variables representing institutional quality	Positive relationship between IQ and FDI
Makoni (2018)	2008-2016	8 developing countries	Panel data, fixed effects, random effects, OLS estimation	Composite index using data from WGI, IEF and others	Positive relationship between FDI and IQ

Source: Own elaborations, using the sources mentioned in the table and given in the bibliography

As it can be seen from the table above, the mentioned researchers have adopted different approaches in examining the data, whereas in some of the observed research papers pooled OLS estimation was preferred. What is more, the variables used to represent the institutional quality were taken either from the Worldwide Governance Indicators, the World Heritage Foundation (IEF), Global Competitive Index or from the International Country Risk Guide. In four of the fifteen summarized results the IEF was preferred. Besides, it is important to point out that the summarized results from the studies show that institutional quality does have a positive effect on attracting FDI in the observed cases. Only the study from Kahsai et al. (2011) did not find any direct link between the institutional quality and the FDI inflows. However, the authors state that there might be an indirect link, that they couldn't prove in their research. Besides, Kahsai et al. (2011) argue that the countries that they have observed (Sub-Saharan countries) usually attract investors with their natural resource endowments.

As it can be seen from the results from Table 3, most of the studies examine cases of developing countries. However, some studies like the one from Buchanan et al. (2012) and Ali et al. (2010) include in their examination developed countries as well.

Besides, some of the observed studies summarized in Table 3 have examined the importance of IQ in ex-transitioning countries. Popovici (2015) also examines the

importance of IQ in the CEE countries from 1993 to 2013, whereas the time period is divided into two periods. The first period examines the CEE countries before they have joined the EU and the second period is afterwards. In addition, in the second observed period the countries were no longer considered as transitioning ones.

As there is a lack of studies that have observed the institutional quality and its importance for FDI attraction in the CEE countries, the aim of this study is to examine the institutional quality and its impact on the FDI. In addition, this time period from 2009 until 2019 is not accidentally chosen. The observed CEE countries have been members in the EU for certain time and one can see if the EU regulations had played a role and if they have improved the quality of the institutions.

5. Foreign Direct Investment and Institutional Quality in Central and East European Countries

This chapter provides information about the foreign direct investment in the countries from Central and Eastern Europe. At the beginning of this chapter is explained which countries are understood under the acronym CEE. Following is discussed how joining the EU is related to the institutional environment. Some strong and weak points in the business environment of the countries in CEE are observed. This chapter allows the reader to better understand the role of the institutional quality and its impact on FDI inflows in the selected countries. Besides, FDI inflows as percentage of GDP are presented for each country for the period 2009-2019. In order to gain a better understanding of the dynamics of the FDI inflows the FDI inflows for the years 2000 until 2009 are also presented. What is more, after this chapter the reader will be introduced to the empirical part of this study.

5.1 Central and East European Countries

Countries from the CEE and their attractiveness for direct investors have been in the spotlight of researchers like Dorozynski et al. (2020), Alter & Wehrle (1993), Popescu (2014), Günther & Kristalova (2016), Andreea et al. (2014), etc. for many years. However, it is important to distinguish which countries are associated with the term referring to CEE countries. According to OECD Statistics Directorate (2001) the countries that belong to the CEE group are Albania, Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, and the three Baltic countries Estonia, Latvia and Lithuania. Dorozynski et al. (2020), included in the list also Moldova, Montenegro, Ukraine and Bosnia and Herzegovina. Popescu (2014) and Popovici (2015) consider the list of countries that OECD has established and at that time the scholars excluded Albania from the list. A possible reason for that might be that Albania is still not a member of the European Union (EU) and this may make the comparison between the countries difficult.

Eight of the observed CEE countries have joined the European Union at the same time and are official members of the European Union. On the first of May 2004, the Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia, Estonia, Latvia, and Lithuania are members of the EU. Bulgaria and Romania joined the EU on the first of January 2007 and on the first of July 2014 the accession of Croatia took place.

Of course, the later mentioned countries have also gone through the process of acquisition. The above lets me conclude that an observation of eleven CEE countries would fit better to my analysis. In addition, it should be mentioned that much of the data for Albania is missing in the databases. As a result, in this thesis only eleven CEE countries will be observed: Bulgaria, Croatia, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic, Slovenia, Estonia, Latvia and Lithuania. The countries that belong to the group are gathered based on their geographical location. Membership in the EU is associated with strict pre-accession economic and political criteria. At the same time the candidate country should have the administrative capacity to implement the obligations in terms of the membership (*Accession Criteria*, 2021).

Countries interested in joining the EU should consider the three stages of accession (Steps towards joining, 2016, December 6). In the first stage the country should become an official candidate. In the second stage the formal negotiations and all other procedures related to the future acquisition begin, also the acquisition criteria must be fulfilled. According to the acquisition criteria or the Copenhagen criteria the countries that want to join the EU need to have stable institutions, working market economy and to carry out membership duties related to fulfilling of economic or political obligations (the *acquis*) of the EU (Glossary of summaries - EUR-Lex, 2019). The *acquis* consists of obligations separated into 35 different categories and some of them are: institutions, intellectual property and justice (Chapters of the *acquis*, 2016, December). Once both sides are satisfied with the results of the negotiations and all kinds of other reforms are carried out, then the country can join the EU. In addition, Schweickert et al. (2011) argue that the pre-accession criteria positively affect the institutional quality in the countries that aim to join the EU. All this lets me conclude, that indisputably the members of EU have gone through many changes related to the institutional system.

5.2 Institutional Quality, Business Environment and FDI inflows in CEE Countries: Strong and Weak Points

Countries from Central and East Europe differ in their investment climate and ability to attract direct investors. In the following a brief overview of the strong and weak points of each country regarding FDI attraction is discussed. In addition, it is shown the trend

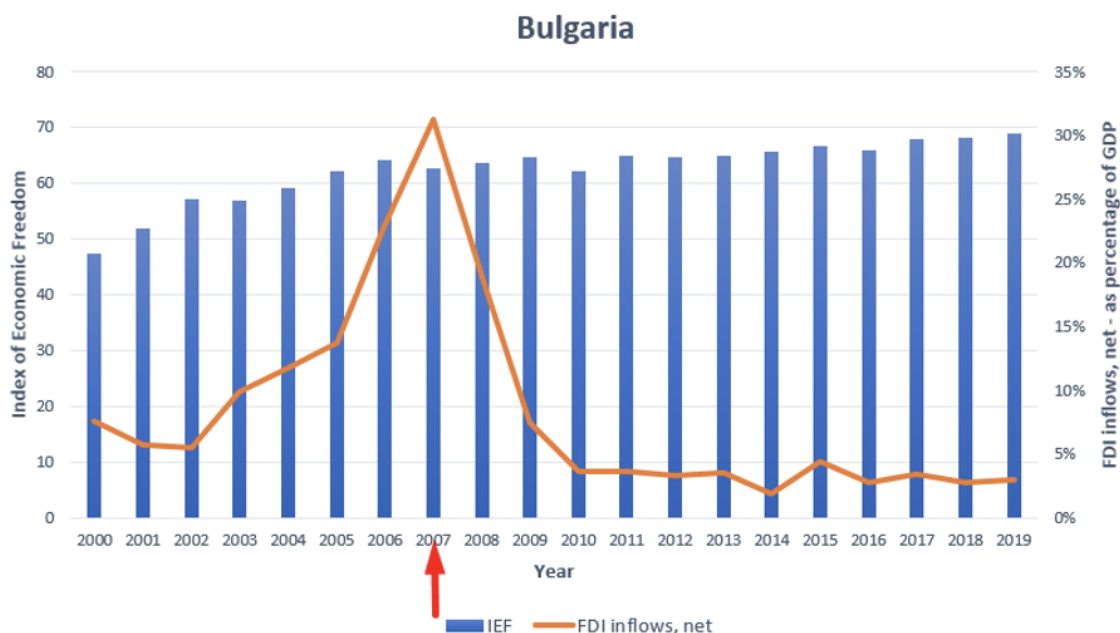
in the IEF and the FDI inflows in the selected CEE countries. Comparing absolute numbers cannot lead to reliable results. As comparing absolute numbers would not provide reliable results, comparing the FDI net inflows as a percentage of the GDP of a given country would deliver better results. The period from 2000 until 2019 is considered, so that the reader can make a comparison how the IEF changed over time, especially before the country joined the EU. In that way the reader can have a better understanding how and when FDI inflows changed. The red arrow in the provided charts shows the year of accession of the given country in the EU.

Bulgaria

Bulgaria joined the European Union in 2007 and similarly to all other countries that have joined the EU provides many favorable conditions for the direct investors. Invest Bulgaria Agency (IBA) is a subordinate organization of the Bulgarian Ministry of Finance. The primary goal of IBA is to attract and later on provide support to direct investors investing in Bulgaria. In addition, the Invest Bulgaria Agency proclaims that Bulgaria is very attractive for investors, as the country has the lowest corporate income tax rate in the EU - 10 percent (Bulgaria - Corporate - Taxes on Corporate Income, n.d.). Another way of attracting foreign direct investors in the country is the act of giving a permanent residence permit to those who invest more than 512 000 EUR in the country (Bulgaria - Corporate - Taxes on Corporate Income, n.d.) Such a step makes the country a more trusted FDI recipient, as it shortens the cultural distance between the direct investor and the host country. In addition, a permanent residence permit will also lead to administrative and financial relief. Here is the right place to be mentioned, that alongside with the other advantages that the country has to offer, the strategic geographical location of the country is also very lucrative for the investors.

Important is to have a look at the IEF for Bulgaria. Figure 4 represents a line graph, which provides information about the changes over time of the IEF for the time period from 2000 until 2019. Besides, on Figure 4 one can observe the changes in FDI inflows (as percentage of GDP).

Figure 4: Index of Economic Freedom and FDI inflows, net for Bulgaria, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

It should be emphasized, that the IEF marked a remarkable increase. For the year 2000 IEF was 47,3, meaning that the economic freedom of the country was repressed. By contrast, in the year of joining the EU – 2007 the IEF reached 62,7 – which defined the economic freedom in the country as moderately free. In addition, it is important to be mentioned, that only two years before the accession of the country in the EU, IEF increased and the economic freedom in the country was considered as moderately free. For the period that is observed in this thesis from 2009 until 2019 there were no drastic fluctuations in the IEF. The index was stable in the interval from (60;69.9], i.e., the economic freedom was moderately free. This allows me to conclude, that between 2009 and 2019 the economic freedom in Bulgaria was considered as moderately free. Considering this, it could be stated, that from 2005 onwards the IEF was moderately free.

According to Nikolova & Nikolaev (2017) Bulgaria is still under special monitoring from the EU, but the report from the European Commission in 2019 described the business environment in the country as lucrative for investments.

In the table above are also presented the FDI inflows, net (% of GDP) for Bulgaria. Bulgaria shows an interesting case: the FDI inflows were increasing steadily and reached its peak in the year of joining the EU – a little more than 30 percent.

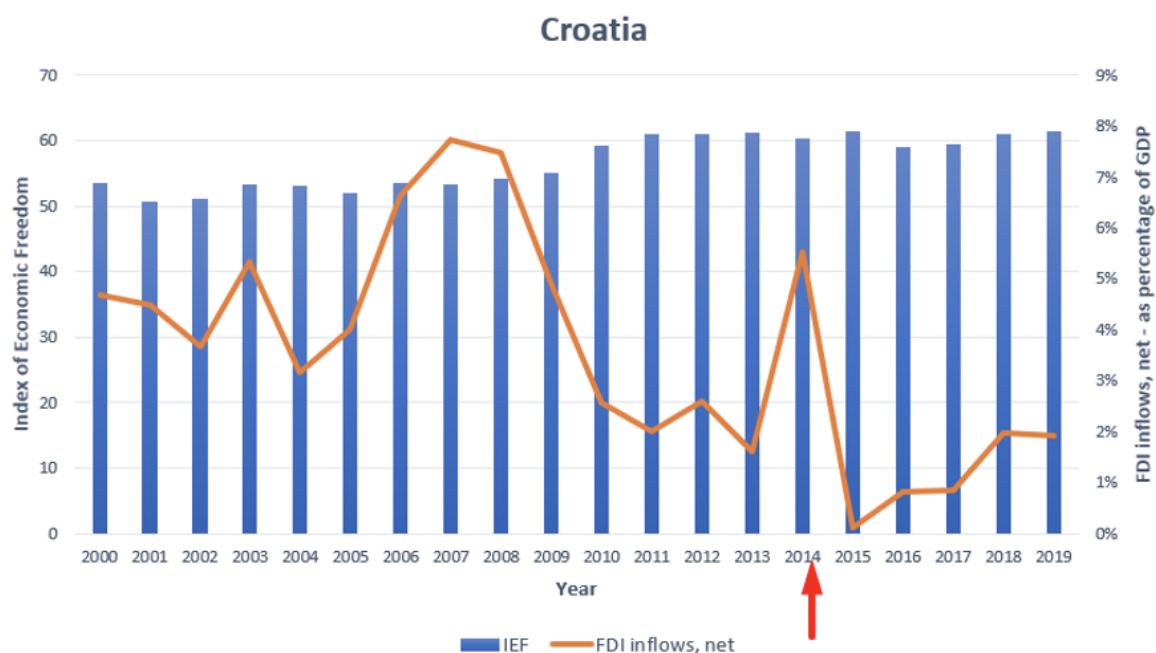
Bulgaria reported about eight percent FDI inflows in 2009, after that a decline in the FDI inflows is observed, but in 2015 the FDI inflows were circa 4.5 percent. By contrast one year before joining the EU and in the year after that, the FDI inflows were above 15 percent. It should be emphasized, that Bulgaria's IEF did not change dramatically after joining the EU. As already stated the IEF increased, but rather in the years before the country joined the EU. After that the index was stabilized. This allows me to conclude, that the institutional quality did play a role, as in the year where the IEF is high, the FDI inflows, net are also increasing – like for example in the year 2006. However, in 2019 the IEF for Bulgaria has reached 69 points, while the FDI inflows were three percent. The decline of the FDI inflows could be explained also by the world financial crisis.

Nonetheless, the country also has some disadvantages when it comes to attracting investors. Unskilled work force is sometimes a major problem for direct investors that aim to invest in Bulgaria (Santandertrade, 2021). In addition, some other issues that investors are facing are the unpredictability of the legislative system. Despite the fact, that Bulgaria has joined the EU, the country is still fighting against corruption. The poor infrastructure and the ineffective bureaucracy are also disadvantages that would be worth considering (Santandertrade, 2021).

Croatia

Croatia is favorable destinations for direct investors (Santandertrade, June 2021). For example, the membership in the European Union, the good infrastructure - both in the energy and telecommunication sectors, the qualified labor force and good economic indicators like positive budget surplus and low inflation. It is also emphasized that the Croatian government has imposed incentives in order to provide a better investment climate for the direct investors. According to (Santandertrade, June 2021) different tax reduction policies were implemented in the technological and manufacturing sectors. Some of the major initiatives undertaken by the government are intellectual property laws that aim to ensure that foreigners are equally treated compared to locals. In order to decrease the administrative burden, the government has lowered the administrative fees. As already stated, Croatia joined the EU in 2014 and before that has gone through many improvements of its investment climate due to the pre-acquisition process. Figure 5 represents bar charts, that show the changes in the IEF from 2000 until 2019. In addition, the line graph shows the movements of the FDI inflows, net.

Figure 5: Index of Economic Freedom and FDI inflows, net for Croatia, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Clearly, before joining the EU Croatia was mostly unfree. However, in 2014 the country was considered already as moderately free. Similar to the case observed in Bulgaria, the IEF increased a few years before the country joined the EU. From 2009 until 2019 the economic freedom in the country was a few mostly unfree, other times moderately free.

Croatia provides a different perspective regarding the FDI inflows before joining the EU. As already stated, Croatia joined the EU in 2014. The highest percentages of FDI inflows that the country attracted occurred in 2007 – around eight percent. Interesting is the fact, that before joining the Union the country reported higher FDI inflows than after joining the EU. In 2014 the year in which Croatia joined the EU the country managed to attract circa six percent of FDI inflows - the highest amount of FDI inflows for the timeframe 2009-2019. It should be emphasized, that in 2014 and in the years right before the accession of the country in the EU the IEF was also high, compared to the years before that.

However, Croatia is still fighting against the corruption in the country and its inefficient legal system (Santandertrade, June 2021). In relation, according to (Worldbank, n.d) Croatia is working in direct cooperation on a project with the World Bank from 2020 to

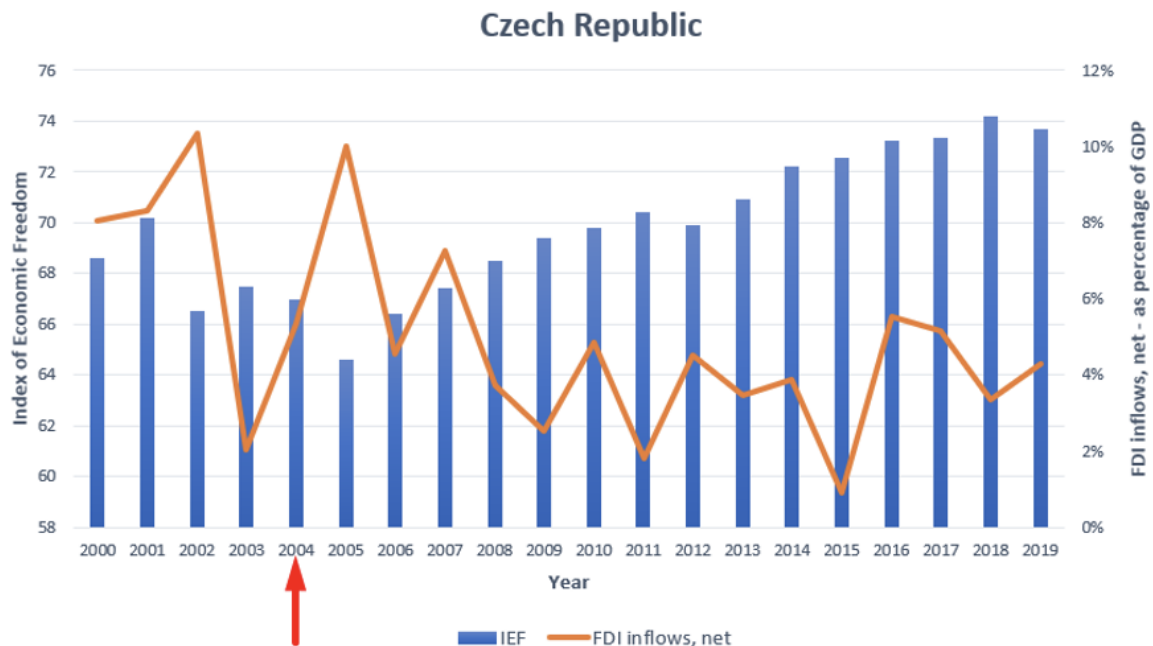
2024. The project is called Justice for Business⁵ and aims to reform the justice system in order to provide a better business environment in the country.

Czech Republic

According to Septimiu (2019), Czech Republic provides a positive business climate for direct investors. The scholar mentions that there are various benefits for MNC that aim to invest in the country and create new job positions. Some of the benefits are reduced land prices and tax reliefs. Besides, Septimiu (2019) states that different grants and subsidiaries are offered to direct investors that plan to invest in regions with high unemployment. Among the strong points that affect FDI Czech Republic declares its experience in industrial production, its well qualified workforce and the central European location (*Foreign Investment in the Czech Republic - Santandertrade.Com*, 2021, June). What is more, the infrastructure is also well developed. In addition, it is mentioned that the bank system of the country has shown during the last economic crises that it is stable and reliable. Besides, Figure 6 provides a like graph that gives more insight about the economic freedom in the country before joining the EU and for the period from 2009 to 2019. Clearly, before 2004 there were ups and downs for the IEF and the economic freedom was seen as moderately free. However, after joining the EU the IEF started increasing and between 2009 and 2019 the economic freedom was mostly free. In addition, there was an upward trend after the country joined the EU and the IEF managed to reach 73,7 in 2019.

⁵ The project aims to improve business and citizen justice activities. The project is separated in two parts. The first part is conducted to examine the results of different implementation procedures. Those procedures are meant to reduce the burden for the business operations and to make easier the interaction of the representative of the business with the government. The idea of the second component is to provide funding for already done justice improvements. Those improvements need to be conducted in the interest of the business and foreign direct investors. (*Development Projects: Justice for Business Project - P167247*, n.d., World Bank).

Figure 6: Index of Economic Freedom and FDI inflows, net for Czech Republic, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

The Czech Republic was attractive for the direct investors even before the country joined the EU. In 2002 the FDI inflows measured as percentage of GDP of the country were a little more than ten percent. By contrast, one year later a drastic decline was observed – the FDI inflows have fallen to circa two percent.

The country marked highest levels of FDI inflows for the period 2009—2019 in 2016 – circa six percent. At that time the IEF was increasing and the economic freedom in the country, as already mentioned was mostly free. For sure, one could see that for the period 2009-2019 the IEF for the country was increasing and at the same time the FDI inflows were fluctuating in the range between two and six percent. In addition, one should also spot that the highest amount of FDI was observed right before the country joined the EU.

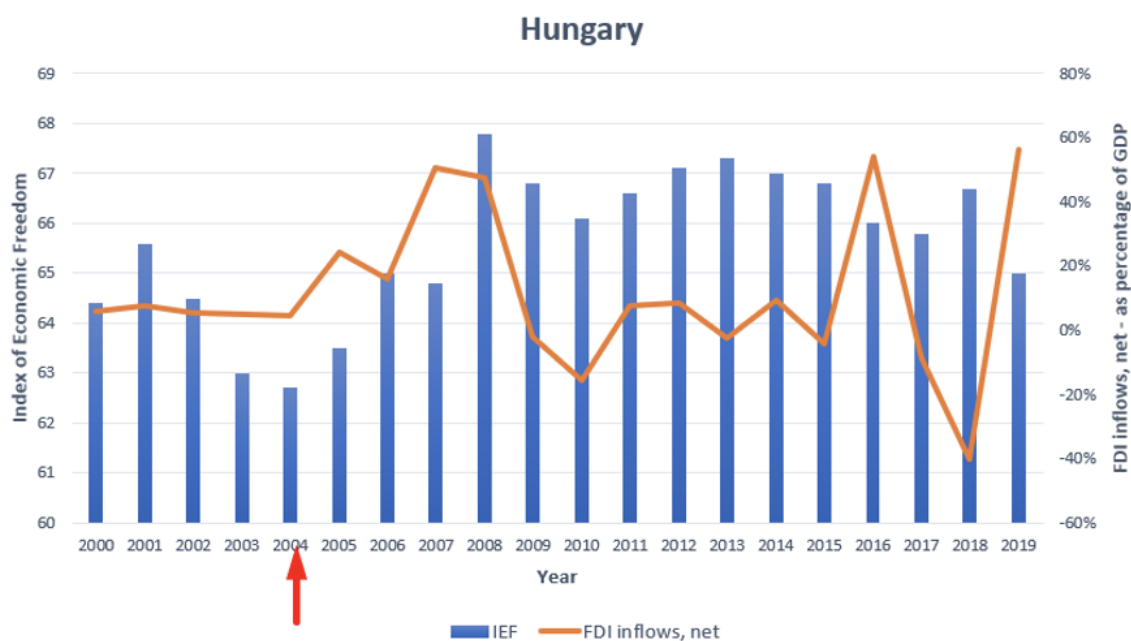
Anyhow, direct investors should also consider some weak points, when investing in the Czech Republic. It should be mentioned that the country is part of the European Union, but like Bulgaria is not part of the Eurozone (i.e., has not yet adopted the EURO currency) which may discourage some investors and make the country less attractive. According to Popescu (2014) being a member of the Eurozone influences positively the FDI inflows. It should be considered that reforms in the legal and juridical system have lagged behind in the country, although its membership in the EU (Foreign

Investment in the Czech Republic - *Santandertrade.Com*, 2021, June). In addition, it is mentioned that the different political tensions that the country has experienced in the last years are ruining the image of the country as a trusted FDI recipient. Besides, an administrative reform in the country aims to deal with some of the most oppressive legal acts (Andreea et al., 2014).

Hungary

Hungary is one of the biggest economies in the CEE countries. This provides a large domestic market for direct investments. Moreover, the country has a well-educated and skilled labor force that could be hired at a lower price in comparison to east European workers (Foreign Direct Investment (FDI) in Hungary - *Investing - Lloyds Bank International Trade Portal*, 2021, June). Besides, the country offers a well-established transport and IT infrastructure (Sass, 2004).

Figure 7: Index of Economic Freedom and FDI inflows, net for Hungary, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Figure 7 shows a line graph that represents the movements of the IEF for Hungary between 2000 and 2019. In addition, the bar charts represent the changes of IEF through the years. In 2004, when the country joined the EU the Index was 62.7, or the economic freedom was considered to be moderately free, by contrast in the years before that the index marked higher values. In addition, after joining the EU, there was a sharp increase and the index reached its highest values in 2008 – 67.8. However,

after that from 2009 until 2019 there were ups and downs in the index, but the economic freedom stayed moderately free. It should be emphasized, that joining the EU did influence the IEF. Despite the fact that the economic freedom was moderately free, the index increased, compared to the years before joining the EU.

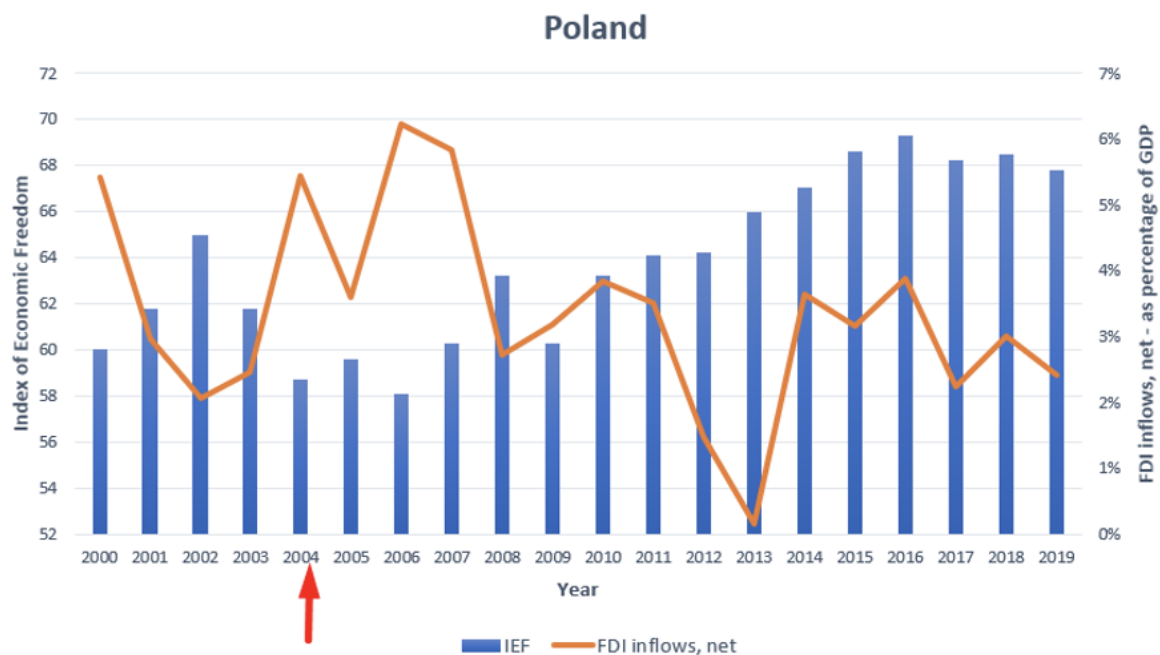
From 2000 until 2004 Hungary reported FDI inflows each year less than 8 percent. By contrast, one year after joining the EU, in 2005 the FDI inflows were already 24 percent. In 2016 and 2019 Hungary marked its highest amounts of FDI net inflows. In 2016 and 2019 Hungary reported a little less than 60% of its GDP in form of FDI net inflows. By contrast, a negative trend can be seen for the FDI net inflows for Hungary in the years 2009, 2010, 2013, 2015, 2017 and 2018. The IEF in the years in which Hungary marked its highest FDI inflows was stable and moderately free. After joining the Union, the economic freedom in the country was moderately free, although the index has increased. Here, it could be concluded, that in the year in which the index marked its highest values, namely in 2018, the FDI inflows, net were also high – with circa 40 % of GDP. In addition, in 2016, when the IEF was moderately free the FDI inflows were also high, the same goes for the year 2008.

The Hungarian government and ruling party have in recent years an unstable relationship with the European Union (Foreign Direct Investment (FDI) in Hungary - Investing - Lloyds Bank International Trade Portal, 2021, June). This may be seen as a possible obstacle for direct investors. Cronyism and corruption are still a part of the political landscape of the country (Foreign Direct Investment (FDI) in Hungary - Investing - Lloyds Bank International Trade Portal, 2021, June). As a result, investors may be repelled from investing in the country.

Poland

Poland is part of the European Union but still not a member of the Eurozone. This membership in the Union results in many advantages regarding the common trade and investment policies within the EU. At the same time the postponed adoption of the Euro could make the country less competitive in comparison to other CEE countries that are already using the currency of the EU. According to Przeździecka (2020) Poland have many advantages to offer, some of them are related to the strategic geographical location of the country and the size of its market. In addition, the author mentions the fact, that the country is the leader in the CEE group among the first in the EU, that has many hard science graduates.

Figure 8: Index of Economic Freedom and FDI inflows, net for Poland, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Figure 8 shows the economic freedom index and its movements in Poland for the time from 2000 until 2019. In addition, the movements of FDI inflows, net for the time period are also presented. Clearly, before joining the EU the economic freedom in the country was considered as moderately free. However, in the year in which the country joined the EU and two years after that the economic freedom was already mostly unfree. There was a sharp increase in the index from 2006 onwards. In the years between 2009 and 2019 the index was increasing, but still moving in the moderately free range, reaching 67,8 in 2019. It could be concluded that the membership in the EU increased the IEF in the long run. Besides, in the years before joining the Union the IEF was moving in the range moderately free.

Poland's FDI inflows also increased at the year of joining the EU – five percent in 2004 and in the following years the FDI inflows were already six percent. Poland managed to attract four percent FDI inflows in 2016, which was the year in which the IEF reached its peak for the observed period. However, it should be mentioned, that during the period 2009-2019 the economic freedom in the country was moderately free. At the same time the FDI inflows fluctuated. So, it could be concluded, that the membership in the EU did influence the IEF in the long run. In addition, it should be emphasized, that in the years in which the IEF is high, the FDI inflows are also increasing – in 2007,

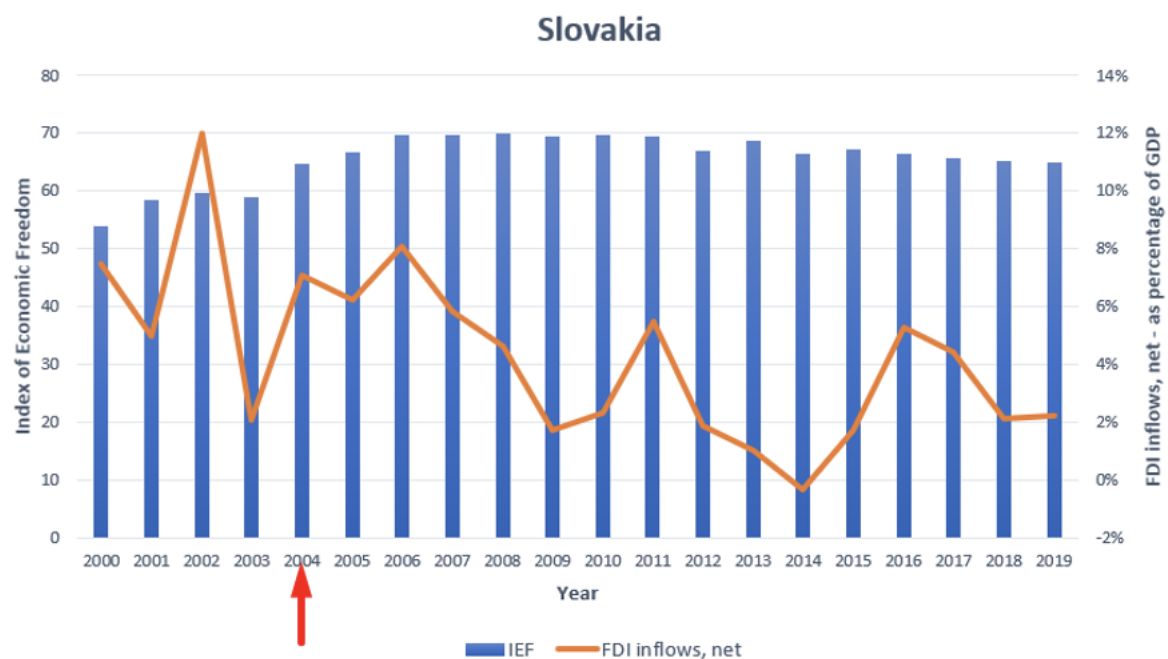
2008 the economic freedom in the country was moderately free and at the same time the FDI inflows were circa six and three percent. It should be stated that the decline in the years after 2009 could be explained with the world financial crisis and its impact on the country's economy.

Nonetheless, the country still has to tackle some challenges when it comes to FDI attraction: the slow administrative services is one of them (Foreign Investment in Poland - Santandertrade.Com, 2021, June). When it comes to FDI, the administrative procedures are one of the points that direct investors consider. In addition, the political environment of the country is considered to be unstable, which will push back direct investors (Foreign Investment in Poland - Santandertrade.Com, 2021, June).

Slovakia

Being part of the Visegrad Four Group Slovakia offers many advantages for foreign investors. It is to mention that the membership of the country in the European Union and in the Eurozone is one of the strong points of the country. The membership in the EU should guarantee that the laws of the country are aligned with the legal system of the Union. Moreover, adoption of the Euro provides more stability and may eliminate the risk of extensive currency fluctuations. Slovakia has well qualified workers that can be hired at relatively low cost (Foreign Direct Investment (FDI) in Slovakia - Investing - Lloyds Bank International Trade Portal, 2021, June).

Figure 9: Index of Economic Freedom and FDI inflows, net for Slovakia, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

As already mentioned, Slovakia joined the EU in 2004. Before that the economic freedom was mostly unfree. However, after joining the EU there was an increase in the IEF and from 2009 until 2019 the economic freedom was moderately free. Undoubtedly, membership in the EU improved and stabilized the IEF.

Slovakia also marked drastic movements of its FDI inflows before joining the EU in 2004. In 2002 the country reported its highest amount of FDI inflows since the beginning of the century - around 12 percent. Although it is important to be pointed out, that one year later there was a sharp fall by ten percent in the FDI inflows. Despite that, direct investors continued to invest in Slovakia, and so in the following years the FDI inflows were around eight percent. Slovakia did not experience wild fluctuations in the IEF during the period 2009-2019, the same goes for the FDI inflows in the country. However, it should be emphasized, that the economic freedom was moderately free for the observed period.

Howbeit, the country still needs to do some reforms in the energy and agricultural sector (Foreign Direct Investment (FDI) in Slovakia - Investing - Lloyds Bank International Trade Portal, 2021, June). Moreover, it is stated that the infrastructure of the country can still be improved in order for it to catch up with other European country's infrastructure.

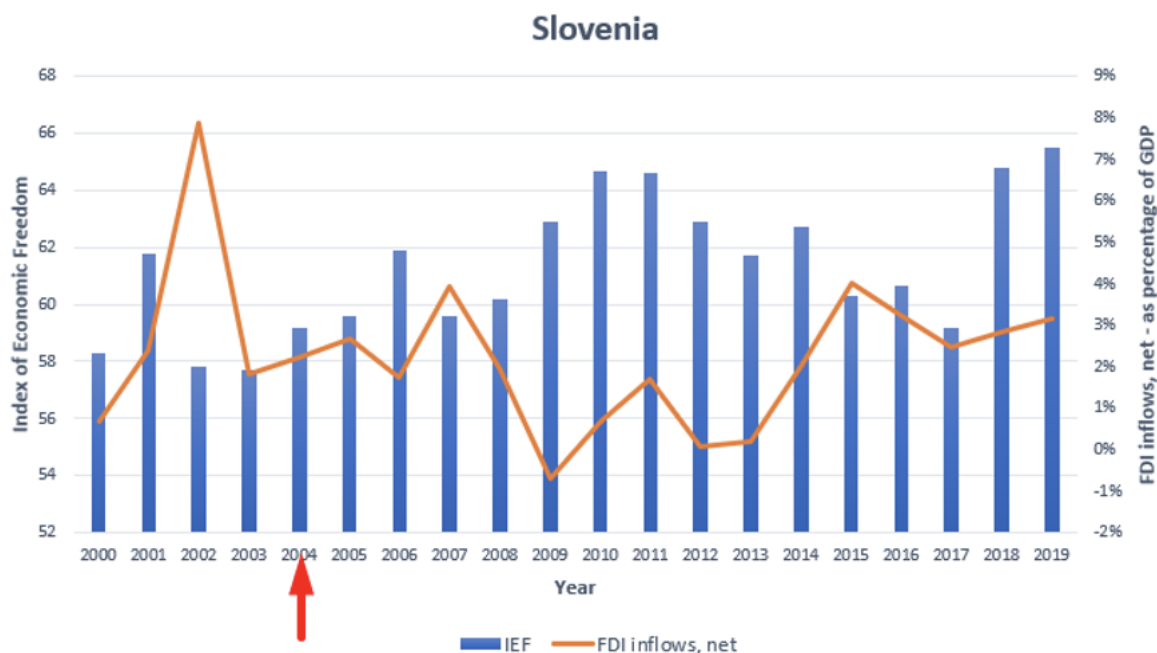
Slovenia

Slovenia joined the European Union alongside with the Visegrad Four (V4)⁶ and the Baltic countries in 2004. Five years later in 2009 the country adopted the Euro. Adopting the common currency of the EU can be considered as a sign that Slovenia could be seen as a trusted FDI recipient. However, Tend (n.d.) argues that one of the advantages that the country has to offer is the good infrastructure, both the transportation and telecommunication ones. It is also stated that the availability of skilled labor is another strong point that direct investors should consider. Undoubtedly, the location of the country in the heart of Europe may be used by investors as a door to the neighborhood country markets.

Figure 10 provides more insight about the movements of the IEF in Slovenia. Besides, the movements of the FDI inflows are also presented. As it can be seen, the index fluctuated wildly. Before the country have joined the EU, the economic freedom was mostly unfree with one exception in 2001. After joining the EU there were ups and downs, but as a whole the index was moving in the range of the moderately free economic freedom.

⁶ Visegrad Four refers to group of four countries (Hungary, Poland, the Slovak Republic and the Czech Republic) that aim to cooperate with each other in different fields with the purpose of the common European integration (Webra International Kft., 2006).

Figure 10: Index of Economic Freedom and FDI inflows, net for Slovenia, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Slovenia's reported amounts of FDI inflows were around two percent until 2002, then the country marked its highest FDI inflows amount: a little less than eight percent. It should be emphasized, that after joining the EU the FDI inflows varied below four percent. Important is to note, that after joining the EU the IEF increased and was fluctuating in the category moderately free. At the same time the FDI inflows did not pass the five percent barrier and remained below that.

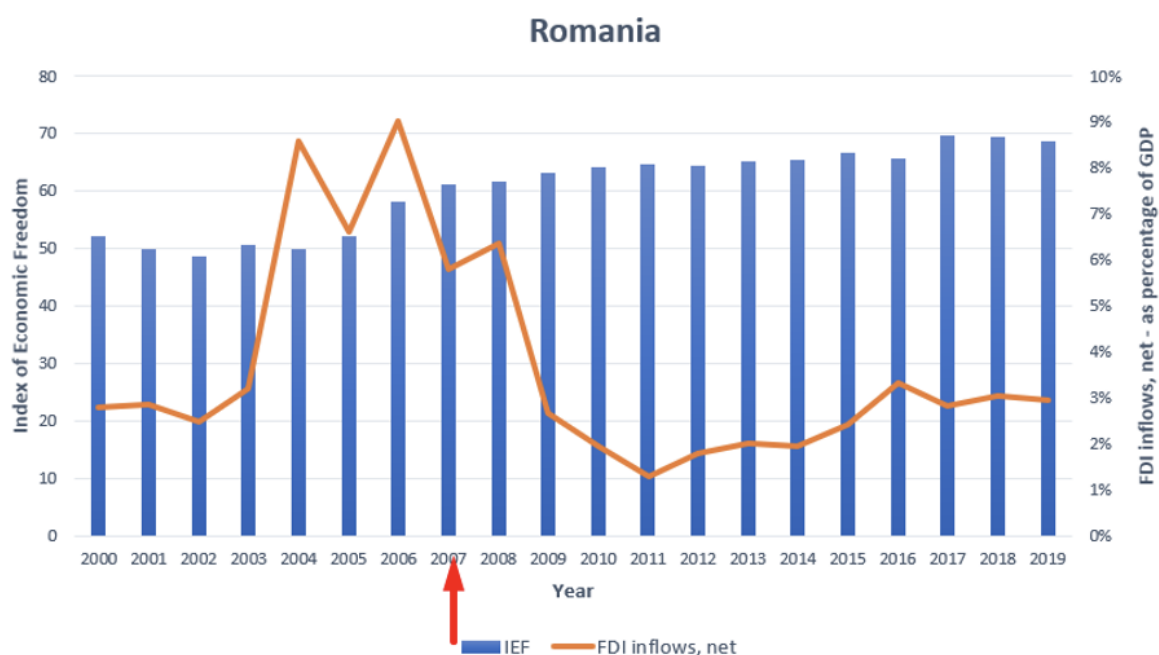
However, the coin has two sides - the country also has some weak points that need attention when considering an investment in Slovenia. The frequent changes in the government are stumbling stones for reforms in the country (*Foreign Investment in Slovenia - Santandertrade.Com*, 2021, June). This may repel the direct investors, as an unstable political situation is associated with high uncertainty, that is considered to be also costly. In addition, it is argued that the high taxes and expenses for social security in the country are also a barrier and may lower the attractiveness for FDI.

Romania

Alongside Bulgaria, Romania joined the European Union in 2007. Mirela et al. (2015) argue, that a membership in the Union may be used as a selling point when negotiating with the investors. Besides, the authors argue that the country can offer also workforce

that is well educated, especially with a good technological background, which is cheaper compared to the one in the western countries. Romanian domestic market is large, compared to neighboring countries (Foreign Investment in Romania - Santandertrade.Com, 2021, June). This gives direct investors a huge range of investment possibilities. In addition, Mirela et al. (2015) argue, that the geographical location of the country gives various possibilities to direct investors as the country is easily accessible not only by land, but also by water. The endowments of natural resources are also mentioned by the scholars. Figure 11 shows the movements in the IEF for Romania before the country became a member in the EU and for the observed period between 2009 and 2019. Before 2007 the economic freedom was mostly unfree. However, from 2007 onwards there was an increase in the index and the country was categorized by the economic index as moderately free. The bars gives a clear vision, that for the timeframe from 2009 until 2019, in which the country was a member of the EU, the IEF experienced an increase and was stabilized.

Figure 11: Index of Economic Freedom and FDI inflows, net for Romania, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

As mentioned by Aslund (2013) with joining the EU the country not only improved its institutions, but also paved its way for new opportunities. Despite that, even joining the EU Romania alongside with Bulgaria were still under special monitoring by EU (Nikolova & Nikolaev, 2017).

The FDI inflows were relatively stable from 2009-2019 - little less than five percent. At the same time the economic freedom in the country was also stable. The IEF in Romania was regarded as moderately free for the period between 2009-2019. It should be stated, that the FDI inflows marked its highest values right before the country joined the EU.

Anyway, Romania's advantages go hand in hand with some disadvantages for the direct investors. For example, the country is still fighting with corruption and at the same time the legislative and judicial system are lacking predictability (Foreign Investment in Romania - Santandertrade.Com, 2021, June). Mirela et al. (2015) also point out that some of the disadvantages of the country are considered to be the ineffectively working institutions. All this makes the country less competitive and may weaken the confidence of the potential direct investors.

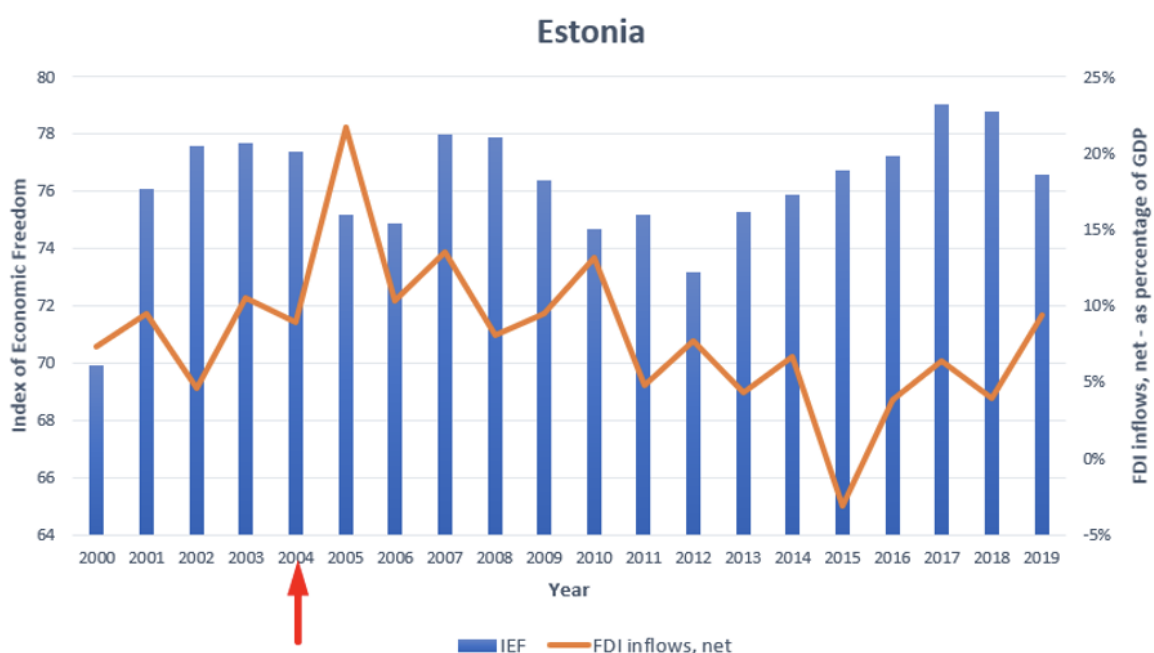
Estonia

Alongside with Latvia and Lithuania, Estonia is one of the three Baltic countries that have joined the EU in the first wave of acquisitions - in 2004. For sure the location of the country plays a major role in attracting FDI. The country is located on a crossroad between Russia and the European Countries, which allows for a better connection and easier access to both EU and non-EU markets. Furthermore, according to (Invest Estonia, 2020, November) the country offers zero percent tax rate for retained or reinvested profits. It is also emphasized that investor may benefit from the Estonian well-developed IT and transport infrastructure. Figure 12 provides the information regarding the IEF for Estonia. Besides, information regarding the FDI inflows for the time period is also presented. As it can be seen, the economic freedom was mostly free throughout the observed period. Clearly, the index fluctuated, but after joining the EU, the economic freedom did not change dramatically. Unlike the other observed countries, Estonia's IEF did not change because of the membership in the EU and remained mostly free.

Before joining the EU Estonia's FDI inflows were barely over ten percent. However, after 2004 the FDI inflows varied, but in 2005 were already above 21 percent. In 2010, only six years after joining the EU Estonia marked its highest values of attracted FDI net inflows for the observed time period from 2009 until 2019 – around 13% of GDP of the country. In 2009 and 2019 the attracted FDIs, net inflows as percentage of GDP were a little less than ten percent. For the rest of the observed years Estonia managed

to attract FDI net inflows amounted to less than eight percent of the country's GDP. Interesting is the year of 2015 – in that year the disinvestments in the country were more than the newly FDI in the country – resulting in a negative FDI inflows. Interesting is the fact, that the highest FDI inflows that the country managed to attract was reported in 2005, one year after joining the Union. What is more, it seems that in the period of pre-accession in which the country went through many processes of improvement, direct investors were already attracted by the business environment in the country.

Figure 12: Index of Economic Freedom and FDI inflows, net for Estonia, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Anyhow, Estonia has some weak points that direct investors should consider, when investing in the country. According to (Estonia, 2020, December), the country still has to deal with some level of corruption, however they are not threatening the attractiveness of the country for FDI. Besides, the lack of unskilled labour may also be viewed as a disadvantage for the direct investors (Foreign Investment in Estonia - Santandertrade.Com, 2021, June).

Latvia

The Latvia market is small and like the other Baltic countries is located on a crossroad, which may be seen as a tempting condition for direct investors. Investing in Latvia could possibly open new opportunities in the neighboring countries (Lithuania or

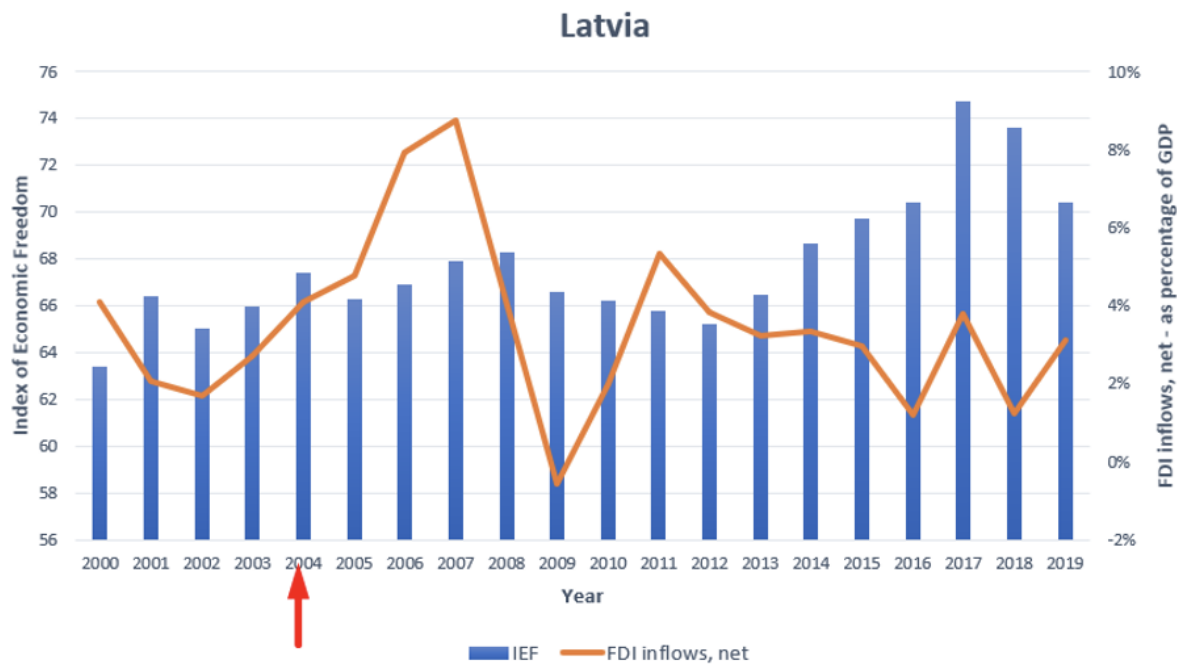
Estonia). Furthermore, membership in the EU and in the Eurozone also plays a major role when attracting FDI to the country. Besides, the skilled and at the same time cheap workforce that the country has to offer is also a major advantage (Foreign Direct Investment (FDI) in Latvia - Investing - Lloyds Bank International Trade Portal, 2021, June). What is more, it is emphasized that the attractive tax system of the country is providing lucrative conditions for the investors.

Figure 13 shows the movements of the IEF for Latvia. There was no drastic increase in the index when the country joined the EU, besides the economic freedom remained moderately free. Between 2009 and 2019 the trend remained, while from 2015 to 2019 the IEF increased, and the economic freedom was already mostly free.

Latvia's FDI inflows before joining the EU were around 4 percent, by contrast after 2004 the country reported an increase in the FDI inflows and in 2005 the amount of FDI inflows increased to circa 9 percent. Although in 2009 the country marked more disinvestments by direct investors, than investments and this resulted in negative FDI inflows. In the period from 2009 until 2019 the investments in the country fluctuated but remain under five percent of GDP.

Besides, Latvia shows an interesting case: the IEF increased from moderately free to mainly free from 2016 onwards, however the FDI inflows in 2016 and 2018 were one percent each year. It is worth mentioning, that the FDI inflows marked a decrease globally (*WDI - Globally, Foreign Direct Investment Decreased in 2016, 2018*). What is more, a decline in the FDI inflows in 2018 has been observed as well and it became as big as it used to be during the global financial crisis (*Global Foreign Investment Flows Dip to Lowest Levels in a Decade | UNCTAD, 2019*).

Figure 13: Index of Economic Freedom and FDI inflows, net for Latvia, 2000-2019



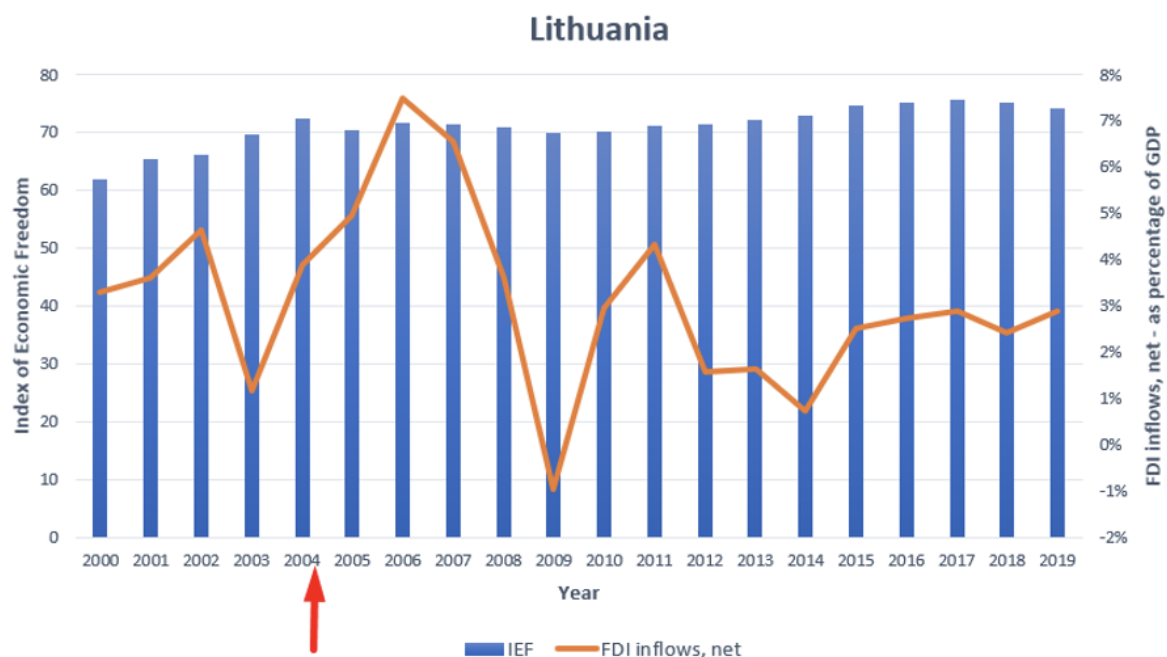
Source: Own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

Nonetheless, Latvia still has to tackle a number of challenges in order to be more attractive for FDIs. Combating corruption is one of those challenges (Foreign Direct Investment (FDI) in Latvia - Investing - Lloyds Bank International Trade Portal, 2021, June). In addition, the industrial base of the country needs renovation and investments in R&D are also insufficient. All this may contribute to a less competitive and attractive image of the country.

Lithuania

Lithuania is considered to be a business-friendly country that offers fast and convenient services for investors in the country (Invest Lithuania, 2021, January). Furthermore, Lithuania's official currency is the Euro, which provides more opportunities and makes the country more attractive for investors. In addition, the e-infrastructure of the country is one of the top EU-wide. The country also provides very good fiber-optic infrastructure. Its strategic geographical location is another important advantage that makes the country attractive for international business with focus on IT (Invest Lithuania, 2021, January). It should also be emphasized that foreign investors and local investors are treated the same way by the legislative system of Lithuania. In addition, one should not underestimate the economic freedom in the country. Figure 14 provides more information about that.

Figure 14: Index of Economic Freedom and FDI inflows, net for Lithuania, 2000-2019



Source: own elaborations, data retrieved from <https://www.heritage.org/index/download> and <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>

It is worth considering that the index has further increased after joining the Union, but in the time period 2009-2019 the economic freedom remains mostly free. What is more, before joining the EU the economic freedom was moderately free and the index increased gradually. As a result, in the year of joining the EU the economic freedom was already mostly free. From 2009 until 2019 there was a gradual increasing upward trend and so in 2019 the IEF reached 74,2. To sum up – indeed the category of the economic freedom index changed at the time the country has joined the EU.

FDI inflows in Lithuania before joining the EU marked its highest values in 2002: around 4.6 percent. Before that from the year 2000 until 2004 the average percentage of FDI inflows was about 2.6. In addition, there was a slight increase in the FDI inflows after the country joined the EU.

The situation in Lithuania was similar to the one discussed for Romania for the time period 2009-2019: the FDI inflows were relatively stable - little less than five percent. At the same time the economic freedom in the country was still stable. While the IEF in Romania was regarded as moderately free for the period between 2009-2019, the IEF for Lithuania was mostly free. It should be emphasized, that the highest level of FDI inflows were attracted in the year 2006 and at the same time the IEF was mostly

free in that year. It could be seen, that from 2003 onwards the IEF increased and at the same time the FDI were increasing as well.

There are some aspects of the business environment that Lithuania offers to investors that might undermine the success of the FDI. For example, the lack of transparency is a precondition for the existing corruption in the country (Foreign Investment in Lithuania - Santandertrade.Com, 2021). In addition, the high external debt of the country is something that also might discourage potential investors.

It should be recalled that the observed timer period that starts from 2009 is right after the world financial crisis. The crisis also impacted the direct investments worldwide and a drastic decline was observed Briefs (2009). What is more, the downward trend is observed since 2013 (*Global Foreign Investment Flows Dip to Lowest Levels in a Decade* | UNCTAD, 2019). It should be also emphasized, that different nations differ in their capability to attract direct investments on a long-term basis (Dorozynski et al., 2020).

Besides, it is important to note that the world financial crisis has impacted the direct investments in the countries from CEE. In addition, it might be that going through the three stages of accession the countries have done a lot to improve their investment climate. This might be a possible reason, why some countries like for example Slovakia and Romania reported its highest amounts of FDI inflows right before their official EU accession. As already stated in Chapter 5.1 the process of joining the EU does not happen overnight, thus couple of years of negotiations and improvements are needed before the formal act of joining the Union. It should be emphasized, that many of the pre-accession processes are related to the properly functioning institutions, that form a better institutional environment and improve the business environment as well.

This short overview of some of the strong and weak points of the countries smefrom CEE lets me conclude that they all are dealing with similar issues. In many of the observed country cases there are problems with corruption, reforms in the legislative and judicial systems. Besides, tensions in the political landscape and transparency were also issues that may harm the attractiveness for direct investors.

As already stated in Chapter 3 there is not a single definition of what institutional quality is. Rather, multiple factors build up the term institutional quality. Andreea et al. (2014) argue that for the CEE countries the main obstacle for attracting FDI still remains the quality of the institutions. The scholars also indicate that the stumbling blocks for direct

investors are related with the stability and predictability in those countries. Starting business in a foreign country is a process that for sure requires stability and predictability of the institutions. If such are not present, then the direct investor may face additional costs. According to Buchanan et al. 2012(as cited by Sabir et al., 2019) not properly working institutions may even increase the costs for direct investors.

Besides, Dorozynski et al. (2020) argue that good governmental practices of the host country may increase the confidence of the investors. As seen in this subchapter many of the CEE countries suffer from instability and tensions in the governmental systems. It is important to note that all the observed countries used to be countries in transition. Scholars like Andreea et al. (2014) and Eydam & Gabriadze (2020) argue that countries in transition are dealing with issues regarding the institutional environment and how to improve it. However, World Bank (2008) claims that with the accession of the countries from CEE in the European Union the process of transition ends. This allows me to conclude that many of the weak points in the institutional aspect should have been resolved with the accession in the EU.

Howbeit, Popescu (2014) argues that in the CEE countries can offer a competitive labour cost at lower cost. In addition, the scholar mentions that the membership in the EU and in the Eurozone has a sizable impact on the FDI attraction in the CEE countries.

Clearly, the already discussed determinants of FDI are considered to be strong or weak points in the CEE countries. Market size, human capital, cheap labour force, technological and R&D capabilities are clearly factors that help investors in their decision if they should invest in a specific country or not.

To conclude this part, it could be stated that undoubtedly the observed countries in the CEE do have weak points when it comes to institutional quality. If and how those aspects affect the FDI attraction it is worth considering. Anyhow, it would be a good idea to provide some empirical evidence if the institutional quality affects the FDI inflow in those countries. As already discussed in some of the observed cases the IEF did improve in the long run and a possible reason might be the membership in the EU. What is more, some countries reached the highest amounts of FDI inflows prior to or in the year of accession in the EU – for example Croatia and Bulgaria. Reason for that might be the fact, that when joining the EU the countries must undergo specific institutional changes.

The careful examination of the topic with the FDI inflows and the ability of the countries from the CEE region to attract direct investments and the importance of institutional quality ended up formulating the Hypothesis of this thesis. The Hypothesis is the following:

H: Institutional quality had a positive effect on FDI inflow in CEE countries between 2009-2019.

6. Empirical Part

In this chapter the empirical work is presented. My research question is: Did the determinant for FDI - institutional quality have an effect on attracting FDI in Central and East European countries between 2009 - 2019? My hypothesis is the following:

H: Institutional quality had a positive effect on FDI inflow in CEE countries between 2009 - 2019.

6.1 Empirical Methodology and Sample Description

In this empirical analysis I am observing the foreign direct investment net inflows as a dependent variable. In addition, six more independent variables are included in order to make the estimation. Panel data methodology is used in this empirical work. I have used the OLS estimation method, the Fixed effects, Random effects models.

Aim of the empirical observation is to see if there is any positive effect of the institutional quality over the FDI. The observed time period is between 2009-2019 and I consider 11 Central and East European countries. In my opinion observing this time-period will contribute to the already existing literature, as it will consider the time after the accession of the CEE countries in the European Union. In the process of accession, the Union and after joining the EU many changes have been done, in order to fulfill the acquisition criteria of the Union. The countries that are considered in this analysis are the following: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Estonia, Latvia, Lithuania, Romania, Slovak Republic and Slovenia.

Important is to be mentioned, that Popovici (2015) observes also the impact of institutional quality in the CEE countries, but the observed period is from 1994 to 2013. Besides, Popovici (2015) includes in the analysis twelve independent variables, whereas four are measuring the quality of institutions. In addition, in the work of Popovici (2015) the other independent variables are separated in two categories – telecommunication infrastructure and labour market.

The dependent variable is represented by the foreign direct investment, net inflows(% of GDP).

The careful examination of the underlying theories and motives of the determinants of FDI in Chapter 3 and Chapter 4 and later on the strong and weak points of the CEE countries lead to selection of the independent variables, which represent the different determinants of FDI, which I have discussed. As already mentioned in Chapter 4 the

human capital is also considered to be an important determinant of FDI. In order to have an educated labour force, one should consider the education in the host country. To represent the human capital as a determinant I have decided to indicate it by the school enrollment in each of the country. The more people are enrolled in schools, the higher should be the human capital. What is more, a properly educated citizens, means that the education system is working well, which might be a sign of a well working institutions in the country.

Educated and at the same time cheap labour force is also considered to be a strong point when it comes to choosing a host country to invest in. As previously indicated, the cheap labour cost will help investors minimize their costs. In order to measure the cheap labour cost, I have selected the index compensation for employees. This index captures the salary, that an employee receives for a given period plus all kind of social compensations (Glossary: Compensation of Employees - Statistics Explained, n.d.). The lower the total compensation of employees, the cheaper is the labour cost for a direct investor.

Technological capabilities are considered just as important determinants for FDI. Those capabilities are worth examining before investing in a foreign country. They are helping firms to maximize profits and also bringing innovation with themselves. There are different indices that are used for a measurement of the technological capabilities. In the following the variable capturing the number of individuals using the Internet is used to measure the technological capabilities. Reason for this selection is the fact, that in order to use the Internet one should be capable of using a computer, which is very important, when it comes to technological capabilities nowadays.

Research and development are vital determinant for FDI attraction. As already indicated investors are attracted by host countries where the R&D is well developed. This allows them to develop further either product, or production process. The variable number of researchers in the selected country is used to measure the R&D capabilities, as it will give most accurate information about the employment in the R&D sector. The number of employees in the R&D sector is usually positive correlated with the R&D projects.

Size of the market is also considered from investors when choosing a country to invest in. This FDI determinant is measured by the variable representing the gross domestic product of a country for the selected period. The gross domestic product can indicate the size of the county's market and the size of the production in this market.

Last, but not least the determinant institutional quality is measured by the Economic freedom index, which was explained in detail in Chapter 4. This is my independent variable. Reason for the selection of this index is the fact, that it incorporates different aspects which are important for the institutional quality. Those are discussed in Chapter 4.2. In addition, the index appears to have no insufficiencies, for the best of the authors knowledge.

Table 4: Variable Description

Variable	Variable Abbreviation	Variable Description	Time Period	Data Source
Dependent Variable				
Foreign direct investment	FDI	net inflows (% of GDP)	2009 to 2019	World Bank Indicators
Independent Variable				
Economic freedom index	EFI	12 pillars that measure the degree of economic freedom	2009 to 2019	The Heritage Foundation
Gross Domestic Product	GDP	(Current US \$)	2009 to 2019	World Bank Indicators
School enrollment, tertiary	SE	(% gross)	2009 to 2019	World Bank Indicators
Compensation of employees	COE	(Current LCU)	2009 to 2019	World Bank Indicators
Individuals using the Internet	IUI	(% of population)	2009 to 2019	World Bank Indicators
Researchers in R&D	RRED	(Per million people)	2009 to 2019	World Bank Indicators

Source: Own elaborations

The variables used in the regression are presented in In Table. Description, abbreviation, and time period of the observed variables are also listed. Besides, the database from which the data was taken is shown in the Data source column.

Clearly, the dependent variable is the foreign direct investment (net inflows in % of GDP). As indicated previously, the institutional quality is measured by the variable EFI. In addition, I have included six more variables, that represent the different determinants of FDI, which I found to have importance for the investor's decision in Chapter 4 and Chapter 5. Among those six variables the variable measuring institutional quality is also included.

In the beginning of the analysis the needed data was collected and cleaned. After that the analysis was conducted using the Stata13 Software.

6.2 Results

The first step was to check for multicollinearity problems in my model using the Variance Inflation Factor (VIF) (see Table 5). Stock & Watson (2015) state, that having a multicollinearity would deliver to illogical results, so multicollinearity is to be avoided. The results show that no multicollinearity exists in my regression.

Table 5: Variance Inflation Factor

	VIF	1/VIF
IUI	2.318	.431
GDP	2.132	.469
SE	1.484	.674
EFI	1.459	.685
COE	1.22	.82
RRED	1.212	.825
Mean VIF	1.637	.

Source: Own elaboration using Stata

According to Hair et al. (2010) the maximum value of the Variance Inflation factor (VIF) should be 10. By contrast, Henseler et al. (2015) and Rogerson (2001) argue that the

maximum VIF value should be five. If the result value is above the maximum value, this indicates, according to the scholars, that there is multicollinearity in the observed model. The Variance Inflation Factor for the observed variables is not only below 10, but also below five. The results allow me to conclude, that there is no multicollinearity in the model.

After that I run a pooled Ordinary Least Squares Regression (OLS). Table 6 provides the results of the regression analysis that was conducted with the Stata 13 software. The results show that all of the observed coefficients are insignificant at 1%, 5% and 10% at this stage of the analysis.

Table 6: OLS Regression

FDI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
EFI	.117	.161	0.72	.472	-.203	.436	
GDP	-19.02	20.21	-0.94	.349	-59.056	21.017	
SE	-.071	.071	-1.00	.319	-.211	.069	
COE	0	0	-0.74	.463	0	0	
IUI	.077	.09	0.86	.391	-.1	.255	
RRED	.101	.102	0.99	.322	-.101	.304	
Constant	-3.016	9.323	-0.32	.747	-21.485	15.454	
Mean dependent var		2.920	SD dependent var		7.058		
R-squared		0.034	Number of obs		121		
F-test		0.659	Prob > F		0.683		
Akaike crit. (AIC)		825.168	Bayesian crit. (BIC)		844.739		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Own elaboration using Stata

As already mentioned, the results from Table 6 indicate, that none of the observed coefficients is significant. The F-test value is 0.659. According to Wooldridge (2010), pooled OLS should be used when a different sample is selected for each period/year of the panel data. By contrast, Fixed effects model or Random effects model are more suitable, when the same sample of countries/cities or individuals is observed. So, I decided to run the Fixed effect model. Table 7 provides the results for the Fixed effects model. Clearly, all the tested coefficients are insignificant. The F-statistic tests the Null hypothesis that the fixed-effects parameters are all zero, which then helps me to choose between the pooled regression model and the fixed effects model. A significant result of the F-test ($p < 0.05$) suggests that the Fixed effects model is more appropriate than the pooled regression model. The results here indicate that the probability is 0.482, which is bigger than 0.05. This shows that using the Fixed

effects model is not the most appropriate decision. Considering these results, I decided to look for a more appropriate method for my data.

Secondly, I ran the Hausman test. The Hausman test can be used to determine whether the Fixed effects or the Random effects model is more appropriate for the panel data. A significant result of the Hausman test ($p < 0.05$) would indicate that the Fixed effects model is to be preferred.

The results from Table 8 are indicating that based on Hausman P-value, it will be better to select the Random effects model. Reason for that is the p-value of the Hausman test, which is 0.565. As 0.565 is bigger than 0.05. I do not reject the H0 hypothesis, hence Random effects model is to be preferred.

Table 7: Fixed Effect Regression

FDI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
EFI	-.14	.46	-0.31	.761	-1.053	.772	
GDP	-88.057	54.152	-1.63	.107	-195.442	19.328	
SE	-.14	.123	-1.14	.256	-.383	.103	
COE	0	0	-0.20	.839	-.001	.001	
IUI	.144	.143	1.00	.318	-.14	.428	
RRED	.155	.121	1.28	.202	-.084	.394	
Constant	24.751	24.173	1.02	.308	-23.185	72.687	
Mean dependent var		2.920	SD dependent var		7.058		
R-squared		0.054	Number of obs		121		
F-test		0.982	Prob > F		0.482		
Akaike crit. (AIC)		819.497	Bayesian crit. (BIC)		839.068		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Own elaboration using Stata

Table 8: Hausmann (1978) Specification Test

	Coef.
Chi-square test value	3.889
P-value	.565

Source: Own elaboration using Stata

Before looking at the results from the Random effects model, one should also consider

the test for heteroskedasticity. Table 9 represents the Breusch-Pagan test for heteroskedasticity. According to Stock and Watson (2015), OLS estimators should be BLUE (Best Linear Unbiased Estimators), i.e., they should be efficient - there should be no issue with the heteroskedasticity. The results of the Breusch-Pagan test show that the p-value is 0.1296, which is bigger than 0.05. This allows me to conclude that I fail to reject the H0 hypothesis, meaning that there is homoscedasticity in my model (the residuals are distributed with equal variance).

Table 9: Breusch-Pagan Test

Source	SS	df	MS	Number	of	obs	=	121
Model	208.039	2	104.019	Prob	>	F	=	0.124
Residual	5770.316	118	48.901	R-squared	=			0.035
Total	5978.354	120	49.820	Root	MSE	=		6.993

FDI	Coefficient	Std. Err	t	P>t	[95% Conf.	Interval]
_hat	1.554	1.496	1.040	0.301	-1.409	4.517
_hatsq	-0.093	0.238	-0.390	0.696	-0.565	0.378
_cons	-0.666	2.317	-0.290	0.774	-5.254	3.922

Breusch-Pagan / Cook-Weisberg test for heteroskedasticity

Variable: Fitted values of FDI

H0: Constant variance

chi2(1) = 2.30

Prob > chi2 = 0.1296

Source: Own elaboration using Stata

The obtained results from the Random effects model (see Table 10) show that none of the observed coefficients are significant either at ten percent level, nor at five percent level, nor at one percent level. Those results let me conclude, that the variable measuring the institutional quality – Economic freedom index (EFI) is insignificant. The same goes also for the other additional variables, that are representing other important determinants for FDI, that I have considered to include.

The obtained results allow me to conclude that I can reject my hypothesis, namely that institutional quality had a positive effect on FDI the Central and East European Countries in the observed period from 2009 to 2019.

Table 10: Random Effect Regression

FDI	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
EFI	.117	.161	0.72	.47	-.2	.433	
GDP	-19.02	20.21	-0.94	.347	-58.631	20.592	
SE	-.071	.071	-1.00	.317	-.209	.068	
COE	0	0	-0.74	.462	0	0	
IUI	.077	.09	0.86	.389	-.098	.253	
RRED	.101	.102	0.99	.32	-.099	.301	
Constant	-3.016	9.323	-0.32	.746	-21.289	15.258	
Mean dependent var		2.920	SD dependent var		7.058		
Overall r-squared		0.034	Number of obs		121		
Chi-square		3.956	Prob > chi2		0.683		
R-squared within		0.022	R-squared between		0.461		

*** $p < .01$, ** $p < .05$, * $p < .1$

Source: Own elaboration using Stata

7. Conclusion

Institutional quality has been linked to have influence on many processes within an economy. Attraction of foreign direct investment is crucial not only for the economy, but for the domestic business as well. Investing capital, either human or financial in a new country means that the local business will also benefit from that. However, the opportunities that many sectors provide may also have an influence over the decisions of foreign direct investors, for example the technological and R&D capabilities of the country, the availability of educated labor force and last, but not least the institutional quality.

The obtained results from the empirical part show that FDI inflows in the CEE countries do not depend on institutional quality. Or at least in the selected period there was no such evidence found. In her study Popovici (2015) finds out that in the period 1994-2003, in which the countries were in process of transition - there was an impact on the institutional quality over FDI. However, the scholar also examines the period from 2004 to 2013. In the second period of observation there was no significant impact of institutional quality over the FDI inflows in CEE countries. According to Popescu (2014) in the pre-acquisition process the countries that aim to join the EU have walked the long way in order to improve their institutional quality. This implies that the countries should have improved their institutional quality by the time they have joined the Union. In addition, being members of the Union, countries should stick up to similar legal and judicial practices. According to European Commission, 2012(as cited by Andreea et al., 2014) the EU ensures that investors are provided with protection of their investments and environment in which they are operating is business friendly and fair. Besides, as already mentioned some countries are still under special monitoring of the European Commission. Among the others under monitoring are Bulgaria, Romania, Slovenia and Croatia. In addition, as already discussed, during the pre-accession process the observed countries indeed have improved their institutional quality and as a result some of them have attracted more FDI inflows. Possible reason for the decline in FDI inflows after the countries have joined the Union might be the impact of the world financial crisis. In addition, Stoddard & Noy (2015) emphasize that financial crises indeed cause a turmoil in the behavior of the direct investors. Furthermore, the authors state that there has been observed a decline the in the FDI inflows worldwide during and after the world financial crisis.

All this, alongside with the results from Popovici (2015) allows me to conclude that it might be the case, that in many of the observed countries the FDI inflows declined despite the improved institutional quality in the observed countries, due to the effects of the world financial crisis.

In addition, it has been considered the possibility of an existence of a time lag. This possibility is however insufficient, due to the fact, that scholars like Popovici (2015) have shown that in the years after the accession of a country in the EU the institutional quality did not play any role in attracting FDI. In addition, it is rather the process of accession that has influenced the institutional quality to improve. As seen in Chapter 5 in some of the observed countries there was an increase in the FDI inflows in the years before the country joined the EU for example Romania, Slovenia, Slovakia and the Czech Republic. This allows me to conclude, that in the observed period from 2009 until 2019 was from the one side impacted by the world financial crisis and from the other side the improvements in the economic environment played rather a role before the countries have joined the EU.

However, authors like Goodspeed, Martinez-Vasquez and Zhang (2009, as stated by Andreea et al., 2014) argue that some countries are experiencing lower levels of foreign investment. Those countries, according to the scholars are the developing countries. Anyhow, such an argument cannot be relevant, as, Ciesielska-Maciągowska & Kołtuniak (2021) argue that the countries from CEE are not considered to be developing anymore. Important is to be mentioned, that the observed countries have been countries in transition, but are not considered as such anymore. What is more, the countries in transition have gone through many reforms from restructuring the economy from planned to market economy. According to Krelle (2000), the process of transition requires many modifications of the institutions within the country's sectors like - political, financial and social sector.

Considering the factors mentioned above, it shouldn't be surprising that the empirical analysis provided such results.

Unquestionably investigating the role of institutional quality in the countries from CEE contributes not only to the already existing literature in this field but may also help policymakers. However, one should consider that the countries from CEE in this thesis are grouped based on their geographical location. Central and East European countries differ in size of their national market. For example, the size of the market of Hungary and Poland cannot be compared to the market size of Slovenia and Bulgaria.

Besides, eight of the observed 11 countries have joined the European Union in 2004. Other two joined in 2007 and the last one in 2014. Joining the EU later means from the one side that the countries have started to improve their institutional environment later and from the other side the countries have met the requirements later. In addition, being a member of the EU provides more benefits for direct investors. Popescu (2014) claims that the driving force that attracts direct investors to the countries from CEE is their membership in the EU. Andreea et al. (2014) provides additional support for the thesis of Popescu, namely that countries that join the Union benefit also from the EU funds that they can use in order to position the country better on the map of the investors. Besides, Popescu (2014) argues, that the membership in the EU can be seen as a tempting condition from direct investors. Based on that, it could be concluded that the earlier one country joins the EU, the faster the country will profit from the membership.

Grouping the countries based on their market size or year of accession in the EU seems to provide another perspective of the analysis. In addition, it might be interesting to observe the impact of the institutional quality on FDI considering countries that are culturally close to one another. For example, countries from the Vishegrad 4 or countries from the Balkans.

One should also consider, that according to Dorozynski et al. (2020) the issue regarding the measurement of the institutional quality remains, as there is no adequate and consistent measurement. This may be a possible obstacle when measuring the impact of the institutional quality over the FDI. As already mentioned in Chapter 4, there are many indices that are used in measuring the institutional quality. Since they are built up from different components this may influence the results. In my opinion, focusing on one uniform measurement will provide more reliable results. Besides, once all the researchers agree upon one measurement, this will allow comparisons between different results, or even studies.

All in all, further investigation of the impact of the institutional quality over FDI inflows may bring more insight over the already existing opinions. This thesis have shown, that in the observed time period the institutional quality had no effect on the FDI attraction in the selected CEE countries.

8. Bibliography

- Ahmad, N. A., Ismail, N. W., & Nordin, N. (2015). The impact of infrastructure on foreign direct investment in Malaysia. *International Journal of management excellence*, 5(1), 584-590.
- Ahmed Badayi, Suleiman. (2017). *A critical view of the theories of international production 2356 – 6130 (Paper) Vol 2, No 2, Jan. 201, Dutse Journal of Economics and Development Studies*
- Akin, M. S. (2009, June). How is the market size relevant as a determinant of FDI in developing countries? A research on population and the cohort size. In *International Symposium on Sustainable Development* (pp. 425-429).
- Alba, J. D., Park, D., & Wang, P. (2010). Determinants of different modes of Japanese foreign direct investment in the United States. *Asian Development Bank Economics Working Paper*, (197).
- Ali, F. A., Fiess, N., & MacDonald, R. (2010). Do institutions matter for foreign direct investment?. *Open economies review*, 21(2), 201-219.
- Aliber, R.Z. (1970), "A theory of direct foreign investment", *The international corporaion*, pp. 17-34
- Aliber, R.Z. (1971), "The multinational enterprise in a multiple currency world", *The multinational enterprise*, pp. 49-56.
- Anderson, J., & Gonzalez, A. (2013). Does Doing Business matter for foreign direct investment?. *Doing Business*.
- Alter, R., & Wehrle, F. (1993). Foreign direct investment in Central and Eastern Europe. *Intereconomics*, 28(3), 126-131.
- Andreea, P. A. U. L., POPOVICI, A. C., & CĂLIN, C. A. (2014). The attractiveness of CEE countries for FDI. A public policy approach using the TOPSIS method. *Transylvanian Review of Administrative Sciences*, 10(42), 156-180.
- Archibugi, D., & Coco, A. (2005). Measuring technological capabilities at the country level: A survey and a menu for choice. *Research policy*, 34(2), 175-194.
- Archibugi, D., & Coco, A. (2004). A new indicator of technological capabilities for developed and developing countries (ArCo). *World development*, 32(4), 629-654.
- Arndt, Christiane and Charles Oman (2006). "Uses and Abuses of Governance Indicators". OECD Development Center Study.
- Arslan, A., & Larimo, J. (2011). Greenfield investments or acquisitions: Impacts of institutional distance on establishment mode choice of multinational enterprises in emerging economies. *Journal of Global Marketing*, 24(4), 345-356.
- Asiedu, E. (2013). Foreign direct investment, natural resources and institutions. *International Growth Centre*, 47.
- Asiamah, M., Ofori, D., & Afful, J. (2019). Analysis of the determinants of foreign direct investment in Ghana. *Journal of Asian Business and Economic Studies*.
- Aslund, A. (2013). *How capitalism was built: the transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia*. Cambridge University Press.
- Assunção, S., Forte, R., & Teixeira, A. (2011). Location determinants of FDI: a literature review.
- Audretsch, D., Sanders, M., & Zhang, L. (2017). International product life cycles, trade and development stages. *The Journal of Technology Transfer*, 1-44.
- Babatunde, A. (2011). Trade openness, infrastructure, FDI and growth in sub-Saharan African countries. *Journal of management policy and practice*, 12(7), 27.
- Balance of Payments and International Investment Position Manual, Sixth Edition, p.110 para 6.54
- Briefs, U. I. (2009). *Global FDI in Decline Due to the Financial Crisis, and a Further Drop Expected* (No. 1). Investment Issues Analysis Branch of UNCTAD.
- Barrell, R., & Nahhas, A. (2020). Competitiveness, R&D and the Pattern of FDI in the OECD.
- Barış, S. (2019). *The impact of globalization on external debts: Evidence from developing countries. In Global challenges in public finance and international relations (pp. 23-48). IGI Global*.
- Bayraktar-Sağlam, B., & Sayek Böke, S. (2017). Labor costs and foreign direct investment: a panel VAR approach. *Economies*, 5(4), 36.

- Bayoumi, T., Bartolini, L., & Klein, M. (1996). IV foreign direct investment and the exchange rate. *Exchange Rate Movements and Their Impact on Trade and Investment in the APEC Region*, (145).
- Beatriz, B. & Russ, K. N. (2013). *Hymer's multinationals*, Volume 94, (pp.381-392) Journal of Economic Behavior & Organization
- Bende-Nabende, A. (2002). Foreign direct investment determinants in Sub-Sahara Africa: A co-integration analysis. *Economics Bulletin*, 6(4), 1-19.
- Beheshtitabar, E., & Irgaliyev, A. (2008). The Impact of Economic Freedom on FDI Inflows to Developing Countries: The Case of the Middle East.
- Blomström, M. (2002). The economics of international investment incentives.
- Boddewyn, J. (1988). Political Aspects of MNE Theory. *Journal of International Business Studies*, 19(3), 341-363.
- Buchanan, B. G., Le, Q. V., & Rishi, M. (2012). Foreign direct investment and institutional quality: Some empirical evidence. *International Review of financial analysis*, 21, 81-89.
- Burger, M. J., & Ianchovichina, E. I. (2014). *Surges and stops in FDI flows to developing countries: does the mode of entry make a difference?*. The World Bank., p. 2
- Busse, M., & Hefeker, C. (2007). Political risk, institutions and foreign direct investment. *European journal of political economy*, 23(2), 397-415.
- Cambazoglu, B., & Günes, S. (2016). The relationship between foreign exchange rate and foreign direct investment in Turkey. *Economics, Management and Financial Markets*, 11(1), 284.
- Cambridge Dictionary. (2021). *official exchange rate definition: the official rate at which the currency of one country can be exchanged for the currency of another. . . . Learn more*.<https://dictionary.cambridge.org/dictionary/english/official-exchange-rate>
- Campos, N. F., & Kinoshita, Y. (2003). *Why does FDI go where it goes? New evidence from the transition economies*. International Monetary Fund.
- Cantwell, J., Dunning, J. H., & Lundan, S. M. (2010). An evolutionary approach to understanding international business activity: The co-evolution of MNEs and the institutional environment. *Journal of International Business Studies*, 41(4), 567-586.
- Carstensen, K., & Toubal, F. (2004). Foreign direct investment in Central and Eastern European countries: a dynamic panel analysis. *Journal of comparative economics*, 32(1), 3-22.
- Chaib, B., & Siham, M. (2014). The impact of institutional quality in attracting foreign direct investment in Algeria. *Topics in Middle Eastern and African Economies*, 16(2), 142-163.
- Chidlow, A., Salciuviene, L., & Young, S. (2009). Regional determinants of inward FDI distribution in Poland. *International business review*, 18(2), 119-133.
- Choudhury, R. N., & Nayak, D. N. (2014). *A selective review of foreign direct investment theories* (Vol. 143). Working Paper Series No.
- Ciesielska-Maciągowska, D., & Kołtuniak, M. (2021). Foreign Direct Investments and Home Country's Institutions: The Case of CEE Countries. *European Research Studies*, 24(1), 335-353.
- Cao, H., & Folan, P. (2012). Product life cycle: the evolution of a paradigm and literature review from 1950–2009. *Production Planning & Control*, 23(8), 641-662.
- Cambazoğlu, B., & Güneş, S. (2014). The relationship between foreign exchange rate and foreign direct investment in Turkey.
- Cleeve, E. (2008). How effective are fiscal incentives to attract FDI to Sub-Saharan Africa?. *The Journal of Developing Areas*, 135-153.
- Coe, D. T., Helpman, E., & Hoffmaister, A. W. (2009). International R&D spillovers and institutions. *European Economic Review*, 53(7), 723-741.
- Cywiński, Ł., & Harasym, R. (2012). Review of FDI theory in the Knowledge-Intensive economy. *Finansowy Kwartalnik Internetowy e-Finanse*, 8(4), 1-14.
- Dahlman, C. (2007). Technology, globalization, and international competitiveness: Challenges for developing countries. *Industrial development for the 21st century: Sustainable development perspectives*, 29-83.
- Daude, C., & Stein, E. (2007). The quality of institutions and foreign direct investment. *Economics & Politics*, 19(3), 317-344.
- Ricardo, D. (1817). On the principles of political economy and taxation. 1821. *Library of Economics and Liberty. Consultado el*, 31.
- Denisia, V. (2010). Foreign direct investment theories: An overview of the main FDI theories. *European journal of interdisciplinary studies*, (3).

- Derado, D., & Horvatin, D. (2019). Does FDI Mode of Entry Have an Impact on the Host Country's Labor Productivity?: An Analysis of the EU Countries. *Ekonomski vjesnik*, 32(2), 405-423.
- Dhalla, N. K., & Yuspeh, S. (1976). Forget the product life cycle concept.
- Dkhili, H., & Dhiab, L. B. (2018). The relationship between economic freedom and FDI versus economic growth: Evidence from the GCC countries. *Journal of Risk and Financial Management*, 11(4), 81.
- Diaconu, L. (2016). Is Human Capital a Major Determinant of the FDI Inflows? Empirical Evidences from the EU States. *CES Working Papers*, 8(2), 238.
- Dialga, I., & Vallée, T. (2018). The index of economic freedom: Methodological matters. *Studies in Economics and Finance*.
- Donghui, Z., Yasin, G., Zaman, S., & Imran, M. (2018). Trade Openness and FDI Inflows: A Comparative Study of Asian Countries. *European Online Journal of Natural and Social Sciences*, 7(2), pp-386.
- Dorozynski, T., Dobrowolska, B., & Kuna-Marszalek, A. (2020). Institutional Quality in Central and East European Countries and Its Impact on FDI Inflow. *Entrepreneurial Business and Economics Review*, 8(1), 91-110.
- Doh, J. P. (2005). Offshore outsourcing: Implications for international business and strategic management theory and practice. *Journal of Management Studies*, 42(3), 695-704.
- Dunning, J. H. (1977). Trade, location of economic activity and the MNE: A search for an eclectic approach. In *The international allocation of economic activity* (pp. 395-418). Palgrave Macmillan, London.
- Dunning, J. H. (1979). Explaining changing patterns of international production: in defence of the eclectic theory. *Oxford bulletin of economics and statistics*, 41(4), 269-295.
- Dunning, J. H. (1980). Toward an eclectic theory of international production: Some empirical tests. *Journal of international business studies*, 11(1), 9-31.
- Dunning, J. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. *Journal of International Business Studies*, 19(1), 1-31.
- Dunning, J. (1988). The Investment Development Cycle and Third World Multi-nationals" in his *Explaining International Production*, London: Unwin Hyman.
- Dunning, J. H. (1993). Internationalizing Porter's diamond. *MIR: Management International Review*, 7-15.
- Dunning, J. H. (1998). Location and the multinational enterprise: a neglected factor?. *Journal of international business studies*, 29(1), 45-66.
- Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. *International business review*, 9(2), 163-190.
- Dunning, J. H. (2015). The eclectic paradigm of international production: a restatement and some possible extensions. *The eclectic paradigm*, 50-84.
- Dunning, J. H., & Lundan, S. M. (2008). *Multinational enterprises and the global economy*. Edward Elgar Publishing.
- Dunning, J. H., & Pitelis, C. N. (2008). Stephen Hymer's contribution to international business scholarship: an assessment and extension. *Journal of international business studies*, 39(1), 167-176.
- Erdal, L., & Göçer, İ. (2015). The effects of foreign direct investment on R&D and innovations: panel data analysis for developing Asian countries. *Procedia-Social and Behavioral Sciences*, 195, 749-758.
- Eydam, U., & Gabriadze, I. (2020). Institutional development in transition economies—the role of institutional experience. *Post-Soviet Affairs*, 1-20.
- European Commission. (2019). *Bulgaria - Review of progress on policy measures relevant for the correction of Macroeconomic Imbalances (November 2019)*.
- Faeth, I. (2009). Determinants of foreign direct investment—a tale of nine theoretical models. *Journal of Economic surveys*, 23(1), 165-196.
- Franco, C., Rentocchini, F., & Vittucci Marzetti, G. (2008). Why do firms invest abroad? An analysis of the motives underlying foreign direct investments. *An Analysis of the Motives Underlying Foreign Direct Investments (December 15, 2008)*.
- Gani, A. (2007). Governance and foreign direct investment links: evidence from panel data estimations. *Applied economics letters*, 14(10), 753-756.
- Garcia-Sanchez, I. M., Cuadrado-Ballesteros, B., & Frias-Aceituno, J. (2013). Determinants of government effectiveness. *International Journal of Public Administration*, 36(8), 567-577.

- Gray, H. (2007). Governance for economic growth and poverty reduction: empirical evidence and new directions reviewed.
- Goldberg, L. S. (2009). Exchange rates and foreign direct investment. *The Princeton encyclopedia of the world economy*, 1(1), 393-396.
- Gorynia, M., Nowak, J., Howak, J., & Wolniak, R. (2007). Motives and modes of FDI in Poland: An exploratory qualitative study. *Journal for East European Management Studies*, 132-151.
- Gorynia, M., Nowak, J., Trąpczyński, P., & Wolniak, R. (2016). Determinants of FDI establishment mode choice of Polish firms. The OLI paradigm perspective.
- Groznykh, R., Drapkin, I., & Mariev, O. (2019, September). The Impact of Institutional Factors on Foreign Direct Investment Inflows: Cross-Country Analysis. In *CBU International Conference Proceedings* (Vol. 7, pp. 104-110).
- Günther, J., & Kristalova, M. (2016). No risk, no fun? Foreign direct investment in Central and Eastern Europe. *Intereconomics*, 51(2), 95-99.
- Gürış, S., & Gözgör, K. (2015). Trade openness and fdi inflows in Turkey. *Applied Econometrics and International Development*, 15(2), 53-62.
- Hanson, A., & Hedin, K. (2007). Motives for internationalization: Small companies in Swedish incubators and science parks (master's thesis). *Uppsala University, Uppsala, Sweden*.
- Hair, Joseph & Black, William & Babin, Barry & Anderson, Rolph. (2010). *Multivariate Data Analysis: A Global Perspective*.
- Henisz, W. J., & Williamson, O. E. (1999). Comparative economic organization—within and between countries. *Business and Politics*, 1(3), 261-277.
- Henseler, J., Ringle, C. M., & Sarstedt, M. (2015). A new criterion for assessing discriminant validity in variance-based structural equation modeling. *Journal of the academy of marketing science*, 43(1), 115-135.
- Herrera-Echeverri, H., Haar, J., & Estévez-Bretón, J. B. (2014). Foreign direct investment, institutional quality, economic freedom and entrepreneurship in emerging markets. *Journal of Business Research*, 67(9), 1921-1932.
- Horobet, A., & Belascu, L. (2015). Foreign Direct Investments and Institutional Performance: A Romanian Perspective. *Bulletin of Taras Shevchenko National University of Kyiv*.
- Hymer, S. H. (1960). *The international operations of national firms, a study of direct foreign investment* (Doctoral dissertation, Massachusetts Institute of Technology).
- Hymer, S. H. (1976). *The international operations of national firms, a study of direct foreign investment* (Doctoral dissertation, Massachusetts Institute of Technology).
- Hymer, S. (1982). The multinational corporation and the law of uneven development. In *International Economics Policies and their Theoretical Foundations* (pp. 325-352). Academic Press.
- International Monetary Fund (2004): Foreign direct investment: trends, data availability, concepts, and recording practices / Neil K. Patterson ... [et al.] — Washington, D.C.
- International Monetary Fund (2009). *Balance of Payments and International Investment Position Manual(BPM6)*, Washington DC, USA: International Monetary Fund, Publication Services, pp.1-351
- Jurčić, L., Franc, S., & Barišić, A. (2020). Impact of institutional quality on foreign direct investment inflow: Evidence from Croatia. *Business Systems Research: International journal of the Society for Advancing Innovation and Research in Economy*, 11(1), 44-58.
- Kahsai, M., Hailu, Y. G., Nondo, C., & Schaeffer, P. V. (2011). The Role of Institutional Quality in FDI Inflows in Sub-Saharan Africa.
- Kaufmann, Daniel, Aart Kraay, and Pablo Zoido-Lobaton. 1999. Governance Matters'. World Bank Policy Research Working Paper No. 2196; Washington: The World Bank.
- Kim, S., & Choi, B. (2020). The Impact of the Technological Capability of a Host Country on Inward FDI in OECD Countries: The Moderating Roles of Institutional Quality. *Sustainability*, 12(22), 9711.
- Knack, S. F. (2006). *Measuring corruption in Eastern Europe and Central Asia: A critique of the cross-country indicators*(Vol. 3968). World Bank Publications.
- König, M. (2003). An econometric framework for testing the eclectic paradigm of international firm activities. *Review of world economics*, 139(3), 484-506.
- Krelle, W. (2000). *Problems of Transition from a Planned to a Market Economy* (No. 4/2000). Bonn Econ Discussion Papers.
- Krugman, P. (1979). A model of innovation, technology transfer, and the world distribution of income. *Journal of political economy*, 87(2), 253-266.

- Kurul, Z., & Yalta, A. Y. (2017). Relationship between institutional factors and FDI flows in developing countries: New evidence from dynamic panel estimation. *Economies*, 5(2), 17.
- Kuijpers, F. M., & Eijdenberg, E. L. (2021). Showcasing Entrepreneurs' Responses to Severe Drought: Qualitative Findings From Cape Town, South Africa. In *Economic Effects of Natural Disasters* (pp. 131-146). Academic Press.
- Kuşluvan, S. (1998). A Review of theories of multinational enterprises. *Dokuz Eylül Üniversitesi İktisadi İdari Bilimler Fakültesi Dergisi*, 13(1), 163-179.
- Lacasa, I. D., Giebler, A., & Radosevic, S. (2017). Technological capabilities in Central and Eastern Europe: an analysis based on priority patents. *Scientometrics*, 111(1), 83-102.
- Lehne, J., Mo, J., & Plekhanov, A. (2014). What determines the quality of economic institutions? Cross-country evidence.
- Liargovas, P. G., & Skandalis, K. S. (2012). Foreign direct investment and trade openness: The case of developing economies. *Social indicators research*, 106(2), 323-331.
- Lindelwa Makoni, P. (2018). FDI and Trade Openness: The Case of Emerging African Economies. *Journal of Accounting and Management*, 8(2), 141-152.
- Loree, D. W., & Guisinger, S. E. (1995). Policy and non-policy determinants of US equity foreign direct investment. *Journal of international business studies*, 26(2), 281-299.
- Lundan, S. M. (2009). What are ownership advantages?. *Multinational Business Review*.
- Mahmood, N., Shakil, M. H., Akinlaso, I. M., & Tasnia, M. (2019). Foreign direct investment and institutional stability: who drives whom?. *Journal of Economics, Finance and Administrative Science*.
- Makoni, P. L. (2015). An extensive exploration of theories of foreign direct investment. *RISK GOVERNANCE & CONTROL: Fincial markets and institutions*, 5(2), 77-83.
- Makoni, P. L. R. (2018). FDI, FPI and institutional quality-evidence from African countries. *Academy of Accounting and Financial Studies Journal*, 22(5), 1-13.
- Mat, S. H. C., & Harun, M. (2012). The impact of infrastructure on foreign direct investment: The case of Malaysia. *Procedia-Social and Behavioral Sciences*, 65, 205-211.
- Mateev, M. (2009). Determinants of foreign direct investment in Central and Southeastern Europe: New empirical tests. *Oxford Journal*, 8(1), 133-149.
- Mattli, W., & Plümpert, T. (2004). The internal value of external options: How the EU shapes the scope of regulatory reforms in transition countries. *European Union Politics*, 5(3), 307-330.
- Marandu, E. E., & Ditshweu, T. (2018). An Overview of the Key Theories of Foreign Direct Investment: The Way Forward. *Advances in Social Sciences Research Journal*, 5(12).
- Meyer, K. E. (2015). What is "strategic asset seeking FDI"? *The Multinational Business Review*.
- Mirela, I., Diana, C., & Sorin, M. (2015). FDI in Romania between EU and the Global Economic Crisis. *Procedia economics and finance*, 23, 644-651.
- Miller, T., Kim, A. B., Roberts, J. M., & Tyrrell, P. (2021). *2021 Index of Economic Freedom*. The Heritage Foundation 214 Massachusetts Ave., NE Washington, DC 20002.
- Miningou, E. W., & Tapsoba, M. S. J. (2017). Education systems and foreign direct investment: does external efficiency matter?. *International Monetary Fund*.
- Moran, T. H. (2010). Is FDI in Natural Resources a "Curse"? *World Trade Organization*.
- Mudiyansele, M. M. R., Epuran, G., & Tescaşiu, B. (2021). Causal Links between Trade Openness and Foreign Direct Investment in Romania. *Journal of Risk and Financial Management*, 14(3), 1-18.
- Navaretti, G. B., Castellani, D., & Disdier, A. C. (2010). How does investing in cheap labour countries affect performance at home? Firm-level evidence from France and Italy. *Oxford Economic Papers*, 62(2), 234-260.
- Nazeer, A. M., & Masih, M. (2017). Impact of political instability on foreign direct investment and Economic Growth: Evidence from Malaysia
- Nguea, S. M. (2020). The Impact of Infrastructure development on Foreign Direct Investment in Cameroon.
- Nikolova, M., & Nikolaev, B. (2017). Does joining the EU make you happy? Evidence from Bulgaria and Romania. *Journal of Happiness Studies*, 18(6), 1593-1623.
- North, D. C. (1990). *Institutions, institutional change and economic performance*. Cambridge university press.
- Nunnenkamp, P. (2002). *Determinants of FDI in developing countries: has globalization changed the rules of the game?* (No. 1122). Kiel working paper.

- Nurudeen, A., Abd Karim, M. Z., & Aziz, M. I. (2015). Corruption, political instability and economic development in the Economic Community of West African States (ECOWAS): is there a causal relationship?. *Contemporary economics*, 9(1), 45-60.
- OECD (2009), "Annex 9: Mergers and Acquisitions (M&A) Type Transactions as a Part of FDI Statistics", in OECD Benchmark Definition of Foreign Direct Investment 2008: Fourth Edition, OECD Publishing, Paris.
- OECD (2009) OECD Benchmark Definition of Foreign Direct Investment 2008. doi:10.1787/9789264045743-en
- OECD (2013), "Rule of law", in *Government at a Glance 2013*, OECD Publishing, Paris.
- Owczarczuk, M. (2020). Institutional competitiveness of Central and Eastern European countries and the inflow of foreign direct investments. *Catallaxy*, 5(2), 87-96.
- Owusu-Nantwi, V. (2019). Foreign direct investment and institutional quality: empirical evidence from South America. *Journal of Economic and Administrative Sciences*.
- Palit, A., & Nawani, S. (2007). *Technological capability as a determinant of FDI inflows: Evidence from developing Asia & India* (No. 193). Working paper.
- Park, J. K., Lee, D. J., & Lee, K. (2020). The Determinants of foreign direct investment in R&D: Different inducement effects of private and public R&D in developed and developing host countries. *The Singapore Economic Review*, 1-29.
- Paul, J., & Singh, G. (2017). The 45 years of foreign direct investment research: Approaches, advances and analytical areas. *The World Economy*, 40(11), 2512-2527.
- Pekarskiene, I., & Susniene, R. (2015). Features of foreign direct investment in the context of globalization. *Procedia-Social and Behavioral Sciences*, 213, 204-210.
- Peres, M., Ameer, W., & Xu, H. (2018). The impact of institutional quality on foreign direct investment inflows: evidence for developed and developing countries. *Economic research-Ekonomska istraživanja*, 31(1), 626-644.
- Perry, A. (2000). Effective legal systems and foreign direct investment: In search of the evidence. *The International and Comparative Law Quarterly*, 49(4), 779-799.
- Petrović-Ranđelović, M., Janković-Milić, V., & Kostadinović, I. (2017). Market size as a determinant of the foreign direct investment inflows in the Western Balkans countries. *Facta Universitatis, Series: Economics and Organization*, 093-104.
- Petrovic-Randelovic, M., Jankovic-Milik, V., & Kostadinovic, I. (2018). Original scientific paper market size as a determinant of the foreign direct investment inflows in the Western Balkans countries 1. *Economic and Organization*, 14(2), 93-104.
- Popescu, G. H. (2014). FDI and economic growth in Central and Eastern Europe. *Sustainability*, 6(11), 8149-8163.
- Popovici, O. C. (2015). Assessing FDI determinants in CEE countries during and after transition. *The Annals of the University of Oradea*, 24(1), 113-122.
- Pitelis, C. N. (2005). Stephen Hymer, the Multinational Firm and 'Multinational Corporate Capital.
- Protsenko, A. (2004). *Vertical and horizontal foreign direct investments in transition countries* (Doctoral dissertation, Imu).
- Przeździecka, E. (2020). Foreign Direct Investment in Poland. International Group of Chamber in Commerce, American Chamber of Commerce in Poland
- Ragazzi, G. (1973). Theories of the determinants of direct foreign investment. *Staff papers*, 20(2), 471-498.
- Ravindranath, P. (2018). The Relationship Between Foreign Direct Investment and Tertiary Education in Developing Countries. Georgetown University.
- Rasiah, R., & Yap, X. S. (2019). How much of Raymond Vernon's product cycle thesis is still relevant today: evidence from the integrated circuits industry. *International Journal of Technological Learning, Innovation and Development*, 11(1), 56-77.
- Rehman, C. A., Ilyas, M., Alam, H. M., & Akram, M. (2011). The impact of infrastructure on foreign direct investment: The case of Pakistan. *International Journal of Business and Management*, 6(5), 268.
- Ricardo, D. (1891). *Principles of political economy and taxation*. G. Bell and sons.
- Rogerson, P. A. (2001). Data reduction: factor analysis and cluster analysis. *Statistical methods for geography*, 192-197.
- Ruiz, I. (2005). Exchange rate as a determinant of foreign direct investment: Does it really matter? Theoretical aspects, literature review and applied proposal. *Center for Research in Economics and Finance (CIEF), Working Papers*, (05-09).

- Sabir, S., Rafique, A., & Abbas, K. (2019). Institutions and FDI: evidence from developed and developing countries. *Financial Innovation*, 5(1), 1-20.
- Sass, M. (2004). FDI in Hungary: The first mover's advantage and disadvantage. *EIB Papers*, 9(2), 62-90.
- Schweickert, R., Melnykovska, I., Belke, A., & Bordon, I. (2011). Prospective NATO or EU membership and institutional change in transition countries 1. *Economics of Transition*, 19(4), 667-692.
- Scott-Kennel, J., & Enderwick, P. (2004). Inter-firm alliance and network relationships and the eclectic paradigm of international production: An exploratory analysis of quasi-internalisation at the subsidiary level. *International Business Review*, 13(4), 425-445.
- Scott, W. R. (2010). Reflections: The past and future of research on institutions and institutional change. *Journal of change management*, 10(1), 5-21.
- Schramm-Klein, H., & Wagner, G. (2011). Extending the Product Life Cycle within an International Marketing Strategy–Relaunching the German AUDI A4 as the Spanish SEAT Exeo. In *Fallstudien zum Internationalen Management* (pp. 511-531). Gabler Verlag, Wiesbaden.
- Septimiu, S. (2019). FDI in the Czech Republic: A Visegrád Comparison, Economic Brief 042, EC, February.
- Sharmiladevi, J. C. (2017). Understanding Dunning's OLI Paradigm. *Indian Journal of Commerce and Management Studies*, 8(3), 47.
- Singh, H., & Jun, K. W. (1995). *Some new evidence on determinants of foreign direct investment in developing countries* (No. 1531). World Bank Publications.
- Shah, M. H., & Khan, F. (2019). Telecommunication infrastructure development and FDI into asian developing nations. *Shah, MH, & Khan, F.(2019). Telecommunication Infrastructure Development and FDI into Asian Developing Nations. Journal of Business and Tourism*, 5(1), 91-102.
- Smith, A. (1937). *The wealth of nations [1776]* (Vol. 11937). na.
- Stoddard, O., & Noy, I. (2015). Fire-sale FDI? The Impact of Financial Crises on Foreign Direct Investment. *Review of Development Economics*, 19(2), 387-399.
- Stock, J. H., & Watson, M. W. (2012). *Introduction to econometrics* (Vol. 3). New York: Pearson.
- Stock, J. H., & Watson, M. W. (2015). *Introduction to econometrics* (3rd updated edition). Age (X3), 3(0.22).
- Tahmad, A. M. I., & Adow, A. H. (2018). The impact of trade openness on foreign direct investment in Sudan by sector in the 1990-2017 period: an empirical analysis. *Economic annals-XXI*, (172), 14-22.
- Thomas, Melissa (2006). "What Do The Worldwide Governance Indicators Measure?" Manuscript, Johns Hopkins University.
- Thomas, M. A. (2010). What do the worldwide governance indicators measure?. *The European Journal of Development Research*, 22(1), 31-54.
- Trevino, L. J., Thomas, D. E., & Cullen, J. (2008). The three pillars of institutional theory and FDI in Latin America: An institutionalization process. *International business review*, 17(1), 118-133.
- Tykesson, D., & Alserud, M. (2011). The Uppsala Model's Applicability on Internationalization processes of European SMEs, Today-A Case Study of Three Small and Medium Sized Enterprises.
- Vernon, R. (1966). International trade and international investment in the product cycle. *Quarterly journal of economics*, 80(2), 190-207.
- Vernon, R. (1979). The product cycle hypothesis in a new international environment. *Oxford bulletin of economics and statistics*, 41(4), 255-267.
- Vernon, R. (1992). International investment and international trade in the product cycle. In *International economic policies and their theoretical foundations* (pp. 415-435). Academic Press.
- Walsh, M. J. P., & Yu, J. (2010). *Determinants of foreign direct investment: A sectoral and institutional approach*. International Monetary Fund.
- Wei, S. J. (2000). How taxing is corruption on international investors?. *Review of economics and statistics*, 82(1), 1-11.
- Wenke, L., Jianhua, H., & Jingfeng, Z. (2005). A New Approach to Evaluate the Location Factors Affecting FDI's Operations: A case of the NETD.

- Wheeler, D., & Mody, A. (1992). International investment location decisions: The case of US firms. *Journal of international economics*, 33(1-2), 57-76
- Wickramarachchi, V. (2019). Determinants of Foreign Direct Investment (FDI) in Developing Countries: The Case of Sri Lanka. *International Journal of Business and Social Science*, 10(9).
- Wilhelms, S. K., & Witter, M. S. D. (1998). *Foreign direct investment and its determinants in emerging economies*. Washington DC: United States Agency for International Development, Bureau for Africa, Office of Sustainable Development.
- Wooldridge, J. M. (2010). *Econometric analysis of cross section and panel data*. MIT press.
- World Bank (2008). *Unleashing Prosperity: Productivity Growth in Eastern Europe and Former Soviet Union*.
- Wu, L. S. (2014). *Foreign direct investment in Taiwan: post-1980s* (Doctoral dissertation, Middlesex University).
- United Nations Conference on Trade and Development. *UNCTAD annual report*. (2005). New York: United Nations
- UNCTAD (2007). *World Investment Report 2007: towards a new generation of investment policies*, pp. 1-250, New York and Geneva,
- UNCTAD (2017). *World Investment Report 2017: methodological note*, pp. 1-88, New York and Geneva
- UNCTAD Handbook of Statistics 2019, Fact sheet #9
- Zghidi, N., Mohamed Sghaier, I., & Abida, Z. (2016). Does economic freedom enhance the impact of foreign direct investment on economic growth in North African countries? A panel data analysis. *African Development Review*, 28(1), 64-74.

Web pages

- *Accession criteria*. (2021). European Neighbourhood Policy And Enlargement Negotiations - European Commission. https://ec.europa.eu/neighbourhood-enlargement/policy/glossary/terms/accession-criteria_en [last accessed on 11.05.2021]
- *Bulgaria - Corporate - Taxes on corporate income*. (n.d.). Tax Summaries, PWC. <https://taxsummaries.pwc.com/bulgaria/corporate/taxes-on-corporate-income> , [last accessed on 11.12.2021]
- Corporate Finance Institute: Foreign direct investment, online available at <https://corporatefinanceinstitute.com/resources/knowledge/economics/foreign-direct-investmentfdi/>, [last accessed on 01.02.2021]
- *Connected Papers | Find and explore academic papers*. (n.d.). Connected Papers. <https://www.connectedpapers.com/about>, [last accessed on 04.05.2021]
- Corporate Finance Institute. (2021, February 12). *Dutch Disease*. <https://corporatefinanceinstitute.com/resources/knowledge/economics/dutch-disease/>
- Chapters of the acquis. (2016, December). Retrieved August 6, 2021, from European Commission website: https://ec.europa.eu/neighbourhood-enlargement/policy/conditions-membership/chapters-of-the-acquis_en , [last accessed on 06.08.2021]
- Chapters of the acquis. (2016, December). Retrieved August 6, 2021, from European Commission website: https://ec.europa.eu/neighbourhood-enlargement/policy/conditions-membership/chapters-of-the-acquis_en , [last accessed on 06.08.2021]
- Choi, N. (2019). Rule of law. *Encyclopedia Britannica*. <https://www.britannica.com/topic/rule-of-law> , [last accessed on 06.09.2021]
- *Development Projects : Justice for Business Project - P167247*. (n.d.). World Bank. <https://projects.worldbank.org/en/projects-operations/project-detail/P167247> [last accessed on 14.07.2021]
- Giri, R. (2007). The Heckscher-Ohlin Model , http://ciep.itam.mx/~rahul.giri/uploads/1/1/3/6/113608/ho_model.pdf , [last accessed on 10.05.2021]
- *Global foreign investment flows dip to lowest levels in a decade | UNCTAD*. (2019). UNCTAD. <https://unctad.org/news/global-foreign-investment-flows-dip-lowest-levels-decade> , [last accessed on 10.09.2021]

- OECD Statistics Directorate. (2001). OECD Glossary of Statistical Terms - Central and Eastern European Countries (CEECs) Definition. <https://stats.oecd.org/glossary/detail.asp?ID=303> , [last accessed on 06.08.2021]
- E. (2016). *USA companies had the most FDI projects in Hungary in H1 2016*. European American Chamber of Commerce New York [EACCNY] | Your Partner for Transatlantic Business Resources. <https://eaccny.com/news/member-news/usa-companies-invested-the-most-fdi-in-hungary-in-h1-2016/> , [last accessed on 06.09.2021]
- *Estonia*. (2020, December). United States Department of State. <https://www.state.gov/reports/2019-investment-climate-statements/estonia/>. [last accessed on 05.06.2021]
- Glossary of summaries - EUR-Lex. (2019). Retrieved August 6, 2021, from Europa.eu website: https://eur-lex.europa.eu/summary/glossary/accession_criteria_copenhagen.html , [last accessed on 09.09.2021]
- Glossary: Compensation of employees - Statistics Explained. (n.d.). Eurostat Statistics Explained. https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Compensation_of_employees, [last accessed on 12.10.2021]
- Harvard Business Review: Exploit the Product Life Cycle by Theodore Levitt, available online at: <https://hbr.org/1965/11/exploit-the-product-life-cycle> [last accessed on 18.02.2021]
- *Keman, H. (2013, June 4). Economic openness. Encyclopedia Britannica.* <https://www.britannica.com/topic/economic-openness>
- Bruinshoofd. (2016, January 20). *Institutional quality and economic performance*. RaboResearch - Economic Research. <https://economics.rabobank.com/publications/2016/january/institutional-quality-and-economic-performance/>, [last accessed on 01.09.2021]
- Markets, R. A. (2021, January 11). *International Country Risk Guide 2021, Covering 140 Countries*. GlobeNewswire News Room. <https://www.globenewswire.com/news-release/2021/01/11/2156334/28124/en/International-Country-Risk-Guide-2021-Covering-140-Countries.html> , [last accessed on 01.09.2021]
- Invest Bulgaria www.icygen.com. (n.d.). *Invest Bulgaria Agency*. Invest Bulgaria Agency. Retrieved 2021, from <https://www.investbg.government.bg/en> , [last accessed on 12.11.2021]
- Invest Estonia. (2020, November). *Business in Estonia*. Invest in Estonia. <https://investinestonia.com/business-in-estonia/>, [last accessed on 05.06.2021]
- Invest Lithuania. (2021, January). *Lithuania's business environment is primed for FDI*. <https://investlithuania.com/why-lithuania/business-environment/>, [last accessed on 03.06.2021]
- International Monetary Fund: Foreign direct investment in developing countries, online available at <https://www.imf.org/external/pubs/ft/fandd/1999/03/mallampa.htm#table1> , [last accessed on 17.03.2021]
- OECD, Benchmark definition of foreign direct investment : fourth edition (2008), online available at <https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>, [last accessed on 01.02.2021]
- *Overview - Rule of Law*. (n.d.). United States Courts. <https://www.uscourts.gov/educational-resources/educational-activities/overview-rule-law>
- The world bank. (2020). *Development Projects : Justice for Business Project - P167247*. World Bank. <https://projects.worldbank.org/en/projects-operations/project-detail/P167247> , [last accessed on 03.02.2021]
- Tend, O. (n.d.). *Quality infrastructure*. Invest Slovenia. <https://www.investslovenia.org/why-slovenia/quality-infrastructure>. [last accessed on 03.06.2021]
- Webra International Kft. (2006). *The Visegrad Group: the Czech Republic, Hungary, Poland and Slovakia | About the Visegrad Group*. (C)2009 Webra International Kft. <https://www.visegradgroup.eu/about>, [last accessed on 03.06.2021]
- *Business environment in Bulgaria - Santandertrade.com*. (2021). Santandertrade. <https://santandertrade.com/en/portal/establish-overseas/bulgaria/business-environment> , [last accessed on 02.06.2021]
- *Foreign investment in Croatia - Santandertrade.com*. (2021, June). Santander. https://santandertrade.com/en/portal/establish-overseas/croatia/investing?url_de_la_page=%2Fen%2Fportal%2Festablish-overseas%2Fcroatia%2Finvesting&&actualiser_id_banque=oui&id_banque=0&memoriser_ch_oix=memoriser , [last accessed on 01.06.2021]

- *Foreign investment in the Czech Republic* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/czech-republic/foreign-investment>, [last accessed on 01.06.2021]
- *Foreign investment in Estonia* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/estonia/investing>, [last accessed on 06.06.2021]
- *Foreign direct investment, net inflows (% of GDP) - Bulgaria, Romania, Poland, Hungary, Latvia, Lithuania, Estonia, Croatia, Czech Republic, Slovak Republic, Slovenia* | Data. (2000111). Worldbank Data. <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-RO-PL-HU-LV-LT-EE-HR-CZ-SK-SI>, [last accessed on 10.09.2021]
- *Foreign direct investment (FDI) in Hungary - Investing* - Lloyds Bank International Trade Portal. (2021, June). Lloyds Bank Trade. https://www.lloydsbanktrade.com/en/market-potential/hungary/investment?vider_sticky=oui, [last accessed on 07.06.2021]
- *Foreign direct investment (FDI) in Latvia - Investing* - Lloyds Bank International Trade Portal. (2021, June). Lloyds Bank Trade. https://www.lloydsbanktrade.com/en/market-potential/latvia/investment?vider_sticky=oui, [last accessed on 07.06.2021]
- *Foreign investment in Lithuania* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/lithuania/investing>, [last accessed on 05.06.2021]
- *Foreign investment in Poland* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/poland/foreign-investment>, [last accessed on 03.06.2021]
- *Foreign investment in Romania* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/romania/investing>, [last accessed on 01.06.2021]
- *Foreign direct investment (FDI) in Slovakia - Investing* - Lloyds Bank International Trade Portal. (2021, June). Lloyds Bank Trade. https://www.lloydsbanktrade.com/en/market-potential/slovakia/investment?vider_sticky=oui, [last accessed on 07.06.2021]
- *Foreign investment in Slovenia* - Santandertrade.com. (2021, June). Santander Trade. <https://santandertrade.com/en/portal/establish-overseas/slovenia/investing>, [last accessed on 03.06.2021]
- *Free Trade Agreement Overview*. (n.d.). International Trade Administration | Trade.Gov. <https://www.trade.gov/free-trade-agreement-overview> [last accessed on 14.05.2021]
- Fruman, C. (2016), *Why Does Efficiency-Seeking FDI Matter?*. Available from <http://blogs.worldbank.org/psd/why-does-efficiency-seeking-fdi-matter>, [last accessed on 01.12.2021]
- Henley Business School. (2020, December 17). *About Professor John Dunning*. <https://www.henley.ac.uk/research/centres/the-john-h-dunning-centre-for-international-business/dunning-about-john-dunning>, [last accessed on 01.09.2021]
- PRS Group, 2005a. About ICRG: the political risk rating. Internet posting: <http://www.icrgonline.com/page.aspx?page=icrgmethods>, [last accessed on 03.09.2021]
- PRS Group, 2005b. International country risk guide: political risk (Table 3b). Internet posting: <http://www.icrgonline.com/default.aspx>, [last accessed on 03.09.2021]
- Robert Longley. (2021). *What Are Individual Rights? Definition and Examples*. ThoughtCo. <https://www.thoughtco.com/individual-rights-definition-and-examples-5115456>, [last accessed on 15.09.2021]
- Steps towards joining. (2016, December 6). Retrieved August 6, 2021, from European Commission website: https://ec.europa.eu/neighbourhood-enlargement/policy/steps-towards-joining_en, [last accessed on 21.09.2021]
- *Steps towards joining*. (2016, December 6). European Neighbourhood Policy And Enlargement Negotiations - European Commission. https://ec.europa.eu/neighbourhood-enlargement/policy/steps-towards-joining_en, [last accessed on 09.09.2021]
- *Foreign direct investment, net inflows (% of GDP) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia* | Data. (2021). World Bank Database. <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV>, [last accessed on 09.10.2021]
- *School enrollment, tertiary (% gross) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia* | Data. (2021). World Bank

- Database. <https://data.worldbank.org/indicator/SE.TER.ENRR?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV> , [last accessed on 02.10.2021]
- Compensation of employees (current LCU) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia | Data. (2021). World Bank Database. <https://data.worldbank.org/indicator/GC.XPN.COMP.CN?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV> , [last accessed on 02.10.2021]
 - Researchers in R&D (per million people) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia | Data. (2021). World Bank Database. <https://data.worldbank.org/indicator/SP.POP.SCIE.RD.P6?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV> , [last accessed on 02.10.2021]
 - Individuals using the Internet (% of population) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia | Data. (2021). World Bank Database. <https://data.worldbank.org/indicator/IT.NET.USER.ZS?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV> , [last accessed on 02.10.2021]
 - GDP per capita (current US\$) - Bulgaria, Czech Republic, Croatia, Slovak Republic, Slovenia, Romania, Hungary, Poland, Estonia, Lithuania, Latvia | Data. (2021). World Bank Database. <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=BG-CZ-HR-SK-SI-RO-HU-PL-EE-LT-LV> , [last accessed on 02.10.2021]
 - Database. (2021). Eurostat. <https://ec.europa.eu/eurostat/data/database> , [last accessed on 01.10.2021]
 - WDI - Globally, foreign direct investment decreased in 2016. (2018). Datatopics Worldbank. <https://datatopics.worldbank.org/world-development-indicators/stories/global-fdi-inflows-decreased-in-2016.html> , [last accessed on 10.09.2021]
 - WGI-FAQ. (n.d.). Worldbank Governance Indicators. <https://info.worldbank.org/governance/wgi/Home/FAQ> , [last accessed on 10.09.2021]
 - Foreign direct investment, net inflows (% of GDP) | Data. (n.d.). World Bank Database. Retrieved 2021, from <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS> , [last accessed on 10.11.2021]
 - 2021 Index of Economic Freedom | The Heritage Foundation. (n.d.). Index of Economic Freedom. <https://www.heritage.org/index/about> , [last accessed on 09.09.2021]
 - 2021 Index of Economic Freedom | The Heritage Foundation. (n.d.). Index of Economic Freedom. <https://www.heritage.org/index/download> , [last accessed on 09.09.2021]

9. Appendix

Abstract English

This thesis aims to analyze the impact of institutional quality over the FDI inflows in 11 Central and East European countries. After going through the important theoretical theories and definitions the reader is introduced to the institutional environment of the selected countries. In addition, strong and weak points in the 11 countries regarding FDI attraction are presented. The empirical part of this thesis observes data for the time period from 2009 to 2019. What is more, the variable Index of Economic Freedom is used as an aggregate measurement of institutional quality. OLS regression, Fixed effects and Random effects models are used in order to measure the impact of the institutional quality over the FDI inflow. Although the literature review of the strong and weak points shows that institutional quality is predominantly low, the empirical parts show that institutional quality does not have any effect on attracting FDI inflows in the selected countries for the time period from 2009 to 2019.

Key Words: Foreign direct investment, institutional quality, impact, Central and East European countries

Ziel dieser Arbeit ist es, den Einfluss der institutionellen Qualität auf die FDI-Zuflüsse in 11 mittel- und osteuropäischen Ländern zu analysieren. Nach einem Überblick über die wichtigsten theoretischen Theorien und Definitionen wird der Leser in das institutionelle Umfeld der ausgewählten Länder eingeführt. Darüber hinaus werden die Stärken und Schwächen der 11 Länder in Bezug auf die Anziehung von FDI dargestellt. Im empirischen Teil dieser Arbeit werden Daten für den Zeitraum von 2009 bis 2019 betrachtet. Darüber hinaus wird die Variable Index of Economic Freedom als aggregiertes Maß für die institutionelle Qualität verwendet. OLS-Regression, Fixed-Effects- und Random-Effect-Modelle werden verwendet, um den Einfluss der institutionellen Qualität auf den FDI-Zufluss zu messen. Obwohl die Literaturübersicht über die Stärken und Schwächen zeigt, dass die institutionelle Qualität überwiegend niedrig ist, zeigen die empirischen Teile, dass die institutionelle Qualität keinen Einfluss auf die FDI-Zuflüsse in den ausgewählten Ländern für den Zeitraum von 2009 bis 2019 hat.

Schlüsselwörter: Ausländische Direktinvestitionen, institutionelle Qualität, Wirkung, Mittel- und Osteuropäische Länder

Dataset

[Link to dataset](#)

Year	country	FDI	EFI	GDP	SE	COE	IUI	RRED
2009	Bulgaria	7,4902	64,6	0,069882	54,23545	47,92938	45	1,601389
2009	Croatia	4,903506	55,1	0,145406	48,78587	231,8717	50,58	1,59654
2009	Czech Republic	2,541341	69,4	0,198617	61,07541	1719,63	64,43	2,742075
2009	Estonia	9,452423	76,4	0,14795	66,63192	10,28984	72,5	3,228716
2009	Hungary	-2,13527	66,8	0,130465	64,60789	14503,6	62	2,014571
2009	Latvia	-0,57005	66,6	0,122882	73,05489	16,75548	66,84	1,688281
2009	Lithuania	-0,9634	70	0,118208	89,25217	17,58469	59,76	2,680546
2009	Poland	3,189403	60,3	0,115261	72,31267	714,99	58,97	1,593271
2009	Romania	2,663749	63,2	0,085481	68,59246	356,2512	36,6	0,933763
2009	Slovenia	-0,68887	69,4	0,246942	86,44243	29,72147	64	3,66112
2009	Slovak Republic	1,708194	62,9	0,165317	56,04681	35,12717	70	2,460586
2010	Bulgaria	3,657867	62,3	0,068124	57,79518	47,27585	46,23	1,478652
2010	Croatia	2,578595	59,2	0,139493	54,02853	223,6327	56,55	1,641342
2010	Czech Republic	4,863365	69,8	0,199601	63,94588	1694,13	68,82	2,77396
2010	Estonia	13,16293	74,7	0,147908	68,18451	10,05232	74,1	3,060579
2010	Hungary	-15,745	66,1	0,131916	63,72239	14307,13	65	2,149814
2010	Latvia	1,989246	66,2	0,113835	69,05104	14,07109	68,42	1,838724
2010	Lithuania	2,969148	70,3	0,119907	86,57257	15,70875	62,12	2,752723
2010	Poland	3,833616	63,2	0,12613	74,75525	745,3	62,32	1,683054
2010	Romania	1,932385	64,2	0,082141	63,99544	328,6155	39,93	0,966204
2010	Slovenia	0,662657	69,7	0,235095	89,15319	30,20078	70	3,769814
2010	Slovak Republic	2,342837	64,7	0,167508	57,06673	37,06192	75,71	2,809396
2011	Bulgaria	3,666055	64,9	0,078094	59,02869	48,39101	47,97999	1,613032
2011	Croatia	1,997158	61,1	0,146095	57,22782	226,2597	57,78998	1,58749
2011	Czech Republic	1,824659	70,4	0,218713	65,57001	1620,21	70,49	2,903662
2011	Estonia	4,784417	75,2	0,176215	70,36909	10,40694	76,5	3,397582
2011	Hungary	7,576882	66,6	0,142162	62,59323	14510,89	68,01999	2,326167
2011	Latvia	5,309292	65,8	0,138952	67,95347	14,81984	69,74995	1,88526
2011	Lithuania	4,315544	71,3	0,143925	84,05559	16,4818	63,63998	2,72102
2011	Poland	3,508226	64,1	0,138796	74,65851	769,11	61,95	1,675062
2011	Romania	1,292827	64,7	0,090992	58,18541	270,1025	40,01	0,790688
2011	Slovenia	1,700326	69,5	0,250951	86,01755	31,12107	67,33999	4,277315
2011	Slovak Republic	5,47966	64,6	0,183616	56,24748	38,23178	74,44	2,83344
2012	Bulgaria	3,309277	64,7	0,073958	61,35998	48,78983	51,89999	1,540768
2012	Croatia	2,589393	60,9	0,132584	60,64715	223,2461	61,93997	1,556841
2012	Czech Republic	4,516567	69,9	0,198708	65,67117	1675,39	73,43001	3,139235
2012	Estonia	7,70648	73,2	0,175344	72,37507	10,81446	78,38993	3,462925
2012	Hungary	8,41867	67,1	0,129507	61,46318	17123,76	70,58	2,416478
2012	Latvia	3,814878	65,2	0,139263	66,64355	15,13115	73,11994	1,886887
2012	Lithuania	1,576918	71,5	0,143731	79,75163	17,22276	67,22999	2,634326

2012	Poland	1,475958	64,2	0,130973	73,96146	779,63	62,31	1,752707
2012	Romania	1,786008	64,4	0,085071	49,71394	285,054	45,87999	0,89067
2012	Slovenia	0,072	67	0,226431	87,01796	30,15797	68,34997	4,317184
	Slovak							
2012	Republic	1,879273	62,9	0,174819	56,14001	38,96148	76,70999	2,820169
2013	Bulgaria	3,57642	65	0,076551	64,19198	52,29051	53,0615	1,683793
2013	Croatia	1,610662	61,3	0,136744	65,53489	213,1847	66,7476	1,526681
	Czech							
2013	Republic	3,47571	70,9	0,201332	65,08577	1697,6	74,1104	3,237236
2013	Estonia	4,344602	75,3	0,191741	73,92123	11,55467	80,0043	3,341011
2013	Hungary	-2,64866	67,3	0,136875	57,06502	22799,62	72,6439	2,546085
2013	Latvia	3,250716	66,5	0,151208	69,0766	16,052	75,2344	1,772653
2013	Lithuania	1,652514	72,1	0,157266	73,5332	18,18097	68,4529	2,843864
2013	Poland	0,152586	66	0,136965	71,8564	805,72	62,8492	1,87306
2013	Romania	2,020331	65,1	0,095479	46,84502	305,4814	49,7645	0,922675
2013	Slovenia	0,214915	68,7	0,234966	85,28806	28,48885	72,6756	4,220328
	Slovak							
2013	Republic	1,015595	61,7	0,1826	54,36053	41,57809	77,8826	2,716368
2014	Bulgaria	1,921901	65,68984	0,078769	67,56356	54,82154	55,49	1,821922
2014	Croatia	5,52402	60,37048	0,135994	67,51023	205,1005	68,57	1,43743
	Czech							
2014	Republic	3,86354	72,20923	0,198909	65,6241	1753,58	74,23171	3,402826
2014	Estonia	6,654529	75,88111	0,203671	73,30776	12,5616	84,24153	3,284263
2014	Hungary	9,277948	66,99503	0,14267	52,01587	25007,37	75,6532	2,673434
2014	Latvia	3,33587	68,66178	0,157135	70,89794	17,32262	75,83	1,854327
2014	Lithuania	0,735618	73,00053	0,16565	70,40061	19,07452	72,13	3,054016
2014	Poland	3,6455	67,0245	0,142713	68,44717	851,059	66,6	2,06405
2014	Romania	1,934992	65,49887	0,100437	47,1371	313,2983	54,08	0,903826
2014	Slovenia	2,041591	66,44228	0,242149	82,23113	27,8881	71,59	4,147062
	Slovak							
2014	Republic	-0,35864	62,69996	0,186743	52,68478	43,24858	79,98	2,715553
2015	Bulgaria	4,303277	66,77403	0,070559	70,30154	57,07191	56,65625	1,977293
2015	Croatia	0,105554	61,50987	0,117817	66,49102	206,2766	69,84504	1,504179
	Czech							
2015	Republic	0,904051	72,54429	0,178297	64,48163	1842,72	75,66884	3,592074
2015	Estonia	-3,10412	76,76285	0,175222	72,16762	13,5951	88,4097	3,183244
2015	Hungary	-4,21065	66,79702	0,127069	48,96214	26752,97	72,83474	2,589098
2015	Latvia	2,984046	69,70247	0,137746	74,29988	18,25101	79,20058	1,808603
2015	Lithuania	2,503579	74,74292	0,142582	69,74054	19,65084	71,37806	2,785585
2015	Poland	3,152914	68,6143	0,125785	66,94615	875,827	67,99699	2,171579
2015	Romania	2,429388	66,59776	0,089691	46,72669	330,5123	55,76316	0,876228
2015	Slovenia	4,015178	67,24185	0,208818	80,26099	28,08004	73,09866	3,814216
	Slovak							
2015	Republic	1,718583	60,27542	0,16311	50,70005	45,21792	77,63468	2,650208
2016	Bulgaria	2,744072	65,86	0,075489	71,24574	55,90914	59,82555	2,237291
2016	Croatia	0,811053	59,13	0,123615	66,53238	212,5932	72,69727	1,850496
	Czech							
2016	Republic	5,528353	73,22	0,185752	63,74813	1953,8	76,4812	3,516172

2016	Estonia	3,816073	77,22	0,184373	71,39045	14,43262	87,24023	3,295076
2016	Hungary	54,23906	66,01	0,130905	48,03886	29096,57	79,25941	2,645757
2016	Latvia	1,195698	70,41	0,143158	80,60481	19,3549	79,8421	1,596543
2016	Lithuania	2,737299	75,23	0,149981	71,11852	20,66125	74,37665	2,950279
2016	Poland	3,876391	69,29	0,124474	67,00455	917,87	73,3007	2,32079
2016	Romania	3,323274	65,64	0,095486	48,24061	409,0681	59,50395	0,911585
2016	Slovenia	3,232885	66,55	0,216636	77,84908	30,05471	75,4985	3,914261
	Slovak							
2016	Republic	5,290124	60,63	0,165087	47,79592	47,6441	80,47586	2,253262
2017	Bulgaria	3,425959	67,85546	0,083341	71,03066	61,78835	63,4101	2,125184
2017	Croatia	0,859425	59,38031	0,134516	67,86556	221,8231	67,09619	1,86834
	Czech							
2017	Republic	5,138725	73,34223	0,206362	64,07869	2149,14	78,71917	3,682034
2017	Estonia	6,407855	79,05708	0,204585	69,63503	15,36268	88,10246	3,542546
2017	Hungary	-8,48733	65,79154	0,146059	48,50038	31824,16	76,75055	2,921533
2017	Latvia	3,783839	74,75487	0,156822	88,05743	21,06654	80,11408	1,784637
2017	Lithuania	2,897336	75,7817	0,168854	72,41746	21,74454	77,61526	3,071961
2017	Poland	2,23396	68,26446	0,138647	67,82744	961,94	75,98537	3,019115
2017	Romania	2,812016	69,65295	0,108078	49,38187	481,8582	63,74728	0,891321
2017	Slovenia	2,462054	65,73359	0,235128	78,589	31,54437	78,88543	4,4794
	Slovak							
2017	Republic	4,424951	59,19619	0,175566	46,63439	47,39744	81,62567	2,416224
2018	Bulgaria	2,726492	68,3	0,094277	71,52152	66,3143	64,78201	2,34287
2018	Croatia	1,975982	61	0,150141	67,65423	237,6213	75,29463	1,921131
	Czech							
2018	Republic	3,344466	74,2	0,234158	63,76877	2390,14	80,68817	3,862671
2018	Estonia	3,958472	78,8	0,231707	70,36543	16,60915	89,35701	3,755329
2018	Hungary	-40,4143	66,7	0,164102	50,30653	34220,64	76,07436	3,237703
2018	Latvia	1,246026	73,6	0,178583	93,02448	23,0422	83,57717	1,792104
2018	Lithuania	2,419531	75,3	0,191762	73,7303	23,88614	79,72258	3,190702
2018	Poland	3,00028	68,5	0,154685	68,6201	994,42	77,54173	3,10612
2018	Romania	3,041348	69,4	0,123999	51,01254	727,4236	70,68128	0,882441
2018	Slovenia	2,839902	65,3	0,261159	77,11312	33,06161	79,74998	4,854568
	Slovak							
2018	Republic	2,129432	64,8	0,194063	45,36723	49,98395	80,44892	2,995958
2019	Bulgaria	2,397795	69	0,098281	70,43	81,02026	67,94698	18,42219
2019	Croatia	1,92593	61,4	0,149361	65,67	249,1307	79,07978	16,49047
	Czech							
2019	Republic	3,723009	73,7	0,234946	62,11	2591,21	80,86694	32,85194
2019	Estonia	9,413825	76,6	0,237233	69,7	18,08897	89,53233	33,55127
2019	Hungary	19,60614	65	0,167318	49,32	36342,44	80,37169	25,52064
2019	Latvia	3,106028	70,4	0,178289	90,21	25,17769	86,13546	17,90802
2019	Lithuania	2,881304	74,2	0,196019	70,09	26,50882	81,58187	28,68502
2019	Poland	2,416515	67,8	0,156925	67,11	1095,01	84,51645	21,25881
2019	Romania	2,945264	68,6	0,129195	51,001	853,5879	73,65748	8,969402
2019	Slovenia	3,1564	65	0,259462	77,32	35,76921	83,10836	41,45527
	Slovak							
2019	Republic	2,200889	65,5	0,192663	76,98	57,25128	82,85366	26,67116

