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ANALYZING FDI ECONOMIC EFFECTS AND DETERMINANTS IN SEE ECONOMIES: COMPARATIVE APPROACHES[1]

Analiza ekonomskih učinkov in determinant NTI – primerjalni pristopi

Jelena Zvezdanovic
Research Trainee, Institute of Social Sciences, Belgrade
jelenazvezdanovic@yahoo.com

Abstract

Foreign direct investment (FDI) is one of the most important external sources of financing of economic growth in developing and transition countries. Its increasing importance is reflected in implementing structural changes in production and exports in the beneficiary countries. As they are characterized by relative stability and long-term nature, it is not surprising that the need to investigate the preconditions for attracting FDI has become a subject of discussion in many countries. The strong growth of FDI after World War II has led to extensive research on the determinants of this type of investment. The vast amount of theoretical and empirical studies on FDI highlight a long list of determinants that try to explain direct investment by multinational companies in a particular location. This article provides a critical review of the research methods that have been applied in order to assess key determinants and effects of FDI inflow. The application of certain methods in the selected articles depends on the type and quality of data as well as its availability. Therefore, it is very difficult to decide which methods provide scientifically valid results.

Key words: FDI, determinants, effects, research, method, institutions, analysis

Izvleček

Neposredne tuje investicije (NTI) so eden najpomembnejših zunanjih virov financiranja gospodarske rasti v državah v razvoju in v tranzicijskih državah. Njihov pomen narašča pri izvajanju strukturnih sprememb na področju proizvodnje in izvoza v državah prejemnicah. Ker so v primerjavi z drugimi tujimi naložbami relativno stabilne in dolgoročne, ni presenetljivo, da v številnih okoljih potekajo raziskave o tem, kako učinkovito pritegniti NTI. Velika rast NTI po drugi svetovni vojni je povzročila širjenje raziskav o determinantah investicij. Obširne teoretične in empirične študije o NTI so dale dolg spisek determinant, ki določajo učinek neposrednih naložb po posameznih lokacijah.

Pričujoči članek prinaša kritični pregled raziskovalnih metod, ki so bile uporabljene pri analizi ključnih determinant vhodnih NTI. Uporaba posameznih metod v izbranih študijah je odvisna od vrste in kakovosti podatkov ter od njihove dostopnosti. Prispevek članka je medsebojna primerjava metod, ne pa sodba o tem, katera je pripeljala do znanstveno najrelevantnejših rezultatov.

Ključne besede: NTI, determinante, raziskave, metode, institucije, analiza

1 Introduction

Foreign direct investment (FDI) represented a significant factor in global economic development and integration in the 1990s. The process of transition from a command (planned) socialist economy to a capitalist system and the integration of Central and Eastern European countries into the world economy

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coincided with attributing increasing importance to FDI inflows. In comparison to other sources of funds (e.g., foreign borrowing and portfolio investments), FDI allows for knowledge and technology transfer, assists human capital formation, helps create a more competitive business environment, contributes to global trade integration, and enhances a culture of entrepreneurship (OECD, 2002). The effects of their inflow in undeveloped or underdeveloped economies are particularly pronounced in the early stages of financial markets' development, which is characterized by low or very low liquidity, lack of market-based instruments, high interest rates, poor or inadequate physical infrastructure and equipment, and a high degree of uncertainty and mistrust among market participants. Bearing in mind that FDI is much more than a simple transfer of capital, it is necessary to obtain answers to several questions that inevitably arise: What motivates companies to invest abroad? What is the position of foreign investors compared to local competitors in the foreign market? Why does a company prefer FDI to exports or licenses? Why are some countries the main holders of global FDI stocks?

The number of studies and theoretical interpretations of global FDI has increased with the growth of their importance at the international level, especially since the 1960s (Buckley & Casson, 2000; Coase, 1937; Dunning, 1980; Vernon, 1966). As FDI inflow depends on numerous factors, economists have tried to theoretically explain its movement using different approaches and attaching different importance to individual determinants. Vernon (1966) made a great contribution to the study of certain types of FDI by U.S. companies in Western Europe after World War II in the manufacturing industry. His approach was based on interpreting how the country initially develops and then gradually loses its comparative advantage in production. Vernon's production cycle theory actually provides a theory which shows enterprises' development and the emergence of multinational companies through product innovations and technology transfer. Dunning (1980) developed a holistic framework for FDI and integrated a variety of isolated theories of international economics in one approach. His eclectic (OLI) paradigm emphasizes the close connection among the three factors of monopoly power: ownership, locational, and internalization advantages. According to Dunning, the absence of any of these three elements of the eclectic paradigm can only lead to a partial interpretation of the phenomenon of FDI and multinational companies.

Previous researchers have pointed out different determinants for the FDI location. Friedman, Gerlowski, and Silberman (1996) concluded that market potential, wages, skilled labor measured by per capita number of scientists and engineers, construction costs, and funds spent to attract FDI represent dominant factors influencing the foreign location decision of branch plants in the U.S. Bevan, Estrin, and Klaus (2004) used a dataset detailing FDI flows from individual market economies to transition ones in order to examine the relationship between institutional development and FDI inflow. They found that FDI is positively related to the quality of several specific formal institutions, such as private ownership of business, banking sector reform, foreign exchange and trade liberalization, and legal development. Bevan and Estrin (2000) and Jiménez (2011) provided evidence that the political risks and high costs of labor discourage investors and make them choose other countries that offer more favorable conditions for their investments. Therefore, efforts to raise the quality of institutions might help developing countries receive more FDI and catch up with more advanced economies, as Bénassy -Quéré, Maylis, and Thierry (2007) assert. The importance of the legal and institutional quality has been also demonstrated in series of articles (Al-Sadigo, 2009; Bevan et al., 2004; Kostevc, Redek, & Sušjan, 2007; Stearns & Kenneth, 1996).

Regarding the effects of FDI, the majority of the cross -country studies try to investigate the empirical relationship between FDI and economic growth (Carkovic & Levine, 2002; Mencinger, 2003; Neto, Brandão, & Cerqueira, 2008; Neuhaus, 2006). According to Lensink aand Morrissey (2001), Campos and Kinoshita (2002), and Reisen and Soto (2001), FDI has a positive and significant impact on economic growth. Some authors have demonstrated that this impact on economic growth is enhanced by the interaction of FDI with the financial markets development (Alfaro, Chanda, Kalemli-Ozcan, & Sayek, 2004), stock of human capital (Borenzstein, De Gregorio, & Lee, 1998) trade volume (de Mello, 1999), and size of domestic market and competitive climate relative to local producer (Balasubramanyam, Salisu, & Sapsford, 1999) in the host country.

All the empirical results reveal that, for FDI, there is not a unified theoretical explanation, and it seems that such a unified theory is unlikely to emerge. As it is an extremely complex issue, special attention should be given to identifying the most relevant effects and factors of the FDI inflow.

2 Research Contributions from Selected Articles

For the purpose of this critical review, we have chosen research articles covering issues related to determinants and effects of FDI inflows mainly in the Southeastern European Countries (SEECs). Motivations for the selection of articles can be explained by the fact that their authors applies different methods and sources of data in the research. Based on the results of their studies, it is possible to create critical analyses that highlight the main advantages and disadvantages of the applied methods and provide suggestions for further improvement of the research in the field of FDI. The discussion is divided into an analysis of effects and determinants of FDI in order to achieve a consistent comparison between methods and results of selected articles.

2.1 Effects of FDI

Ovin and Maček (2010) examined macroeconomic effects of inward cross-border mergers and acquisitions (C-B M&A) on the European host economies, which

they divided into two groups: developed and transition countries. Their study demonstrated some concern about C-B M&A related primarily to unemployment, crowding-out domestic firms' investments, and uncompetitive behavior of foreign affiliates formed through C-B M&A. These fears were more or less based on the significant of such transactions on individual industries in transition economies. The authors also pointed out that the inward C-B M&A are important for economic growth and competitiveness development. The results of their study indicated that extensive capital flows in the form of C-B M&A represent a transitional experience for both sets of countries, with a certain advantage for the developed countries. According to them, most C-B M&A can be found in those countries that have managed to establish a better functioning of their industrial, market, and financial structures with relatively stable political and economic conditions.

Stanišić (2008) revealed that no positive correlation exists between FDI inflows and economic growth. He explained that the cause for this lies in the transition process itself. His study showed that the decline in production and employment in inefficient domestic firms due to structural reforms in these countries neutralize or even outweigh the positive effect of FDI on economic growth. Contrary to these findings, Kostevc et al. (2007) found that FDI can assist in the process of economic growth of transition economies. Variables such as secondary school enrollment as a measure of human capital also had a positive impact on economic growth, albeit not a significant impact, as well as gross-fixed capital accumulation. Inflation and budget deficit as short-run cyclical determinants had a negative impact while institutional quality had positive, although insignificant impact. In addition to confirming the importance of FDI for economic growth, the authors investigated the determining factors of FDI and proved that the quality of the institutional environment significantly influenced the level of FDI in transition economies as well as budget deficit, insider privatization, and labor cost per hour. Their findings highlighted the role of the state as an institutional builder that should focus primarily on creating a good legal system. Furthermore, the authors found a positive relationship between FDI per capita and GDP per capita that is characterized by a relatively strong coefficient of determination. Their results prove that FDI inflow did positively contribute to economic performance in transition countries, but the impact was not significant.

2.2 Determinants of FDI

Bevan and Estrin (2004) demonstrated that FDI is positively related to both source and host country GDP and inversely related to the distance between the countries and to unit labor costs. Using the information about flows between source and host economies to analyze FDI between developed Western countries, the authors showed that the investment to the region has been both market seeking and efficiency seeking. They concluded that the unusual pattern of FDI flows to transition countries might be explained by European Union (EU) firms seeking lower labor costs and perceiving relatively low transaction costs in managing production facilities over a short distance. In addition, they concluded that integration with the EU is important for FDI in transition economies because EU announcements about accession prospects increase FDI inflows to positively evaluated countries. Their analysis suggests that countries that have implemented transition policies successfully are promised relatively speedy EU membership, which further accelerates FDI that influence the generation of more growth and development. In addition, the authors prove that host country risk has not been seen as a significant determinant of FDI. A healthy investment climate characterized by macroeconomic and political stability also benefits the FDI recipient country.

Fabry and Zeghni (2010) concluded that institutions and their combination represent the cornerstone of growth and FDI attraction. Dividing the countries in question into two categories, they showed that institutional arrangement in the EU members and candidate countries attracts FDI as well as demand. According to them, other SEECs have institutions that are considered as weak and therefore need to improve the institutional pattern toward more reliable and effective reforms in order to avoid hosting nomad FDI. The authors revealed that reform effectiveness reflects the quality of the governance, which reflects the quality of institutions.

On the other hand, Škuflić and Botrić (2006) found that market-seeking (GDP growth) and resource-seeking (labor cost) determinants are significant for the FDI inflow, although the latter exerts a positive sign. According to them, FDI in SEECs is predominantly directed toward the service sector and is rarely connected with greenfield investments or investment in the manufacturing sector generally. The service sector share and the development of the foreign exchange market can have a significant influence on attracting FDI. They also concluded that FDI in specific industries of the national economy depends on certain characteristics, which could be only partly explained by the overall economic state of the country. Ultimately, they determined that FDI inflows into the SEECs are driven by the privatization waves in specific sectors of the economies in question.

3 Methods' Analysis

The application of certain methods in the selected articles depends on the type and quality of data as well as on their availability. The choice of method also depends on the studied phenomenon, the research objectives, and the size of the sample being tested. Therefore, it is very difficult to decide which methods provide scientifically valid results. First, we will analyze the methods implemented in order to investigate the effects of FDI. We will then focus on methods applied in research articles dealing with FDI determinants.

3.1 Effects of FDI

In order to test the hypothesis of positive influence of FDI on economic growth in seven countries of Southeastern Europe (i.e., Romania, Bulgaria, Serbia and Montenegro, Croatia, FRY Macedonia, Bosnia and Herzegovina, and Albania), Stanišić (2008) used the Pearson correlation coefficient and coefficient of determination. The FDI inflow was used as an independent variable whereas economic growth rate was the dependent variable. The correlation between FDI inflows and economic growth was examined using three methods: correlation between FDI inflows and economic growth rates; correlation between FDI inflows per capita and economic growth rates, and correlation between FDI participation in GDP and economic growth rates.

The core method used in the article by Ovin and Maček (2010) was a questionnaire sent to 91 business schools and their FDI experts between autumn 2004 and spring 2005. The authors researched professionals' assessment of media attitude toward inward C-B M&A as well as government actions in a given field. The authors included 28 countries in their analysis, which were divided into two groups: developed (15 countries) and transition countries (13 countries). They included 53 respondents from industrial European countries and 38 from transition countries. First, they examined the motives for receiving countries to attract C-B M&A. With the help of the questionnaires, the following grounds for countries' motivation were investigated: external pressure on domestic politics, development of local management skills, lack of strategy for certain industries' development, part of transition process, access to new market, technology improvement, rise of national competitiveness, and know-how. In addition, they estimated the threats of C-B M&A to the receiving country, asking questions about their influence on the shrinking domestic stock market, crowding-out of domestic enterprises, undermining of domestic economic development strategy, low pricing of sold assets, decrease in competition in the home market, and reduction of employment. Responses from both groups were examined with the help of independent sample *t*-tests in order to find statistically significant differences between the answers.

Kostevc et al. (2007) examined 24 transition countries between 1995 and 2002, conducting a panel data analysis based on a general-to-specific approach. They analyzed the determinants of long-term growth (gross fixed capital, labor, human capital), determinants of short-run cyclical movement (inflation and budget deficit, etc.), and several dummy variables. In terms of the dependent variable, they chose GDP per capita because they thought that, in the long run, FDI has both a level and growth effect. Keeping in mind the significant differences between transition countries, the authors applied a fixed-effects estimation.

3.2Determinants of FDI

By focusing on proximity, concentration advantages, and factor costs, Bevan and Estrin (2004) studied the determinants of FDI from Western countries, mainly in the European Union (EU), compared to Central and Eastern European ones using a panel dataset of bilateral flows of FDI from individual source to host economies between 1994 and 2000. Their specification included the impact of the size of the source/host country, unit labor costs in the host country, interest rate differential between the source and host countries, openness of the host economy, institutional, legal, and political factors in the host country, distance, and EU pronouncements about enlargement on the FDI flows by making a difference between the source and host country. The authors estimated two regression equations using the Hausman specification tests. In addition, they reported the coefficient estimates for the basic equation with contemporaneous explanatory variables and with a one-year lag on all independent variables, except distance and constant, as mentioned above. Bevan and Estrin's estimation employed several dummy variables that accounted for exceptionally large German investment and the added risk of the Baltic States (Latvia, Lithuania, and Estonia), which might pose an investment risk due to their identification as part of the former Soviet Union.

Škuflić and Botrić (2006) used FDI data for SEECs during the 1996–2002 period, applying the panel data estimation method to determine the main host country determinants of FDI. According to the predominant motive for investment, they applied well-known aggregation into three types of FDI: market-seeking FDI (the size of the country, the economic prospects of the country, and level of income), resource-seeking FDI (labor market conditions, natural resources, raw materials) and efficiency-seeking FDI (openness of the country and business climate). They used the following variables to explain FDI in SEECs: GDP growth, labor cost, service sector share, and foreign exchange market development. In addition to the fixed-effects model, the authors applied the likelihood ratio test and the Hausman test (to test the hypothesis that the fixed -effect model should be included), generalized least square cross-sectional weights (to examine the heterogeneity in the sample), and the Wald test (to test the hypothesis that all of the coefficients are equal to zero).

Fabry and Zeghni (2010) used the global governance index developed at the World Bank. They divided governance into six dimensions that are all measurable by an indicator noting the level of governance perception and constructed an aggregate indicator from them. They included the following dimensions: voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, and rule of law and control of corruption.

In order to assess the importance of the institutional environment for FDI, Kostovec et al. (2007) used a simple

correlation analysis between FDI and components of the Heritage Foundation Index, taking into account various aspects of institutional quality. With the help of the principal-component method, a panel data analysis based on a general-to-specific approach was applied in order to determine the significance of institutions for FDI.

4 Suggestions for the Method

If we were analyzing the FDI in SEECs utilizing the methods employed in for investigations of the effects and determinants in the articles subject to this comparison, the best suited for us would be the methodological approach by Kostevc et al. (2007). They succeeded in collecting the most relevant data for examining the effects and determinants of FDI. By applying a panel data analysis using the data from 24 transition countries in 1995 to 2002, they included the most important FDI determinants related to institutional environment in these countries. Using the same method, they also examined the importance of FDI for economic performance of transition countries. In the first stage of their empirical analysis, they used simple correlation analysis, taking into account various aspects of institutional quality. After obtaining new variables from the most important institutional aspects using the principal-component model, a panel data analysis was conducted in order to discover the significance of institutions for FDI.

5 Comparison of Results

This section compares Kostevc et al.'s (2007) results to those of Ovin and Maček (2010) as conclusions in both studies are compatible.

First, both studies found that governmental action is important to achieve better macroeconomic effects of inward FDI deals (C-B M&A represent approximately 75% of FDI on the global scale). Kostevc et al. (2007) suggested that the governments of transitional countries should focus primarily on creating a good legal system. Second, both studies stressed that, in countries included in the analysis, FDI inflow can assist in the process of economic growth. They agreed that FDI is a very important tool for competitiveness development. Finally, both studies' findings indicated that most FDI flow to those countries that managed to establish better functioning of their industrial, market, and financial structures with relatively stable political and economic conditions.

On the other hand, some essential differences between the two studies should be noted. According to Ovin and Maček (2010), an unexpectedly higher C-B M&A importance exists for the transition process in developed countries, but not transition countries. They also stressed that C-B M&A were treated more favorably in developed countries according to respondents' experiences. This finding is surprising as it is expected that the far greater attention has been given to the FDI inflows by transition countries. Furthermore, the authors demonstrated that the absence of special measures was expressed in developed countries to a much greater extent than in transition countries, while frequent government action in this direction was experienced only in transition countries. They explained that such governmental attitude is surely also a consequence of the dimension of C-B M&A's impact on transition countries' economic structure.

6 Critical Analysis from the Point of Empirical Phenomenon

All the chosen articles contribute to the knowledge in this scientific field. However, referring to our experience with the empirical phenomenon, we would certainly include in the analysis the ease of doing business economic rankings, which are used to measure the extent to which the regulatory environment of an economy is conducive to the operation of business in 183 countries of the world (World Bank, 2012). These indicators and rankings are related to starting a business, dealing with licenses, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The main justification for their inclusion in the article lies in the fact that the investors might base their decisions on potential difficulties in operating their subsidiaries in the host countries. The authors have included some, but not all of this determinants.

To establish the existence of dependencies between FDI inflows and some subindicators of ease of doing business, a factor analysis should be applied. Subsequently, factor scores should be used in the multiple regression model. Factor analysis sets aside certain factors and sorts them by priority in relation to the phenomenon that we observe and investigate. As we would include a large number of variables (around 30 subindicators of ease of doing business), a factor analysis could be used to reduce them to a smaller set. This analysis would be carried out in such a way that all the variables affected by instruments would be inserted into a common basket, then separated by factoring those variables that most agree and jointly contribute to explaining the variance. Its greatest significance lies in the fact that it would show us far more information than the correlation coefficients in order to determine the interconnectivity of several variables at once and to group these variables compared to other groups.

However, when using aggregated indicators, it is very difficult to interpret such summary statistics and their changes over time or to understand how reforms in specific areas will affect a country's ranking on aggregate indicators. It is very hard to identify precisely which institution is responsible for the bad/good economic performance. First, it should be highlighted that any specific governance indicator will itself have measurement errors relative to the particular concept it seeks to measure due to intrinsic measurement challenges. Second, to the extent that the researcher is interested in broad concepts of governance, any specific indicator is almost by definition an imperfect measure of the broader concepts to which it relates, no

matter how accurate or reliable that specific indicator is. Thus, the ease of doing business economy rankings should not be the only factor included in the research analysis.

Although panel data allows researchers to control for variables that they cannot observe or measure (such as cultural factors, difference in business practices across companies, or variables that change over time but not across entities), there are some drawbacks of data collection issues (e.g., sampling design, coverage) or cross-country dependency in the case of macro panels (e.g., correlation between countries). In addition, we prefer to use the official data rather than the questionnaire results, which could bring serious bias to the results. However, if researchers use quite a large number of statistical tests, they can avoid such risks. On the other hand, a serious risk remains in the way that the total analysis is applied.

In addition, before calculating the Pearson correlation coefficient, it is necessary to draw a diagram of the distribution. With the help of this diagram, it is necessary to check whether the assumptions of linearity and homogeneity of variance are satisfied. It is possible to obtain better insights into the nature of relationships between the analyzed variables. It should be noted that the correlation coefficient indicates the degree of dependence between variables but does not include feedback causality—that is, the movement of one variable associated with another does not automatically mean that the first causes the other.

7 Critical Analysis from the Point of Empirical Results

Applying our critical view to the authors' methodological approach, we would certainly be careful with interpretation of Stanišić's (2008) results. We are not sure if one can draw conclusions y simply examining the statistical relationship between FDI inflow and economic growth. The author did not include other variables that can have a positive effect on economic growth rates. The main limitation of his research is that he tested only the correlation among these variables, without showing the Simple Scatter. Keeping in mind that a correlation shows only the dependence between variables, it is impossible to conclude whether FDI affects economic growth or vice versa. Hence, we think that a more appropriate title for his article would be "The relationship between FDI and economic growth." His justification for the lack of positive correlation was that countries included in the sample are in the middle of the transitional process, which neutralizes the positive effect of FDI on economic growth. Hence, we would expand the analysis with other variables expected to have a significant influence on FDI (e.g., human capital, infrastructure, lending rate, economic scale, institutional environment).

The approach to the data collection by Ovin and Maček (2010) can be treated as the by-pass method as the data on economic effects of the C-B M&A are not published and are thus not accessible in public statistics. They relied on respondents' experience and involvement in corporate or national government activities related to C-B M&A. However, professionals in academic circles may not possess enough knowledge about all the macroeconomic effects and risk of inward C-B M&A, which must be considered when interpreting the results. However, we think that the authors minimized the risk of biased answers in their research by choosing professionals from business schools and universities as their respondents. These individuals conduct research and hold lectures in the field of FDI and C-B M&A or they have real practice in the mentioned field in their home countries. Indeed, it seems that the analysis should be expanded by including experts' opinion regarding the assessment of the major factors that influence the decisions of foreign investors in their operations in particular countries. In other words, not only the motives of the host countries, but also the motives of the countries of origin should be addressed. Such information could be used to abstract the key factors to be included for FDI attraction.

Regarding the research articles related to FDI determinants, Bevan and Estrin (2000) used the variable "distance" as a measure of the transaction costs of undertaking foreign activities. Instead of employing a physical distance variable (i.e., a measurement of physical proximity to the source nation), we suggest using a transportation infrastructure variable (e.g., length of roads and railroads within the country) as a proxy for transaction cost. Furthermore, for the trade variable, which is designed to present the openness of the host economy, the authors only included trade with the EU, arguing that trade during the Communist era was distorted by the dictates of Soviet planners in many transition countries. From our point of view, such a decision led to the loss of relevant data that should be taken into account when applying regression analysis. In addition, using GDP as a proxy for the size of the source/host country or change in GDP is more appropriate as a proxy for market growth. We think that the better variable for market size would be the population of the source/host country.

Škuflić and Botrić (2006) investigated the main determinant of FDI, paying special attention to the role of the service sector. The main disadvantage of their article is that they failed to include the business climate in these countries. In addition, the analyzed period is very short and should be extended because there were no major privatizations in the countries in question. The inflow of FDI was bigger after 2002, so we suggest that future research focus directly on the period since 2004. In addition, the authors relied on FDI balance-of-payment data, which are usually frequently revised in a short period of time. Transition countries especially face this problem because many methodological changes have been introduced in their statistical systems.

Finally, Kostevc et al. (2007) used data on FDI and other variables that we believe were of poor quality for many transition countries, analyzing the period when the impact of FDI on GDP was not as evident. Meanwhile, Fabry and Zeghni (2010) drew conclusions based exclusively on the

data and indicators from the World Bank, which came from survey responses and experts' ratings. As previously mentioned, such indicators have some drawbacks and must be used carefully in any analysis.

8 Conclusion

FDI is considered to be a beneficial solution for transition countries as it enables a significant infusion of capital in order to mitigate the inherited systematic problems in the economy and society. Stanišić (2008) justified the results from the simple applied method based on the fact that, in these countries' inefficient firms, the decrease of production and employment can eliminate or even outweigh the positive effect of FDI on economic growth of host sectors. Taking Serbia as an example, between 2004 and 2008, numerous state and socially owned enterprises were privatized. Most buyers of such enterprises were from Serbia, and their motives were not related to economic efficiency but rather to the suspension of a normal business process and liquidation of their assets. The enterprises were purchased for purely speculative reasons, such as gaining attractive office space or the right to use state-owned land with a clear intention to acquire the land for the personal use of investor (without compensation or minimal cost).

Investors did not have a clear intention of substantially reshaping and restructuring their businesses and boosting their economic recovery and long-term sustainable development. The Serbian economy was characterized by the domination of inefficient socially and state-owned enterprises and the discrimination of the private sector. The few foreign investors who nevertheless decided to engage in the privatization of attractive state-owned companies soon realized that they could be drawn into corruption or forced to leave the market. A rapid deterioration of the Serbian economy occurred due to the large capital owners supported by the political and regulatory system of our country. This is why privatization cannot be identified as the second important motive for Serbia as the host country to attract FDI. Consequently, the FDI inflow did not have a significant positive influence on the rate of economic growth in Serbia in particular during that period.

Generally, the success of the transition process to a large extent depended on the rule of law, strong interactions between formal and informal institutions, and the protection of property rights. Foreign investors are looking for an open market, stable business conditions, and protection of their investments through the adoption and implementation of international mechanisms for the settlement of investment disputes, as shown by Fabry and Zeghni (2010) and Kostovc et al. (2007). Various forms of investment restrictive measures prevent the free movement of capital and tend to decrease incentives for investment.

Using a critical comparative analysis, Ovin and Maček (2010) proved that the method used by the authors and their findings make sense and that the data and method seem to enable robust results. Keeping in mind that media have a very big influence on general opinion and attitude and can give a misleading impression, the negative effects of FDI inflow are often overestimated despite the many positive effects on the host country. It can be argued that the public puts more emphasis on the risks associated with the foreign investor's arrival in the form of the fear of termination or the crowding out of domestic firms from the market, environmental pollution, reduction of staff, etc. When considering the threats associated with the inward FDI, we suppose that the media in Serbia devoted the greatest attention to problems such as reduction in employment and the crowding out of domestic firms. Until the end of the transition process, C-B M&A were not treated favorably in public because of fears that competition in the home market would significantly decrease. Nowadays, public opinion of the importance of FDI inflows has changed remarkably. Foreign companies wishing to invest or reinvest in Serbia are supported by government in the form of subsidies for job creation, the location of greenfield and brownfield sites, help with administrative procedures at all levels, intermediation of communication with the relevant institutions at the national and local level, and connections with local suppliers.

After being granted a candidate status for EU membership in 2012, Serbia has experienced a higher level of FDI inflow. This trend was revealed in the article by Bevan and Estrin (2004). Achieving the EU candidate status has increased the stability of the country's business environment, which is a good sign for investors that Serbia is moving in the right direction for transparency improvement and as a basic prerequisite for attracting new investments. In addition to macroeconomic stability and the functioning of market institutions, long-term and large-scale capital investments require political stability, regardless of whether it is foreign or domestic. Existing barriers in the business environment will be removed by the process of the harmonization of national legislation with the "acquis communautaire." The main obstacles to entrepreneurship in a transition business environment, such as in Serbia, are high levels of corruption and a large state bureaucracy. Therefore, their economies are mostly characterized by low competitiveness, high trade deficit, and insufficient inflow of FDI necessary to support their transition process from an administrative state-led economic model toward a market economy. With FDI drying up, the government needs to implement reforms and measures in order to eliminate business barriers and reduce investment risk. Policymakers should pay special attention to adjusting the level of spending relative to tax inflows, economic competitiveness improvement, removal of obstacles to start-up businesses, continuation of reforms, and privatization processes.

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Jelena Zvezdanović is a doctoral student of economic and business sciences at the Faculty of Economics and Business, University of Maribor. She earned her master's degree in economic policy and development at the Faculty of Economics, University of Belgrade. She currently works as a research trainee at the Centre for Economic Research, Institute of Social Science in Belgrade. Named the Best Graduate Economist at the University of Niš in 2007–2008 for faculties in socio-humanistic sciences, Jelena received the University Silver Sign on the Day of the University. Her research interests include international capital flows, foreign direct investment, and cross-border mergers and acquisitions.

Jelena Zvezdanović je študentka doktorskega programa Ekonomske in poslovne vede na Ekonomsko-poslovni fakulteti Univerze v Mariboru. Magistrala je na Ekonomski fakulteti v Beogradu (področje ekonomskih politik in razvoja). Zaposlena je na Centru za ekonomske raziskave Inštituta za družboslovne znanosti v Beogradu. Kot najuspešnejša diplomantka niške ekonomske fakultete v generaciji 2007/2008 je prejela priznanje univerze in mesta Niš. Njeno raziskovalno področje zajema mednarodne tokove kapitala, neposredne tuje investicije in čezmejne združitve in prevzeme.