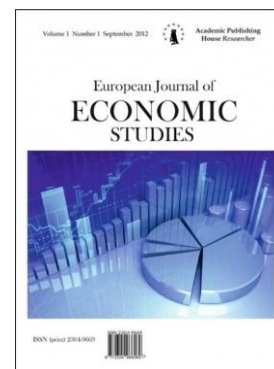


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Published in the Russian Federation
European Journal of Economic Studies
Has been issued since 2012.
ISSN: 2304-9669
E-ISSN: 2305-6282
Vol. 10, No. 4, pp. 268-278, 2014

DOI: 10.13187/es.2014.4.268
www.ejournal2.com



FDI Determinants in the SEE and CIS Countries

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Abstract

FDI are considered a key instrument in the process of transforming the former centrally planned economies and stimulating economic growth in the transition period. In the last several decades globalization contributed towards restructuring the economies in the direction of improving the efficiency of transition countries' comparative advantages, including the changes in the FDI inflow determinants.

The objective of research in this paper is the relationship between the FDI determinants and the foreign capital inflow in transition economies. In order to determine the validity of the economic literature regarding the issue of the FDI determinants in transition countries, a statistical analysis of the linear correlation is used to examine the impact of certain factors on the FDI inflow, using the Pierce coefficient and the coefficient of determination. The analysis also examines the FDI inflow determinants in every region separately, i.e. SEE and CIS, in order to see whether there are differences regarding the influence of the factors between the regions. We used a panel data set covering all SEE and CIS economies between 2004 and 2011. The FDI determinants in 2011 are the independent variable, while the FDI inflow expressed as a BDP percentage in the period 2004 to 2011 is the dependent variable.

The paper is organized as follows: in the introduction we point out the importance of the FDI inflow in transition countries, and in this context we underline the importance of the determinants conditioning the FDI inflow. Section I analyses the FDI inflow and structure in SEE and CIS countries, enabling us to see the influence of certain FDI determinants. The next section, Section II, is a review of the theoretical framework on the FDI determinants. Section III discusses the estimation method and the variables used to examine the FDI determinants in transition countries and it also reports the results from the statistic analysis. In the conclusion we outline the FDI policy directions in transition countries.

Keywords: foreign direct investment; foreign capital inflow determinants; CIS countries; SEE countries.

Introduction

In the process of transition from central-planned economies to market-oriented economies, foreign direct investments (FDI) became an important factor in the global economic development.

The FDI inflow is taken as a measure for the degree up to which the country or the region has integrated in the world economy, and the FDI attracting policy is included in the agenda of every government of the transition countries.

Economic literature indicates that FDI can influence the transfer of technology, the growth of employment and productivity, the increase of competition and the growth of export, with the final effect of faster economic development of the country.*

Experiences show that FDI cannot be the sole agent of economic development of the country, but with the country's proper policy towards foreign capital, FDI can be catalysers of development processes.

In the period of transition, the FDI inflow to transition economies significantly differed from country to country, from region to region, which is explained with the differences in the absorbing capacities of the countries, which are related to the FDI inflow determinants.

In this context, in order to design appropriate FDI attraction policies there is a need of exploring which are the key determinants of FDI inflow in the capital host-country.

The FDI inflow determinants affect the location advantages of the capital host-country (according to the OLI paradigm) and, therefore, one of the reasons for the differences in the FDI inflow between transition countries lies in the level of their realizations.

In the last several decades globalisation has caused changes in the FDI inflow determinants. Globalisation established a new approach towards FDI-related policies and imposed new principles. As a result of global events, certain FDI inflow determinants receive an increasingly greater importance.

In the economic literature there is an agreement on the issue of which are the key factors for a greater FDI inflow. At the beginning of transition, the national regulations related to the entry, founding and operation of foreign affiliates had a large influence on the FDI inflow. In the last decade, promotional policies have been particularly important for attracting FDI in transition countries. The capital host-country market absolute size was previously regarded as a significant FDI inflow determinant, but in the era of globalization foreign investors pay particular importance to the purchasing power of the population and the market potential of the country. In the last several decades qualified labour force has an increasingly larger influence on the FDI inflow in comparison with the low-cost workforce. The process of privatisation has had a great influence on the FDI inflow in transition countries during the 1990ies. In the era of globalisation, the so-called institutional infrastructure in the capital host-country has particular influence on the FDI inflow. Also, having in mind the tendency of the transition countries towards EU membership, the EU integration process is of special significance. Therefore, the access to the regional and the global market has a significant influence on the FDI inflow.

Simultaneously, more than two decades since the start of the transition, as well as the accession of part of the transition countries into EU, we are given a possibility to compare the FDI attraction policies and see which policies were successful and which weren't. Experience has shown that the countries that have attracted larger FDI inflow, in general have a higher degree of macroeconomic stability and a faster economic development, with a tendency for developing qualified workforce, good infrastructure and a liberalised external sector. Also, the EU membership prospects have proven to be a magnet for FDI in transition countries.

The CEE countries, present-day EU members, were the more advanced countries in the transition process. Even at the beginning of the 1990ies these countries managed to achieve macroeconomic stability and began intensive structural reforms for faster economic development. At the same time, the CEE countries were among the first countries that opened their doors for the entry of FDI. The larger part of the transition countries had at their disposal relatively qualified, but low-cost workforce. In the CEE countries the nominal salaries were several times lower than those in EU countries, which made them competitive for FDI. Nevertheless, after entering EU, the workforce expenses increased relatively quickly, which had a negative effect on the FDI. Most of these countries at the beginning of transition had poorly developed market institutions and physical infrastructure, but with the assistance of international organisations in relatively short time, compared with other transition countries, they managed to achieve a significant progress in these areas.

In the SEE countries political factors, together with the slow progress of the transition resulting in slowed down economic development, were the main reasons for the low FDI inflow at

*UNCTAD, World Investment Report, "Foreign Direct Investment and the Challenge for Development", UN, New York and Geneva, 1999, p.98.

the beginning of transition. In comparison with them, the CIS countries, in the last several years, using the comparative advantages from the abundance of natural resources, coupled with the fast growing market potential, became countries most attractive for FDI.

The objective of the paper is to research the major determinants of FDI in South East Europe (SEE) and in the Commonwealth of Independent States (CIS).

Through the linear correlation of the relevant variables, with the Pierce coefficient and the coefficient of determination, covering the period from 2004 to 2011, examination is provided of the influence of certain factors which, in the opinion of many authors, have particular importance for the foreign capital inflow in transition countries. In this context, general conclusions about FDI determinants in the SEE and CIS countries are given. The research of the paper is organised as follows. In the next section the theoretical aspects and empirical research are discussed. The methodology and data for the statistic analyses are given in the third section. The results are discussed in the fourth section and the general conclusions are given in the fifth section.

1. FDI inflow and structure in SEE and CIS countries

In the period from 2004 to 2011, after CEE countries entered EU, and benefited from more than a half of the total foreign capital inflow, FDI concentrated on CIS countries. The FDI participation in CIS countries into the total FDI inflow in transition countries is significantly higher compared to SEE countries.

According to UNCTAD data in the period from 2004 to 2006 the FDI inflow in SEE countries grew, and in the CIS countries declined, nevertheless the participation of CIS countries in the total FDI inflow is larger and amounts to an average of more than 60 %, compared to SEE countries, whose participation in the total FDI inflow is around 40 %.*

The FDI increase in SEE countries in this period was a result of the increase of the FDI inflow in Bulgaria and Romania, due to their EU membership as from 2007, and this accounted for more than 70 % of the total FDI inflow in SEE countries.

In the period after 2007 the FDI inflow in CIS countries grew intensively. In 2011 the FDI inflow in CIS countries amounted to around 90 % of the total FDI inflow in transition countries. Actually, FDI in transition countries was redirected from CEE countries to CIS countries, after the CEE countries entered EU. Among them, the largest FDI inflow was to the Russian Federation, participating with over 50 % in the total FDI inflow of CIS countries.†

The Russian Federation, with the quick economic reforms, strengthening the institutions and technology investments, at the same time using its great market potential and the comparative advantages from the availability of natural resources, has become the most attractive transition country for FDI.

The participation of FDI in GDP gives a more realistic picture on the role of FDI in the transition period. The data show that the FDI inflow is larger in the countries with a higher GDP growth rate, which indicates the fact that countries with the tendency for increasing the market potential have a higher FDI inflow in comparison with the countries with a larger market, which is in correlation with the indication of the economic theory on the FDI inflow determinants in transition countries. Namely, in 2011 Montenegro had the highest participation of FDI in GDP, of 12.27 %. In the last several years Montenegro has a high GDP growth rate in comparison with the other countries in the region. Of the CIS countries Turkmenistan, Kirgizstan, Kazakhstan and Georgia have the largest participation of FDI in GDP in comparison with the other countries in the region, of 13.2 %, 7.72 %, 7.46 % and 7.3 % respectively.*

The largest investors in SEE and CIS countries are the developed EU member states, which indicate the great integration of the region into EU. The cultural and historic relations and the economic cooperation between the countries have a significant influence on the geographic structure of FDI in transition countries.

* UNCTAD data, www.unctad.org/stat. (Last accessed date 20.10.2014)

† UNCTAD data, www.unctad.org/stat. (Last accessed date 20.10.2014)

* UNCTAD data, www.unctad.org/stat (Last accessed date 20.10.2014)

In SEE and CIS countries the largest exporters are Austria, the Netherlands and Germany, with the exception of Cyprus, which is the most significant exporter of FDI in the Russian Federation.*

The FDI sector structure in SEE and CIS countries confirms the global trend of dominant participation of FDI into the service sector. In 2011 the FDI service sector participated with 56.06% in the total percentage FDI inflow in SEE and CIS countries.†

In the period after 2009 the percentage participation of FDI in the service sector dramatically declined in relation to the FDI growth in the primary sector. Such changes in the FDI sector structure in SEE and CIS countries since 2009 are primarily owing to the events in the world economy, which contributed towards the significant drop of FDI in the finance sector, as the epicentre of the crisis, and which were dominant investments in the period preceding the crisis. Also, this period saw the intensive growth of the FDI inflow in CIS countries, where investments in the primary sector are dominant.

In the context of the FDI determinants, the sector structure in SEE and CIS countries has shown that FDI are more present in the service sector, which indicates the importance of the motive to conquer the domestic market, and in this context, the greater influence of the market-related determinants. At the same time, the larger presence of the service sector signifies a greater possibility for using the qualified workforce, as an available resource, compared to the low-cost workforce.

2. Theoretical aspects and empirical research

FDI is highly valued from receiving countries not only because it doesn't create debt obligation, but also because it functions as an important tool in transferring managerial and technical skills and know-how from other countries.

FDI inflow in the transition countries differed significantly from country to country, from region to region, which is explained with the differences in the absorbing capacities of the countries, related to the FDI inflow determinants. In this context, the following question is posed: What are the factors to attract FDI? In order to determine the host-countries characteristics which attract FDI we need to analyze the motives of the foreign investor.

The eclectic theories of FDI view international production through a simultaneous presence of three types of advantages, or the OLI (ownership, location and internalization) paradigm.

The OLI paradigm has proposed that the returns to FDI can be explained by the competitive-ownership advantages of firms (O), indicating "who is going to produce abroad", by location factors (L) "influencing where to produce" and by the internalisation factor (I) that "addresses the question of why firms engage in FDI rather than license foreign firms".‡

In this paper, we investigate the specific location characteristics of transition economies of the South-Eastern region.

The most systematised approach for the FDI inflow determinants in the capital host country was made by UNCTAD, in 1998.§

According to this classification, the FDI inflow determinants in the capital host country have been distributed into three groups: factors related to FDI national policies, economic factors and country's business climate.

The relative importance of some determinants is likely to vary between different types of FDI, i.e. resource-seeking, market-seeking, efficiency-seeking and strategic assets-seeking FDI.**

Market-seeking investors will be attracted to a country with a large or fast market growing potential. Market size in terms of country population and income matters a lot. Actually, it is not

* UNCTAD, "World Investment Report, Toward a new Generation of Investment Policy", UN, New York and Geneva, 2012

† UNCTAD, "World Investment Report, Toward a new Generation of Investment Policy", UN, New York and Geneva, 2012, p.36

‡ Dunning, J.H., "The Eclectic (OLI) Paradigm of International Production: Past, Present and Future", Journal of the Economics of Business, Vol 8, No.2, 2001, p.182

§ UNCTAD, "World Investment Report, Trends and Determinants", UN, New York and Geneva, 1998, p.91

** Dunning, J.H., "The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity", International Business Review, 9 (1), 2000, p. 163-190

interesting to invest in a country with a very high GDP per capita but with a limited amount of consumers or in case when a country has a lot of inhabitants, but a low GDP per capita. Foreign investments in transition countries are influenced by market seeking motive, due to differences in the size of their domestic markets. SEE countries compared to CIS countries are quite small and that is why almost equal important is the market with huge potential. If it is very easy to access neighbouring countries markets due to trade agreements, then this motive is very significant in transition economies.

The second type of FDI is asset-seeking or resource-seeking FDI. It takes place when the company's purpose is to gain access or acquire the resources in the host country which are not available in the home country, such as raw materials, natural resources or low-cost labour. It is especially related to the manufacturing sector. Transition countries are not very rich in natural endowments (except for the Commonwealth of Independent States, CIS), so the significance of this motive is low and does not influence in great scope foreign investor's decision. The second motive underlies unskilled or semi-skilled labour and the expectation is that countries with lower unit labour costs are able to attract more FDI. In terms of O advantages, SEE have mostly been attracting companies in the labour intensive industries. Most recently, unskilled workforce or low labour cost becomes more a facilitator than a motive for investing abroad, since foreign investors are becoming more interested in well-qualified and educated workforce.

The third type of FDI is efficiency-seeking FDI. It takes place when the company can gain when there is a common governance of geographically dispersed activities and presence of economies of scope and scale.

The strategic assets-seeking motive is important for a small number of industries, such as electronics, chemistry and infrastructure. In order for this motive to be utilized, it is more than necessary for countries to have a capacity to absorb the strategic assets. In this framework, transition countries do not have sufficient capacity to absorb them and therefore this motive is not applicable for decision making investments.

In recent years, globalization has induced changes in the traditional market-seeking determinants. Market size determinant has decreased in importance. The FDI to the transitional countries has shifted from market-seeking and resource-seeking to more efficiency-seeking FDI. Even though traditional determinants and the types of FDI associated with them have not disappeared with globalization, their importance is declining. At the same time, due to the influence of globalization some new determinants have been pointed out. The role of institutional reform has become one of the major determinants. Also, cost differences between locations, the quality of infrastructure, the easiness of doing business and the availability of skills have increased in importance. This reveals that the investor's motives are changing and therefore countries must seek new ways to attract FDI.

In the context of empirical research on the FDI determinants in transition countries, Holland and Pain analyzed the factors affecting aggregate inflows of FDI in the ten accession economies plus Croatia over the five year period from 1992 to 1996.* The authors point out that the method of privatization and the openness of the countries have a significant influence of the FDI inflow in CEE, present-day EU members, for the period from 1992 to 1996. The influence of the workforce costs and productivity is also significant, but with smaller intensity in comparison with the method of privatization and openness of the country. Resmini in 2000 also uses a sample of ten CEE countries and underlines the impact of the determinants related to the country's market potential and workforce on the FDI inflow.†

Also, Bevan and S. Estrin, analysing the FDI inflow in 11 countries from Central and Eastern Europe in the period from 1996 to 2000, indicated that the quality of the business surrounding, the market development, the workforce expenses and the natural resources availability have the most significant influence on the FDI inflow.‡

* Holland, D. and Pain, N., "The determinants and impact of foreign direct investment in transition countries: a panel data analysis", National Institute of Economic and Social Research, London, 1998, p. 21

† Resmini, L., "The Determinants of Foreign Direct Investment into the CEECs: new evidence from sectoral patterns", The Economics of Transition, Vol.8, No.3, 2000, p. 665-689

‡ Bevan, A. and Estrin, S., "The Determinants of Foreign Direct Investment in Transition Economies", William Davidson Institute, Working Paper N.342, October 2000, p. 61

FDI will generate economic growth only if the country has reached a certain level of human capital.*

In transition countries the positive effects of FDI on the economic growth are not influenced by human capital only, because they have a relatively skilled labour force, but lag behind in terms of technology development.

Campos and Kinoshita, examining the FDI in the 25 countries, which apart from CEE countries also include the CIS countries, in the period from 1990 to 1998, suggest that FDI have a significant positive impact on the economic growth in the countries surveyed. The results show that external liberalization index (0.46), political stability (0.36) and FDI growth rate (0.32) have the highest coefficient of correlation with the economic development.†

The economic literature in the period up to 2000, trying to explain the unequal distribution of FDI in transition countries, points out the market as the most significant determinant.

Since the beginning of the XXI century, the focus of interest has been on the influence of the so-called institutional infrastructure on FDI inflow in transition countries. In this context Meyer indicates the increasingly larger influence of national policy related to the quality of institutions on the FDI inflow.‡

According to J. H. Dunning, the so-called institutional infrastructure represents locally related instruments intended for facilitating economic activities (including FDI) by decreasing transaction costs of such activities.§ Institutional infrastructure is present in all three groups of determinants of FDI inflow and constitutes an "umbrella" affecting the efficiency of each of the groups of factors.**

3. FDI determinants in SEE and CIS countries

3.1. Methodology and data

In order to determine the validity of the theoretical and empirical literature regarding the issue of FDI determinants in transition countries, a statistical analysis of linear correlation is used to examine the influence of certain factors on the FDI inflow in SEE and CIS countries.

The linear correlation is analyzed with the Pierce coefficient of linear correlation and the coefficient of determination.

The statistical analysis refers to the SEE and CIS countries, covering the period from 2004 to 2011.

The analysis also examines the FDI inflow determinants in every region separately, SEE and CIS respectively, in order to see whether there are differences regarding the influence of factors between the regions.

The FDI determinants in 2011 are the independent variable, while the dependent variable is the FDI inflow expressed as a percent of GDP in the period from 2004 to 2011.

The statistical analysis also covers the following FDI determinants:

A. Traditional FDI inflow determinants:

Process of privatisation

The percent participation of the private sector in GDP is taken as a variable for measuring the flow of privatization in transition countries.

Factors related to the market size

GDP per capita and the GDP growth rate are taken as variables for measuring the market size.

* Borensztein, E., de Gregorio, J., and Lee, J., "How Does Foreign Direct Investment Affect Economic Growth?", *Journal of International Economics*, Vol.45, 1998, p. 115-135

† Campos, F.N and Kinoshita, Y., "Foreign direct investment as technology transferred: Some Panel Evidence From The Transition Economies", William Davidson Institute, Working Paper No.438, University of Michigan, USA, 2002, p. 35

‡ Meyer, K.E., "Institutions, Transaction Costs and Entry Mode Choice", *Journal of International Business Studies*, Vol.31, No.2, 2001, p. 257-267

§ Dunning, J.H., "Institutional Reform, FDI and European Transition Economies", R. Grosse (ed) *International Business and Governments in the 21st Century*, Cambridge University Press, 2004, pp. 9-11

** Dunning, J.H., "The Eclectic Paradigm as an Envelope for Economic and Business Theories of MNE Activity", *International Business Review*, 9 (1), 2000, p. 163-190

Table 1: FDI determinants in the SEE and CIS countries

Countries	Privatisation	Market related factors		Workforce related factors		Country openness	Tax policy	Infrastructure	Rule of law	Corruption level	Country risk
	Participation of private sector in GDP, in %	GDP per capita, in US dollars	GDP growth rate, in %	Workforce expenses, average monthly salary, % changes	University enrolled people, growth rate, in %						
SEE											
Albania	75	3.677	1,8	6,0	48	43,8	10	2+	-0,44	3,1	B+
B&H	60	4.478	1,8	9,0	38	66,3	10	3-	-0,36	3,2	B
R. Macedonia	70	4.434	0,3	14,1	41	80,4	10	3-	-0,26	3,9	BB
Serbia	60	4.394	2	-3,3	50	54,4	10	2+	-0,38	3,3	BB-
Croatia	70	1.382	3,1	2,2	59	69,2	20	3	0,18	4	BBB-
Montenegro	65	6.152	1,9	5,6	/	67,9	9	2+	0	4	BB
CIS											
Azerbaijan	75	5.638	4,5	25,2	20	72,0	/	2	-0,87	2,4	BBB-
Belorussia	30	5.702	0	15	86	109,2	24	1	-1,74	2,4	B-
Georgia	75	268	5	40,3	30	61,2	/	3-	-0,21	4,1	BB-
Armenia	75	3.031	6	11,2	51	40,7	20	3-	-0,44	2,6	BB-
Kazakhstan	65	9.167	7,5	10,5	42	68,8	20	3-	-0,62	2,7	BBB+
Kirgizstan	75	865	5,7	14,6	41	117,1	/	2-	-1,29	2,1	/
Moldavia	65	1.626	5,5	8,7	38	/	/	2+	-0,4	2,9	/
Russian Federation	65	10.351	4	8,5	/	41,3	20	3-	-0,77	2,4	BBB
Tajikistan	55	816	7,4	25,4	22	57,6	/	2-	-1,19	2,3	/
Turkmenistan	25	4.597	14,7	21,6	/	114,2	/	1	-1,45	1,6	/
Ukraine	65	3.035	5	5,5	79	74,4	25	2+	-0,84	2,3	B+
Uzbekistan	45	1.427	8,3	39,1	9	61,8	/	2-	-1,34	1,6	/

Sources: EBRD, Transition indicators, 2011, KPMG Corporate and Indirect Tax Survey, 2011, Transparency International Annual Report, 2012, Standard and Poor's Credit Rating, 2012, World Bank database, The Worldwide Governance Indicators (WGI), 2012

Factors related to workforce

The average monthly salary and the rate of people enrolled at university are taken as variables for measuring the impact of factors related to the workforce onto the FDI inflow in transition countries.

Country openness

The percent participation of trade in the GDP of the countries is taken as a variable for measuring the openness of SEE and CIS countries.

Tax policy

The corporate income tax rate is taken as a variable.

Infrastructure

The index of infrastructure reforms in transition countries according to EBRD is taken into account as a variable for measuring the influence of the infrastructure on FDI inflow in transition countries.

B. Specific FDI inflow determinants:

Rule of law

The rule of law indicator (according to WGI) of World Bank is used as variable for measuring the influence of this factor on the FDI inflow in transition countries.

Corruption level

The corruption index, according to Transparency International, is taken as a variable for measuring the impact of this factor on the FDI inflow in transition countries.

Country risk

The credit rating, according to Standard and Poor's, is taken as a variable for measuring the impact of this factor on the FDI inflow in transition countries.

The data for FDI determinants are given in table 1 and the data for FDI inflow as a percent of GDP are given in table 2.

Table 2: FDI inflow as percent of GDP in SEE and CIS countries, 2004-2011

	2004	2005	2006	2007	2008	2009	2010	2011
SEE								
Albania	4.73	3.24	3.61	6.15	7.51	8.27	8.92	7.92
B&H	5.05	3.22	4.49	11.94	5.41	1.47	1.37	2.11
Croatia	2.88	4.07	6.96	8.42	8.84	5.29	0.65	2.4
Montenegro		/	/	/	21.25	36.88	18.5	12.3
Serbia		/	/	/	5.53	4.3	3.07	6.85
R. Macedonia	5.87	1.6	6.6	8.49	5.96	2.16	2.31	4.61
CIS								
Armenia	6.93	4.88	7.1	7.59	8.02	8.99	6.08	5.18
Azerbaijan	40.97	12.68	-2.78	-14.37	0.03	1.07	1.09	2.31
Belorussia	0.71	1.01	0.96	3.99	3.59	3.82	2.56	7.26
Georgia	9.6	7.06	15.11	17.2	12.22	6.12	6.98	7.3
Kazakhstan	9.63	3.45	7.75	10.6	10.73	11.48	7.33	7.46
Kirgizstan	7.93	1.73	6.42	5.47	7.33	4.04	9.48	7.72
Moldavia	5.63	6.38	7.58	12.3	11.75	2.67	3.4	4.01
Russian Federation	2.61	1.69	3	4.24	4.52	2.99	2.93	2.29
Tajikistan	13.1	2.36	11.96	9.68	7.28	0.32	-0.26	0.17
Turkmenistan	3.32	3.36	5.13	5.26	6.69	22.83	15.7	13.2
Ukraine	9.06	5.2	6.93	6.06	4.11	4.71	4.37	4.36
Uzbekistan	1.33	1	3.15	2.48	2.55	4.16	3.09	3.22

Source: UNCTAD database, www.unctad.org/stat (Last accessed date 20.10.2014)

3.2. Results

The results of the statistical analysis of the linear correlation of factors affecting the FDI inflow in SEE and CIS countries in the period from 2004 to 2011 confirm the validity of the economic literature on the FDI inflow determinants in transition countries.

The statistical analysis shows that the GDP growth rate, the participation of the private sector in GDP, the participation of trade in GDP, the index of infrastructure reforms, the rule of law, the corruption index and the credit rating of the country positively affect the FDI inflow in SEE and CIS countries in the period from 2004 to 2011. (In CIS countries the credit rating of the country is in negative correlation with the FDI inflow expressed as a percent of GDP.)

FDI inflow determinants referring to the GDP per capita, the workforce expenses, the growth rate of people enrolled at university and the corporate income tax (in CIS countries GSP per capita is in a positive correlation with the FDI inflow as a percent of GDP) are in negative correlation with the FDI inflow in SEE and CIS countries.

In relation to the negative correlation between the economic factors related to workforce and the FDI inflow, the results are due to the fact that in a larger part of the countries included in the analysis, the CIS countries, the FDI are connected to the search for natural resources where workforce as a factor has an inconsiderable influence in attracting foreign capital. In this context, the statistical analysis of the impact of the FDI inflow determinants according to regions indicates that in SEE countries there is a positive correlation between the qualified workforce and the FDI inflow, while between the workforce expense and the FDI inflow the correlation is negative, which is in line with global changes. In CIS countries the results show that the situation is opposite. That is to say, there is a negative correlation between the FDI inflow and the qualified workforce, while the correlation between the FDI and the cheap workforce is positive. Also, the negative correlation between the FDI inflow and the corporate income tax rate in SEE and CIS countries confirms the empirical indications that fiscal stimulations, though frequently used measure for attracting FDI, do not have direct effect on the foreign capital inflow.

Table 3: Statistic correlation data for SEE and CIS countries

FDI as GDP %	Pierce coefficient (r)	Coefficient of determination (p)
GDP per capita	- 0,043	0,863
GDP growth rate	0,036	0,989
Workforce expenses, average monthly salary	- 0,014	0,953
University enrolled people, growth rate	- 0,117	0,678
Participation of trade in GDP	0,042	0,874
Corporate income tax	- 0,362	0,274
Index of infrastructure reforms	0,184	0,465
Participation of private sector in GDP	0,112	0,636
Rule of law	0,198	0,492
Corruption index	0,206	0,443
Credit rating	0,226	0,459

Source: own calculations

Table 4: Statistic correlation data for SEE countries

FDI as GDP %	Pierce coefficient (r)	Coefficient of determination (p)
GDP per capita	- 0,022	0,967
GDP growth rate	0,322	0,533
Workforce expenses, average monthly salary	- 0,016	0,976

University enrolled people, growth rate	0,320	0,60
Participation of trade in GDP	0,07	0,893
Corporate income tax	- 0,299	0,565
Index of infrastructure reforms	0,319	0,538
Participation of private sector in GDP	0,068	0,898
Rule of law	0,248	0,687
Corruption index	0,441	0,559
Credit rating	0,480	0,335

Source: own calculations

Table 5: Statistic correlation data for CIS countries

FDI as a GDP %	Pierce coefficient (r)	Coefficient of determination (p)
GDP per capita	0,110	0,973
GDP growth rate	0,080	0,8
Workforce expenses, average monthly salary	0,218	0,479
University enrolled people, growth rate	- 0,11	0,77
Participation of trade in GDP	0,163	0,631
Corporate income tax	- 0,359	0,552
Index of infrastructure reforms	0,12	0,71
Participation of private sector in GDP	0,2	0,528
Rule of law	0,457	0,135
Corruption index	0,46	0,132
Credit rating	- 0,08	0,861

Source: own calculations

Conclusion

The results from the statistical analysis of the linear correlation for the factors influencing the FDI inflow in SEE and CIS countries for the period from 2004 to 2011 verify the validity of the economic literature on the FDI inflow determinants in transition countries.

In this context, the results indicate several facts which transition countries have to take into consideration when creating their FDI-related national policies.

Namely, the FDI inflow is conditioned on the implementation of structural reforms in the period of transition and, in this context, on the level of the country's economic growth. The development of the market institutions is one of the basic preconditions for attracting FDI. Also, the infrastructure development decreases the transport costs, which is especially significant for the potential foreign investors. In the last several decades, global changes have imposed the importance of the approach to the regional and the global market as a determining factor of FDI inflow, thereby making the openness of the country an increasingly necessary precondition for attracting foreign capital. At the same time, the rule of law and the corruption level play a significant role in attracting FDI in transition countries.

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