

## THE INFLUENCE OF THE SIZE OF THE ECONOMY AND EUROPEAN INTEGRATION ON FOREIGN DIRECT INVESTMENTS IN THE CENTRAL, SOUTHEASTERN AND EASTERN EUROPEAN STATES 1994-2013

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### ABSTRACT

*The paper studies the interdependence of the economy size and foreign direct investments (FDI) in the transitional economies of Central, Southeastern and Eastern Europe. In the global capitalist economy, foreign direct investments (FDI) represent one of the key determinants of economic growth. Among some transitional economies, in the last 20 years, FDI represented one of factors that increased the economic growth, and in other transitional economies, the influence of FDI was minor or even negligible. In the literature devoted to the influence of FDI on economies, the research about the determinants of geographical pattern of FDI distribution usually focuses on the factors that determine why some states manage to draw FDI in higher levels than some other states. Our research focused on the transitional economies of Central, Southeastern and Eastern Europe, which were for the most part of the last 20 years net receivers of the FDI. Only a couple of these countries in the years of the current economic crisis have experienced FDI net outflow. Among the states studied, we have equally studied the EU members, as well as the non-EU members. We have tried to find similarities and differences between these two groups of states in order to determine the influence of EU membership on FDI per capita and how it correlates with the size of the state's economy. We have also tried to answer the question of how much the GDP growth rate correlates to the FDI net inflow share in GDP for EU and non-EU members. The methodology is based on the statistical correlation between FDI in current US dollars and GDP per capita in current US dollars (World Bank data) for each represented state, through the surveyed period from 1994 until 2013. The statistical correlation matrix (Pearson method) determined whether any correlation between the average GDP growth rate (chain index) and the average share of FDI in GDP per each state exists for each state surveyed.*

**Keywords:** foreign direct investment (FDI), gross-domestic product (GDP), the European Union, transitional economies, Central, Southeastern and Eastern Europe.

## **1. INTRODUCTION**

The relationship between foreign direct investment (FDI) and economic growth is a well-studied subject in the development economics literature, both theoretically and empirically. The interest in the subject has also grown out of the substantial increase in FDI flow that started in the late 1990's, and led to a wave of research regarding its determinants. Most of the research that studies FDI deals with the relationship between FDI and economic growth. In addition, a significant part of the research studies the determinants of FDI: economic, political and geographical. The importance of FDI in contemporary economies is well known. FDI is seen as an important element in the solution to the problem of scarce local capital and overall low productivity in many developing countries (DeMello, 1999).

With the inclusion of FDI in the model of economic growth, traditional growth theories confine the possible impact of FDI to the short-run level of income, when actually recent research has increasingly uncovered an endogenous long-run role of FDI in economic growth determination (DeMello, 1997). According to the neo-classical models, FDI can only affect growth in the short run because of diminishing returns of capital in the end. In contrast with the conventional neo-classical model, which postulates that long run growth can only happen from both the exogenous labor force growth and technological progress, the rise of endogenous growth models (Barrow and Sala-i-Martin, 1995) made it possible to model FDI as promoting economic growth even in the end through the permanent knowledge transfer that accompanies FDI.

Therefore, the importance of studying FDI has increased. Contrary to the claims that FDI boosts economic growth, Carkovic and Levine (2002) and Akinlo (2004) show that private FDI do not have significant influence on the economic growth of a state. However, the tests present in the literature about the FDI usually take into account heterogeneous groups of countries, thereby ignoring the differences that exist among these countries because of their different geographical location, tradition, and culture, as well as the trade opportunities and flows that influence the economic growth and thereby the FDI. Haufler and Wooton have studied the relation between the FDI and the tax competition, as well as the relation between the FDI and country size.

They have focused on foreign direct investment in a region in which population is asymmetrically distributed between countries and there are some remaining barriers to intra-regional trade, although these are lower than on trade with countries outside the region. Empirical work has shown that both the market size and the effective tax rate on capital are important factors in influencing multinational firms' choices of countries in which to invest. Among other findings, they have shown that "if countries differ only in population size, then we would expect that it is again the largest market which attracts the firm. However, the optimal tariff or consumption tax of the largest country will now depend on its relative size vis-a-vis all other countries. Furthermore, the size of the second largest country will be critical in determining which offer the biggest country has to beat."

Essentially, the equilibrium profit tax that the largest country can extract from the firm will then depend on its market size advantage over the next largest competitor" (Haufler, Wooton, 1999). In the 1990's, studies of FDI in emerging markets have put particular stress on indicators of economic and political risk (see Lucas, 1993; Jun and Singh, 1996). This comprised

three main elements: macro-economic stability, e.g. growth, inflation, exchange rate risk; institutional stability such as policies towards FDI, tax regimes, the transparency of legal regulations and the scale of corruption; and political stability, ranging from indicators of political freedom to measures of surveillance and revolutions (Dunning, 2004: 8). In the same paper, Dunning (2004: 4) recognizes other principal economic determinants of market seeking motives of transnational corporations (TNCs) to invest via FDI in the host states<sup>1</sup>: market size and per capita income, market growth, access to regional and global market, country specific consumer preferences, and structure of markets. Market size or size of the economy at the present moment is usually determined by the total GDP of the economy. Estrin and Uvalic (2013) have explored the determination of foreign direct investment (FDI) into the Balkan transition economies (Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania and Serbia<sup>2</sup>).

Detailed FDI inflows to Southeast Europe (SEE) are analyzed to determine the main differences in the volume, timing and sectoral structure of FDI within the region and in comparison to the Central East European countries. They have concluded that even when negative effects, such as the size of their economy, distance, institutional quality and prospects of EU membership were taken into account, Western Balkan countries receive less FDI. FDI to the Balkans were driven by geographical and institutional factors, similarly to other transition economies, but there is evidence of a significant negative regional effect<sup>3</sup>.

Regarding the openness of the economy and connections of the member states' economies that have passed through transition with the other EU member states' economies (EU-15) it is important to acknowledge that the EU operates a trade regime designed to afford some protection to EU incumbents from third party import competition. An important aspect of trade linkages is involvement or potential involvement in free trade agreements, customs union and supra-national economic structures, such as the European Union.

Third party countries may invest into such regions to avoid tariffs on exports, while the enhanced growth and trade from the economies of scale of integration provide a demand stimulant to FDI (Dunning, 2004: 8-9). The privatization process has created a specific asset seeking explanation for FDI in transition (Estrin, Hanousek, Kocenda, Svejnar, 2009). Thus, for most transition economies, the process of privatization has formed a distinct motivation for FDI. Western multinationals were attracted to enter reforming economies during privatization programs by making acquisitions because prices are relatively low and because of highly

<sup>1</sup> The other principal types of motives of transnational corporations (TNCs) for FDI, according to Dunning, are resource seeking, efficiency seeking, and asset seeking motives.

<sup>2</sup> In the paper, the mentioned EU and non-EU member states were not studied as two separate entities. The main parameter was the geographical position of a particular country (Balkan i.e. South-East European vs. Central European countries). Nevertheless, the research of Estrin and Uvalic did not include other European transitional, non-EU economies, such as Belarus, Moldova, and Ukraine.

<sup>3</sup> Brada, Kutan and Yigit (2006) examine the effects of transition and of political instability on FDI flows to the transition economies of Central Europe, the Baltics and the Balkans. In their specifications, they relate FDI inflows to a country's economic characteristics. The results show that FDI flows to transition economies unaffected by conflict and political instability exceed those that would be expected for comparable West European countries. In the case of Balkan countries, conflict and instability reduced FDI inflows below what one would expect for comparable West European countries and reform and stabilization failures further reduced FDI to the region.

favorable tax policies or even subsidies associated with the privatization (Estrin, Uvalic, 2013: 27-28).

## **2. METHODOLOGY**

In the literature devoted to the influence of FDI on economies, the research about the determinants of geographical pattern of FDI distribution usually focuses on the factors that determine why some states manage to draw FDI in higher levels than some other states. However, not many studies deal with the sheer size of the economy as a determinant why some states (i.e. their economies) are more attractive to the FDI than others when it comes to the size of the economy itself. Therefore, this paper studies the influence of the economy size on foreign direct investments (FDI) in transitional economies of Central and Eastern European states. In the global capitalist economy, foreign direct investments (FDI) represent one of the key determinants of economic growth. In the transitional economies, in the last quarter of the century, FDI represented one of the factors that increased the economic growth. Among the states studied, we have equally studied the EU members from Central and Eastern Europe, as well as the non-EU members.

We have also tried to answer the question of how much the GDP growth rate correlates to the FDI net inflow share in GDP for EU and non-EU states. Therefore, we have studied the relationship between the FDI (net inflows, BoP, current US\$)<sup>4</sup> and FDI growth rate for a period of 20 years (1994-2013) along with the size of the state's economy, measured by total GDP (current US\$)<sup>5</sup> and GDP growth rate. The linkage between FDI and GDP was determined by correlating the average GDP growth rate with the average share of FDI in GDP per each state.

The methodology is based on the statistical correlation between FDI in current US dollars and GDP per capita in current US dollars (World Bank data) for each represented state, through the surveyed period from 1994 until 2013. The statistical correlation matrix (Pearson method) determined whether any correlation between the average GDP growth rate (chain index) and the average share of FDI in GDP per each state exists for each state surveyed. It must be mentioned that this research has unavoidable limitations in the surveyed period of years. Less than 35 years were surveyed because there is not enough historical data.

In addition, Bosnia-Herzegovina, Kosovo and Montenegro have insufficient data. Finally, the research results provided in this paper do not show any cause-consequence relation between FDI and GDP growth. Any conclusion like that would be false, for example if one wants to

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<sup>4</sup> Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors. Data are in current U.S. dollars.

<http://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD>

<sup>5</sup> GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates. For a few countries where the official exchange rate does not reflect the rate effectively applied to actual foreign exchange transactions, an alternative conversion factor is used.

<http://data.worldbank.org/indicator/NY.GDP.MKTP.CD/countries>

conclude that FDI affects the growth of GDP. A statement like that cannot be concluded because far more variables would have to be considered first.

### 3. RESULTS

*Table 1. The GDP growth rate (chain index principle) in Central, Southeastern and Eastern European EU and non-EU member states (original data in current US\$) 1994-2003*

State	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bulgaria	x	35%	-32%	13%	30%	1%	-2%	7%	15%	29%
Croatia	x	51%	6%	1%	7%	-8%	-7%	7%	15%	29%
Czech Republic	x	26%	12%	-8%	7%	-3%	-5%	9%	22%	22%
Estonia	x	9%	9%	7%	11%	2%	-1%	10%	17%	34%
Hungary	x	8%	1%	1%	3%	1%	-4%	14%	26%	26%
Latvia	x	3%	7%	10%	8%	10%	7%	6%	12%	20%
Lithuania	x	14%	7%	20%	11%	-3%	4%	6%	16%	31%
Poland	x	28%	13%	0%	10%	-3%	2%	11%	4%	9%
Romania	x	18%	0%	0%	19%	-15%	5%	9%	13%	29%
Slovakia	x	28%	8%	-1%	8%	2%	-4%	6%	14%	32%
Slovenia	x	46%	1%	-3%	6%	3%	-55%	105%	13%	26%
Albania	x	22%	24%	-27%	24%	26%	7%	11%	9%	27%
Bosnia-Herzegovina	x	49%	49%	32%	12%	14%	18%	4%	16%	26%
Kosovo						x		37%	7%	24%
Macedonia	x	32%	-1%	-16%	-4%	3%	-2%	-4%	10%	25%
Montenegro						x		18%	11%	33%
Serbia				x	-24%	9%	-66%	87%	33%	29%
Belarus	x	-6%	6%	-4%	8%	-20%	5%	-3%	18%	22%
Moldova	x	3%	-3%	14%	-15%	-29%	10%	15%	12%	19%
Ukraine	x	-8%	-8%	13%	-16%	-25%	-1%	22%	12%	18%

Source: Authors' calculation based on World Bank data

(Table following on the next page)

*Table 2. The GDP growth rate (chain index principle) in Central, Southeastern and Eastern European EU and non-EU member states (original data in current US\$) 2004-2013*

State	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	22%	14%	15%	27%	23%	-6%	-2%	12%	-4%	3%
Croatia	20%	9%	11%	19%	17%	-11%	-5%	4%	-9%	2%
Czech Republic	20%	14%	14%	22%	25%	-13%	1%	9%	-9%	1%
Estonia	22%	16%	21%	31%	8%	-18%	-2%	18%	-1%	9%
Hungary	22%	8%	2%	21%	13%	-18%	1%	8%	-9%	4%
Latvia	23%	17%	24%	44%	17%	-23%	-7%	19%	0%	9%
Lithuania	22%	15%	16%	30%	21%	-22%	-1%	17%	-2%	8%
Poland	17%	20%	12%	24%	24%	-19%	9%	10%	-5%	6%
Romania	27%	31%	24%	39%	20%	-20%	0%	11%	-7%	12%
Slovakia	22%	9%	13%	22%	16%	-11%	0%	10%	-5%	5%
Slovenia	16%	6%	9%	22%	15%	-10%	-4%	7%	-10%	3%
Albania	32%	12%	9%	17%	20%	-6%	-1%	8%	-4%	5%
Bosnia-Herzegovina	20%	9%	13%	23%	21%	-8%	-2%	9%	-8%	6%
Kosovo	8%	3%	5%	21%	22%	-3%	2%	16%	-3%	8%
Macedonia	16%	9%	10%	24%	21%	-5%	0%	11%	-8%	7%
Montenegro	21%	9%	19%	36%	24%	-8%	-1%	9%	-10%	9%
Serbia	21%	7%	16%	33%	23%	-16%	-8%	18%	-13%	12%
Belarus	30%	31%	22%	22%	34%	-19%	12%	8%	6%	13%
Moldova	31%	15%	14%	29%	38%	-10%	7%	21%	4%	9%
Ukraine	29%	33%	25%	32%	26%	-35%	16%	20%	8%	0%

Source: Authors' calculation based on World Bank data

(Table following on the next page)

*Table 3. The share of FDI in GDP in Central, Southeastern and Eastern European EU and non-EU member states (original data in current US\$) 1994-2003*

State	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Bulgaria	1.1%	0.7%	1.2%	5.0%	4.1%	6.2%	7.8%	5.9%	5.7%	10.1%
Croatia	0.8%	0.5%	2.1%	2.3%	3.7%	6.3%	5.2%	6.9%	4.1%	6.0%
Czech Republic	1.9%	4.4%	2.2%	2.2%	5.8%	10.2%	8.5%	8.8%	10.8%	2.1%
Estonia	5.4%	4.6%	3.2%	5.3%	10.4%	5.3%	6.8%	8.7%	3.9%	9.3%
Hungary	2.7%	10.5%	7.2%	8.9%	7.0%	6.9%	6.0%	7.5%	4.5%	2.6%
Latvia	4.2%	3.4%	6.8%	8.5%	5.4%	4.8%	5.3%	1.6%	2.7%	2.7%
Lithuania	0.4%	0.9%	1.8%	3.5%	8.2%	4.4%	3.3%	3.7%	5.0%	1.0%
Poland	1.7%	2.6%	2.9%	3.1%	3.7%	4.3%	5.5%	3.0%	2.1%	2.1%
Romania	1.1%	1.2%	0.1%	3.4%	4.8%	2.9%	2.8%	2.9%	2.5%	3.1%
Slovakia	1.4%	0.9%	1.3%	0.6%	1.9%	1.2%	7.1%	n/a	11.8%	1.2%
Slovenia	0.8%	0.7%	0.8%	1.6%	1.0%	0.5%	1.4%	2.5%	7.2%	1.0%
Albania	2.7%	2.9%	3.0%	2.2%	1.7%	1.2%	3.9%	5.1%	3.0%	3.1%
Bosnia-Herzegovina	n/a	n/a	n/a	n/a	n/a	n/a	2.7%	2.1%	4.0%	4.6%
Kosovo	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Macedonia	0.7%	0.2%	0.3%	0.4%	4.2%	2.4%	6.0%	13.0%	2.8%	2.5%
Montenegro	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Serbia	n/a	n/a	n/a	3.5%	0.7%	0.6%	0.9%	1.6%	3.8%	7.2%
Belarus	0.1%	0.1%	0.7%	2.5%	1.3%	3.7%	0.9%	0.8%	1.7%	1.0%
Moldova	0.7%	1.5%	1.4%	4.1%	4.6%	3.2%	9.9%	3.7%	5.1%	3.7%
Ukraine	0.3%	0.6%	1.2%	1.2%	1.8%	1.6%	1.9%	2.1%	1.6%	2.8%

Source: Authors' calculation based on World Bank data

*Table 4. The share of FDI in GDP in Central, Southeastern and Eastern European EU and non-EU member states (original data in current US\$) 2004-2013*

State	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Bulgaria	10.5%	14.2%	23.7%	32.9%	19.9%	8.0%	3.9%	4.0%	3.1%	3.6%
Croatia	2.6%	4.0%	6.5%	8.3%	8.4%	5.5%	1.4%	2.0%	2.4%	1.0%
Czech Republic	4.4%	8.9%	3.7%	5.9%	2.9%	1.5%	3.1%	1.0%	4.1%	2.5%
Estonia	8.0%	22.5%	13.2%	15.6%	7.9%	9.6%	10.8%	2.3%	7.4%	3.7%
Hungary	4.2%	7.7%	16.6%	51.9%	48.6%	-2.3%	-16.4%	7.6%	7.8%	-0.6%
Latvia	4.6%	5.1%	8.5%	9.4%	4.3%	-0.2%	1.8%	5.3%	3.8%	2.8%
Lithuania	3.4%	4.6%	6.8%	5.9%	4.0%	0.1%	2.4%	3.3%	1.4%	1.6%
Poland	5.0%	3.6%	6.3%	6.0%	2.8%	3.3%	3.6%	3.4%	1.4%	-0.9%
Romania	8.5%	6.9%	9.3%	6.0%	6.8%	3.0%	1.9%	1.4%	1.6%	2.0%
Slovakia	5.4%	4.9%	5.9%	4.6%	4.2%	1.8%	2.4%	3.8%	1.7%	2.2%
Slovenia	2.5%	2.7%	1.8%	4.0%	3.3%	-0.7%	1.3%	1.6%	-0.5%	-0.9%
Albania	4.6%	3.1%	3.6%	6.1%	9.6%	11.2%	9.1%	8.1%	7.5%	11.5%
Bosnia-Herzegovina	7.1%	5.7%	6.8%	11.8%	5.4%	0.8%	2.6%	2.6%	2.1%	1.8%
Kosovo	n/a	3.6%	9.4%	12.7%	9.3%	7.3%	8.5%	8.2%	4.5%	4.9%
Macedonia	5.9%	2.4%	6.5%	9.0%	6.2%	2.8%	3.2%	4.8%	3.0%	3.7%
Montenegro	n/a	n/a	n/a	25.5%	21.5%	37.3%	18.4%	12.4%	15.3%	10.1%
Serbia	4.3%	8.1%	17.0%	8.8%	6.3%	4.8%	3.6%	6.2%	0.9%	3.2%
Belarus	0.7%	1.0%	1.0%	4.0%	3.6%	3.8%	2.5%	6.7%	2.3%	3.1%
Moldova	3.4%	6.4%	7.6%	12.2%	12.0%	2.5%	3.5%	3.9%	2.5%	3.2%
Ukraine	2.6%	9.1%	5.2%	7.1%	5.9%	4.1%	4.7%	4.4%	4.4%	2.1%

Source: Authors' calculation based on World Bank data

*Table 5. The average share of FDI in GDP and the average GDP growth rate in Central, Southeastern and Eastern European EU and non-EU member states*

State	Average share of FDI in GDP	Average GDP Growth rate
Bulgaria	8.6%	11%
Croatia	4.0%	8%
Czech Republic	4.7%	9%
Estonia	8.2%	11%
Hungary	9.4%	7%
Latvia	4.5%	11%
Lithuania	3.3%	11%
Poland	3.3%	9%
Romania	3.6%	11%
Slovakia	3.4%	9%
Slovenia	1.6%	10%
non-EU:		
Albania	5.2%	11%
Bosnia-Herzegovina	4.3%	16%
Kosovo	7.6%	11%
Macedonia	4.0%	7%
Montenegro	20.1%	13%
Serbia	4.8%	10%
Belarus	2.1%	10%
Moldova	4.7%	10%
Ukraine	3.2%	9%

Source: Authors' calculation based on World Bank data (original data in current US\$)

#### **Research base-points:**

*Research Hypothesis No.1:* On average, a positive correlation between the average share of FDI in GDP and the average GDP growth rate exists among EU member states.

*Research Hypothesis No. 2:* Non-EU states have, on average, a stronger correlation between the average share of FDI in GDP and the average GDP growth rate than EU states.

*The NULL Hypothesis:* the average share of FDI in GDP and the average GDP growth rate are unrelated among all surveyed states.

#### **Research results:**

The research results (Table 6.) show that HYPOTHESIS No.1 and HYPOTHESIS No.2 can be rejected, which means that there is no significant correlation in any of the presented base-points. There is no statistical evidence that, on average, the GDP growth correlates to the FDI share in the GDP for the surveyed states, both EU and non-EU. The statistical error (p-value) is large, although, all things considered, there seems to be stronger correlation among non-EU states in the presented base-points than among EU member states.

*Table 6. The average share of FDI in the GDP / GDP growth rate correlation between three groups of countries:*

Countries	Pearson Correlation value (r) between the average GDP growth rate and the average share of FDI in GDP	P-value	NULL Hypothesis at P=0,05:
all: EU and non-EU states	0.253	0.282	Confirmed
EU states	-0.29980	0.370	Confirmed
non-EU states	0.39501	0.298	Confirmed

Source: Authors' research and calculation based on World Bank data, FDI and GDP p/c in current US\$

#### 4. DISCUSSION AND CONCLUSION

South-East European countries are following a two-pronged strategy. They have been upgrading their institutions and investment policies to bring them in line with EU standards. Investment policy is one of the most advanced dimensions of policy reform in South-East Europe. All countries have created a liberal regime to attract FDI, providing equal treatment of foreign and domestic investors (national treatment), guarantees against expropriation and the free transfer of funds. South-East European countries have joined regional agreements such as CEFTA, which opened to most of these countries in 2006 (with the exception of Croatia, which had joined in 2003<sup>6</sup>). This agreement, which contains an important investment chapter, represents a significant accomplishment along the path to EU accession and an important stepping-stone to sustainable long-term growth. In the 1990's, a series of security shocks created a region that was averting investments rather than attracting them. Following the stagnation of FDI as a share of GDP in 2002–2005, FDI flows increased steeply until the global financial crisis hit the main investing countries in 2007 (UNCTAD, 2013: 16). However, their FDI inflows are still rather low.

Clear differences exist in the level of FDI in the member states of the EU and the non-member states of the EU from the Western Balkans and Eastern Europe. These differences are the indicators that point to a conclusion that the openness of the economy, and the longevity of the period spent in an economic integration such as the EU, crucially influenced the level of FDI net inflows for each particular state studied.

The differences between the countries of Central Europe on the one hand and of Southeastern and Eastern Europe on the other, can also "invite critical engagement on the experience of pan-European integration" as Smith has recognized (Smith, 2002: 650) and pointed that such renderings raise the same concerns of Todorova (1997) over Western treatments of the Balkans, as Europe's 'others'. East and Central Europe become a 'gateway', in Cohen's terms, to 'the East'<sup>7</sup>. In this way the 'gateway'—or what Todorova has identified as the discursive construction of 'Central Europe' as different from 'the East' and 'the Balkans'—becomes 'an expedient argument in the drive for entry into the European institutional framework' (Todorova, 1997: 159–160). Whether the main reason was the simple geographic position of the Central European post-communist states, or the wars in the Balkans and the influence of

<sup>6</sup> Croatia had to leave CEFTA in 2013, when it joined the European Union (author's remark).

<sup>7</sup> S. B. Cohen in 1991 wrote: "The question might be raised as to whether East and Central Europe might not revert to a Shatterbelt rather than become the Gateway region that has been posited. This is doubtful. The European Community and the Soviet Union would find competition over the region to be counterproductive. Maritime Europe's concerns are Soviet military power. The USSR needs West European economic help. These concerns and needs balance one another. They are best addressed through cooperation, not through the competition that makes for shatterbelts" (Cohen, 1991: 572).

Russia in the former Soviet Union Republics (except the Baltic states), or maybe the imagined perspective of the Central European gateway as an alternative to “the Balkan chaos”, as Todorova already pointed in 1997<sup>8</sup>, a clear political will and a perspective was given to the Central European post-communist states (the Visegrad Group states). That has affected the pre-accession processes to the European integration of these states. Slovenia and the Baltic states followed.

This was the main reason why the states from Central Europe, eight of them, which joined the EU (and NATO, as guarantor of security) in 2004 and started their accession negotiations with the EU in the second half of the 1990's, have shown the best results in drawing the FDI inflows. The second factor that has strongly influenced the level of FDI is of course the economic crisis that has hit the European states hard. Nevertheless, very significant differences among the states of the different regions or even among some states from the same region of Europe (for example Central Europe) exist when it comes to coping with the crisis and the speed of economic recovery. Since 2009, the economic crisis has dramatically reduced the levels of FDI net inflows in the studied EU member states, and most of them have in 2013 experienced levels of FDI net inflows per capita that were comparable with the FDI net inflows in the states of Southeastern and Eastern Europe.

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<sup>8</sup> Estrin and Uvalic (2013) stress the “Balkans effect” that negatively affects the FDI inflows, with other variables constant. A geographical factor has influenced the creation of the negative perception of the whole region in the eyes of the main investor states to the post-communist states. Therefore, the levels of FDI inflows into Bulgaria and Romania were for the first part of the period studied in this paper more similar to the Western Balkans than to the Central European states, which had a clear perspective of European integration.

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