UNIVERSITY OF LJUBLJANA
SCHOOL OF ECONOMICS AND BUSINESS

MASTER'S THESIS

BUSINESS ENVIRONMENT AND FOREIGN DIRECT INVESTMENT IN THE WESTERN BALKAN COUNTRIES

Ljubljana, October 2022 BLERINA HASANI

AUTHOR STATEMENT

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LIST OF ABBREVIATIONS

AIDA - Albanian Investment Development Agency
BER - Business environment reform
CEFTA - Central European Free Trade Agreement
CPI - Corruption Perception Index
DB - Doing Business
DTF - Distance to frontier score
EDB - Ease of doing business
EU - European Union
FDI - Foreign direct investment
FIPA - Foreign Investment Promotion Agency of Bosnia and Herzegovina
FTZ - Free trade zone
GDP - Gross domestic product
IMF - International Monetary Fund
MIPA - Montenegrin Investment Promotion Agency
OECD - Organization for Economic Cooperation and Development

OSCE - Organization for Security and Co-operation in Europe
SAA - Stabilization and Association Agreement
SOE - State-owned enterprise
SPIRIT - Slovenian Public Agency for the Promotion of Entrepreneurship, Innovation, Development, Investment, and Tourism
SPSS - Statistical Package for the Social Sciences
TEDA - Technical economic development areas
TIDZ - Technological industrial development zones
UNCTAD - United Nations Conference on Trade and Development
VAT - Value-added tax
WB - World Bank
WBG - World Bank Group
WIIW - The Vienna Institute for International Economic Studies
WIR - World Investment Report
WTO - World Trade Organization

INTRODUCTION

Foreign direct investment (FDI) offers a range of technological and financial resources that can raise productivity, create jobs, boost exports, spread knowledge, trigger innovation, improve living standards, and more generally, advance progress toward the 2030 Agenda and climate change objectives (OECD, 2019).

Western Balkan countries (the Republic of Albania, Bosnia and Herzegovina, the Republic of Kosovo, Montenegro, the Republic of North Macedonia, and the Republic of Serbia) are constantly faced with a lack of domestic capital to finance their investments and a constant need for foreign capital in the form of direct and indirect investment. This necessitates the implementation of appropriate policies and strategies to improve their business environments to attract foreign investors. In the last two decades, these countries have comprehensively reconstructed and reformed their economies to become market economies so they can orientate themselves toward the world market.

Further inflows of FDI to the Western Balkans depend on the success of the transition and ongoing structural and institutional reforms. Successfully attracting FDI depends on several factors, based on the degree of overall social and economic development of the country, political stability, a favorable business environment, infrastructure, governmental credibility, and the ability of domestic companies to optimally benefit from FDI.

Government policies are vital for enhancing FDI and realizing its potential benefits. Some governmental policies are general and aim to enhance the attractiveness of the business environment; for example, creating political and macro-economic stability and improving infrastructure and human resources, trade policy, science and technology policies, labor laws, etc.

The Organization for Economic Cooperation and Development (OECD) and Organization for Security and Co-operation in Europe (OSCE) has published specific guidelines and conducted various activities to increase the impact of FDI on inclusive and sustainable development, focusing particularly on international investment and providing governments with detailed guidance on how to influence and improve its qualities beyond investment climate reform. According to the “Best-practice guide for a positive business and investment climate” (OSCE, 2006), the most important factors in establishing a political environment that supports a strong business and investment climate are security, the protection and guarantee of foreign investor rights, legislative stability, transparency, freedom from corruption, and good governance.

In this context, to build investment capacities, the governments of the Western Balkan countries implemented economic policies with the assistance of the International Monetary

Fund (IMF), the OECD, and the World Bank (WB) that aimed to achieve a better investment climate. In particular, the WB helped transition the economies to improve business environment reforms (BERs) by simplifying administrative procedures and providing better services to investors. These services aimed to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and by stimulating competition through new market entrants. On this basis, the WB published a "Doing Business" (DB) report at the end of each year, which ranked 190 economies and aggregated the scores for 10 areas in an attempt to assess the absolute level of regulatory performance and how it improves over time. (WBG, 2017)

The primary goal of this paper is to determine the results of business environment improvement reforms in these countries, or more precisely, whether improving the ease of doing business (EBD) index ranking has a positive impact on FDI inflows. The main motive behind this paper is to identify the current state of FDI in Balkan countries, its importance, and its impact on modernizing the economies of the observed countries. It should also be noted that it is important to explain possible ways to encourage and develop FDI, as well as foster a proactive approach to attracting foreign investment.

Research purpose, goals, and questions

The purpose of this thesis is to outline the importance of FDI, explain its basic effects, and discuss how improving the business environment can have an impact on attracting FDI. The main goals of the paper are to systematize the current knowledge about the impact of the investment climate on attracting FDI in host countries. Moreover, the paper includes numerous analyses of current experiences as well as good examples of successful FDI attraction strategies.

Nowadays, there is growing competition among developed and transition countries to attract foreign investments, and these countries are making great strides in improving their business climates. This is evident in the WB's yearly publication of the DB report, but despite this commitment, FDI is still inadequate in the Western Balkans in general and particularly in Kosovo.

This research aims to analyze the correlation between the level of country ranking, according to the EDB index, and the level of FDI in Western Balkan countries with a focus on Kosovo. However, the EDB index does not include areas such as the level of corruption, the independence of the judiciary, the size of the market, political and economic risk, and the functionality of public institutions. Furthermore, the index does not reflect the full attractiveness of the business environment as a crucial precondition to attracting FDI. Therefore, this study will also discuss the indicators concerning the business environment and its importance in identifying what the problems are and how to make progress in attracting future investments.

Research questions

- How important are the 10 WB DB indicators in improving the investment climate and attracting investors?
- Are the BERs,[1] monitored by WB DB indicators, doing enough to attract FDI?
- Which other important indicators attract FDI?
- How do improved business environments and proper strategies attract FDI?
- What challenges do the Western Balkan countries face in attracting FDI?

Hypothesis

This research comprises the main hypothesis and two sub-hypotheses.
H: Improving the overall WB DB ranking has a significant correlation with FDI inflow.
H1: The improvement of WB EDB indicators has a positive impact on FDI inflow.
H2: Corruption level has a significant negative impact on FDI inflow.

Research methodology

For theoretical purposes, relevant domestic and international scientific and professional literature will be analyzed, including books, articles published in scientific and professional journals, annual and periodical reports, and other publications dealing with the subject, along with various sources collected on the internet.

Quantitative research on FDI and investment climate analyses will also be conducted using the annual World Investment Report (WIR), published by the United Nations Conference on Trade and Development (UNCTAD), Investment Monitor, the Vienna Institute for International Economic Studies (WIIW), and the Corruption Perception Index (CPI) for the period 2010–2020. By analyzing data from the above sources, the answers to the research questions should be found.

Research structure and expected scientific contribution

This master's thesis is divided into six interrelated units. The first chapter is introductory and contains a description of the research problem, hypotheses, the purpose and objectives of the work, and the research methods used.

The second chapter theoretically considers business environment improvement and its impact on attracting FDI inflow, as well as the effects of FDI on the host countries and its impact on economic growth. The third chapter describes and analyses the global and regional

[1] *BER aims to reduce the costs and risks of business activity by improving poor government policies, laws and regulations, and by stimulating competition through new market entrants.*

trends of FDI and its contribution to the world, with special reference to the selected Western Balkan countries.

In the fourth chapter, special attention is paid to FDI and the business environment in the observed countries in terms of the WB's DB Report and the distance to frontier score (DTF) assessment. This chapter provides a detailed analysis of each country in the Western Balkan region, including the Republic of Slovenia, and includes facts about the investment climate, the improvement of business indicators, the provision of financial and non-financial support for FDI projects, the quality of investments, the protection of foreign investors, and the challenges faced by these countries in attracting foreign investment. At the end of the chapter, a benchmark is set among the surveyed countries to obtain a clearer picture of the analysis.

The fifth chapter deals with empirical research on the impact of the DB ranking on FDI inflows. It presents the methodological aspects of empirical research and provides an overview of the results of the research as well as the results of testing the hypotheses.

The sixth chapter contains concluding remarks, in which the most important research results are systematically and concisely presented along with a reference to the hypotheses. The appendix comprises a summary of statistics and explanatory tables as a basis for the research.

The expected contribution of this master's thesis in theoretical terms is given in the sublimation of current knowledge on the impact of business environment improvement on the FDI inflows to Balkan countries. Furthermore, a contribution is made to the reforms implemented by governments and public policies in the form of advice, suggestions, and experiences of other countries when adopting strategic and normative acts that affect business and encourage foreign investment.

In terms of the practical contribution of this research, the results of the study could help develop current and existing strategies and the creation and modeling of new policies to achieve goals in attracting FDI. The thesis can also inform researchers from the academic community who can use it as a broad theoretical and practical basis to support further research in this field.

1 LITERAURE REVIEW

Many studies provide empirical evidence that recognizes that the benefits of FDI for the host country can be significant, and such benefits include the transfer of new technologies, human capital formation support, the enhancement of a competitive business environment, a contribution to international trade integration, and improved enterprise development. Research that is based on variables, such as gross domestic product (GDP), GDP growth, GDP per capita, the real exchange rate, the percentage of imports and exports over GDP, employment growth, labor flexibility, infrastructure quality, financial depth, judicial independence, legal system efficiency, corruption control, political stability and the absence of violence, government effectiveness, and regulatory quality, conclude that FDI has an impact on the economic growth of the host economy.

Hence, if FDI has a significant impact on domestic countries, how can countries improve their FDI inflows? What policies do they follow? Do they have to improve the investment climate or improve their EDB indicators through regulatory reforms? Do they sign free trade agreements and protect investors, fight against corruption, or adopt other relevant indicators to increase FDI inflow?

In particular, the importance of a comprehensive institutional environment is stressed, but there is a lack of information about certain determinants that explain the efficiency of the regulatory environment and EDB. However, early research on this relevant topic that especially focuses on EDB is by Jayasuriya (2011), who investigates if improvements in rankings generate greater FDI inflows. In this study, the author tests empirical data using official DB rankings from 2006 to 2009. The results suggest that an improved ranking has, on average, an insignificant influence on FDI inflow and countries that undertake large-scale reforms relative to other countries do not necessarily attract greater FDI inflows.

A similar question is also asked by Eifert (2009) in “Do regulatory reforms stimulate investment and growth?” Eifert used DB data from 2003–2007, which comprised a five-year panel of data on regulations and procedures from the WB’s DB project. The empirical data reveals some evidence of the positive impact of regulatory reforms in countries that are relatively poor (conditional on governance) and relatively well-governed (conditional on income).

An additional incentive to the elaboration of a regulatory framework and the importance of FDI inflows have been provided by the WB’s EDB project, and several scholars have focused their research on the link between the components that are relevant for business regulation in the EDB ranking and attracting FDI (Bayraktar, 2013; Corcoran & Gillanders, 2015; Mahbub & Jongwanich, 2019). Most studies use an aggregated measure of EDB to investigate the influence of the regulatory framework in the host country and the dynamics

of FDI. A few articles have investigated the effects of sub-indicators in certain fields of EDB on the FDI dynamics in the observed host country (Morris & Aziz, 2011).

Three research papers were identified in the literature review that examined the EDB index and its correlation with FDI in ex-socialist countries in the Western Balkans region. One study, entitled "Regulatory environment and development outcomes: Empirical evidence from transition economies," measured EDB by the aggregate index and 10 sub-indices (Petreski, 2014), and focused on the growth aspects of EDB in 30 ex-socialist countries from 2005–2011. The results suggest that less complex regulation improves growth when combined with better institutions, and more relevant indicators for the entire lifecycle of the firm are protecting investors, contract enforcement, and trade across borders.

Jovanović and Jovanović (2018) investigated if EDB, measured by the WB's DB 10 indicators, affected FDI in 27 ex-socialist countries and found a lot of uncertainty regarding its effects, with most indicators being either insignificant or lacking robustness. The only aspect of business regulation that stood out as a robust determinant in the two estimations was the ease of trading across borders.

Osmani (2015) analyzed countries from the Western Balkans region and discovered that they managed to achieve appropriate levels of macroeconomic stability and an improved business climate due to the implemented reforms. However, the countries had not been successful enough in attracting FDI as a precondition to ensure a more dynamic economic development and an appropriate fall in the level of unemployment and poverty.

Estevão, Lopes, & Penela, (2021) raised the question of whether the DB indicators were equally important regardless of a region's level of economic development. The results show that the rankings and the subsequent design of public policies based on them should consider regional specificities, thus refuting the idea that the design of public policies to improve the framework for companies should follow a one size fits all intervention model. Doshi, Kelley, & Simmons, (2019). demonstrated how the WB's EDB ranking system affected policy through bureaucratic, transnational, and domestic-political channels.

In an article entitled "Business environment and foreign direct investments: The case of selected European emerging economies," Vučković, Bobek, Maček, Skoko, & Horvat, (2020) used quantitative analysis to identify factors in a business environment that were relevant for attracting FDI, using variables such as the Global Competitiveness Index (relevant for business regulation and institutional framework), macroeconomic performance, market capitalization, and taxation.

Numerous empirical studies have investigated the effects of a regulatory environment, institutions, and the application of the law on attracting FDI inflows to the economy. Bailey (2018) found that political stability, democracy, and the rule of law attracted FDI, while

other factors, such as corruption, tax rates, and cultural distance, deterred it. Other studies have examined the institutional determinants of inward FDI (Uddin, Chowdhury, Zafar, Shafique, & Liu, 2019), country institutional environments and international strategy (Xu, Hitt, Brock, Pisano, & Huang, 2021), and the relationship between institutional factors and FDI flows (Kurul, 2017). More important topics for the business environment and FDI have been addressed by Bouchoucha and Yahyaoui (2019) in a study on governance and FDI, Gnangnon (2019) has looked at trade policy and FDI inflows, and Donnelly and Manolova (2020) have examined foreign location decisions.

The above-mentioned studies, and many others, on FDI, EDB, the investment climate, and improving the business environment in developing and transition economies with a focus on Western Balkan countries, provide a qualitative basis for research that includes numerous examples that have been analyzed, and they represent a good starting point in providing recommendations in this master's thesis.

For the purposes of this study, further research examples were also used to analyze how to attract FDI, the challenges and barriers to attracting FDI, and the role of investment promotion agencies and various FDI incentives.

2 FOREIGN DIRECT INVESTMENT FLOWS

2.1 Global and regional foreign investment flows

Every year, UNCTAD produces a WIR that estimates historical global FDI flows and FDI forecasts for the coming years. In the 2021 annual report (which presents figures for 2020), UNCTAD stated that the COVID-19 pandemic caused a dramatic fall in FDI. This fall is presented in Table 1 along with statistics on FDI inflows and trends for 2010–2020 so that movements in global FDI inflows can be analyzed along with FDI inflows into developed and developing countries, Europe, and countries in the Western Balkans.

Table 1 shows that during the observed period, the number of investments in developing economies was around 600–700 billion dollars with slight ups and downs, while developed economies had greater oscillations in 2015 and 2016 with record values above one trillion but continued to decline year-on-year to $328 billion in 2020.

More detailed FDI inflow statistics for the Western Balkan countries and each country separately are given later in this thesis.

Table 1: FDI inflows by region and economy 2010–2020 (millions of dollars)

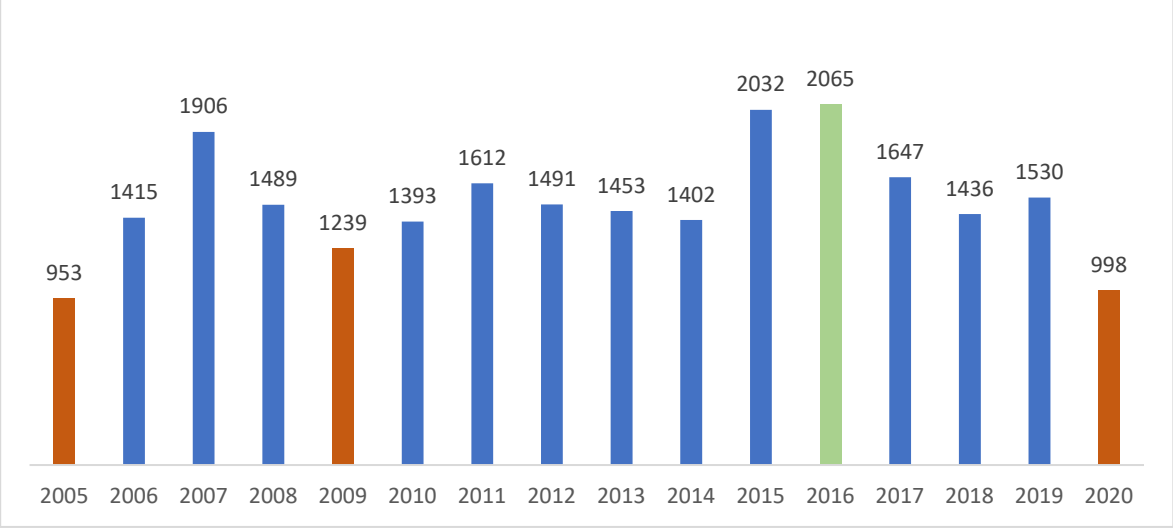
Region - Economy	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
World	1393729	1612890	1491331	1453506	1402117	2032298	2065238	1647312	1436732	1530228	998891.4
Developing regions	641914.7	689628	688889.3	674485.7	698595.7	746248.9	673750.2	716344.1	702196.7	734389.7	670351.7
Developed regions	751814.5	923262.1	802441.2	779020.6	703520.9	1286049	1391488	930967.8	734535.6	795837.9	328539.7
Europe	482667.3	583924.1	486421.1	435430.4	363763.7	731147.8	813338.1	539290.9	371153.9	409482.4	88906.9
Western Balkan											
Albania	1050.7	876.3	855.4	1265.9	1111.4	945.7	1100.7	1148.9	1289.7	1288.0	1106.6
Bosnia and Herzegovina	406.1	496.5	394.9	276.4	550.2	361.1	349.8	491.9	574.3	400.1	370.8
Montenegro	760.4	558.1	619.8	447.5	497.7	699.4	226.4	558.6	489.8	417.1	528.9
North Macedonia	212.5	478.8	142.9	335.0	272.5	240.5	374.6	205.3	725.2	446.4	273.9
Serbia	2174.2	5466.6	1593.0	2425.3	2199.6	2690.2	2595.5	3166.8	4411.9	4554.8	3830.0
Slovenia	105.4	1087.4	339.3	-151.2	1051.2	1675.1	1245.9	897.8	1384.2	1226.6	529.1

UNCTAD (2021).

Greenfield investments in industry and new infrastructure investment projects in developing countries were hit especially hard, which is a major concern because international investment flows are vital for sustainable development in the poorer regions of the world (UNCTAD, 2021).

The COVID-19 pandemic caused a dramatic fall in global FDI in 2020, bringing FDI flows back to the level seen in 2005. The years with the lowest investment, including the 2009 economic recession, have been shaded in red in Figure 1. The crisis has had an immense negative impact on the most productive types of investment, namely, greenfield investment in industrial and infrastructure projects. Global FDI inflows rose in 2007 by 30% to reach $1.9 billion, and FDI inflows reached their highest level ever ($2 trillion) in 2015 and 2016 (Figure 1).

Figure 1: Global FDI inflows 2005–2020 (millions of dollars)



UNCTAD (2021).

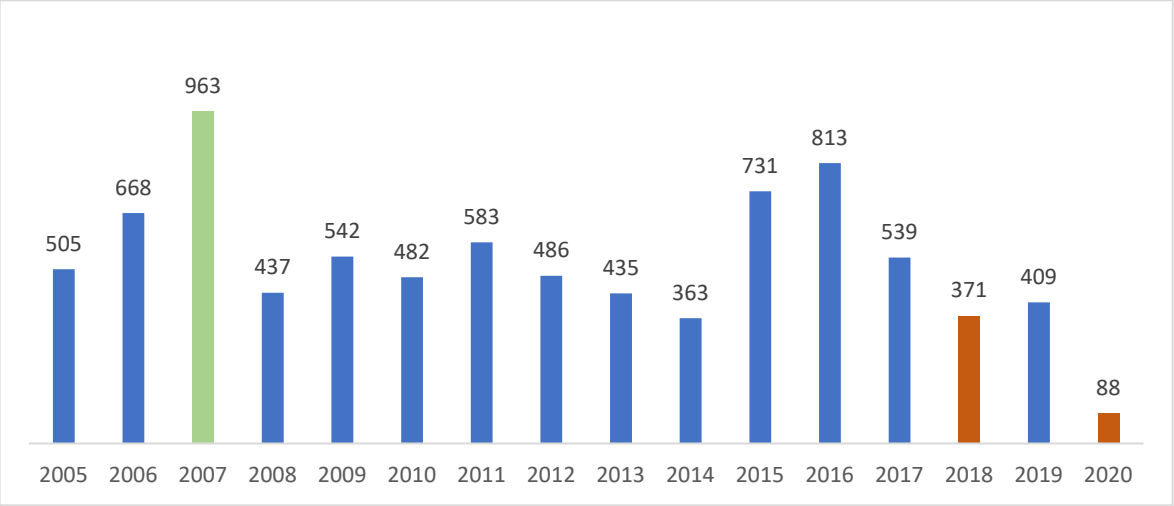
Global FDI flows amounted to USD 1 trillion in 2020, which was down 35% from the previous year (when they amounted to USD 1.5 trillion). FDI flows in 2020 were down 20% from those in 2009 after the global financial crisis.

FDI inflows were relatively more affected by the impact of the pandemic on investment in global value chain-intensive, tourism, and resource-based activities, but the effect varied between regions and groups of countries, as developing economies weathered the storm better than developed economies. The WIR 2021 (UNCTAD, 2021) argues that the following five factors will determine the impact of investment packages on sustainable and inclusive recovery: additionality, orientation, spillovers, implementation, and governance.

2.2 FDI inflows to Europe

FDI flows to Europe dropped by 80% in 2020 from $409 billion to $88 billion (Figure 2), and European economies, i.e., the United Kingdom (UK), Germany, France, Luxemburg, and Switzerland, were considered the most important sources of FDI.

Figure 2: FDI inflows to Europe 2005–2020 (millions of dollars)



UNCTAD (2021).

In terms of countries of origin, the "traditional" main investors are advanced economies in the European Union (EU) as well as economies, such as the U.S., Switzerland, Norway, Canada, Australia, and Japan, and they control more than 80% of all foreign-owned assets. These countries started investing a long time ago and have kept their acquisition rates constant over time. Their investments are diversified across sectors, with a particularly high level of diversification for the U.S. (EC, 2019.)

However, the data from the European Commission (2019) working document also clearly show the emergence of new investors. The diversity of countries of origin has been increasing, with China standing out in terms of the number of recent acquisitions. Investments and acquisitions from developing or emerging countries are typically concentrated in a much more limited number of sectors, but in several subsectors, they are becoming increasingly visible, with a surge in the number of deals over the last years; for example, China in aircraft manufacturing and specialized machinery or India in pharmaceuticals.

2.3 Effects of FDI on the host country

FDI can play a significant role in host economies' development process. In addition to capital inflows, FDI can be a vehicle for obtaining foreign technology, knowledge, managerial skills, and other important outputs, integrating into international marketing, distribution, and production networks, and improving the international competitiveness of firms and the economic performance of countries (UNCTAD, 2003).

In the last ten years, FDI inflows have played an important role in the growth of productivity, production, employment, and exports in Southeast European transition countries. Vinayagamoorthi (2016) proved that FDI stimulates the economic growth of developing countries through the transfer of new technologies and knowledge. In a similar study, Tsitouras and Nikas (2016) found a statistically significant positive relationship between FDI, exports, and economic growth.

Another very important economic consequence for the host country is the spillover effect, which includes various indirect effects that contribute positively to economic growth, employment growth through job creation, profits from the taxation of foreign investors, the transfer of technology, knowledge and skills, the modernization of production facilities, strengthening competition in the domestic market, more efficient integration of the country into the international economy, increasing consumption in the local economy, optimizing the allocation of resources, and improving corporate culture. (Merlevede, Schoors, & Spatareanu, (2014).

Governments need to consider what role they want inward FDI to play in their economies' development process and then design their FDI policies accordingly. Thus, broad policy objectives can attract particular investment that is in line with identified development objectives, i.e., to maximize the potential benefits of FDI.

However, attracting FDI is a major challenge for host countries as it brings the challenge of identifying the major factors that motivate and affect the decision for FDI location. Various policy tools are at their disposal to enhance the developmental impact of FDI. Some are general and aim to enhance the attractiveness of the business environment (e.g., policies

aimed at creating political and macro-economic stability and improving infrastructure and human resources, trade policy, science and technology policies, labor laws, etc.).

3 BUSINESS ENVIRONMENT IMPROVEMENT AND FDI IN WESTERN BALKAN COUNTRIES

A favorable investment climate is key to attracting FDI. A poor business environment negatively affects economic development and the attraction of FDI. Therefore, drafting an adequate strategy for attracting investors and/or foreign investors is a very important factor, and it is also relevant to know what their motives are for investing in the host country.

According to the OECD (2006), countries in transition have the potential to gain a competitive advantage in attracting FDI if they adopt policies, laws, and practices that support FDI standards. In this way, those countries with relatively low levels of FDI can significantly increase their share if they make additional efforts to achieve a positive business environment. Examples of good practices in attracting foreign investment can be seen in the Republic of Ireland, the Czech Republic, Estonia, and the Slovak Republic.

The motives for FDI largely depend on the characteristics of the country and the orientation of economic policy. When deciding on which country to invest in, multinationals are increasingly considering regulatory and institutional factors, whereas previous FDI decisions were motivated more by macroeconomic factors. Since 1990, there has been a sea change in host government attitudes toward incoming FDI, switching from suspicion and barriers to FDI to a more liberalizing and welcoming approach (Contractor, Nuruzzaman, Dangol, & Raghunath, 2021). However, the WB's data on the EDB index reveals that the degree of liberalization has been uneven across nations and different aspects or phases of FDI. For instance, some regulations affect entry and others affect the multinational's ability to appropriate profits once its affiliate is in operation in the country. Finally, in recent years, there has been greater emphasis on easing regulations regarding insolvency or divestment from a nation.

The most cited taxonomy of FDI motivation is proposed by Dunning (1993) and consists of four categories:

- Resource demand – the main goal of multinational companies is to acquire certain types of resources that are not available in the home country such as natural resources or raw materials.
- Market demand – multinational companies invest in a foreign country to take advantage of the opportunities offered by larger markets.

- Search for efficiency – First, companies take advantage of differences in the availability and cost of traditional factors in different countries. Second, companies take advantage of economies of scale, scope, and differences in consumer preferences and capabilities.
- Strategic asset search – this category can be considered separate, according to Dunning (1993), because the purpose of the investment is to acquire and supplement a new technological base instead of exploiting existing assets.

So, to design adequate strategies to attract FDI, the motives of foreign investors must be identified and compared with the opportunities in the country, and the business and investment climate must be improved. In principle, the business and investment climate provide a framework that allows foreign and domestic companies to operate and make a profit in the country in which they invest.

The investment environment is defined by the macroeconomic policy, including fiscal, monetary, and trade, as well as the country's infrastructure, state, and institutions. Other very important factors that are relevant to the investment environment are political stability, the rule of law, macroeconomic conditions, and environmental protection. The most important factors of political stability, according to the OECD (2006), are investment security, the protection and guarantee of investors' rights, legislative stability, transparency, the level of corruption, and a stable government.

Adopting laws that are compatible with the EU's Acquis Communautaire will greatly facilitate business in a country, as investors are well acquainted with international standards and law. It is also necessary to cooperate with foreign investors in the country to identify areas where business conditions need to be improved (e.g., government cooperation with the Foreign Investors Council and other business associations).

The WB has encouraged the improvement of the investment climate by supporting the implementation of business reforms through the DB project and improving business regulations and their enforcement in 190 economies, which can be measured each year.

3.1 DB indicators and the determinants of FDI inflow

The Doing Business report measures regulations that encourage or constrain business activity across 10 core areas or indicators in 190 economies (starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency). In principle, the DB indicators address improving the business environment, lowering business costs and taxes, and eliminating administrative and bureaucratic barriers in countries in transition. However, the DB methodology does not incorporate all areas that impact the business environment, and other areas that are important to a business, such as a

country's proximity to large markets, the quality of its infrastructure services, the transparency of government, procurement, macroeconomic conditions, financial market regulation, or the underlying strength of institutions, are not measured directly by DB indicators.

Table 2: World Bank's EDB indicators

1.	Starting a business	Procedures, time, cost, and paid-in minimum capital to start a limited liability company
2.	Dealing with construction permits	Procedures, time, and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system
3.	Getting electricity	Procedures, time, and cost to get connected to the electrical grid, the reliability of the electricity supply, and the transparency of tariffs
4.	Registering property	Procedures, time, and cost to transfer property, and the quality of the land administration system
5.	Getting credit	Movable collateral laws and credit information systems
6.	Protecting minority investors	Minority shareholders' rights in related party transactions and corporate governance
7.	Paying taxes	Payments, time, total tax, and contribution rate for a firm to comply with all tax regulations and post-filing processes
8.	Trading across borders	Time and cost to export products of comparative advantage and import auto parts
9.	Enforcing contracts	Time and cost to resolve a commercial dispute and the quality of judicial processes
10.	Resolving insolvency	Time, cost, outcome, and recovery rate for commercial insolvency, and the strength of the legal framework for insolvency

Adapted from WBG, (2020).

Selected Western Balkan countries have made progress in undertaking business reforms, and they have ranked quite well in the WB's DB reports. However, these improvements are not reflected in the increase in FDI inflow.

3.1.1 Republic of Albania

3.1.1.1 Business environment improvement

As seen in Table 4, over 10 years, Albania had very few changes in its overall DB ranking but did experience significant improvements from 2017–2019. In 2020, eight out of 10 DB indicators worsened, and getting electricity was the only area of improvement. Albania experienced a deep decline in the areas of protecting minority investors, dealing with construction permits, and enforcing contracts during this period. This resulted in a lower overall global rank compared to 2019, and it moved from 63rd down to 82nd (ranking the 190

economies from best to worst). Its position in resolving insolvency and registering property remained the same.

Table 3: Albania's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	82	53	166	107	98	48	111	123	25	120	39
2019	63	50	151	140	98	44	26	122	24	98	39
2018	65	45	106	157	103	42	20	125	24	120	41
2017	58	46	106	156	106	44	19	97	24	116	43
2016	97	58	189	162	107	42	8	142	96	37	42
2015	68	41	157	152	118	36	7	131	95	102	44
2014	90	76	189	158	119	13	14	146	85	124	62
2013	85	62	185	154	121	23	17	160	79	85	66
2012	82	61	183	154	118	24	16	152	76	85	64
2011	82	45	170	72	15	15	149	75	89		
2010	82	46	173	70	15	15	138	66	91		

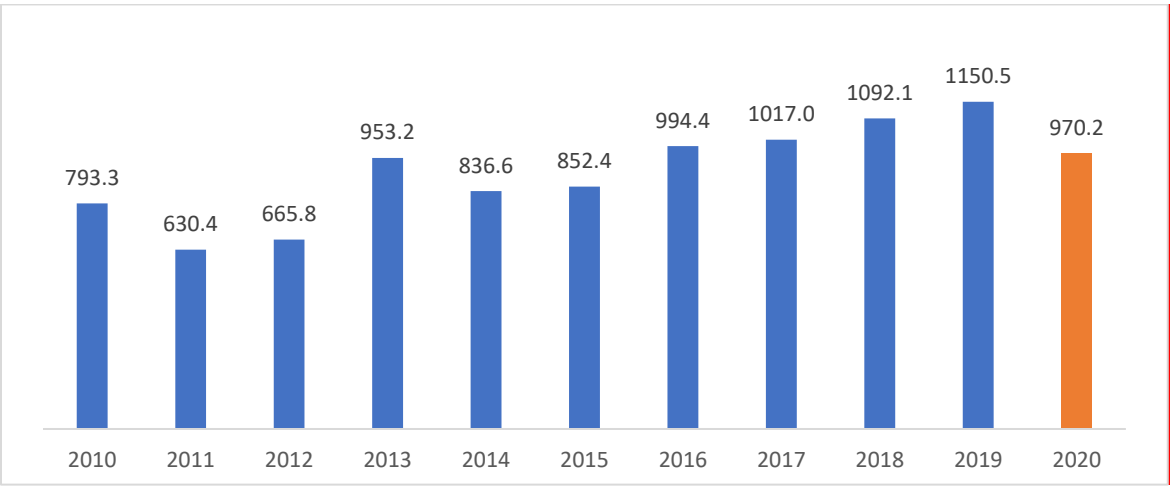
WBG, (2020).

Compared to last year's report, Albania's ranking has dropped, and it remains the weakest country in the Western Balkans region and Europe (along with Bosnia and Herzegovina [BiH]). This unsatisfactory DB ranking means that commitment to improving the business environment is increasingly crucial, not only in this marked area but in the overall performance of the investment climate, as this is a key element in attracting FDI to influence Albanian economic growth and reduce poverty. Albania requires regular structured surveys among entrepreneurs to identify key business trends and barriers, while also monitoring their development promptly to set the picture for policymakers.

3.1.1.2 FDI inflow

Albania has experienced a steady increase in FDI inflows over the past 10 years, with a marked increase every year from 2015 to reach the value of 1.15 billion EUR in 2019. In 2020, due to the pandemic, there was a slight decrease compared to the previous year.

Figure 3: FDI inflow to Albania 2010–2020 (million EUR)



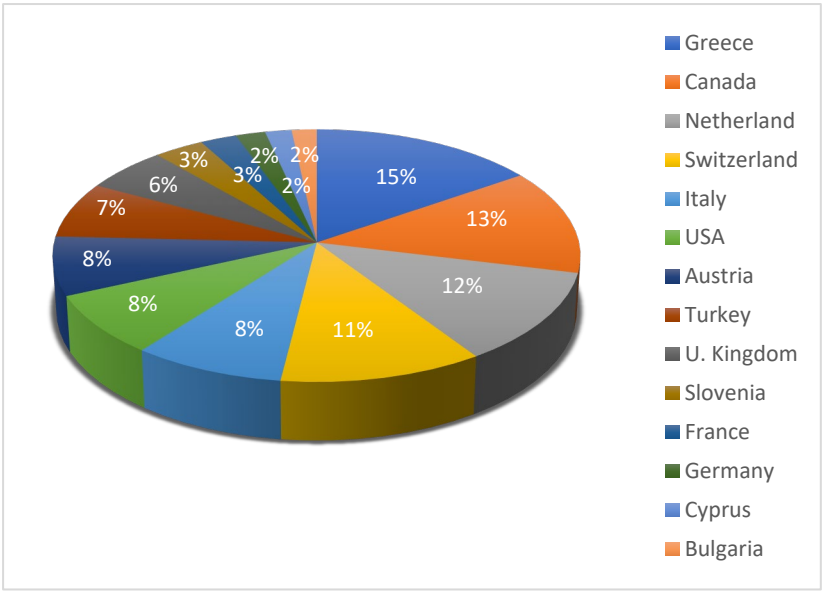
WIIW, (2020).

These investments are essentially in the oil, metal ore, infrastructure, construction, and telecommunications sectors. Investments are concentrated in extractive industries, the energy sector, banking and insurance, information and communication technology, and real estate.

At the end of 2020, FDI stock in the Albanian economy reached 9.95 billion EUR, which marks the highest historical value. FDI stock represents the level of direct investment at a certain time. In other words, FDI stock represents the value of assets owned by foreigners in the Albanian economy in the form of capital and net loans they have given to resident companies.

Figure 4: FDI inflow to Albania by country 2010–2020 (million EUR)

Greece	979.3
Canada	857.6
Netherlands	752.6
Switzerland	722.1
Italy	540.5
USA	497.0
Austria	478.7
Turkey	456.8
UK	363.2
Slovenia	216,1
France	158.5
Germany	128.3
Cyprus	114.4
Bulgaria	108.6



Bank of Albania, (2022).

Figure 4 represents the FDI stock by country from 2010–2020 in millions of euros. The highest stocks during this period were from Greece, Canada, the Netherlands, and Switzerland. According to the Bank of Albania, Greek investments in the country were focused mostly on the banking system, telecommunication, and manufacturing. The overwhelming majority of Canadian investments were represented by Bankers Petroleum, while Swiss investments were mainly in the energy sector, such as the Trans-Adriatic gas pipeline, and other investments included the Ballsh refinery. Investments from the Netherlands mostly came from the oil company Shell as well as from a series of concessionary companies (public–private partnerships).

Italy also represents an important element of the foreign investments benefitting Albania, and their investment stock from 2010–2020 exceeded five billion euros. Italian FDI dominated manufacturing, electricity, gas, water, construction, and other service sectors.

3.1.1.3 Promotion and attracting FDI

The Albanian Investment Development Agency (AIDA) is the entity responsible for promoting foreign investments in Albania. The agency focuses on enhancing the competitiveness of the private sector, strengthening the export potential of the country, promoting and/or supporting FDI in Albania, and promoting the country's tourism potential.

The Law on Strategic Investments stipulates that AIDA, as the Secretariat of the Strategic Investment Council, serves as a one-stop-shop for foreign investors, from filing application forms to granting the status of strategic investment/investor. AIDA undertakes all the necessary initiatives for improving the business climate, following and assisting foreign investors in all phases of their business activity through intervention and cooperation with government entities and other bodies.

Albania maintains a liberal foreign investment regime designed to attract FDI. The Law on Foreign Investment outlines specific protections for foreign investors and allows 100% foreign ownership of companies and foreign investors are entitled to expatriate their investments in full or as a contribution in kind.

To attract FDI and promote domestic investment, Albania approved a Law on Strategic Investments in 2015, which outlines investment incentives and offers fast-track administrative procedures to strategic foreign and domestic investors, depending on the size of the investment and the number of jobs created. To promote FDI, the government also passed legislation, creating technical economic development areas (TEDAs) like free trade zones (FTZs) (U.S. Department of State, 2020).

Challenges

Albanian state authorities are taking measures and making significant reforms to improve the business climate in the country and encourage FDI inflow, yet challenges remain; for example, corruption, bureaucracy, property issues, a weak and slow judicial system, poor contract enforcement, tax burdens, and a lack of infrastructure.

3.1.2 Bosnia and Herzegovina

3.1.2.1 Business environment improvement

According to the WB's 2020 DB report, BiH is among the least attractive business environments in Southeast Europe, with a ranking of 90 out of 190 global economies. The WB report ranks BiH particularly low for its lengthy and arduous processes to start a new business (ranked 184th) and obtain construction permits (ranked 173rd). Both of these issues have impacted its low ranking in the WB's DB report.

Table 4: BiH's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	90	184	173	75	96	67	88	141	27	93	37
2019	89	183	167	130	99	60	72	139	37	75	37
2018	86	175	166	122	97	55	62	137	37	71	40
2017	81	174	170	123	99	44	81	133	36	64	41
2016	79	175	171	119	97	42	66	154	66	28	38
2015	107	147	182	163	88	36	83	151	104	95	34
2014	131	174	175	164	96	73	115	135	107	115	77
2013	126	162	163	158	93	70	100	128	103	120	83
2012	125	162	163	157	100	67	97	110	108	125	80
2011	110	160	139	103	65	93	127	71	124		
2010	116	160	136	139	61	93	128	63	124		

WBG, (2020).

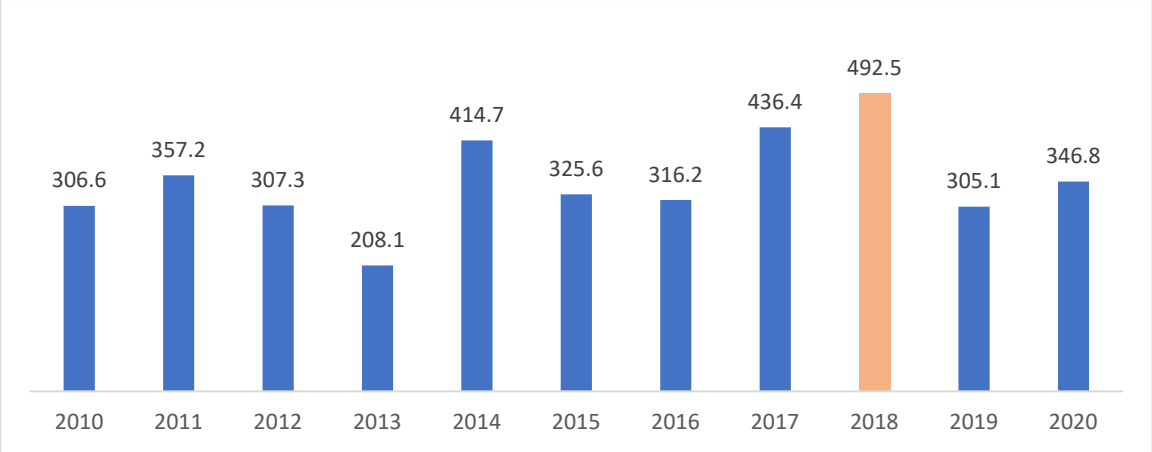
BiH was best placed in the trading across borders indicator (27th position), where there was an improvement of 10 places compared to last year's position of 37th place. In the area of resolving insolvency, it maintained last year's 37th position, and in getting credit, BiH ranked 67th (ranked 60th in the previous report). In areas that are very important for foreign investors, such as the protection of minority investors, BiH ranked 88th (previously 72nd), and in the field of contract enforcement, it ranked 93rd on the global list (previously 75th).

Certainly, the reasons for BiH's low ranking are mainly political in nature because of political instability and numerous political and security risks. These risks deter investors from investing in a country that has minimal institutional guarantees for the protection and development of businesses as a result of permanent conflicts between institutions at local, regional, and central levels.

3.1.2.2 FDI inflow

Economic reforms to complete BiH's transition from a socialist past to a market-oriented future have proceeded slowly, and the country has a relatively low level of FDI. Figure 5 shows that the FDI trend from 2010 to 2020 fluctuates. The highest amount of FDI was recorded in 2018 with 492.5 million EUR, which is 12.8% higher than in 2017. FDI in 2019 was 305.1 million EUR, with a decrease of 61.9% compared to 2018. The annual average inflow of FDI was 346 million EUR.

Figure 5: FDI inflow to BiH 2010–2020 (million EUR)



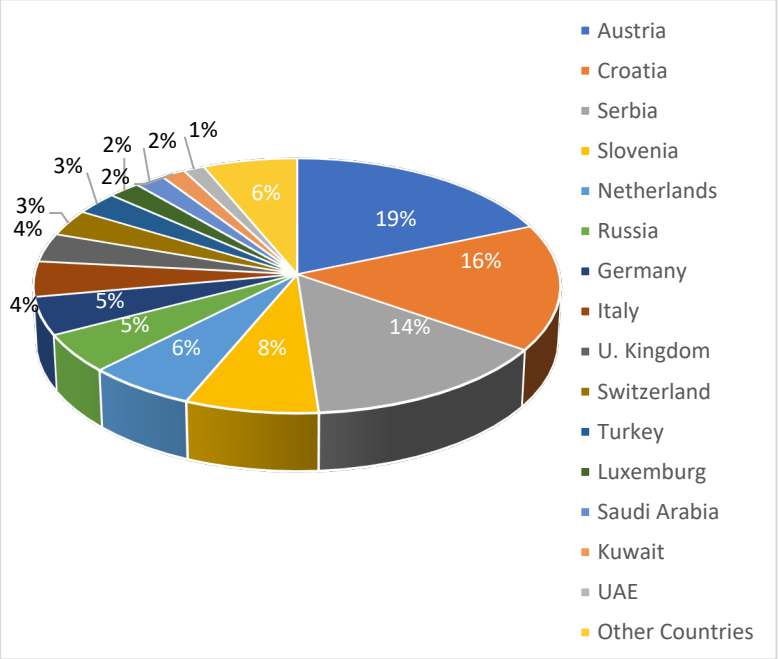
WIIW, (2020).

After the decline in 2019, 2020 marked a positive increase in FDI by 13.4%. According to the Foreign Investment Promotion Agency of Bosnia and Herzegovina Investment inflows could be considered as positive, related to the deep global recession that has affected the ability of foreign investors. However, it should be noted that the majority of investments were reinvested earnings from existing companies with foreign investment, while investments in the form of ownership shares were much lower. (FIPA 2022)

According to the same Agency (FIPA), the manufacturing sector achieved the highest level of FDI at 35%, while around 25% of investment went to the banking sector. Telecommunications and trade had 12%, services had 5%, real estate had 4%, with other activities at 3%. The largest share of FDI inflow is from Austria, Croatia, the Serbia, Slovenia, and Russia.

Figure 6: Total FDI inflow to BiH by country by the end of 2020 (million EUR)

Austria	1,360
Croatia	1,172
Serbia	1,035
Slovenia	550
Netherlands	445
Russia	361
Germany	351
Italy	327
UK	267
Switzerland	245
Turkey	211
Luxemburg	158
Saudi Arabia	144
Kuwait	120
UAE	103
Other countries	460



BiH FIPA, (2022).

Figure 6 shows the FDI inflow into BiH from different countries from 1994–2020. Some of the foreign companies that have invested in BiH include Arcelor Mittal, Asamer Baustoffe, Coca-Cola, Gazprom, Heidelberg Cement, Henkel, Intesa Sanpaolo, Lactalis, MANN + HUMMEL, Meggle, Natron -Hayat, PepsiCo, Raiffeisen, Sberbank, UniCredit, Veritas, and Volkswagen, among others.

3.1.2.3 Promotion and attracting FDI

BiH (and other countries) try to attract FDI through the State Foreign Investment Policy. FIPA was established as a state agency whose mission is to attract and maximize the flow of FDI into BiH and encourage existing foreign investors to further expand and develop their businesses in BiH. Various measures have been undertaken, including laws (profit transfer and investment transfer are free), free economic zones (no VAT or import duties on equipment that will be used for production), adaptation of various financial and non-financial incentives, bilateral investment conventions, and encouraging investment through the Investment Promotion Agency. However, up to now, it has failed to increase FDI interest.

In the past three years, the BiH government has not conducted an investment policy review through the OECD, the World Trade Organization (WTO), or UNCTAD (U.S. Department of State, 2020). BiH is considered an unfavorable destination for FDI mainly because of endemic corruption, complex legal and regulatory frameworks and government structures, non-transparent business procedures, insufficient protection of property rights, and a weak judicial system. The political system in BiH was and continues to be complex, reflecting the

provisions of the country's constitution established as part of the Dayton Accords at the end of the war in 1995. The general government comprises four levels: the BiH (or central) level, the two entities of the Federation of Bosnia and Herzegovina (FBiH) and Republika Srpska (RS), and the Brcko District, with a multi-tiered legal and regulatory framework that can be duplicative and contradictory.

Policy cooperation and coordination, the harmonization of business procedures, and more effective investment promotion efforts are essential for BiH to unlock its untapped potential to attract FDI and help the country achieve its development goals (UNCTAD 2015). European Commission and Group of States against Corruption (GRECO) assessments have repeatedly issued recommendations that BiH do more to curb corruption, a precondition to its accession to the EU.

3.1.3 Republic of Kosovo

3.1.3.1 Business environment improvement

Kosovo was ranked 57th in the WB's 2020 DB report, and it seems that the country is continuing the reform process to improve its business environment. According to the report, Kosovo has reached plus (+) 2.2% in facilitating business and has made progress in seven out of 10 indicators in total.

Progress in these areas has meant that Kosovo is recognized by the WB as one of the 20 most reformed countries in the 2020 DB report.

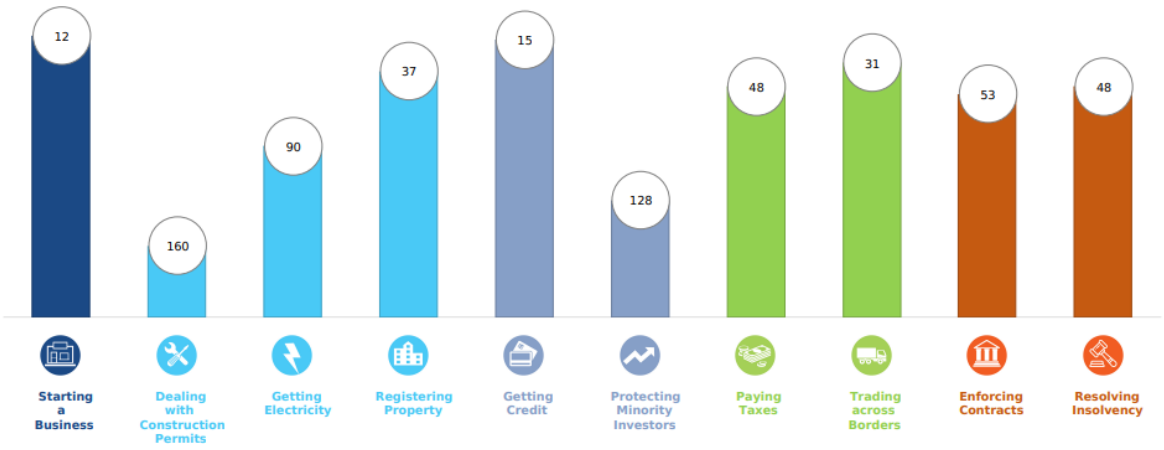
Table 5: Kosovo's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	57	12	160	90	37	15	128	48	31	53	48
2019	44	13	100	113	37	12	95	44	51	50	50
2018	40	10	122	106	34	12	89	45	48	49	49
2017	60	13	129	114	33	20	63	43	51	44	163
2016	66	47	136	124	32	28	57	67	48	71	163
2015	75	42	135	112	34	23	62	63	118	138	164
2014	86	100	136	121	58	28	98	43	121	138	83
2013	98	126	144	116	76	23	100	44	124	138	87
2012	117	168	171	124	73	24	174	46	131	157	31
2011	119	163	173	65	32	173	41	130	155		
2010	113	164	176	68	43	172	50	132	157		

WBG, (2020).

Figure 8 shows Kosovo's 2020 WB DB report assessment for the 10 indicators. Its worst ranks are dealing with construction permits (160th) and protecting minority investors (128th).

Figure 7: Kosovo's business indicator ranking in 2020

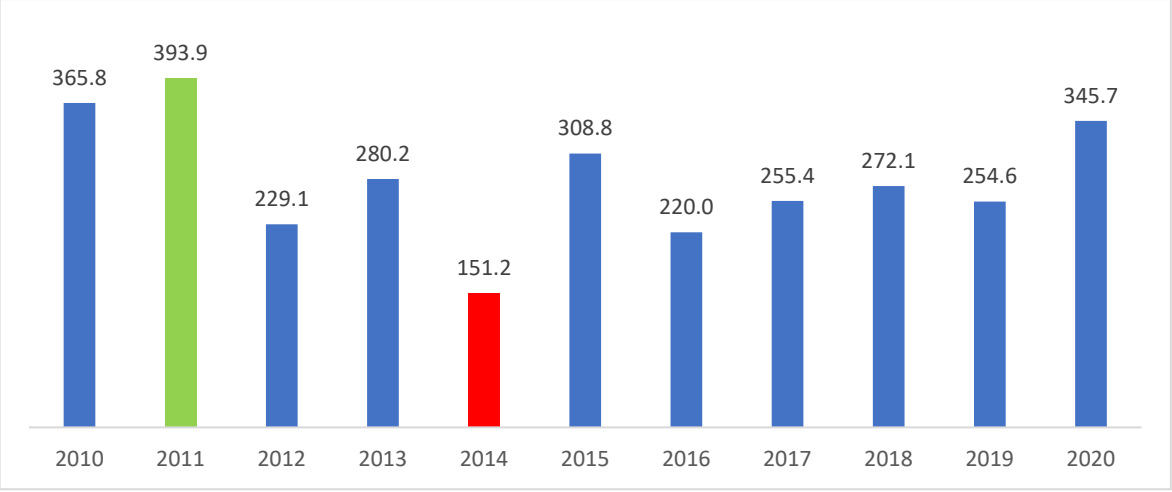


World Bank, (2020).

3.1.3.2 FDI inflow

The highest amount of foreign investment in Kosovo was 393.9 million EUR in 2011, while the lowest was only 151 million EUR in 2014. As seen in Figure 9, in 2015, FDI in Kosovo amounted to 308.8 million EUR, which is a significant increase compared to the previous year. In 2016, 2017, and 2018 there was a slight increase, and in 2020, despite the pandemic, there was an increase compared to the previous year, thanks to the completion of energy projects launched in previous years.

Figure 8: FDI inflow to Kosovo 2010–2020 (million EUR)

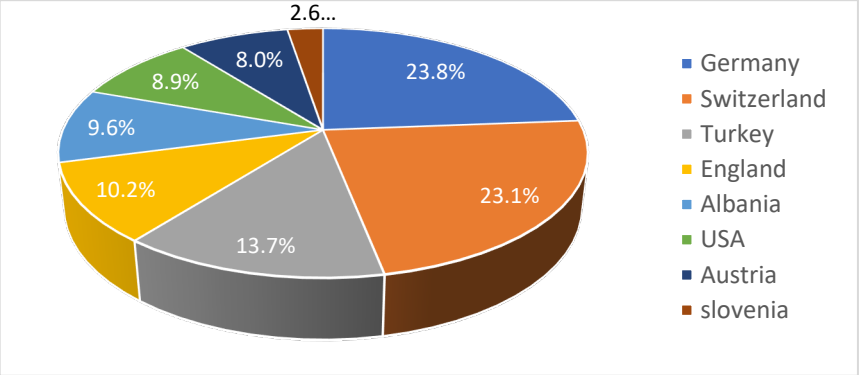


Central Bank of the Republic of Kosovo, (2022).

As presented in Figure 10, from 2010–2020, FDI inflow to Kosovo was mainly from Germany, Switzerland, Turkey, England, Albania, the USA, Austria, and Slovenia.

Figure 9: FDI inflow to Kosovo by country 2010–2020 (million EUR)

Germany	583.3
Switzerland	567.9
Turkey	336.2
England	251.3
Albania	236.3
USA	219.5
Austria	196.3
Slovenia	63.7



Central Bank of the Republic of Kosovo, (2022).

In the observed period, the real estate sector led FDI with over 1.5 billion EUR, while financial and insurance activities brought in 394.7 million EUR, construction brought in 308.4 million EUR, manufacturing brought in 182.7 million EUR, and electricity brought in 137.2 million EUR. However, the structure of FDI inflow is not favorable because the sectors that create new jobs and increase exports are of low value.

3.1.3.3 Promotion and attracting FDI

Based on the WB report in 2020, Kosovo is moving closer to the best standards of business regulation, but the ranking also shows that reforms need to move faster for Kosovo to be more competitive.

Kosovo has a law that protects foreign investors:

> The purpose of this law is to protect, promote and encourage foreign investment in the Republic of Kosovo, to provide foreign investors with a set of fundamental rights and guarantees that will ensure foreign investors that their investments will be protected and treated with fairness in strict accordance with the accepted international standards and practices. (Law No. 04/L-220 on Foreign Investment, Article 1)

The Kosovo Investment and Enterprise Support Agency (KIESA) was established, and together with the National Council for Economic Development (NECD), the Inter-Ministerial Commission for Strategic Investments, and the European Investors Council (EIC), these institutions are responsible for promoting and supporting the investment climate in Kosovo and assisting in the development of adequate policies and actions to support foreign investors.

The Stabilization and Association Agreement (SAA) and the Central European Free Trade Agreement (CEFTA) have also been signed. In this regard, agreements have been signed with some countries for double taxation; however, FDI inflow in Kosovo is extremely low, foreign companies are unwilling to invest, and foreign investors do not have positive perceptions about investing.

Challenges

Foreign investors' low interest in investing in Kosovo is mainly because of the country's limited international integration, political instability, corruption, the largely informal economy, and weak rule of law.

3.1.4 Montenegro

3.1.4.1 Business environment improvement

Montenegro took 50th place on the list of 190 countries ranked using EDB criteria. Compared to 2019, Montenegro increased its rating by 1.07 points and maintained the same rank (Doing Business report, 2020). Out of the countries in the region, the following countries are ranked better than Montenegro: North Macedonia (17), Slovenia (37), and Serbia (44). The countries with a lower rating are Kosovo (57), Albania (82), and Bosnia and Herzegovina (90).

Table 7 shows that Montenegro improved its WB EDB ranking during these 10 years, from 71st in 2010 to 66th in 2011, and it has continued to improve in the following years.

Table 6: Montenegro's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	50	101	40	134	83	15	61	75	41	44	43
2019	50	90	75	134	76	12	57	68	47	44	43
2018	42	60	78	127	76	12	51	70	44	12	37
2017	51	58	93	167	78	7	42	57	43	41	40
2016	46	59	91	163	79	7	36	64	43	42	36
2015	36	56	138	63	87	4	43	98	52	136	33
2014	44	69	106	69	98	3	34	86	53	136	45
2013	51	58	176	69	117	4	32	81	42	135	44
2012	56	47	173	71	108	8	29	108	34	133	52
2011	66	51	161	116	32	28	139	34	135		
.2010	71	85	160	131	43	27	145	47	133		

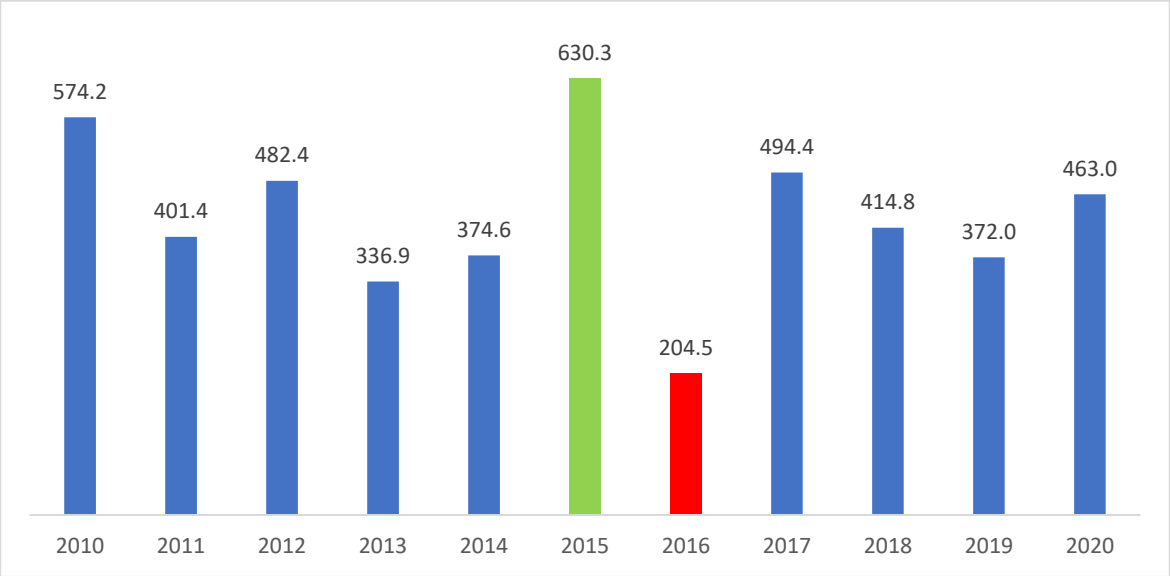
WBG, (2020).

In 2020, the WB EDB indicators suggest that Montenegro improved its ranking for dealing with construction permits and trading across borders. However, lower rankings were observed for starting a business (dropped 11 positions), paying taxes (dropped seven positions), getting credit (dropped three positions), and protecting minority investors (dropped five positions). Compared to the previous report, Montenegro had a lower ranking in the area of registering property and was ranked 83 (76th last year).

3.1.4.2 FDI inflow

Despite the coronavirus pandemic in 2020, 463 million EUR of FDI went into Montenegro. The highest inflow of FDI recorded during 2010–2020 was in 2015, with 630.3 million EUR (Figure 11), while the lowest was in 2016 with only 204.5 million EUR.

Figure 10: FDI inflow to Montenegro 2010–2020 (million EUR)



Central Bank of Montenegro, (2022).

The largest foreign investors in Montenegro in 2020 were Russians, the Chinese, and the Swiss. In total, NATO members invested the most money, with 230 million EUR. Individually, Russia was convincingly in the lead in terms of investment, with 99 million EUR invested in 2020. This was followed by China with investments worth 71 million EUR and Switzerland with just over 63 million EUR. The inflow of FDI from Italy amounted to 45 million, the U.S. invested 29.4 million, the United Arab Emirates invested 28 million, and Serbia invested 27.8 million EUR. Investments from Germany amounted to 26 million EUR, while Turkey and the Netherlands invested 18 million EUR each.

Researchers at the Vienna Institute for International Economic Studies (WIIW.2020) point out that the COVID-19 pandemic has caused severe damage to the Montenegrin economy, largely due to the country's reliance on its tourism sector. Indeed, the pandemic's strong

second wave resulted in the worst tourist season in history. When tourism fails, it has serious consequences for employment and private consumption.

3.1.4.3 Promotion and attracting FDI

Montenegro regained its independence in 2006, and since then, the country has adopted an investment framework that, in principle, encourages growth, employment, and exports. Montenegro's economy is based on three sectors, with the government largely focusing its efforts on developing tourism, energy, and agriculture.

To better promote investment and foster economic development, in December 2019, the government adopted a new Law on Public–Private Partnerships and established the Montenegrin Investment Agency (MIA) by merging the Montenegrin Investment Promotion Agency (MIPA) and the Secretariat for Development Projects. The MIA seeks to promote Montenegro as a competitive investment destination by facilitating investment projects in the country.

In general, no distinctions are made between domestic and foreign-owned companies. Foreign companies can own 100% of a domestic company, and profits and dividends can be repatriated without limitations or restrictions. Foreign investors can participate in local privatization processes and can own land in Montenegro on the same general terms as locals.

The Montenegrin government offers financial incentives to investors based on the value of their investment. Both Montenegrin and foreign entities or investors can benefit from these investment incentives.

In 2004, Montenegro adopted the Law on Free Zones, which offers businesses benefits and exemptions from custom duties, taxes, and other duties in specified FTZs. Port of Bar is currently the only FTZ in Montenegro. All free zone users benefit from the law and other regulations, such as importing goods free of customs duties, customs fees and VAT, the storage of goods in a duty-free regime for an unlimited time, low corporate tax, and simplified procedures.

According to the Montenegro Foreign Investors Council, the economy in Montenegro will continue to be strongly influenced by investments in the coming years. Therefore, it is of particular importance for the new government to continue implementing effective measures within its rule of law and legal protection as well as improving economic conditions and the business climate (MFIC, 2020).

Challenges

Corruption and the perception of corruption are significant problems in Montenegro's public and private sectors. Corruption is routinely placed high on the list of citizens' concerns in opinion polls in addition to the risks cited by foreign investors.

3.1.5 Republic of North Macedonia

3.1.5.1 Business environment improvement

In recent years, the World Bank's DB study of the business environment has considered North Macedonia as one of the top reformers in terms of EDB. The following 10-year statistical rankings on DB demonstrate North Macedonia's success from 2010 while also showing its improvements from 2016 when it ranked 12th place. Further success for North Macedonia was achieved in 2019 when it reached 10th place in the top-ranking economies. In 2020, the WB's DB report ranked North Macedonia in 17th place for doing business, down seven spots from the previous year.

Table 7: North Macedonia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	17	78	15	69	48	25	12	36	32	47	30
2019	10	47	13	57	46	12	7	31	29	37	30
2018	11	22	26	53	48	12	4	29	27	35	30
2017	10	4	11	29	48	16	13	9	27	36	32
2016	12	1	10	45	50	42	14	7	26	26	37
2015	30	3	89	88	74	36	21	7	85	87	35
2014	25	7	63	76	84	3	16	26	89	95	52
2013	23	5	65	101	50	23	19	24	76	59	60
2012	22	6	61	121	49	24	17	26	67	60	55
2011	38	5	136	69	46	20	33	66	65		
2010	32	6	137	63	43	20	26	62	64		

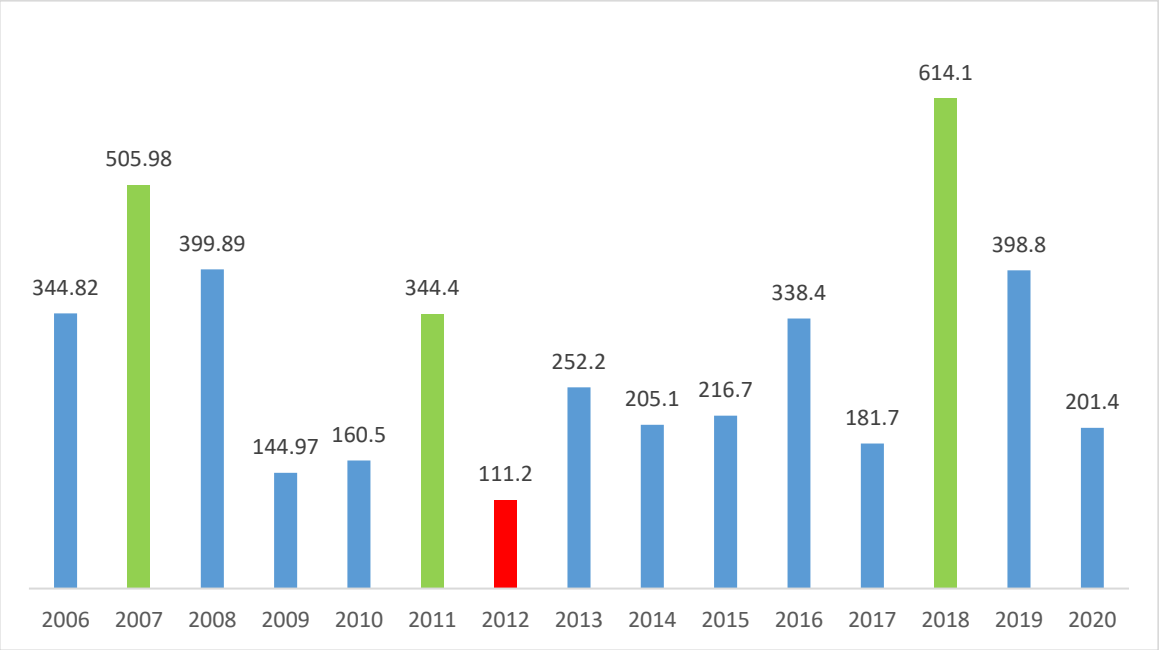
WBG, (2020).

3.1.5.2 FDI inflow

North Macedonia has pursued an aggressive policy of attracting foreign investment since 2006 when the government invested millions of euros in promoting foreign investment, free economic zones, and other benefits for foreign investors. Figure 12 demonstrates that in the period 2006–2020, the best years of investments were 2007, 2011, and 2016, while the peak of investments was reached in 2018. The first increase in FDI was recorded in 2007, with 507 million EUR.

In 2007, the first foreign companies were established in economic zones, followed by foreign investments that came from the privatization of state-owned manufacturing companies and the energy sector. During 2011 and 2016, economic zones expanded by encouraging investors via various subsidies for certain forms of cash benefits depending on the amount of their investments.

Figure 11: FDI inflow to North Macedonia 2010–2020 (million EUR)

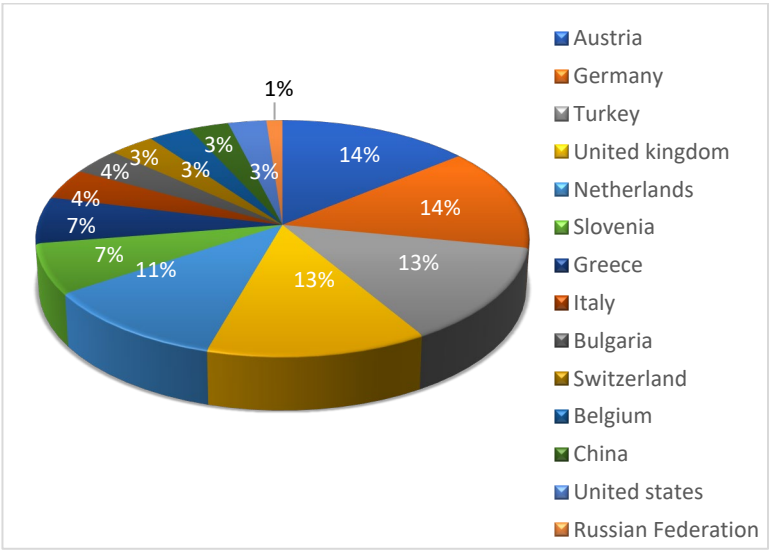


National Bank of the Republic of North Macedonia, (2022).

As seen in Figure 13, FDI comes mostly from Europe, and Austria, Slovenia, the Netherlands, the UK, Germany, and Turkey occupy the top spots for the value of their investments. In terms of investment activities, foreign investments are mainly concentrated in sectors that include vehicle part production, electricity, mining, construction, and trade. Some of the most popular companies in North Macedonia are Jonson Controls and Jonson Meti from the USA, Dreksmaer, Markart, and Kostal from Germany, and Kondevo and Dijatek from Italy, among others.

Figure 12: FDI inflow to North Macedonia by country 2010–2020 (million EUR)

Austria	365.14
Germany	363.69
Turkey	344.3
UK	339.22
Netherlands	291.14
Slovenia	177.09
Greece	165.24
Italy	108.24
Bulgaria	94.03
Switzerland	86.53
Belgium	80.77
China	75.75
USA	72.63
Russia	30.37



National Bank of the Republic of North Macedonia, (2022).

3.1.5.3 Promotion and attracting FDI

Attracting FDI is one of the government's main pillars of economic growth and job creation. North Macedonia is now a NATO member and has been invited to begin EU accession negotiations, which will foster increased FDI and economic growth.

North Macedonia continues to take steps to attract FDI, and the country maintains a relatively permissive regulatory framework, as its institutions treat foreign investors and domestic business interests equally under similar circumstances. In 2019, several countries and foreign companies announced investments in the free economic zones known as technological industrial development zones (TIDZ).

The Macedonian government's Economic Growth Plan has been in force since 2018, and it offers significant incentives for foreign companies operating in 15 free economic zones. Incentives include a range of measures such as job creation subsidies, capital investment subsidies, and financial support for exporters. Three government ministers and multiple agencies promote North Macedonia as an investment destination. Invest North Macedonia is the agency for foreign investments and export promotion and is the primary government institution in charge of facilitating foreign investments. It works directly with potential foreign investors and provides detailed explanations and guidance for registering a business in North Macedonia, analysis of potential industries and sectors for investing, information on business regulations, and publishes reports about the domestic market.

However, despite these measures, corruption remains prevalent in many areas and continues to be a serious problem The institutional capacity to effectively tackle corruption has shown structural and operational deficiencies, and political interference remains a risk. The government generally enforces laws, but numerous reports suggest that some officials remain engaged in corrupt activities (Europe Commission Report, 2020).

3.1.6 Republic of Serbia

3.1.6.1 Business environment improvement

Serbia improved four places in 2020 on the WB's DB index and is now ranked 44th globally. Although considerable improvements have been made in the areas of protecting minority investors, dealing with construction permits, and resolving insolvency, Serbia's position slightly declined in the area of tax payments compared to the 2019 report, and the country is now ranked 85th. Tax payments, obtaining electricity access, and starting a business are the three worst-ranked areas.

Table 8: Serbia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	44	73	9	94	58	67	37	85	23	65	41
2019	48	40	11	104	55	60	83	79	23	65	49
2018	43	32	10	96	57	55	76	82	23	60	48
2017	47	47	36	92	56	44	70	78	23	61	47
2016	59	65	139	63	73	59	81	143	73	23	50
2015	91	66	186	84	72	52	32	165	96	96	48
2014	93	45	182	85	44	42	80	161	98	116	103
2013	86	42	179	76	41	40	82	149	94	103	103
2012	92	92	175	79	39	24	79	143	79	104	113
2011	89	83	176	100	15	74	138	74	94		
2010	88	73	174	105	4	73	137	69	97		

WBG, (2020).

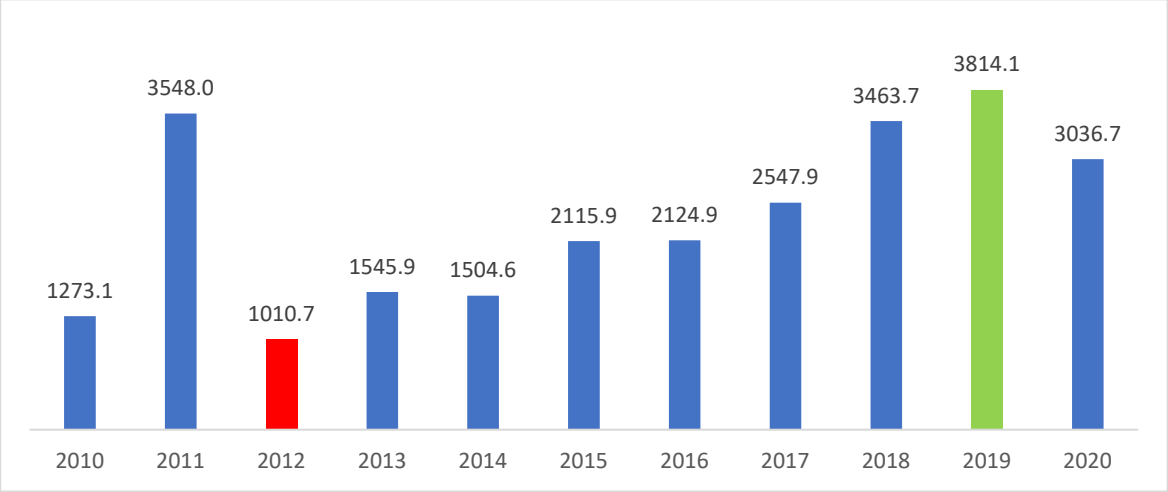
Improvements in DB in Serbia have been noticeable, especially from 2015–2020, when it rose up the rankings from 90th in 2015 to 44th in 2020.

3.1.6.2 FDI inflow

From 2010–2020, Serbia recorded more than 25 billion EUR in FDI. After a record inflow of 3.8 billion EUR in 2019, a significant inflow to Serbia continued throughout 2020, even during the pandemic. According to the National Bank of Serbia, most of the FDI in 2020 came from the Netherlands (705.5 million EUR), Slovenia (483.3 million EUR), China, including Hong Kong (478.9 million EUR), Germany (331.9 million EUR), Austria (153.4 million EUR), and the UK (106.4 million EUR).

In the last ten years (from 2011 to 2020), FDI inflows to Serbia cumulatively amounted to 24.7 billion EUR, of which the largest investments were from the Netherlands (4.2 billion EUR), Austria (2.6 billion EUR), the Russian Federation (2.2 billion EUR), China, including Hong Kong and Taiwan (2.1 billion EUR), and Luxembourg (1.9 billion EUR).

Figure 13: FDI inflow to Serbia 2010–2020 (million EUR)



National Bank of Serbia, (2022).

A list of leading foreign investors is topped by world-class companies that include Bosch, Michelin, Siemens, ZF, Panasonic, NCR, Microsoft, Gorenje, Brose, Continental, Magna, Cooper Tires, Johnson Controls, Johnson Electric, Leoni, Fiat Chrysler Automobiles, Yazaki, Eaton, Stada, Swarovski, Aunde, Calzedonia, Mei Ta, Schneider Electric, Geox, Tarkett, Ling Long, Adient, Minth, Toyo Tires, MTU, and Barry Callebaut, among others.

Serbia's strong FDI track record is substantiated by internationally recognized awards. The country was ranked first in the FDI 2019 Europe list, based on the criteria of greenfield investments relative to the size of the economy (Greenfield FDI Performance Index, 2019). The implementation of a large number of greenfield projects in the region is considered a form of high-quality FDI. Greenfield investments are a form of FDI where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. The number of greenfield projects in Serbia during 2018 was 157, there were 114 projects in 2019, and 39 projects in 2020.

3.1.6.3 Promotion and attracting FDI

Serbia's investment climate has been modestly improving in recent years, driven by macroeconomic reforms, greater financial stability, improved fiscal discipline, and an EU accession process that provides the impetus for legal changes that improve the business environment. Attracting foreign investment remains an important priority for the Serbian government. The Development Agency of Serbia is a government organization dedicated to facilitating and implementing direct investments, promoting and increasing exports, and improving the competitiveness of the Serbian economy. It also focuses on improving the reputation and the economic and regional development of Serbia. The 2015 Law on Investment defines Serbia's investment incentives program, and incentives are available to both domestic and foreign investors.

Serbia maintains 15 designated customs-free zones. Businesses operating within these zones are subject to the same laws and regulations as other businesses in Serbia but benefit from tax privileges. These benefits include unlimited duty-free imports and exports, preferential customs treatment, and tax relief in the form of value-added tax (VAT) exclusions. Serbia is undertaking an extensive legislative amendment process aimed at harmonizing its laws with those of the EU's Acquis Communautaire, which has created a legal and regulatory environment more consistent with international norms.

Serbia is a member of the CEFTA along with Albania, Bosnia and Herzegovina, Macedonia, Moldova, Montenegro, and Kosovo. It also enjoys a free-trade status for almost all products exported to the EU Customs Union.

Challenges

Despite notable progress in Serbia, challenges remain, particularly regarding bureaucratic delays and corruption. Other risks to the investment climate include unresolved loss-making state-owned enterprises (SOEs), a large informal economy, and an inefficient judiciary. Political influence on the decisions of nominally independent regulatory agencies is also a concern (U.S. Department of State, 2020).

3.1.7 Republic of Slovenia

3.1.7.1 Business environment improvement

Slovenia ranks 37th out of 190 economies in terms of EDB indicators in the WB's DB report 2020, having moved up three places from 2019. This year, Slovenia has ranked better than Portugal, Poland, the Czech Republic, the Netherlands, and Slovakia.

Table 9: Slovenia's EDB ranking 2010–2020

DB year	Global rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency
2020	37	40	119	23	54	119	18	45	1	112	8
2019	40	38	120	23	56	112	30	41	1	110	9
2018	37	46	100	19	36	105	24	58	1	122	10
2017	30	49	80	16	34	133	9	24	1	119	12
2016	29	18	71	35	36	126	7	35	117	1	12
2015	51	15	90	31	90	116	14	42	53	122	42
2014	33	38	59	32	83	109	14	54	48	52	41
2013	35	30	61	31	83	104	17	63	57	56	42
2012	37	28	81	27	79	98	24	87	50	58	39
2011	42	28	63	97	116	20	80	56	60		
2010	53	26	59	108	87	20	84	84	60		

WBG, (2020).

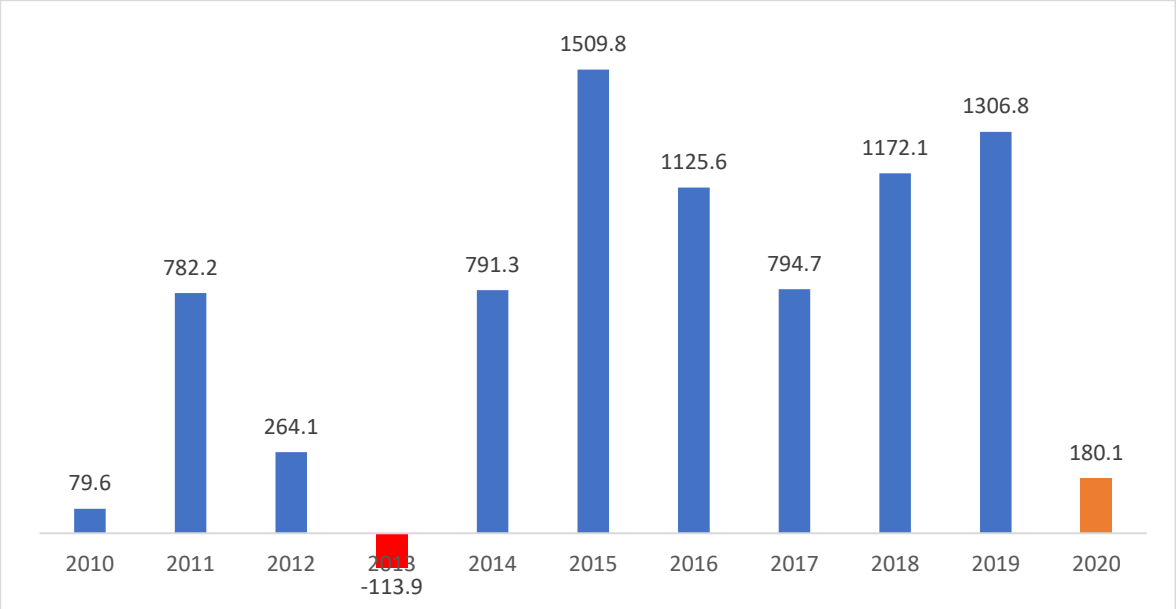
The biggest improvement for Slovenia was in the area of protecting minority investors, and it also holds the highest ranking among all countries for trading across borders. Slovenia maintained its high position for obtaining electrical energy, improved its ranking concerning company registration, and it still has the lowest expense for company registration.

3.1.7.2 FDI inflow

According to statistics from the Bank of Slovenia, the stock of inward FDI in Slovenia amounted to 16.6 billion EUR at the end of 2020, and there were no major notable transactions in 2020, largely due to the COVID-19 health crisis.

Figure 15 shows that the highest FDI was in 2015, with a value of 1.5 billion EUR, and the second-highest FDI was in 2019 at a value of 1.3 billion EUR. FDI fell significantly in 2020 due to the COVID-19 pandemic. The majority of FDI stocks came from Austria, Luxembourg, Switzerland, Germany, and Italy, which together accounted for almost two-thirds of all inward FDI in value terms at the end of 2020.

Figure 14: FDI inflow to Slovenia 2010–2020 (million EUR)



The Bank of Slovenia, (2022).

Germany holds the majority of indirect investments in Slovenia via Austrian subsidiaries, while the U.S. is also an important investor, with the majority of the investments being held indirectly via subsidiaries in Luxembourg, Sweden, Germany, and Switzerland. The largest FDI in domestic firms by foreign investors were in manufacturing, wholesale and retail trade, motor vehicle and motorcycle repair, financial and insurance activities, and real estate activities.

From 2014–2020, under the Investment Plan for Europe Program of the European Fund for Strategic Investments, projects were started in the energy sector, rail infrastructure, and a regional center of sewage treatment and waste. The country has a strategic location by the Adriatic Sea, along with developed infrastructures and a well-educated workforce. Slovenia is also a significant investor outside its borders, and the stock of Slovenian outward FDI amounted to 7 billion EUR at the end of 2020. The majority of Slovenia's outward investments are in the Western Balkans. Croatia is the most popular destination for Slovenian outward investment, constituting 34.5% of Slovenia's investments abroad, followed by Serbia (13.9%), Bosnia and Herzegovina (8.7%), Russia (6.8%), and 6.3% in North Macedonia (U.S. Department of State, 2020).

3.1.7.3 Promotion and attracting FDI

Although Slovenia has no formal business roundtable or foreign investment ombudsman, the Slovenian Public Agency for the Promotion of Entrepreneurship, Innovation, Development, Investment and Tourism (SPIRIT) promotes FDI and advocates for foreign investors. Its mission is to enhance Slovenia's economic competitiveness through technical and financial assistance to entrepreneurs, businesses, and investors (U.S. Department of State, 2020).

According to SPIRIT's annual survey on foreign investors' perceptions of Slovenia's business environment, investors cite the high quality of Slovenia's labor force as the deciding factor in choosing the country as an investment destination, followed by widespread knowledge of foreign languages, employees' technical expertise, innovation potential, and strategic geographic position offering easy access to the EU and Balkan markets.

In 2018, the National Assembly passed Slovenia's Investment Promotion Act, defining the types of incentives, criteria, and procedures to promote long-term investment in Slovenia. The act establishes that domestic and foreign investors are equal and mandates priority treatment of strategic investments, defined as investments totaling 40 million EUR or more and creating 400 new jobs in manufacturing and services.

In Slovenia, the only FTZ is the port of Koper. According to the Slovenian Customs Act, those trading in FTZs are not required to pay customs duties and are not subject to any additional trade policy measures until the goods are brought into free circulation. Slovenia has signed several bilateral investment treaties.

State-owned and partially state-owned enterprises are present across most industries in Slovenia. The state has never undergone a wholesale privatization program and has retained significant ownership shares in many large companies since its independence. According to a US Department of State 2020, 37 companies with a total value of USD 12.5 billion and employing 47,000 people were majority state-owned. Most SOEs are in the energy, transportation, public utilities, telecommunications, insurance, and financial sectors. In

general, SOEs do not receive a greater share of contracts or business than private-sector competitors in sectors that are open to private and foreign competition.

3.2 **Benchmarks**

All of the Western Balkan countries have made progress and/or improved their DB rankings, with significant improvements observed throughout 2010–2020. During this period, North Macedonia has made substantial advancements, ranking in top positions in the WB's DB indicators. Table 11 demonstrates that only BiH has not significantly improved in the WB DB indicators among the Western Balkan countries, while Albania has not had major oscillations and maintained its position around 80th for the past few years; however, 2017–2019 marked significant improvements.

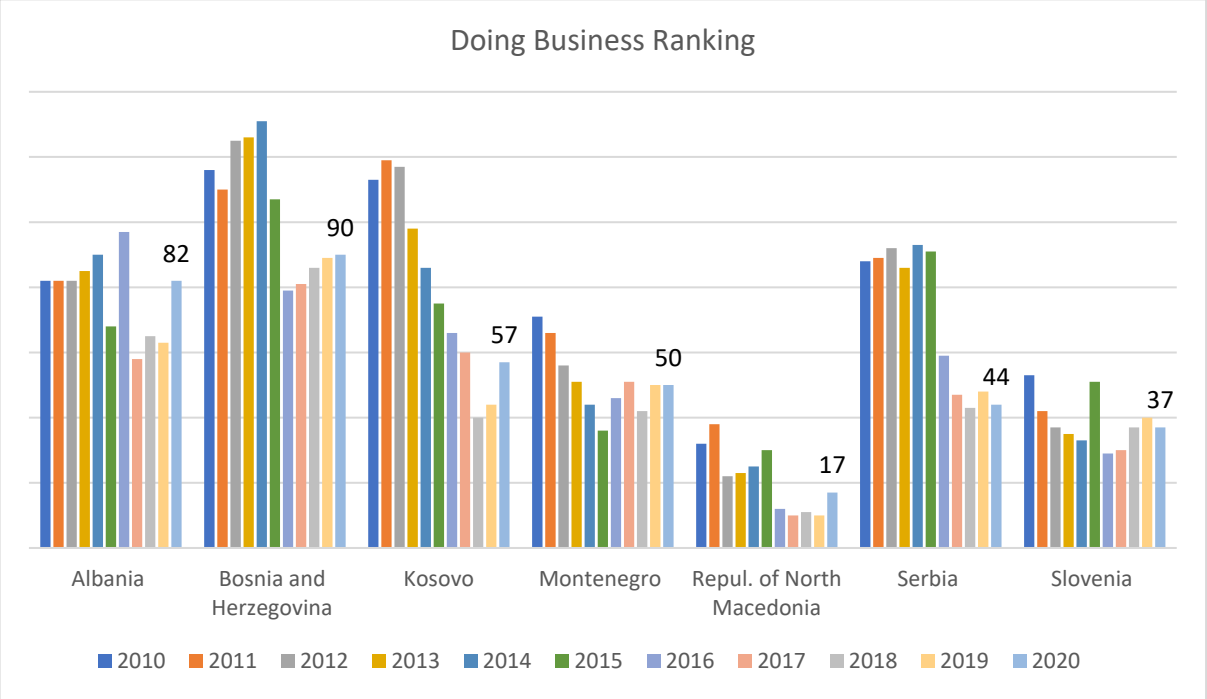
Table 10: EDB ranking by country 2010–2020

DB year	Albania	Bosnia and Herzegovina	Kosovo	Montenegro	Rep. of North Macedonia	Serbia	Slovenia
2010	82	116	113	71	32	88	53
2011	82	110	119	66	38	89	42
2012	82	125	117	56	22	92	37
2013	85	126	98	51	23	86	35
2014	90	131	86	44	25	93	33
2015	68	107	75	36	30	91	51
2016	97	79	66	46	12	59	29
2017	58	81	60	51	10	47	30
2018	65	86	40	42	11	43	37
2019	63	89	44	50	10	48	40
2020	82	90	57	50	17	44	37

WBG, (2020).

Kosovo has also made progress in improving DB reforms from 113th place in 2010 to 40th, 44th, and then 57th place in 2020, which can generally be considered a significant improvement during the years of observation. Montenegro has also improved by 20 positions since 2010, and Serbia has leaped from 88th in 2010 to 44th in 2020. Slovenia has improved its position since 2010 but has also held its position without major movement. We have considered Slovenia more as an example of an EU country to compare the differences with the Western Balkan countries. Each country's progress can clearly be seen in Figure 16, and some noticeable improvements have been observed over the years.

Figure 15: DB ranking in Western Balkan countries and Slovenia

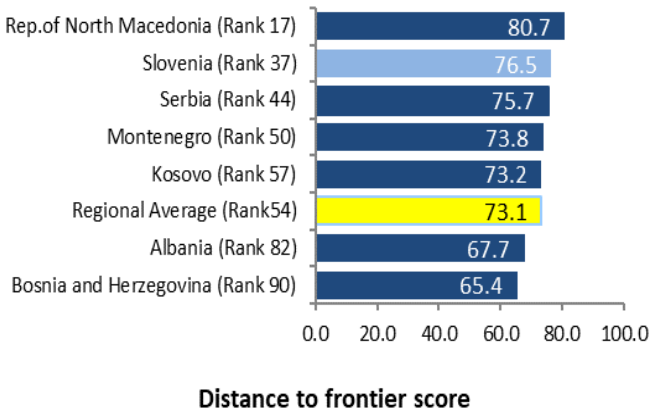


WBG, (2020).

The improvement of DB indicators is also assessed via the DTF, and the Western Balkan countries are not far from the top. All of the countries have reached the regional average, except for Albania and Bosnia. As we can see from Figure 17, the regional average for DB is rank 54, and all of the Balkan countries are ranked higher than this. Furthermore, the DTF regional average is 73.1, and only two counties are below this average.

Figure 16: Overall distance to frontier score.

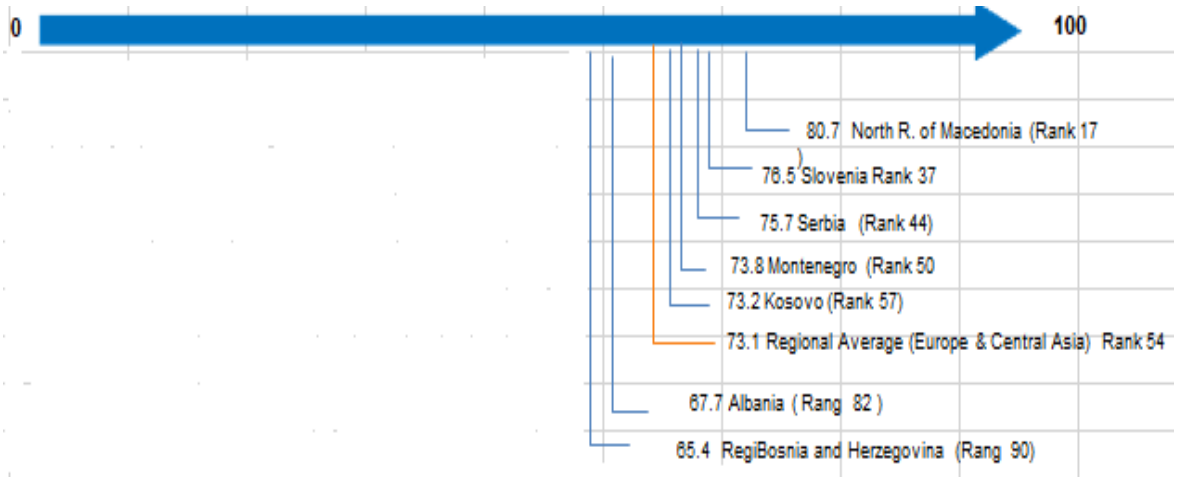
Rep. of North Macedonia (Rank 17)	80.7
Slovenia (Rank 37)	76.5
Serbia (Rank 44)	75.7
Montenegro (Rank 50)	73.8
Kosovo (Rank 57)	73.2
Regional Average (Rank54)	73.1
Albania (Rank 82)	67.7
Bosnia and Herzegovina (Rank 90)	65.4



WBG, (2020).

The DTF score illustrates the distance of an economy to the "frontier," which represents the best performance observed in each DB indicator. An economy's distance to the frontier is indicated on a scale from 0 to 100, where 0 represents the lowest performance and 100 the frontier. Figure 18 presents the DTF ranking of the Western Balkan countries, which are estimated above the regional average.

Figure 17: Illustrated overall distance to frontier score

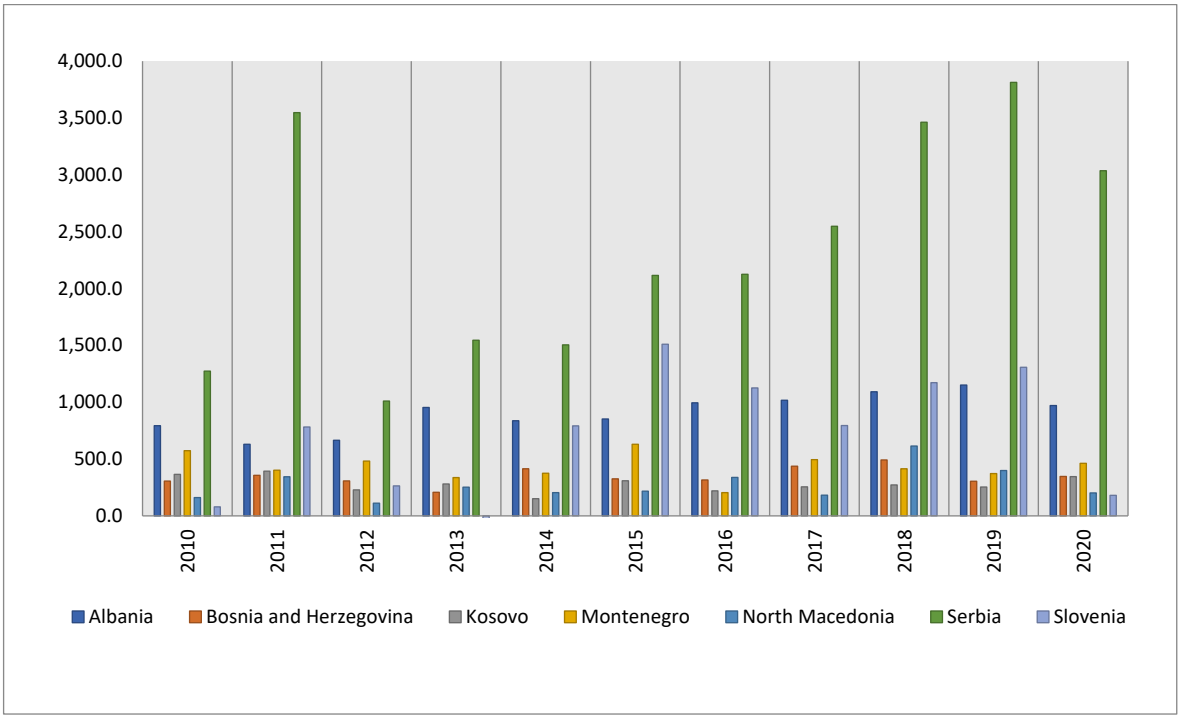


WBG, (2020).

A combination of the commitment by all Western Balkan countries to improve their investment climates through the WB's DB ranking and these positive results raise the question of whether this is reflected in the increase in FDI inflow. However, the total FDI inflow of the Western Balkan countries has a low share of Europe's total FDI, and we can see from the FDI inflow in the observed counties from 2010–2020 in Figure 19. that Serbia and Albania have attracted the most FDI.

Comparing the improvements in the business environment or the ranking of the DB ratio with the inflow of FDI, we can conclude that in the Western Balkans, Serbia, although not ranked the highest, has attracted more FDI in the region, closely followed by Albania. It is interesting that from the observed countries, North Macedonia and Kosovo are ranked better in WB DB indicators but have attracted the least foreign investment. The total inflow of FDI for 2010–2020 is illustrated in Figure 19.

Figure 18: Total FDI inflow to Western Balkan countries 2010–2020

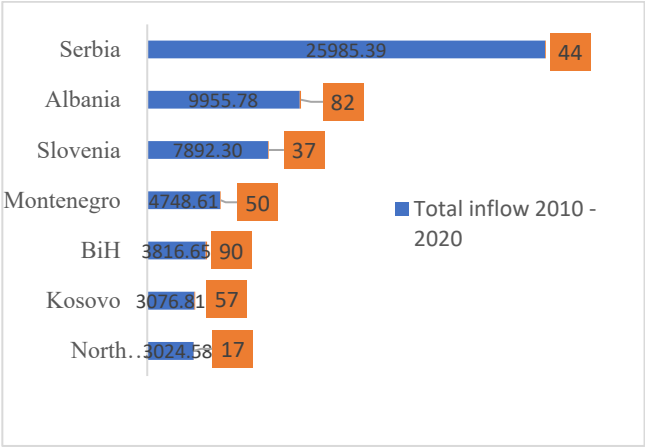


WBG, (2020).

A better illustration of the situation concerning rankings in the WB DB report, which includes improvement in the business environment and attracting FDI, can be seen more clearly in Figure 20.

Figure 19: Total FDI inflow 2010–2020 compared to WB ranking 2020

Country	Total FDI inflow 2010–2020	WB ranking 2020
North Macedonia	3,024.58	17
Kosovo	3,076.81	57
BiH	3,816.65	90
Montenegro	4,748.61	50
Slovenia	7,892.30	37
Albania	9,955.78	82
Serbia	25,985.39	44



Own work.

Figure 20 shows that North Macedonia, although ranked best in the region, has attracted the least amount of FDI. Furthermore, although Kosovo ranks well and has made many regulatory reforms to improve its investment climate, it has the second-least amount of FDI. BiH has a low DB rank and performs poorly at attracting FDI inflow.

However, Albania does not rank well in the WB report, it has attracted the second-highest FDI in the region. Therefore, it can be concluded that improving the investment climate and WB DB ranking does not guarantee the attraction of more foreign investment. In other words, the improvement could be backed up by other indicators that are not part of the WB's 10 DB indicators, such as political stability, law enforcement, and an optimal strategy for attracting FDI.

Furthermore, for clearer analysis, in addition to the total inflow of FDI and its comparison in the Western Balkan countries, Table 12 presents the statistics of FDI per capita, which can be considered a more realistic indicator for comparing countries.

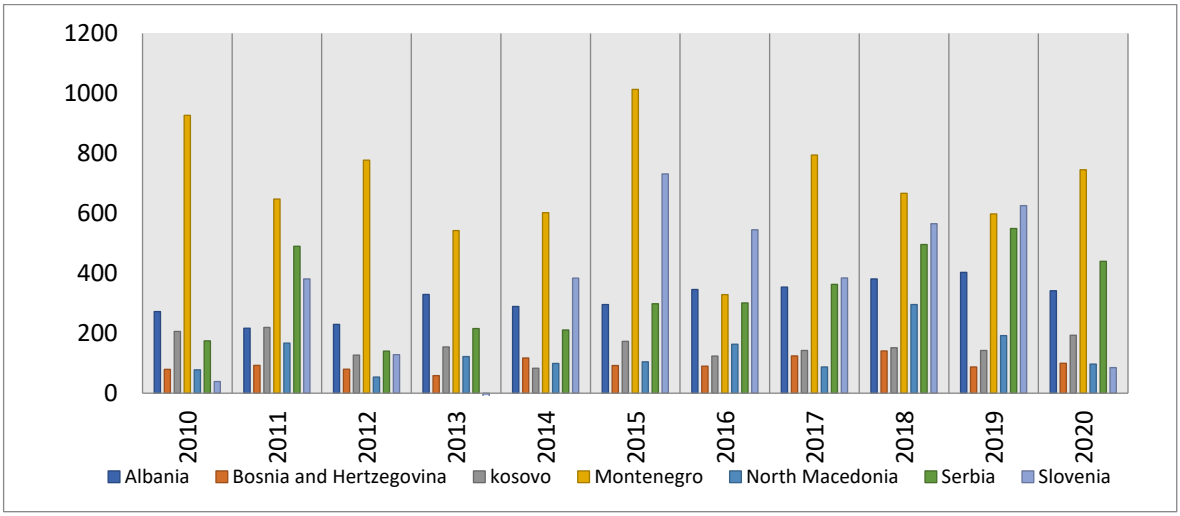
Table 11: FDI inflow in EUR per capita by country 2010–2020

Year	Albania	BiH	Kosovo	Montenegro	North Macedonia	Serbia	Slovenia
2010	272	80	206	927	78	175	39
2011	217	93	219	647	167	490	381
2012	230	80	127	777	54	140	128
2013	329	59	154	542	122	216	-55
2014	290	118	83	602	99	211	384
2015	296	93	173	1013	105	298	732
2016	346	90	124	329	163	301	545
2017	354	125	143	795	88	363	385
2018	381	141	151	667	296	496	565
2019	403	87	142	598	192	549	626
2020	342	100	193	745	97	440	86

WBG, (2020).

Table 12 reveals that Montenegro had the highest per capita FDI in the region, followed by Slovenia, Serbia, and Albania, whereas the countries that are ranked better in the WB's DB report are far behind, as is the case with North Macedonia, which ranks in the top 20 countries in the WB DB report but has one of the lowest FDI per capita in the region. The same goes for Kosovo, while BiH is not ranked well and also has low FDI per capita. Figure 21 supports this, and the FDI per capita in the observed countries can be clearly seen.

Figure 20: FDI inflow per capita in Western Balkan countries and Slovenia 2010–2020



WBG, (2020).

Although the total FDI inflow or FDI per capita is important for a host country, the quality of FDI or the sector where FDI is invested has a greater effect on its economy; for example, Montenegro has more real estate investments, and other observed countries also have a high percentage of FDI in this sector, which is considered insufficiently stimulating for economic development. Another observation is that North Macedonia and Serbia have more greenfield and foreign investments involving export-oriented production.

As previously discussed, the main problem areas and obstacles in attracting FDI in the Western Balkan countries are undoubtedly corruption, the insufficient functioning of law, and political instability. To gain further knowledge about the Western Balkan countries, we analyzed statistics on the level of perceived corruption by Transparency International, which is a leading global organization of civil society established in 1993. Its mission is to create a healthy society without corruption and improve the standard of living worldwide by undertaking activities to raise awareness and reduce tolerance toward corruption.

The CPI ranks 180 countries and territories according to perceived corruption levels in the public sector. It is an aggregate indicator that combines diverse corruption information sources. The results are given on a scale of 0 (highly corrupt) to 100 (very clean). Two-thirds of countries score below 50, indicating that they have serious corruption problems.

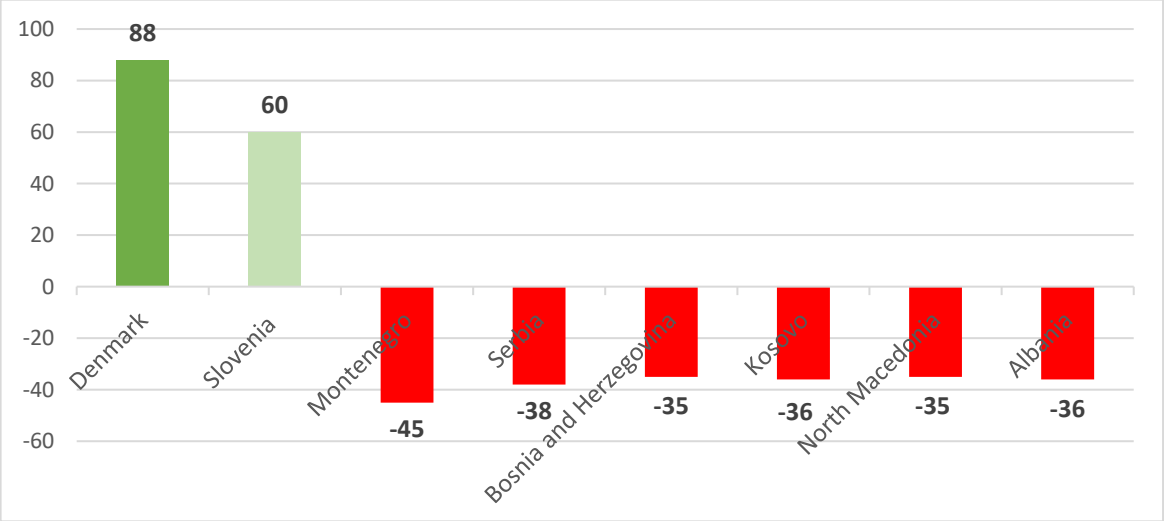
Table 12: CPI by country 2010–2020

Country	CPI score 2010	CPI score 2011	CPI score 2012	CPI score 2013	CPI score 2014	CPI score 2015	CPI score 2016	CPI score 2017	CPI score 2018	CPI score 2019	CPI score 2020
Denmark	93	94	90	91	92	91	90	88	88	87	88
Slovenia	41	40	46	48	48	51	49	49	48	60	60
Montenegro	37	40	41	44	42	44	45	46	45	45	45
Serbia	35	33	39	42	41	40	42	41	39	39	38
BiH	32	32	42	42	39	39	38	39	38	36	35
Kosovo	28	29	34	33	33	33	36	39	37	36	36
N. Macedonia	41	39	43	44	45	42	37	35	37	35	35
Albania	33	31	33	31	33	36	39	38	36	35	36

Transparency International, (2020).

All of the Western Balkan countries surveyed by Transparency International are rated below 50, which suggests poor positioning and the perception of higher levels of corruption (marked in red in Figure 22). An example of good practice is in Denmark, while Slovenia has improved, especially in the last two years. According to these statistics, it is clear that Western Balkan countries should seriously fight against corruption, especially when all of the countries aspire to join the EU.

Figure 21: CPI by country 2010–2020



Transparency International, (2020).

The statistics presented and analyzed in this chapter along with the comparison of the Western Balkan countries highlight a marked asymmetry between the WB DB ranking and the inflow of FDI. The ranking in the WB DB report is high for some countries but the FDI inflow is low or vice versa. Undoubtedly, regulatory reforms and the improvement of the business environment according to the WB's 10 indicators have an impact on the improvement of the business climate and the EDB, not only for foreign investors but also

for local businesses. However, they can only work well together with political stability, the functioning of the law, the fight against corruption, and an adequate strategy to attract foreign investment.

Almost all the governments in the Western Balkan countries have tried to improve their ranking in the WB DB report to present it as a government achievement to use as a political campaign for their successful work. However, they have not analyzed which indicators deserve more consideration for regulatory reforms or how much the reforms reflect the inflow of FDI.

This situation occurred within the World Bank Group (WBG) to such an extent that it led to the suspension of the publication of the report in 2021. On September 16, 2021, the WBG's Senior Management decided to discontinue the DB report and announced that the WBG would work on a new approach for assessing business and investment climates. The new approach would improve on its predecessor and be informed by advice from experts in the WBG, as well as recommendations from qualified academics and practitioners outside the institution, including the External Panel Review on DB methodology. Its design will also take into consideration the views of potential users in government, the private sector, and civil society through an open consultative process (The World Bank, 2021).

4 RESEARCH AND DATA ANALYSIS

This chapter describes the research approach that has been used to learn more about attracting FDI inflow by improving the WB's DB indicators. Data were analyzed using a Statistical Package for the Social Sciences (SPSS).

For econometric analysis, secondary data sources were used for the Western Balkan countries of Albania, Montenegro, Kosovo, Bosnia and Herzegovina, Serbia, and North Macedonia. As Slovenia is in the EU, it has been compared to the Western Balkan countries, and how it has achieved economic development and an improved business climate has been analyzed. Statistical analysis and the interpretation of empirical evidence (facts from observation or experimentation) are presented in tables and graphs through descriptive analyses (mean, standard deviation, variance, minimum, maximum, and frequency).

4.1 Data source description

Researchers have had different ideas about measuring impacts on FDI as a dependent variable in one country in a respective year. Neuhaus (2006) and Olofsdotter (1998) prioritized FDI stock as a dependent variable, while Herzer, Klasen, & Nowak, (2008) and Johnson (2006) considered FDI inflow as a dependent variable. This master's thesis will follow the line of the second group of researchers because their statistics are easier and more

accurate than measuring FDI stock, which can be increased by the presence of foreign companies in a country and new FDI entrants from the respective year. Another more compelling reason is that if the evidence of domestic stock (accumulated in the country) is considered, within a certain time, it would be higher than the whole GDP, and the growth rate would be higher than the GDP.

Given that the level of FDI flows in absolute values, it can be influenced by various factors such as the size of the host country in terms of area, the number of inhabitants, the market size, etc., which can result in large differences between countries. Taking this into consideration when analyzing the data in this research, FDI inflows per capita will be used as a measures indicator because it is more unifying between different countries.

4.2 Definition of the variables

Table 13: Description of the variables

Variables	**Description**	**Symbol**
*FDI inflows per capita	Represents the total value of FDI inflows per capita in the host country.	FDI_InflowsPC
Improvement in global rank	Represents the improvement or deterioration of the host country's global ranking in the respective year, compared to the base year 2010.	Imp_GR
Improvement in starting a business	Represents the improvement or deterioration of the starting a business ranking indicator in the host country, compared to the base year 2010.	Imp_SB
Improvement in dealing with construction permits	Represents the improvement or deterioration of the dealing with construction permits ranking indicator in the host country, compared to the base year 2010.	*Imp_DCM*
Improvement in getting electricity	Represents the improvement or deterioration of the getting electricity indicator ranking in the host country, compared to the base year 2010.	Imp_GE
Improvement in registering property	Represents the improvement or deterioration of the registering property indicator ranking in the host country, compared to the base year 2010.	Imp_RP
Improvement in getting credit	Represents the improvement or deterioration of the getting credit indicator ranking in the host country, compared to the base year 2010.	Imp_GC
Improvement in protecting minority investors	Represents the improvement or deterioration of the protecting minority investors indicator ranking in the host country, compared to the base year 2010.	Imp_PMI

(table continues)

Table 14: Description of the variables (Cont.)

Variables	Description	Symbol
Improvement in paying taxes	Represents the improvement or deterioration of the paying taxes indicator ranking in the host country, compared to the base year 2010.	Imp_PT
Improvement in trading across borders	Represents the improvement or deterioration of the trading across borders indicator ranking in the host country, compared to the base year 2010.	Imp_TAB
Improvement in enforcing contracts	Represents the improvement or deterioration of the enforcing contracts indicator ranking in the host country, compared to the base year 2010.	Imp_EC
Improvement in resolving insolvency	Represents the improvement or deterioration of the resolving insolvency indicator ranking in the host country, compared to the base year 2010.	Imp_RI
CPI ranking[2]	World global corruption ranking: 100 is very clean 0 is highly corrupt During analysis, an inverse function was performed: 100 is taken as highly corrupt, while 0 is very clean so that the direction between the independent variable and the dependent variable is in direct proportion.	CPI ranking

Own work

4.3 Main hypothesis

The main hypothesis states that an improvement in the WB's DB overall ranking has a significant correlation with FDI inflow. The hypothesis was tested using the Pearson correlation coefficient, which measures the statistical relationship or association between two continuous variables. It is recognized as the best method of measuring the association between variables of interest because it is based on covariance. It gives information about the magnitude of the association or correlation as well as the direction of the relationship.

Degrees of correlation are:

- Perfect: If the value is near ± 1, then it is said to be a perfect correlation. As one variable increases, the other variable also tends to increase (if positive) or decrease (if negative).
- High degree: If the coefficient value lies between ± 0.50 and ± 1, then it is said to be a strong correlation.
- Moderate degree: If the value lies between ± 0.30 and ± 0.49, then it is said to be a medium correlation.
- Low degree: When the value lies below + .29, then it is said to be a small correlation.
- No correlation: When the value is zero.

[2] The independent variable in the second hypothesis

In the analysis for the Western Balkan countries' WB DB global rankings, 2020 has been deliberately removed because it was not an ordinary year because of the COVID-19 pandemic. Therefore, 2010–2019 has been used for analysis.

The two variables that were tested for correlation are FDI inflows per capita and global ranking in the WB DB report for each respective country.

It is worth noting that for the second variable (ranking the respective country as part of the overall WB DB ranking), an adjustment was made based on the definition of the hypothesis that emphasizes improvement. Subsequently, 2010 was taken as the base year for each country, then the other years were indexed with absolute positive numbers for the number of positions a country improved in the global ranking, or a negative number for the number of positions the country fell in the 2010 global ranking.

Table 15: Descriptive statistics

	Mean	Std. deviation	N		
FDI_InflowsPC	297.6314	232.60850	70		
ImprovementGlobalRank	15.17	18.554	70		

Own work

Table 16: Correlations

		FDI_InflowsPC	Improvement GlobalRank
FDI_InflowsPC	Pearson correlation	1	.094
	Sig. (2-tailed)		.441
	N	70	70
ImprovementGlobalRank	Pearson correlation	.094	1
	Sig. (2-tailed)	.441	
	N	70	70

Own work

From the analysis conducted in the SPSS program, we found that the Western Balkan countries, including Slovenia, had an average improvement over 10 years of 15 positions in the WB DB global ranking, while the average FDI inflows per capita in all observed countries during this period was €297.63 per capita per year.

As can be seen from the results in Table 16, the correlation coefficient test shows no significant correlation between FDI_InflowsPC and ImprovementGlobalRank, so the hypothesis is rejected because their significance indicates a value of 0.441, which is Sig>0.05.

4.4 Hypothesis 1

H1 states that an improvement in WB EDB indicators has a positive impact on FDI inflow. H1 was tested in the SPPS program via multiple regression using the stepwise method, which mainly serves to present the variance explained by all the predictors included in the model at once. Stepwise regression is the step-by-step iterative construction of a regression model that involves the selection of independent variables to be used in a final model. It involves adding or removing potential explanatory variables in succession and testing for statistical significance after each iteration. Therefore, the following formula is used to test H1 using a linear equation:

$$\text{FDI inflowsPC} = \beta 0 + \beta 1 * Imp\_SB + \beta 2 * Imp\_DCM + \beta 3 * Imp\_GE + \beta 4 * Imp\_RP + \beta 5 * Imp\_GC + \beta 6 * Imp\_PMI + \beta 7 * Imp\_PT + \beta 8 * Imp\_TAB + \beta 9 * Imp\_EC + \beta 10 * Imp\_RI + \varepsilon$$

Table 17 presents a summary of the model where the following three variables are statistically significant:

1. Improvement in protecting minor investors
2. Improvement in paying taxes
3. Improvement in trading across borders

These three variables explain the pattern at the 50% level (R Square = 0.50), with a confidence interval of 95% or an error margin of about 5% (Sig. F Change = 0.049), which is acceptable.

Table 17: Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics				
					R square change	F change	df1	df2	Sig. F change
1	.553[a]	.306	.291	191.33218	.306	20.694	1	47	.000
2	.674[b]	.455	.431	171.36555	.149	12.590	1	46	.001
3	.707[c]	.500	.467	165.88788	.045	4.088	1	45	.049

Own work

a) Predictors: (Constant), Imp_PMI
b) Predictors: (Constant), Imp_PMI, Imp_PT
c) Predictors: (Constant), Imp_PMI, Imp_PT, Imp TAB

These three variables also pass the analysis of variance (ANOVA) test, as seen in Table 18, and the significance is 0% (i.e., Sig. less than 5%).

Table 18: ANOVA test

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	757570.602	1	757570.602	20.694	.000[a]
	Residual	1720576.069	47	36608.001		
	Total	2478146.671	48			
2	Regression	1127303.727	2	563651.863	19.194	.000[b]
	Residual	1350842.944	46	29366.151		
	Total	2478146.671	48			
3	Regression	1239801.178	3	413267.059	15.018	.000[c]
	Residual	1238345.493	45	27518.789		
	Total	2478146.671	48			

Own work

a) Predictors: (Constant), Imp_PMI
b) Predictors: (Constant), Imp_PMI, Imp_PT
c) Predictors: (Constant), Imp_PMI, Imp_PT, Imp_TAB
d) Dependent variable: FDI_InflowsPC

Table 19 shows the impact of the three variables on FDI inflows per capita, and as a result, the following linear regression equation is formulated:

$$FDI\ inflows\ PC = \beta 0 + \beta 1\ Imp\_PMI + \beta 2\ Imp\_PT + \beta 3\ Imp\_TAB + \varepsilon$$

Table 19: Coefficients

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.	95% confidence interval for B		Collinearity statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Tolerance	VIF
1	(Constant)	175.160	40.704		4.303	.000	93.275	257.046		
	Imp_PMI	2.496	.549	.553	4.549	.000	1.392	3.599	1.000	1.000
2	(Constant)	103.009	41.743		2.468	.017	18.984	187.034		
	Imp_PMI	4.111	.670	.911	6.137	.000	2.763	5.460	.538	1.859
	Imp_PT	1.951	.550	.527	3.548	.001	.844	3.058	.538	1.859
3	(Constant)	50.942	47.917		1.063	.293	-45.568	147.452		
	Imp_PMI	4.073	.649	.902	6.278	.000	2.766	5.380	.537	1.861
	Imp_PT	1.853	.535	.500	3.466	.001	.776	2.929	.533	1.875
	Imp_TAB	1.181	.584	.214	2.022	.049	.005	2.357	.990	1.010
a) Dependent variable: FDI_InflowsPC										

Own work

Independent variables with a significance of <0.05 can be considered to have an impact on the dependent variable, which in this case is FDI_InflowsPC. Variables with a significance level of >0.05 are not thought to have an impact on the dependent variable. Based on multiple linear regression analysis, it follows that Imp_PMI, Imp_PT, and Imp_TAB have an impact on FDI_InflowsPC.

We replaced factor B for each of the variables that had an impact and obtained the following values from the test:

$$FDI\ inflows\ PC = 50.942 + 4.073 * Imp\_PMI + 1.853 * Imp\_PT + 1.181 * Imp\_TAB + \varepsilon \quad (1)$$

To avoid the constant (β0), we standardized (Z) the variables to get:

$$ZFDI\ inflows\ PC = 4.073 * ZImp\_PMI + 1.853 * ZImp\_PT + 1.181 * ZImp\_TAB + \varepsilon \quad (2)$$

Even the collinearity and tolerance test statistics did not indicate the presence of multicollinearity, as the variance inflation factor (VIF) was less than 5, and tolerance was no greater than 2.

Regarding the correlation coefficients of the dependent variable FDI_InflowsPC with the independent variables, it only has a strong positive correlation with the improvement in protecting minority investors to a very significant statistical level at 0.553. FDI_InflowsPC has a moderate correlation with the improvement in resolving insolvency variable at a 0.252

statistically significant level, and there is a slight negative correlation of -0.387 with improvement in getting credit.

Some of the independent variables have significant positive or negative relationships, i.e., improvement in starting a business has a good positive relationship with improvement in getting credit, Imp_PT, Imp_TAB, Imp_EC, and a negative relationship with Imp_PMI (the table of correlation coefficients are shown in Appendix 3).

The Imp_GE variable has a good positive correlation with Imp_RP and a negative correlation with Imp_GC. The Imp_RP variable has a good positive correlation with Imp_PT and a negative correlation with Imp_PMI. The Imp_GC variable has a negative relationship with both Imp_PMI and Imp_RI, and a positive relationship with Imp_EC. The Imp_PMI variable has significant negative correlations with Imp_PT and Imp_RI. The Imp_PT variable has a negative correlation with RI_Imp, and Imp_TAB has a positive correlation with Imp_EC.

In conclusion, it can be said that the first hypothesis can be partially accepted and partially rejected because three indicators have an impact, but the other seven have no impact on FDI_InflowsPC.

4.5 Hypothesis 2

H2 states that the corruption level has a significant negative impact on FDI inflow per capita. This hypothesis aimed to measure whether the level of corruption in the host country had a negative impact on FDI inflow and if so, what was the impact. The measurement of the corruption assessment index, according to the world estimates for a country, is presented on a scale from 100 being very clean to 0, which is highly corrupt.

To explain this phenomenon, an inverse function was performed (opposite), so 100 was considered highly corrupt and 0 was considered very clean. This meant that the direction between the independent variable and the dependent variable was in the right proportion. Based on descriptive statistics, it follows that the analyzed countries were above average in their levels of corruption, except for Slovenia.

Table 20: Descriptive statistics

Descriptive statistics			
	Mean	Std. deviation	N
FDI_InflowsPC	297.6314	232.60850	70
Lev_Corruption	60.60	5.747	70

Own work

Based on the Pearson correlation coefficient test presented in Table 21, the level of corruption in the host country has a statistically significant negative correlation of -0.363 with FDI_InflowsPC.

Table 21: Correlations

Correlations			
		FDI_InflowsPC	Lev_Corruption
Pearson correlation	FDI_InflowsPC	1.000	-.363
	Lev_Corruption	-.363	1.000
Sig. (1-tailed)	FDI_InflowsPC	.	.001
	Lev_Corruption	.001	.
N	FDI_InflowsPC	70	70
	Lev_Corruption	70	70

Own work

Hypothesis testing was conducted by simple linear regression, which measures whether the independent variable, corruption level, has a negative impact on the dependent variable, FDI_InflowsPC. Hence, a simple linear regression equation was formulated:

$$FDI\ inflows\ PC = \beta 0 + \beta 1 * Lev\_Corruption + \varepsilon$$

It should be noted that, based on the test, the level of corruption participates in determining FDI_InflowsPC by about 13.2%, as shown in Table 22 (R square = 0.132). However, it is not defined further because it was concluded from the previous hypothesis that only three from 10 other variables determined the level of FDI_InflowsPC by about 50%.

Table 22: Model summary

Model	R	R square	Adjusted R square	Std. error of the estimate	Change statistics				
					R square change	F change	df1	df2	Sig. F change
1	.363[a]	.132	.119	218.31962	.132	10.328	1	68	.002

Own work

a. Predictors: (Constant), Lev Corruption

The variable included in the model also passed the ANOVA test because the analysis of the variance of the level of corruption is significant at a level of 0.002 (i.e., <0.05).

Table 23: ANOVA test

Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	492248.332	1	492248.332	10.328	.002[a]
	Residual	3241115.019	68	47663.456		
	Total	3733363.351	69			

Own work

a. Predictors: (Constant), Lev Corruption
b. Dependent variable: FDI Inflows PC

As can be seen from Table 24, the level of corruption has a statistically significant negative impact on FDI_InflowsPC, as the Sig of the level of corruption is 0.002, which is within the Sig limit of <0.05.

Table 24: Coefficients

Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std. error	Beta		
1	(Constant)	1188.291	278.374		4.269	.000
	Lev_Corruption	-14.697	4.573	-.363	-3.214	.002

Own work

a. Dependent variable: FDI_InflowsPC

Based on the results from the linear regression analysis, it can be said that Hypothesis 2 is accepted. Therefore, we can formulate the following linear regression equation:

$$FDI\ inflows\ PC = 1{,}188.291 - 14.697 * Lev\ Corruption + \varepsilon \quad (3)$$

To analyze the level of corruption if we take its average level (60.6) in the observed countries and abstract the standard error ε, then we will have:

$$FDI\ inflows\ PC = 1{,}188.29 - 14.697 * 60.6 = 1{,}188.29 - 890.64 = 297.65, \quad (4)$$

which is approximately the same result as the average FDI inflows obtained for the countries and years under analysis.

5 DISCUSSION AND RECOMMENDATIONS

The main hypothesis, "The improvement of the WB's DB overall ranking has a significant correlation with FDI inflow," was rejected because the examination of the linear relationship between variables that determine whether the correlation coefficient is significant did not pass the test.

However, the Pearson correlation of 0.094 was very close to zero, which indicates no linear relationship between the variables. Furthermore, the significance was greater than 0.05, which indicates that the correlation was not statistically significant.
Table 25 presents the average values of FDI_InflowsPC and the average WB DB ranking for the observed countries, and it is evident that there is no linear relationship between the variables.

Table 25: Average FDI inflows per capita by country

Country	Rank of country by FDI_InflowsPC	FDI inflow_ EUR per capita (€)	Global rank of country	Global rank
Albania	4	314.473	5	77.636
Bosnia and Herzegovina	7	96.793	7	103.636
Kosovo	5	155.959	6	79.545
Montenegro	1	694.776	3	51.182
North Macedonia	6	132.847	1	20.909
Serbia	3	334.494	4	70.909
Slovenia	2	346.780	2	38.545
Total		**296.589**		**63.195**

Own work

North Macedonia is the highest-ranked country in the WB DB report and ranked first in the observed countries, but it is one of the worst in the region in terms of FDI inflow and FDI inflow per capita. Montenegro is ranked third in the observed countries for DB but has the most FDI inflow per capita. Although Slovenia and Serbia are not ranked at the top of the list for DB, they are near the top for FDI inflow and FDI_InflowsPC. Therefore, it is clear that there is an obvious asymmetry between the WB DB ranking and the FDI inflow per capita in the observed countries.

In hypothesis 1, "The improvement of WB EDB indicators has a positive impact on FDI inflow," we noticed that an improvement in the 10 WB DB indicators does not have the same impact on attracting and increasing FDI inflow. Although stepwise regression methods were selected, only three indicators correlated with FDI inflow per capita. Therefore, we realized

that some indicators are not very relevant to foreign investors; for example, it is not that important if it takes three days or two weeks to register a business. Also, some indicators are more important based on the sector in which foreign investments are made; for example, in the manufacturing, financial industry, energy, or tourism sectors. However, the improvement of indicators has an impact on a better investment climate, not just for foreign investors but for local businesses, but this does not mean they are crucial determinants of attracting FDI inflow. In this context, this was also the reason why the hypothesis was partially accepted.

As pointed out earlier, the results of the statistical analysis concluded that H2 is accepted. The survey results showed that more corrupt countries have a lower FDI inflow. Similar results were found by Habib and Zurawicki (2002) who examined the impact of corruption on FDI inflow and found that foreign investors generally avoid corruption because it can create operational inefficiencies. Jovančević and Šević (2006) emphasized the importance of the fight against corruption because such governmental actions create a positive reaction among foreign investors. Therefore, the fight against this negative phenomenon is inevitable, and only a serious proactive approach and concrete actions can contribute to improving the economy and reducing corruption.

The observed countries in the Western Balkans region were assessed as highly corrupt, and they ranked worse in terms of the CPI. EU membership and the pre-accession processes toward EU membership require an improvement in the ranking of the CPI and a serious attitude toward fighting corruption. Statistical analysis shows that Slovenia is an example of a better CPI-ranked country than the observed countries.

6 CONCLUSION

This master's thesis reviews the theoretical literature explaining FDI and the business environment. It focuses primarily on the importance of the business environment in attracting FDI inflows as well as the empirical results on the relationship between 10 WB EDB indicators and FDI inflows.

The research was conducted by analyzing countries in the Western Balkans region (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia), and it provides a systematic review of the improvement in DB indicators for 2010–2020. For comparative reasons, Slovenia was included in the analysis as it is in the EU.

The empirical results show:

1. An improvement in the WB's DB overall ranking has no high significant correlation with FDI inflow.
2. An improvement in the WB's 10 DB indicators does not have the same impact on attracting and increasing FDI inflow.
3. Countries with a high level of corruption have a low FDI inflow.

Based on the research, it can be concluded that the countries of the Western Balkans region made tremendous progress during the observed period in improving regulatory reform and, for some, their ranking in the WB's DB annual report. This gives the impression that the Western Balkan countries were in the race to be ranked higher in the WB report without employing any strategy in terms of which indicators were most important or recognizing that the reforms should be forwarded to other areas outside the 10 WB DB indicators.

However, despite the improvement of the business environment in the Western Balkan countries, this positive trend of ranking in WB's EDB index has not been accompanied by an increase in FDI inflow. This is probably because the main obstacles to attracting the flow of FDI to the countries analyzed stem from factors such as corruption, bureaucratic delays, political influence on the decisions of nominally independent regulatory agencies, large and informal economies, weak and slow judicial systems, poor enforcement of contracts, insufficient protection of property rights, and political instability.

Therefore, improving the above-mentioned obstacles and the fight against corruption are challenges for the countries of the Western Balkans region as they need to make efforts to undertake activities that improve their image and increase their confidence in attracting foreign investors. These actions will have positive consequences for the development of their economies and are the only way for Western Balkan countries to increase their chances of joining the EU.

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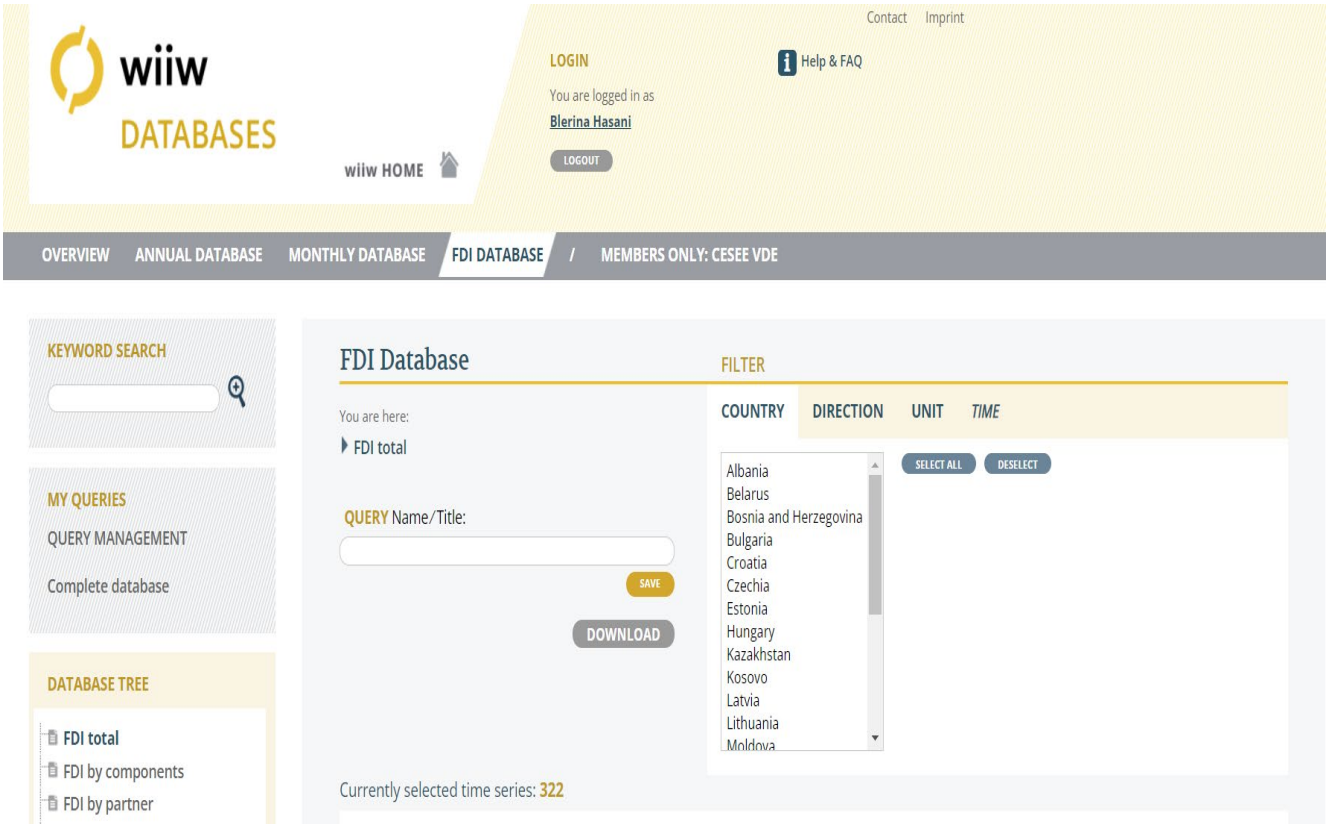
APPENDICES

Appendix 1: Povzetek (Summary in Slovenian language)

Magistrsko delo poskuša oceniti povezavo med prilivom tujih neposrednih naložb in izboljšanjem poslovnega okolja prek kazalnikov enostavnosti poslovanja. Cilj raziskave je raziskati statistično značilne povezave med izboljšano splošno uvrstitvijo na lestvici Svetovne banke in prilivom tujih neposrednih naložb na vzorcu šestih balkanskih držav: Albanija, Bosna in Hercegovina, Črna gora, Severna Makedonija, Kosovo in Srbija. Hipoteze so oblikovane, osnovni testi pa opravljeni na podatkih iz uradne lestvice Doing Business Svetovne banke za obdobje od leta 2010 do leta 2020. Empirični podatki, testirani z multiplo regresijo po metodi stopenjskega preverjanja, kažejo, da ima boljša splošna uvrstitev v povprečju nepomemben vpliv na priliv tujih neposrednih naložb. Po eni strani rezultati testiranja 10 kazalnikov Svetovne banke Doing Business kažejo, da na priliv tujih neposrednih naložb vplivajo le izboljšave na področju zaščite manjšinskih vlagateljev in čezmejnega trgovanja. Po drugi strani pa rezultati testa Pearsonovega korelacijskega koeficienta kažejo, da je stopnja korupcije v državi gostiteljici statistično značilno negativno povezana s prilivom tujih neposrednih naložb. Poleg tega študija kaže, da je šestim analiziranim državam iz regije Zahodnega Balkana uspelo doseči ustrezno raven izboljšanja regulativnih reform na lestvici enostavnosti poslovanja, vendar te države niso bile dovolj uspešne pri privabljanju tujih naložb. Zato lahko ta članek služi kot informacija oblikovalcem politik, ki poleg regulativnih reform na lestvici enostavnosti poslovanja zagovarjajo tudi pripravo ustreznih strategij v upanju, da bodo pritegnili priliv tujih neposrednih naložb.

Ključne besede: Neposredne tuje naložbe, lestvica enostavnosti poslovanja, balkanske države

Appendix 2: Western Balkan countries: Main economic indicators



Albania

The economy is expected to have accelerated to above 8% in 2021 supported by buoyant household, government, and investment spending (the latter thanks to a construction boom and post-earthquake reconstruction). The expansion in economic activity benefited from rising services, exports and tourism, although the levels of both remained below those of pre-pandemic times. Merchandise exports rose sharply, especially minerals, fuel, and electricity. In December 2021, inflation rose to 3.7% and will stabilize at 3% in 2022. The

fourth wave of the COVID-19 pandemic at the start of 2022 brought unprecedented numbers of daily infections. Meanwhile, 40% of the population has been fully vaccinated. Skyrocketing international energy prices suggest that 2022 could be a bumper year for the extraction industry and its exports. In 2022, growth will hover at 4.2% and will be driven by domestic and external demand, although the pace of growth will be slower than before, as the base effect is already a thing of the past.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	2,854	2,838	.	.	.	.
GDP, real change in %	2.1	-4.0	8.2	**4.2**	**4.0**	**3.8**
GDP per capita (EUR at PPP)	9,520	8,960	.	.	.	.
Gross industrial production, real change in %	-1.1	-6.3	.	.	.	.
Unemployment rate - LFS, in %, average	11.5	11.7	11.3	**11.1**	**10.8**	**10.5**
Average gross monthly wages, EUR	426	434	.	.	.	.
Consumer prices, % p.a.	1.4	1.6	2.0	**2.9**	**2.8**	**2.8**
Fiscal balance in % of GDP	-1.9	-6.8	-5.0	**-3.5**	**-2.5**	**-2.0**
Public debt in % of GDP	65.8	75.7	.	.	.	.
Current account in % of GDP	-7.9	-8.8	-7.7	**-7.1**	**-6.9**	**-6.7**
FDI inflow, EUR m	1,072	937	.	.	.	.
Gross external debt in % of GDP	60.0	65.4	.	.	.	.

Bosnia and Herzegovina

The economy grew by an estimated 4.8% in 2021, thereby exceeding the pre-pandemic level of 2019. Industrial production, private consumption, exports, and FDI inflows all increased significantly, while COVID-related mobility restrictions were fairly soft. Inflation rose strongly toward the end of 2021, due to sharp rises in food and energy prices, but it was still below 2% for the year as a whole. With further increases in energy prices, inflation is expected to climb to 2.6% in 2022, which is an upward revision of 1.6 percentage points from the autumn forecast. BiH's economy is expected to grow by only 2.5% in 2022 – a downward revision of 0.6 percentage points from the autumn forecast. The projected growth rate is among the lowest in the Central, Eastern, and Southeastern Europe (CESEE) region. This is largely a reflection of the increased political risks, which will likely cause public infrastructure projects and private-sector investments to be put on hold, while consumer spending and exports will only grow slowly. Political tensions have been on the rise since the second half of 2021, as one part of the country, Republika Srpska, has taken steps to create its own army, tax authority, and judiciary; thus, increasing the risk that it will secede. This jeopardizes the country's political stability, economic progress, and support from the EU, and potentially opens up the possibility of renewed inter-ethnic violence.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	3,491	3,475	.	.	.	.
GDP, real change in %	2.8	-3.2	4.8	**2.5**	**2.8**	**2.6**
GDP per capita (EUR at PPP)	10,110	9,840	.	.	.	.
Gross industrial production, real change in %	-5.3	-6.4	10.7	.	.	.
Unemployment rate - LFS, in %, average	15.7	15.9	16.9	**16.5**	**15.9**	**15.5**
Average gross monthly wages, EUR	727	755	.	.	.	.

Main economic indicators	2019	2020	2021	FORECAST* 2022	2023	2024
Consumer prices, % p.a.	0.6	-1.1	1.9	**2.6**	**2.2**	**1.8**
Fiscal balance in % of GDP	1.9	-5.3	-2.2	**-0.8**	**-0.5**	**0.5**
Public debt in % of GDP	32.8	36.6	.	.	.	.
Current account in % of GDP	-2.8	-3.8	-2.5	**-2.9**	**-3.0**	**-3.3**
FDI inflow, EUR m	388	364	.	.	.	.
Gross external debt in % of GDP	63.1	64.3	.	.	.	.

Kosovo

The economy grew by 16.8% in Q2 and by 14.5% in Q3 2021 year-on-year; overall growth in 2021 is expected to be 8.8%. The main drivers were a strong growth in household and government consumption as well as in investments. The current account deteriorated, despite a doubling of goods and services exports, while remittances surged to 15% of GDP. Because of the heavy dependence on imports, the current turmoil in the international energy markets is reflected in a sharp hike in consumer prices – up 6.7% in December 2021 (and 3.4% for 2021 as a whole). On December 29, 2021, the government declared a state of emergency, and several restrictions (including power cuts) were put into force for 60 days. Higher energy prices will lead to greater production costs, but disruption to the power supply will have an effect on production and will impact business investment and employment decisions. At the start of 2022, the daily number of COVID-19 infections soared again, as migrants returned for the new year holidays and as the new Omicron variant of COVID-19 took hold. We expect growth to lose its momentum and hover around the 4.3% mark in 2022.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	1,789	1,790	.	.	.	.
GDP, real change in %	4.8	-5.3	8.8	**4.3**	**4.0**	**4.0**
GDP per capita (EUR at PPP)	8,020	7,530	.	.	.	.
Gross industrial production, real change in %	6.3	0.8	.	.	.	.
Unemployment rate - LFS, in %, average	25.7	25.9	25.4	**25.0**	**24.5**	**24.0**
Average gross monthly wages, EUR	477	466	.	.	.	.
Consumer prices, % p.a.	2.7	0.2	3.4	**3.2**	**2.5**	**2.5**
Fiscal balance in % of GDP	-2.9	-7.6	0.2	**-1.5**	**-1.5**	**-1.0**
Public debt in % of GDP	17.0	22.0	.	.	.	.
Current account in % of GDP	-5.7	-7.0	-7.5	**-7.0**	**-6.8**	**-6.8**
FDI inflow, EUR m	255	346	.	.	.	.
Gross external debt in % of GDP	31.2	37.2	.	.	.	.

Montenegro

Montenegro posted one of the highest GDP growth rates in Europe in 2021 (11.4%), as the tourist sector flourished, boosting consumption and services exports. The fiscal economy has stabilized considerably, although it is still characterized by a high degree of risk. However, the impressive economic recovery in 2021 was overshadowed by an unstable government, ethnic divisions, and a weakening of the judiciary – all of which contributed to a slowdown

in progress toward EU accession. Consumption and savings may be significantly boosted in 2022 by the tax and labor market reform program Europe now!, which abolishes health insurance contributions, introduces progressive income taxation, and almost doubles the minimum wage. It could significantly reduce income inequality, shrink the grey economy, and counter the negative effects of inflation. However, it may also reduce government revenues substantially, leading to calls for cuts to public spending and a rise in public debt. The uncertainty concerning the new government coalition may dampen growth potential in 2022. By the end of Q1 2022, it is expected that the economy will have bounced back to pre-pandemic levels; meanwhile, in the absence of political turmoil, FDI and increased consumption may support further growth.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	622	621	.	.	.	.
GDP, real change in %	4.1	-15.3	11.4	**4.5**	**3.0**	**2.7**
GDP per capita (EUR at PPP)	15,700	13,360	.	.	.	.
Gross industrial production, real change in %	-6.3	-0.9	4.9	.	.	.
Unemployment rate - LFS, in %, average	15.1	17.9	16.9	**16.3**	**15.2**	**14.0**
Average gross monthly wages, EUR	773	783	.	.	.	.
Consumer prices, % p.a.	0.4	-0.3	2.4	**3.6**	**1.1**	**2.0**
Fiscal balance in % of GDP	-2.0	-11.1	-3.4	**-6.3**	**-5.0**	**-4.0**
Public debt in % of GDP	76.5	105.3	.	.	.	.
Current account in % of GDP	-14.3	-26.1	-13.5	**-14.9**	**-13.0**	**-12.0**
FDI inflow, EUR m	372	463	.	.	.	.

Main economic indicators	2019	2020	2021	FORECAST* 2022	2023	2024
Gross external debt in % of GDP	169.0	224.1	.	.	.	.

North Macedonia

North Macedonia ended 2021 with GDP still lagging some 2% below the pre-pandemic level, thus making it one of the poorest-performing Western Balkan economies. Inadequate government support, the absence of structural reforms, and global supply-chain problems proved a drag on the economy throughout the year, and more recently, these issues have been joined by the energy crisis. The government has found ways to prevent power cuts, but from 2022 it has had to increase the charges for both electricity and district heating. Therefore, inflation, which averaged 3.2% in 2021, will rise further to around an expected 3.5% in 2022. Price freezes on some basic products have been introduced, which are likely to protect the most vulnerable groups, but it is uncertain how long they will remain in place. A new government has just been formed (January 2022) and although still led by the social democrats, there is a new prime minister and cabinet. It is likely to bring fresh energy to the socio-economic sphere, but the political risks remain high on account of its wafer-thin parliamentary majority. With a new government in Bulgaria as well, hopes are high that the EU accession process will be unlocked. All in all, we expect the economy to perform neither outstandingly well nor terribly badly in 2022, expanding at around 3.5%.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	2,077	2,073	.	.	.	.
GDP, real change in %	3.9	-6.1	4.0	**3.5**	**3.2**	**3.0**
GDP per capita (EUR at PPP)	11,940	11,170	.	.	.	.
Gross industrial production, real change in %	3.7	-9.6	.	.	.	.
Unemployment rate - LFS, in %, average	17.3	16.4	15.7	**15.2**	**14.8**	**14.5**
Average gross monthly wages, EUR	609	658	.	.	.	.
Consumer prices, % p.a.	0.8	1.2	3.2	**3.5**	**2.5**	**2.0**
Fiscal balance in % of GDP	-2.1	-8.3	-4.3	**-3.5**	**-2.5**	**-2.0**
Public debt in % of GDP	40.4	51.9	.	.	.	.
Current account in % of GDP	-3.3	-3.4	-2.0	**-3.0**	**-3.5**	**-3.5**
FDI inflow, EUR m	488	28	.	.	.	.
Gross external debt in % of GDP	72.4	80.3	.	.	.	.

Serbia

Serbia's economy continued its good performance in 2021. The flash estimate is that GDP grew by 7.5%, which is among the highest in Europe. A supportive fiscal policy was one of the main drivers, as government capital expenditure increased by over 50% in 2021. FDI was also strong, reaching 7.4% of GDP. The strength of the economy, together with high global energy and food prices, caused inflation to reach 7.9% in December and pushed the average for the year as a whole to 4%. The central bank has not yet raised its policy rate, but the government has decided to freeze the price of certain basic products, which should prevent inflation from escalating further. Still, due to the carry-over effects from 2021, we anticipate average inflation of 4.5% in 2022. The economy is expected to remain robust in 2022. The government will keep fiscal policy expansionary ahead of the presidential and parliamentary elections in April, and it has already embarked on some transfer programs, such as the EUR 100 stimulus, for people aged between 16 and 29. The transfers may be criticized for their timing, but they will have a positive effect on consumption and economic activity. FDI is likely to remain strong, so we forecast a GDP growth of 4.9% in 2022. One downside risk might arise from the ongoing problems in global supply chains, which could hit the output of foreign-owned factories in the country. Another risk might stem from ongoing protests against a proposed lithium mine, which could gather pace as the elections approach.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	6,945	6,899	.	.	.	.
GDP, real change in %	4.3	-0.9	7.5	**4.9**	**4.5**	**4.0**

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GDP per capita (EUR at PPP)	12,800	12,710	.	.	.	.
Gross industrial production, real change in %	0.3	0.4	6.3	.	.	.
Unemployment rate - LFS, in %, average	10.4	9.0	10.0	**9.0**	**8.5**	**8.0**
Average gross monthly wages, EUR	643	706	.	.	.	.
Consumer prices, % p.a.	1.7	1.6	4.1	**4.5**	**2.5**	**2.0**
Fiscal balance in % of GDP	-0.2	-8.1	-3.0	**-2.5**	**-2.0**	**-2.0**
Public debt in % of GDP	52.8	57.8	.	.	.	.
Current account in % of GDP	-6.9	-4.1	-3.0	**-3.5**	**-3.8**	**-4.0**
FDI inflow, EUR m	3,815	3,039	.	.	.	.
Gross external debt in % of GDP	61.4	65.8	.	.	.	.

Slovenia

Slovenia is in the throes of the fifth wave of the pandemic, with only 57% of the total population double-vaccinated. Nevertheless, the people have, by and large, adapted to the new reality, as shown by a projected 8.8% rise in private spending in 2021. After a year in which the country's economic growth exceeded expectations – with a growth rate of 6.6% – the figure will slow in 2022 to 4.1%. Private spending will grow by 4.5%, and investment activity should stay strong at 7.8%. While GDP and exports exceeded pre-crisis levels some months before the end of 2021, two important economic sectors – tourism and automotive – are still operating below the pre-crisis levels of output: the former due to the pandemic and the latter due to supply-side issues. Whether they will recover fully in 2022 is unclear. Compared to previous years, inflation will stay high through most of 2022. The consumer price index will grow by 3.2% and export prices by 2.8%, indicating that exporters will attempt to take on some of the cost increases. Rising energy prices are also of concern to energy-intensive sectors, which play a prominent role in the economy. With a rapidly rising structural deficit, the sustainability of public finances is also under discussion; that said, the public deficit will decrease substantially year-on-year (to 2.4% of GDP), due to the reduction in COVID-related expenditure, and public debt will hover at around 80% of GDP. With parliamentary elections scheduled for April, no tightening of fiscal policy is to be expected, and any major reforms will likely be pushed into 2023.

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
Population, 1,000 persons	2,088	2,102	.	.	.	.
GDP, real change in %	3.3	-4.2	6.6	**4.1**	**3.3**	**3.0**

				FORECAST*		
Main economic indicators	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**
GDP per capita (EUR at PPP)	27,660	26,540	.	.	.	.
Gross industrial production, real change in %	3.1	-5.3	.	.	.	.
Unemployment rate - LFS, in %, average	4.5	5.0	4.3	**4.0**	**3.9**	**3.6**
Average gross monthly wages, EUR	1,754	1,856	.	.	.	.
Consumer prices, % p.a.	1.7	-0.3	2.0	**3.2**	**1.5**	**1.5**
Fiscal balance in % of GDP	0.4	-7.7	-6.7	**-2.4**	**-2.5**	**-2.1**
Public debt in % of GDP	65.6	79.8	.	.	.	.
Current account in % of GDP	6.0	7.4	5.2	**4.6**	**4.7**	**5.0**
FDI inflow, EUR m	1,919	431	.	.	.	.
Gross external debt in % of GDP	91.5	101.9	.	.	.	.

Appendix 3: Data used in SPSS

wiiw FDI Database	
Tree Level 1:	FDI total
Update:	continuously
Extracted on:	2022-02-07 21:21:58

Country	Year	FDI inflow, EUR mill	FDI inflow, EUR per capita 000)	FDI inflow in % of GDP	GDP, real change in %	Unemployment rate in %, average	Global Rank	Starting a business	Dealing with construction permits	Getting electricity	Registering property	Getting credit	Protecting minority investors	Paying taxes	Trading across borders	Enforcing contracts	Resolving insolvency	Coraption CPI ranking
Albania	2010	793.3	272.3	3.7	3.7	14	82	46	173	70	15	15	138	66	91			33
Albania	2011	630.4	217.0	2.5	2.5	14	82	45	170	72	15	15	149	75	89			31
Albania	2012	665.8	229.6	1.4	1.4	13.4	82	61	183	154	118	24	16	152	76	85	64	33
Albania	2013	953.2	329.2	1.0	1.0	15.9	85	62	185	154	121	23	17	160	79	85	66	31
Albania	2014	836.6	289.6	1.8	1.8	17.5	90	76	189	158	119	13	14	146	85	124	62	33
Albania	2015	852.4	295.9	2.2	2.2	17.1	68	41	157	152	118	36	7	131	95	102	44	36
Albania	2016	994.4	345.7	3.3	3.3	16.8	97	58	189	162	107	42	8	142	96	37	42	39
Albania	2017	1017.0	353.9	3.8	3.8	16.6	58	46	106	156	106	44	19	97	24	116	43	38
Albania	2018	1092.1	381.0	4.0	4.0	16.5	65	45	106	157	103	42	20	125	24	120	41	36
Albania	2019	1150.5	403.1	2.1	2.1	15.7	63	50	151	140	98	44	26	122	24	98	39	35
Albania	2020	970.2	341.9	-4.0	-4.0	15.9	82	53	166	107	98	48	111	123	25	120	39	36
Bosnia & Her	2010	306.6	79.8	2.4	0.9	27.2	116	160	136	139	61	93	128	63	124			32
Bosnia & Her	2011	357.2	93.0	2.7	1.0	27.6	110	160	139	103	65	93	127	71	124			32
Bosnia & Her	2012	307.3	80.1	2.3	-0.8	28	125	162	163	157	100	67	97	110	108	125	80	42
Bosnia & Her	2013	208.1	58.9	1.5	2.3	27.5	126	162	163	158	93	70	100	128	103	120	83	42
Bosnia & Her	2014	414.7	117.6	3.0	1.2	27.5	131	174	175	164	96	73	115	135	107	115	77	39
Bosnia & Her	2015	325.6	92.6	2.2	3.1	27.7	107	147	182	163	88	36	83	151	104	95	34	39
Bosnia & Her	2016	316.2	90.1	2.1	3.1	25.4	79	175	171	119	97	42	66	154	66	28	38	38
Bosnia & Her	2017	436.4	124.6	2.7	3.2	25	81	174	170	123	99	44	81	133	36	64	41	39
Bosnia & Her	2018	492.5	140.9	2.9	3.7	18.4	86	175	166	122	97	55	62	137	37	71	40	38
Bosnia & Her	2019	305.1	87.4	1.7	2.8	24.1	89	183	167	130	99	60	72	139	37	75	37	36
Bosnia & Her	2020	346.8	99.8	2.0	-3.2		90	184	173	75	96	67	88	141	27	93	37	35

Kosovo	2010	365.8	206.1	9.1	4.9	41	113	164	176	68	43	172	50	132	157			28
Kosovo	2011	393.9	219.2	8.6	6.3	44.8	119	163	173	65	32	173	41	130	155			29
Kosovo	2012	229.1	126.8	4.8	1.7	30.9	117	168	171	124	73	24	174	46	131	157	31	34
Kosovo	2013	280.2	154.1	5.5	5.3	29.77	98	126	144	116	76	23	100	44	124	138	87	33
Kosovo	2014	151.2	83.4	2.8	3.3	35.26	86	100	136	121	58	28	98	43	121	138	83	33
Kosovo	2015	308.8	172.7	5.4	5.9	30.84	75	42	135	112	34	23	62	63	118	138	164	33
Kosovo	2016	220.0	123.7	3.6	5.6	27.49	66	47	136	124	32	28	57	67	48	71	163	36
Kosovo	2017	255.4	142.6	4.0	4.8	30.34	60	13	129	114	33	20	63	43	51	44	163	39
Kosovo	2018	272.1	151.4	4.1	3.4	30.38	40	10	122	106	34	12	89	45	48	49	49	37
Kosovo	2019	254.6	142.3	3.6	4.8	26.0	44	13	100	113	37	12	95	44	51	50	50	36
Kosovo	2020	345.7	193.1	5.1	-5.3	26.17	57	12	160	90	37	15	128	48	31	53	48	36
Montenegro	2010	574.2	926.9	18.4	2.7	19.6	71	85	160	131	43	27	145	47	133			37
Montenegro	2011	401.4	647.4	12.3	3.2	19.7	66	51	161	116	32	28	139	34	135			40
Montenegro	2012	482.4	777.2	15.2	-2.7	19.7	56	47	173	71	108	8	29	108	34	133	52	41
Montenegro	2013	336.9	542.4	10.0	3.5	19.5	51	58	176	69	117	4	32	81	42	135	44	44
Montenegro	2014	374.6	602.4	10.8	1.8	18	44	69	106	69	98	3	34	86	53	136	45	42
Montenegro	2015	630.3	1013.1	17.2	3.4	17.6	36	56	138	63	87	4	43	98	52	136	33	44
Montenegro	2016	204.5	328.7	5.2	2.9	17.7	46	59	91	163	79	7	36	64	43	42	36	45
Montenegro	2017	494.4	794.5	11.5	4.7	17.8	51	58	93	167	78	7	42	57	43	41	40	46
Montenegro	2018	414.8	666.6	8.9	5.1	17.5	42	60	78	127	76	12	51	70	44	12	37	45
Montenegro	2019	372.0	598.0	7.5	4.1	15.12	50	90	75	134	76	12	57	68	47	44	43	45
Montenegro	2020	463.0	745.3	11.1	-15.3	15.86	50	101	40	134	83	15	61	75	41	44	43	45
N. Macedonia	2010	160.5	78.1	2.3	3.4	32.1	32	6	137	63	43	20	26	62	64			41
N. Macedonia	2011	344.4	167.3	4.6	2.3	31.4	38	5	136	69	46	20	33	66	65			39
N. Macedonia	2012	111.2	54.0	1.5	-0.5	31	22	6	61	121	49	24	17	26	67	60	55	43
N. Macedonia	2013	252.2	122.2	3.1	2.9	29	23	5	65	101	50	23	19	24	76	59	60	44
N. Macedonia	2014	205.1	99.2	2.4	3.6	28	25	7	63	76	84	3	16	26	89	95	52	45
N. Macedonia	2015	216.7	104.7	2.4	3.9	26.1	30	3	89	88	74	36	21	7	85	87	35	42
N. Macedonia	2016	338.4	163.3	3.5	2.8	23.7	12	1	10	45	50	42	14	7	26	26	37	37
N. Macedonia	2017	181.7	87.6	1.8	1.1	22.4	10	4	11	29	48	16	13	9	27	36	32	35
N. Macedonia	2018	614.1	295.8	5.7	2.9	20.7	11	22	26	53	48	12	4	29	27	35	30	37
N. Macedonia	2019	398.8	192.0	3.5	3.9	17.28	10	47	13	57	46	12	7	31	29	37	30	35
N. Macedonia	2020	201.4	97.2	1.9	-6.1	18.4	17	78	15	69	48	25	12	36	32	47	30	35

Serbia	2010	1273.1	174.6	4.0	0.7	19.2	88	73	174	105	4	73	137	69	97			35
Serbia	2011	3548.0	490.3	10.0	2.0	23	89	83	176	100	15	74	138	74	94			33
Serbia	2012	1010.7	140.3	3.0	-0.7	23.9	92	92	175	79	39	24	79	143	79	104	113	39
Serbia	2013	1545.9	215.7	4.2	2.9	22.1	86	42	179	76	41	40	82	149	94	103	103	42
Serbia	2014	1504.6	211.0	4.2	-1.6	19.2	93	45	182	85	44	42	80	161	98	116	103	41
Serbia	2015	2115.9	298.2	5.9	1.8	17.7	91	66	186	84	72	52	32	165	96	96	48	40
Serbia	2016	2124.9	301.0	5.8	3.3	15.3	59	65	139	63	73	59	81	143	73	23	50	42
Serbia	2017	2547.9	362.9	6.5	2.1	13.5	47	47	36	92	56	44	70	78	23	61	47	41
Serbia	2018	3463.7	496.0	8.1	4.5	12.7	43	32	10	96	57	55	76	82	23	60	48	39
Serbia	2019	3814.1	549.2	8.3	4.3	10.4	48	40	11	104	55	60	83	79	23	65	49	39
Serbia	2020	3036.7	440.2	6.5	-0.9	9.8	44	73	9	94	58	67	37	85	23	65	41	38
Slovenia	2010	79.6	38.8	0.2	1.3	7.84	53	26	59	108	87	20	84	84	60			41
Slovenia	2011	782.2	381.1	2.1	0.9	8.17	42	28	63	97	116	20	80	56	60			40
Slovenia	2012	264.1	128.4	0.7	-2.6	8.84	37	28	81	27	79	98	24	87	50	58	39	46
Slovenia	2013	-113.9	-55.3	-0.3	-1.0	10.1	35	30	61	31	83	104	17	63	57	56	42	48
Slovenia	2014	791.3	383.8	2.1	2.8	9.67	33	38	59	32	83	109	14	54	48	52	41	48
Slovenia	2015	1509.8	731.6	3.9	2.2	8.96	51	15	90	31	90	116	14	42	53	122	42	51
Slovenia	2016	1125.6	545.1	2.8	3.2	8	29	18	71	35	36	126	7	35	117	1	12	49
Slovenia	2017	794.7	384.6	1.8	4.8	6.56	30	49	80	16	34	133	9	24	1	119	12	49
Slovenia	2018	1172.1	565.2	2.6	4.4	5.11	37	46	100	19	36	105	24	58	1	122	10	48
Slovenia	2019	1306.8	625.7	2.7	3.3	4.95	40	38	120	23	56	112	30	41	1	110	9	60
Slovenia	2020	180.1	85.6	0.4	-4.2	4.97	37	40	119	23	54	119	18	45	1	112	8	60

Sources:

https://unctad.org/
https://www.doingbusiness.org/
https://ec.europa.eu/eurostat/
https://www.transparency.org/
http://wiiw.ac.at/annual-database.html

Table: Excluded variables

Model		Beta In	t	Sig.	Partial correlation	Collinearity statistics	VIF	Minimum tolerance
1	Imp_SB	.251a	1.78	0.082	0.254	0.713	1.403	0.713
	Imp_DCM	.192a	1.567	0.124	0.225	0.957	1.045	0.957
	Imp_GE	.136a	1.119	0.269	0.163	0.989	1.011	0.989
	Imp_RP			0.013	0.357	0.682	1.466	0.682
	Imp_GC	-.086a	-0.559	0.579	-0.082	0.638	1.567	0.638
	Imp_PT	.527a	3.548	0.001	0.464	0.538	1.859	0.538
	Imp_TAB	.248a	2.109	0.04	0.297	0.998	1.002	0.998
	Imp_EC	.009a	0.072	0.943	0.011	0.941	1.062	0.941
	Imp_RI	-.032a	-0.223	0.825	-0.033	0.751	1.331	0.751
2	Imp_SB	.159b	1.213	0.231	0.178	0.679	1.472	0.486
	Imp_DCM	.075b	0.633	0.53	0.094	0.861	1.161	0.484
	Imp_GE	.092b	0.833	0.409	0.123	0.975	1.025	0.531
	Imp_RP	.152b	0.973	0.336	0.144	0.485	2.062	0.382
	Imp_GC	.104b	0.709	0.482	0.105	0.554	1.807	0.31
	Imp_TAB	.214b	2.022	0.049	0.289	0.99	1.01	0.533
	Imp_EC	.066b	0.575	0.568	0.085	0.923	1.083	0.499
	Imp_RI	.113b	0.858	0.395	0.127	0.683	1.465	0.489
3	Imp_SB	.051c	0.349	0.728	0.053	0.535	1.871	0.468
	Imp_DCM	.024c	0.207	0.837	0.031	0.818	1.222	0.484
	Imp_GE	.147c	1.356	0.182	0.2	0.928	1.078	0.523
	Imp_RP	.159c	1.051	0.299	0.157	0.485	2.063	0.379
	Imp_GC	-.089c	-0.513	0.611	-0.077	0.371	2.692	0.251
	Imp_EC	-.060c	-0.471	0.64	-0.071	0.693	1.444	0.482
	Imp_RI	.144c	1.122	0.268	0.167	0.674	1.483	0.487

Source: Own work

a) Predictors in the model: (Constant), Imp_PMI
b) Predictors in the model: (Constant), Imp_PMI, Imp_PT
c) Predictors in the model: (Constant), Imp_PMI, Imp_PT, Imp_TAB
d) Dependent variable: FDI_InflowsPC

Table: Correlations between variables

		FDI_InflowsPC	Imp_SB	Imp_DCM	Imp_GE	Imp_RP	Imp_GC	Imp_PMI	Imp_PT	Imp_TAB	Imp_EC	Imp_RI
Pearson Correlation	FDI_InflowsPC	1	-0.118	0.068	0.076	-0.066	-0.387	0.553	-0.093	0.222	-0.125	0.252
	Imp_SB	-0.118	1	0.249	-0.26	0.252	0.75	-0.536	0.498	0.419	0.486	-0.663
	Imp_DCM	0.068	0.249	1	-0.244	-0.051	0.211	-0.208	0.368	0.245	0.301	0.027
	Imp_GE	0.076	-0.26	-0.244	1	0.582	-0.466	-0.106	0.157	-0.202	-0.291	0.304
	Imp_RP	-0.066	0.252	-0.051	0.582	1	-0.039	-0.564	0.709	0.051	0.074	-0.299
	Imp_GC	-0.387	0.75	0.211	-0.466	-0.039	1	-0.602	0.195	0.425	0.568	-0.558
	Imp_PMI	0.553	-0.536	-0.208	-0.106	-0.564	-0.602	1	-0.68	-0.045	-0.242	0.499
	Imp_PT	-0.093	0.498	0.368	0.157	0.709	0.195	-0.68	1	0.098	0.066	-0.531
	Imp_TAB	0.222	0.419	0.245	-0.202	0.051	0.425	-0.045	0.098	1	0.476	-0.137
	Imp_EC	-0.125	0.486	0.301	-0.291	0.074	0.568	-0.242	0.066	0.476	1	-0.157
	Imp_RI	0.252	-0.663	0.027	0.304	-0.299	-0.558	0.499	-0.531	-0.137	-0.157	1
Sig. (1-tailed)	FDI_InflowsPC	.	0.21	0.32	0.301	0.325	0.003	0	0.264	0.062	0.195	0.04
	Imp_SB	0.21	.	0.042	0.036	0.041	0	0	0	0.001	0	0
	Imp_DCM	0.32	0.042	.	0.045	0.365	0.073	0.076	0.005	0.045	0.018	0.427
	Imp_GE	0.301	0.036	0.045	.	0	0	0.235	0.14	0.082	0.021	0.017
	Imp_RP	0.325	0.041	0.365	0	.	0.394	0	0	0.364	0.306	0.018
	Imp_GC	0.003	0	0.073	0	0.394	.	0	0.089	0.001	0	0
	Imp_PMI	0	0	0.076	0.235	0	0	.	0	0.379	0.047	0
	Imp_PT	0.264	0	0.005	0.14	0	0.089	0	.	0.253	0.327	0
	Imp_TAB	0.062	0.001	0.045	0.082	0.364	0.001	0.379	0.253	.	0	0.174
	Imp_EC	0.195	0	0.018	0.021	0.306	0	0.047	0.327	0	.	0.141
	Imp_RI	0.04	0	0.427	0.017	0.018	0	0	0	0.174	0.141	.
N	FDI_InflowsPC	49	49	49	49	49	49	49	49	49	49	49
	Imp_SB	49	49	49	49	49	49	49	49	49	49	49
	Imp_DCM	49	49	49	49	49	49	49	49	49	49	49
	Imp_GE	49	49	49	49	49	49	49	49	49	49	49
	Imp_RP	49	49	49	49	49	49	49	49	49	49	49
	Imp_GC	49	49	49	49	49	49	49	49	49	49	49
	Imp_PMI	49	49	49	49	49	49	49	49	49	49	49
	Imp_PT	49	49	49	49	49	49	49	49	49	49	49
	Imp_TAB	49	49	49	49	49	49	49	49	49	49	49
	Imp_EC	49	49	49	49	49	49	49	49	49	49	49
	Imp_RI	49	49	49	49	49	49	49	49	49	49	49

Source: Own work