

PMA – A New Framework for Assessing FDI Attractiveness

Stavros Karelis

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Supervisor: Dimitrios Kyrkilis

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University of Macedonia

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Abstract

FDI is a very important factor for every national economy. Inward FDI increases job opportunities in the target country, which helps counter-fighting unemployment, a very hot issue in the contemporary world. Furthermore, inward FDI is a positive flow of money helping to improve the country's balance of payments (BoP).

The importance of FDI in contemporary international economics, leads to a thorough research for the characteristics, which attract foreign investors, the so-called 'FDI determinants'. But the FDI decision is a very complex procedure, based upon data, facts, incidents, characteristics, perceptions etc, making the tracking and identification of the determinants also a very complex issue. Moreover, the FDI-decision is two sided: the side of the investor, searching for the best possible destination for his investment, and the side of the countries' policy makers, who try to attract as much foreign capital as possible.

Under these considerations, the need for a tool that could assess the countries' performance, in terms of FDI attractiveness, is obvious. This tool would help potential investors to find the best possible target country, and countries' policy makers to find and improve their country's weaknesses.

This paper suggests a new framework accompanied by a model for determinants' prioritization and assessment. The tool's aim is to help potential investors and policy-makers to their FDI related decisions. Its methodology consists of three steps: division of the period of research into sub-periods with similar characteristics; a filtering matrix, which helps prioritize the data and organize them into categories and an assessment tool that gives the desired results.

The framework is presented and tested for three Southeast-European countries: Albania, Bulgaria and Romania.

Preface

This dissertation is original, unpublished, independent work by the author, S. Karelis.

Acknowledgements

I am using this opportunity to express my gratitude to everyone who supported me throughout the course of this MA project. I am thankful for their aspiring guidance, invaluable constructive criticism and friendly advice during the project work. I express my warm thanks to my family for their support. I am sincerely grateful to my supervisor, Dr. Dimitrios Kyrkilis, Professor at University of Macedonia. I also want to express my gratitude for all my Professors and the secretarial staff of the Balcan, Slavic and Oriental Studies Department for their availability and willingness to help.

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SECTION I - Introductory

1. Introduction

Foreign Direct Investment (FDI) is a topic of international economics that became very popular the last 15-20 years, in academic and business cycles. The internationalisation and globalisation trends push the production plants to move to more efficient regions and the decision of '*where to transfer them*' has evolved into a complex and difficult topic. Moreover, it is not only the production which seeks for the best possible answer to this question. Internet and other incidents that help organizations to go global, also push the service section to spread to more countries and such organizations seek for a new base in order to exploit new regions. All these lead to the same question: Which country to choose for an investment and how to make this choice, based on rational tools, methods and data.

The present paper aims to give a new aspect and perspective in pursuing the answers to the questions concerning FDI. It suggests a new framework and a model, which could serve as a tool to choose the most appropriate destination for investors and also serve as a tool for a country's policy makers, to assess their potential and compare to other countries in order to achieve the maximum attractiveness for foreign capital.

In the first section, we explore in a timeline-like way the various theories suggested for FDI interpretation by various well-known and respectable theorists, in order to get a clear idea, how those theories evolved through time and through the differentiation of the main focus of the industries and their needs.

In section two, the methodology of the PMA framework will be analysed and presented. It is a three step framework, including a periodization process, a Matrix of determinants influencing the FDI decisions and an Assessment tool, based on the Matrix of determinants. As analysed in section 5.2 of the present paper, it gives a prioritization of determinants in categories and every category is broken down into more determinants to assess an overall score for the country (or countries) of research.

In the third section, you will find the FDI and FDI-relative data concerning the countries of research. For the scope of this paper, we take into account only the FDI inflows. Stocks and outflows are not included as considered out of the scope.

Section four is the application of the PMA framework. Starting with periodization, we go through the countries' evaluation and continue with their assessment, giving the end results. This is also the main purpose of this paper and includes the conclusions of this work.

Finally, section five contains bibliography and an appendix with useful information about the countries of research.

2. Aim of the paper

The aim of this paper is to propose a new framework, which hopefully gives a new perspective for processing the evaluation of a country's FDI attractiveness. As it is highlighted in the beginning of the methodology chapter, the FDI decision has two sides: The side of the investor who looks for the best possible country to invest and the side of the countries' policy makers that need to find a way to attract more foreign capital. Those two sides walk a different path, mainly in the order of the steps for their research. But, despite which way you stay, it always ends up to the same key issue: The assessment of the potential country(ies).

For that a framework is suggested by the present paper, which consists of three steps:

1. The division of the research period in sub-periods with similar characteristics and hence similar FDI results.
2. A matrix of determinants, which prioritizes the characteristics and incidents of the country that are related to the FDI inflows, and secondly divides the suggested determinants into categories.
3. An assessment tool, based on the matrix, which tracks down the country's performance for each category, as well as an overall result.

The main questions put by the paper are:

1. Can the PMA model, depict the behaviour of the FDI curve? Is it consistent to the data? Working with past data, gives us the possibility to verify if the results of the model are accurate or wrong.
2. Can the PMA model help to assess countries and contribute to the FDI research for both: investors and policy makers of the countries? If the results of the model are consistent with the past-data and if its results depict the FDI performance of the three countries, then it might be proved as a successful model.

3. FDI theories and frameworks – stylized facts

First Theories: FDI is based upon market imperfections and ownership advantages

Authors such as Hymer (1976) and Kindleberger (1969) believe that there must be imperfections in the markets for goods or factors of production for there to be FDI. Hymer (1976) also confirms that investment abroad involves high costs and risks inherent to the drawbacks faced by multinationals because they are foreign. These include the cost of acquiring information due to cultural and language differences and the cost of less favourable treatment by the governments of host countries. The multinationals will thus have to have ownership advantages (e.g., innovative products, management skills, patents, and so forth) to offset the disadvantages (Dunning, 1993).

The product differentiation

In terms of ownership advantages, Caves (1971) focused his study on product differentiation in the belief that FDI has an advantage over export and licensing if product differentiation is based on the knowledge.

The rivalry of oligopolies

Knickerbocker (1973) based his study on the relationship between FDI and the oligopoly rivalry between firms. He asserted that the FDI flows reflect the strategic rivalry between companies in the global market as a result of reactive behaviour to the entry of competitors in certain markets. In other words, firms often have imitative behaviour: they follow the internationalization of competitors so that they will not lose their strategic advantage (Knickerbocker, 1973). Aharoni (1966) explained why companies opt for FDI through competition factors, such as the fear of loss of competitiveness, the need to follow rivals into foreign markets and increased competition in the domestic market.

Product Cycle

But rivalry between firms also affects their decisions to cut production costs to become more competitive, which led Vernon (1966) to explore the theory of product life cycle. He found that firms choose to invest directly in a given place as an alternative to exporting, in so far as goods travel along the curve of their life cycle (growth, maturity and decline), and to the extent that as they decline they have fewer

needs in terms of specialized labour and innovative technology. In the growth stage, companies invest in other developed countries where markets are growing and local production can be absorbed, while in the maturity and decline stages production is shifted to developing countries inasmuch as markets become saturated and products are less innovative, thereby generating pressure to reduce costs (Hill, 2007).

Internalization theory

Internalisation theory was first broached by Buckley and Casson (1976), who argued that firms choose to internalise operations through FDI when transaction costs (such as information and negotiation costs, arising from recourse to the market) are higher than internalisation costs (related to internal communication and organisation). When market risk and uncertainty are high then transaction costs are high, and internalisation of operations is preferred, leading to undertake an FDI decision.

Buckley and Casson (1976) also consider that in certain markets (e.g., markets for knowledge) there is a particularly strong incentive to internalise. The authors say that knowledge is a public good within a company, and so it can be used in several corporate divisions at no extra cost, and is easy to transfer from country to country. Furthermore, a buyer's problem in establishing the true value of the knowledge to be acquired makes its transaction on the market rather problematic.

The OLI paradigm (Dunning)

The more holistic approach of Dunning, the eclectic or OLI paradigm embraces the internalisation theory and traditional trade theories (Dunning, 2002), and systematises the benefits for firms that operate internationally, connecting them to the chosen entry modes (Faeth, 2009). For Dunning (1977), there are advantages in choosing FDI when there are simultaneously ownership advantages - O, location advantages - L internalisation advantages - I. Ownership advantage concerns the importance of a firm owning assets such as pioneering technology, exclusive productive processes, patents, management skills and such like, that can generate profits in the future (Dunning and Lundan, 2008). Location is important when a company gains from its presence in a given market by benefiting from conditions such as: special tax regimes; lower production and transport costs; market size; access to protected markets, and lower risk (Dunning and Lundan, 2008). Market imperfections (e.g., the imbalance of international allocation of resources) can be reduced by internalising operations,

allowing a reduction in transaction costs associated with risks of copying technology, for instance (Dunning, 2002). The choice of a particular location is therefore based on specific conditions that are in its favour (Ietto-Gillies, 2005). Dunning's eclectic paradigm brings together several complementary theories, identifying a set of variables (ownership, location and internalisation) that determine the activities of multinational firms (Dunning and Lundan, 2008). The essence of this approach is the application of these variables to trade, to international production and to the international organisation of production, which means that the same analytical framework can cover the three main modes of internationalisation: exports, FDI and licensing. (Ietto-Gillies, 2005).

Based on Kindleberger's theoretical models (1969) along with those of Hymer (1976) and Caves (1971) (cited in Faeth, 2009), an alternative analytical framework emerges - a "new theory of trade" - that combines the advantages of ownership (knowledge) and location (market size and low transaction costs) with technology and the intrinsic characteristics of a country (factor endowments). This new theory is an addition to Dunning's eclectic paradigm in that it aims to correlate the three variables OLI (ownership, location, internalisation) with technology and a country's characteristics in a coherent manner (Markusen, 2002). Several empirical studies have been published on this (e.g., Helpman, 1984, 1985; Markusen, 1984, 1997, cited in Faeth, 2009).

Institutional theory

To round up this analysis of the theoretical models we should explain the influence of political variables on FDI, from the institutional standpoint. Institutional theory suggests that firms operate in a complex environment that is uncertain and sometimes confrontational, and so a company's decisions will depend on the institutional forces that have an influence on it, especially on regulations and incentives (Francis et al., 2009). In this context, the strategies adopted by companies and their performance on international markets are largely determined by institutions, that is, by the "rules of the game" (Peng, 2009). Foreign investment can thus be regarded as a 'game' in which the players are the multinational firm and the government of the host country, or as a contest between governments to attract FDI (Faeth, 2009). Government policies that include tax breaks, subsidies and easy repatriation of capital (Faeth, 2009) can thus influence the choice between exporting, FDI and licensing. This issue has

been examined by a number of authors, such as Bond and Samuelson (1986), Black and Hoyt (1989) and Hubert and Pain (2002) (in Faeth, 2009), who have concluded that financial and fiscal incentives, tariffs and lower corporate tax rates have a positive effect on attracting FDI (Faeth, 2009). Corruption is another, equally important, factor in firms' decisions to opt for a particular place. Bénassy-Quéré et al. (2007) and Cleeve (2008) are among those authors who say that low levels of corruption are linked to greater prosperity and have a considerable influence on the institutional quality of a country, and stimulate its development.

SECTION II - Methodology

4. The PMA framework concept

FDI is a two sided process: The side of the investor, who tries to choose the best possible location (country) for his investment; and the side of the country, that tries to attract as much FDI as possible. The way to meet decisions, while similar for both players, is very different in the direction and the prioritization of what is important. Especially from the investor's side, the priorities could vary not only by the sector of his business in the home country, but also by the FDI purpose. For example, an investor active in food and beverages production, could have a variation of FDI purposes. He could internalize a market, due to importation restrictions, he could search for possible input resources (springs of water for the beverage-production), or even buy a production plant, from a similar business counterpart in the host country that was forced to close its production, due to liquidity problems, or even build a new plant in the host country, to exploit low wages and low raw-material prices of this country. Those different purposes cause a different prioritization for the relevant determinants that influence the FDI decision.

This paper suggests a modelling to filter out the relevant determinants from the investor's side. The author calls it the '**Matrix-model**' and the output of it the 'Determinants Mix'. This thought is based on the logic of the "Marketing Mix"¹, which is a very popular tool to help companies build their own and specific marketing strategy. The word "mix" implies that every company (or country) has particularities; hence, they have to be able to build up their own map on the determinants that lead them to the right decisions.

From the host-country's side, the Matrix model helps to track down the general categories in which the country has a weak performance. This way, after putting the

¹ McCarthy, Jerome E. (1960), "Basic Marketing. A Managerial Approach", Homewood, IL: Richard D. Irwin.

data into the Matrix-model, we apply a SWOT analysis² to help the decision-makers undertake the right measures to improve the country's FDI-attractiveness.

Furthermore, a framework based on the Matrix model suggests the Assessment process of various countries. This is called by the author the '**MPA-framework**' (**Matrix-Periodization-Assessment framework**). After filtering the relevant determinants and building up a case-specific Determinants-mix, we dig into the country's data. Taking the FDI curve, we can easily see that the behaviour of this curve has similar patterns. If we divide the curve in different Periods (**Periodization**), it helps us to track down possible similar changes on the determinants and draw some conclusions about the triggering causes of those changes.

Then, we proceed to assess (**Assessment**) the country's(ies') performance, based again on the Matrix-model. The most important point here, is that different potential investors, could calculate a different assessment result, based upon their own determinants-mix. Enterprises from different sectors, or even enterprises of the same industry / sector, but with different FDI-purposes (horizontal, vertical, platform), could assess a country as optimal for its investment, while others assess the same country as not appropriate to undertake an investment.

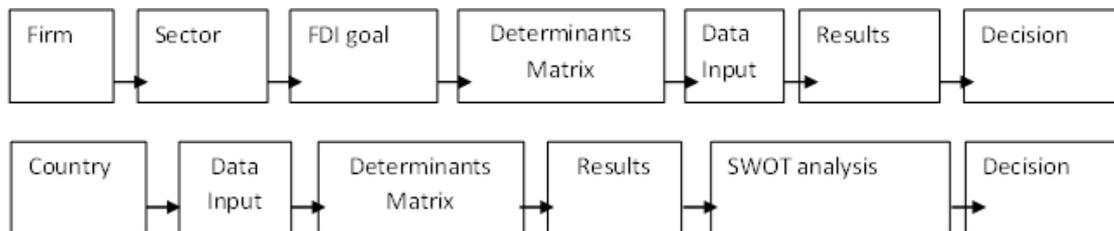
At this point, we have to note, that due to the limited scope of the paper, we will see a case-study only from the firm's perspective and a hypothetical example to choose between three candidate countries without having a specific FDI-purpose. Future development of the framework and the model could try more specific cases from both sides (investor and host-country).

The framework could help investors to compare potential countries and meet the right decisions, but it could also serve as a comparison tool among potential countries, in order to help them focus on how to improve their position, and consists of three steps:

² From wikipedia.org: A SWOT analysis is a structured planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or in a business venture. A SWOT analysis can be carried out for a product, place, industry or person. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favourable and unfavourable to achieve that objective. Some authors credit SWOT to Albert Humphrey, who led a convention at the Stanford Research Institute (now SRI International) in the 1960s and 1970s using data from Fortune 500 companies. However, Humphrey himself does not claim the creation of SWOT, and the origins remain obscure.

- Construct a determinants-mix based on the **Matrix**, with the important determinants for the FDI decision (or FDI attraction).
- Divide the FDI curve in **Periods**, to better trace changes in the inputs of the Matrix.
- Build an **Assessment** tool, based upon the determinants-mix and come to a personalized result.

Figure 1: The process of FDI decision for investors and policy-makers



Source: Author's elaboration

4.1.Periodization (Dividing the FDI curve into Periods)

In order to better analyse the various trends of the FDI curve, we suggest dividing it in periods with similar FDI behaviour. We set out four distinguished patterns of FDI behaviour:

1. Flat: more or less FDI remains at the same levels with very slight changes (positive or negative).
2. Smooth changes: Small rising or declining for more than 3 years in a row to the same direction.
3. Sharp changes: Strong rising or declining for more than 3 years in a row to the same direction.
4. Fluctuated: Small or big ups and downs, similar in size.

Those patterns will help us to better understand the reasons for its behaviour. Especially in the case of changes (rising or declining), we have to search out if a category or even a determinant belonging to a category of our Matrix, shows the same behaviour, or if many determinants changed in the same direction. Same goes also by the fluctuating pattern, whereby the flat pattern shows stabilization in the flows.

By the periodization process, patterns will be identified as mentioned above, followed by the respective division of the curve in sub-periods. In a more detailed research, sophisticated statistic tools could be facilitated, in order to make the periodization with a more scientific method.

All in all, we hope to reveal that countries of the same region face similar patterns in similar sub-periods. This would be rather interesting, because it allows to simultaneously analyse the matrix for each country, searching for similar indices.

4.2. The filtering Matrix

The first step is the filtering Matrix. This Matrix is based on the Dunning's approach of the four classic motivations for FDI (Dunning, 1993). These are: market seeking, efficiency seeking, resource seeking and asset seeking.

This approach, while accurate, leaves out the differentiation of determinants priorities by excluding the investor's sector of activity. Companies offering financial services, have different needs and subsequently purposes than companies extracting oil or natural minerals. Even in less contrasting examples, we can easily think of different priorities of what a company takes as important or not. That is why a filtering matrix is suggested, which helps the investor build his own determinants mix. For that, various indicators from well-known and respectable organizations are borrowed. A later development of this model could fine-tune those indicators and facilitate more specific criteria. The most important point of the filtering matrix is the new categorization of the determinants that it presents in the following units.

4.2.1. Unique Points

Starting with the most important category, we have to consider the term USP^{3,4}, used in marketing. The notion of USP tries to find the unique characteristics of a product,

³ Reeves, Rosser (1961). Reality in Advertising. Macgibbon and Kee. pp. 46–48.

⁴ The unique selling proposition (USP), or unique selling point, or "unique selling product" or "unique selling price" is a marketing concept first proposed as a theory to explain a pattern in successful advertising campaigns of the early 1940s. The term was developed by television advertising pioneer Rosser Reeves of Ted Bates & Company.

in order to take an advantageous position among competition. For our purposes we paraphrase this term in the same spirit and use it to describe:

- a) Unique needs of the investor
- b) Unique characteristics of a country

Consider a company, which is active in gold mining. There is no question about the location or even about determinants that assess various countries to find out what is the best for gold-mining. It is a unique need and the choice is contempt in locations on earth having this raw material. Those unique materials are not a very small portion of investments. In the same category, we could consider less obvious examples like:

- Marble (and other stones)
- Various metals and substances, extracted from the earth (oil and natural gas included)
- Sun (solar power), wind (wind power) and other sustainable energy sources.
- Touristic sector investments, etc.

This unique point, applies to both investor and potential country. From the investor's side, when a unique resource is needed, the investor's choices are limited. The more unique the resource, the more limited are the location choices and the rest of the determinants fade out in significance. From the country's side, a unique point is a powerful resource to promote, in order to attract potential investors.

4.2.2. Opportunities or Threats

This category refers to characteristics, limited in duration, which gives to potential investors an opportunity or could be a threat, which the investor should take into consideration by the candidate countries' evaluation. From the host country's side, opportunities could be created in order to attract more FDI, or political decisions could disincline potential threats. To keep it simple, the following criteria will be considered as opportunities or threats:

- Privatizations. Fire-sales of tangible or intangible assets or shares of state-owned companies (power, telecommunications, railways, airways, large infrastructure projects tenders, etc).
- Subsidies
- Tax holidays

- Trade limitations or barriers (a threat that urges foreign companies to internalize the market).
- Internationality. Positive or negative conjunctures like membership in international organizations (like EU, or Eurozone), international disputes, or even bilateral or multilateral conflicts (war) etc.

4.2.3. Prerequisites

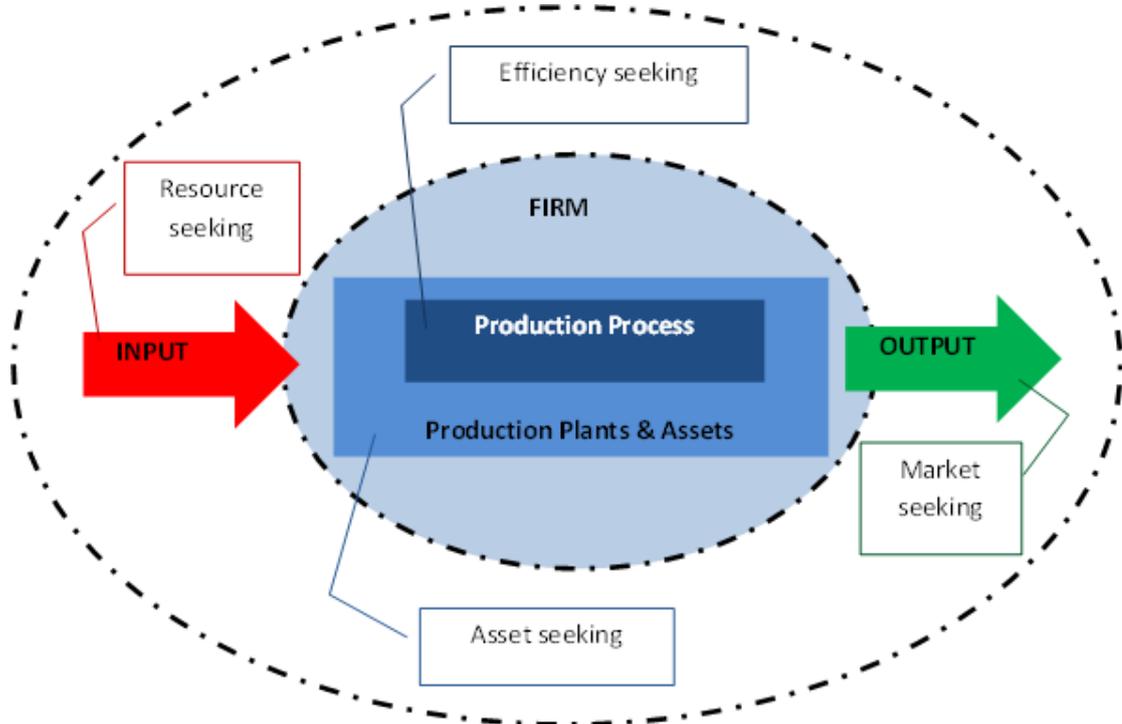
The third category includes all the characteristics that investors have to take into account, to better understand the political, financial and institutional climate of the potential countries. Political stability, as well as a minimum of fiscal and economic health are initial factors before someone considers investing in a foreign country. Furthermore, well-functioning institutions and simple procedures to start, operate or even close a business are also important criteria. The countries themselves have to take this category into consideration, in order to provide the best possible environment to potential investors. In this category we include respectable indexes in order to assess the countries:

- Freedom house index (degree of Democratization)
- IEF index (index of Economic Freedom)
- EDB index (Ease of Doing Business index)
- CPI (Corruption Perception Index)

4.2.4. Usable resources

This category encompasses all the resources (Unique-Points determinants excluded), that a country could promote, or a potential investor could take advantage of. Not only natural resources like minerals, but also possible low wages, potential customers in new markets, or even proximity or access to bigger markets are factors of this category. The schema below depicts the determinants included in this category. It also encompasses the Dunning's motivation categories (Dunning, 1993).

Figure 2: Useful Resources Category combined with Dunning's motivation categories



Source: Author's elaboration

There was a hesitation to include the market seeking category of motivation into the useful resources. After consideration, the markets are for the firm a resource of money, by selling its products or services, which contributes to the firm's existence. Consequently, in a wider view, it can be included in the category of resources. This category includes:

- Human capital
- Potential markets for products / services
- Natural resources (not rare substances included in the UP category)
- Infrastructures (telephone lines, sufficient power, internet, roads, ports, airports, railways, etc).
- Trade activity – product markets efficiency
- Financial markets efficiency
- etc.

Because of the difficulty to assess those determinants, we use the GCI index (Global Competitiveness Index), which assesses all the relevant criteria that we include in this category.

4.3. Assessment

The assessment of the research countries (Albania, Bulgaria and Romania), follows the flow of the filtering-matrix. The first priority is to check, whether the country has a *Unique Point*. If such a point exists, the country should take advantage of this uniqueness before searching out other ways to attract FDI. Here we have to point out, that these points might not exist all the time, but come up after research in the underground (like the oil reserves of Cyprus). Next, we proceed with *Opportunities and Threats*. For that we have to do a little research, if the countries have engaged in privatizations (small or large scale) and in which point of time it has occurred. This category has an urge nature. Most probably an opportunity that occurs will not be valid for ever and on the other hand, a threat that occurs requires extra attention from the investor's side.

If the first two categories have no significant findings, we proceed to evaluate the *Prerequisites*. This is the category with the overall social, political and economic characteristics of the host country. For the evaluation of this category, we facilitate various well-known and respectable indexes and rankings, developed by international organizations. For that we have to compile the different indexes into a general scale grading system (zero to ten is suggested).

For the usable resource we go through the same procedure as by the prerequisites, in order to have the same scaling. From the side of the investor, in this category there is room to take out some determinants, depending on the nature of the investor's company and the FDI purpose in concern (case specific determinants-mix).

Figure 3: The assessment categories and their determinants



Source: Author's elaboration

The logic behind this assessment-model, is to prioritize the crucial determinants, while leaving the less important ones in the background. According to that, the *Unique-Points-determinants* are the first determinants to consider. If there are such, other determinants play a less significant role in the assessment process, or even they'll be left out completely, in case of real rare characteristics of the country, or real rare resources needed for the FDI to take place. This is the fact, not only for the assessment process, but also for the subsequent decision making process made by investors. We know examples of investments (gold, diamonds, oil) that have been taken place in countries with dangerous political or economic environment, ignoring all those negative factors (determinants). It is very difficult to quantify the category Unique Points. So, if such a factor exists, it has equal value as all other categories together. This way we track down risky decisions in cases where all the other categories are proved to be very negative.

After that, assuming the absence of Unique-points, we investigate the presence of *Opportunities and Threats*. For example: If the investor is a large telecommunications company and a candidate country decides to sell a part or the whole state-owned telecommunications organization, this constitutes an opportunity. Also in this category falls the presence of other investments that attract the investor of research. If an investment that takes place in a foreign country, constitutes an opportunity for another foreign investment, then it is also considered as an *Opportunity* (positive externalities). This way we also catch the so called *spill over or agglomeration effects* of investments. From the other side, if a candidate country is about to engage in a conflict with neighbouring countries in the area, an investment in this country, despite other possible positive factors, should be out of the question. Opportunities and Threats again, is difficult to be quantified. Because of its significance its value is equal with the sum of the other two categories. A table to evaluate the O & T's is suggested as follow:

Table 1: Points scale of Opportunities and Threats category

Threats	Points	Opportunities	Points
No threats	10,0	Tax holidays - Subsidies	10,0
Trade barriers – restrictions - competition	7,5	Privatizations – fire sales	7,5
Recession / economic instability	5,0	Market opportunities - economic growth	5,0
Political unrests / disputes	2,5	Presence of other Foreign Investors	2,5
Conflict /war	0,0	No opportunities	0,0

Source: Author’s elaboration.

Total absence of threats, gives ten points to the evaluation. The application of trade barriers or restrictions in countries where the investor exports his goods could force him to undertake a foreign investment and takes 7.5 points. If the host country experiences an economic recession, or has a very instable economic environment, makes it less attractive for the investor and takes 5.0 points. Premature elections or election disputes, are indicative for instable socio-political environment, which in turn makes the host country ver unattractive and takes 2.5 points. In case of conflicts (civil unrests or war), the category takes zero points. If threats have a score less than five, all other categories and factors will be considered as zero and a potential investment should be aborted.

In case of lack of opportunities this category will receive a zero in the evaluation. The presence of other foreign investors is considered as a plus, giving to the category 2.5 points. The emerging of new free trade areas (e.g. countries joining EU and Eurozone), is considered as an opportunity to serve new markets with lower cost transactions and the category receives 5.0 points. If the government brings into force new laws for tax holidays or subsidies for foreign investments, then the category receives 7.5 points. In case of privatizations similar to the sector of the potential investor, or fire sales of state-owned assets, the category takes a 10.

In case we have no threats below 5.0 points, the countries’ overall political, social and economic (fiscal) climate, the so-called *Prerequisites*, should be evaluated. For that we use respectable indexes, which we convert into a scale from 0 to 10, with zero the worst score and 10 the best possible score, as follow:

- **Freedom house index.** The Freedom in the World survey provides an annual evaluation of the state of global freedom as experienced by individuals. The survey measures freedom—the opportunity to act spontaneously in a variety of fields outside the control of the government and other centres of potential

domination—according to two broad categories: political rights and civil liberties. Each country and territory report includes an overview section, which provides historical background and a brief description of the year’s major developments, as well as a section summarizing the current state of political rights and civil liberties. In addition, each country and territory is assigned a numerical rating—on a scale of 1 to 7—for political rights and an analogous rating for civil liberties; a rating of 1 indicates the highest degree of freedom and 7 the lowest level of freedom. These ratings, which are calculated based on the methodological process described below, determine whether a country is classified as Free, Partly Free, or Not Free by the survey.⁵ To convert the scores into our scale (1 to 10), we calculate: **(1- (Score/7))*10.**

- **IEF.** Economic freedom is the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please. In economically free societies, governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself. It measures economic freedom based on 10 quantitative and qualitative factors, grouped into four broad categories, or pillars, of economic freedom: Rule of Law, Limited Government (fiscal freedom, government spending), Regulatory Efficiency (business freedom, labour freedom, monetary freedom) and Open Markets (trade freedom, investment freedom, financial freedom). Each of the ten economic freedoms within these categories is graded on a scale of 0 to 100. A country’s overall score is derived by averaging these ten economic freedoms, with equal weight being given to each.⁶ For our purposes we calculate: **score/10.**
- **EDB.** The index captures several important dimensions of the regulatory environment of a country (laws and regulations) as it applies to local firms. It provides quantitative measures of regulations for starting a business, dealing with construction permits, getting electricity, registering property, getting

⁵ Source: <http://www.freedomhouse.org/report/freedom-world-2012/methodology#.VFlemDTkdv>

⁶ Source: <http://www.heritage.org/index/about>

credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.⁷ The problem with this index is that EDB does not evaluate countries with grades. It ranks economies from 1 to the number of economies participating in the index. A high ranking on the EDB index means the regulatory environment is more conducive to the starting and operation of a local firm (better performance). The index averages the country's percentile rankings on 10 pillars, made up of a variety of indicators, giving equal weight to each pillar. In order to transform the index in our scale from 1 to 10, we use the calculation:

$$(1-(\text{rank}/\text{max})) * 10$$

- **CPI.** The CPI scores and ranks countries/territories based on how corrupt a country's public sector is perceived to be. It is a composite index, a combination of surveys and assessments of corruption, collected by a variety of reputable institutions. The CPI is the most widely used indicator of corruption worldwide. A country/territory's score indicates the perceived level of public sector corruption on a scale of 0-100, where 0 means that a country is perceived as highly corrupt and a 100 means that a country is perceived as very clean.⁸ To convert the scores into our scale we simply divide with 10.⁹

After assessing all determinants in this category, we sum up and divide by 4, in order to have a final mark. This constitutes the evaluation for the category Prerequisites.

For the last category of determinants, the *Usable Resources*, we use the Global Competitiveness Index¹⁰, developed by the World Economic Forum. By that we want to trace the factors that can add efficiency to the investments in a country's economy. They define competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. The level of productivity, in turn, sets

⁷ Source: Reports from <http://www.doingbusiness.org>

⁸ Source: http://www.transparency.org/cpi2013/in_detail

⁹ Since 2012, Transparency International changed its methodology and used the scores as described above. Before that, the scoring was using the scaling from 0 to 10, so we don't need to convert the scores before 2012.

¹⁰ By the time of writing this paper, a problem in the world economic forum's webpage, did not allow us to retrieve full time-series data. The data used and presented here are from the Institute for East and Southeast European Research, based in Germany: <http://www.ios-regensburg.de/>

the level of prosperity that can be reached by an economy. The productivity level also determines the rates of return obtained by investments in an economy, which in turn are the fundamental drivers of its growth rates. The index is divided in three sub-indexes, whereby the second one measures the so-called ‘Efficiency Enhancers’ of a country’s economy. It includes the assessment of the following pillars: Higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, and market size.¹¹ This sub-index exists since 2004 and we cannot assess the countries of research before that point of time for the category of Usable Resources. G.C.I. index started back in 2001, but the sub-category ‘Efficiency enhancers’ only exists since 2006. It’s pillars sum up in a ranking and for the conversion we will use the calculation:

$$(1-(\text{rank}/\text{SumOfCountries})) * 10$$

The evaluation sheet we will use is the following.

Table 2: Assessment sheet sample

COUNTRY		O & T's			PREREQUISITES					USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE
YEAR	PERIOD	Opport.	Threats	SUM	FH index Conv.	IEF index Conv.	EDB index Conv.	CPI index Conv.	SUM	G.C.I. efficien.		
2000	PERIOD 1											
2001												
2002												
2003												
2004	PERIOD 2											
2005												
2006												
2007												
2008												
2009	PERIOD 3											
2010												
2011												
2012												

Source: Author’s elaboration.

¹¹ More analysis about the pillars of this sub-index can be found at: <http://reports.weforum.org/global-competitiveness-report-2014-2015/methodology/>

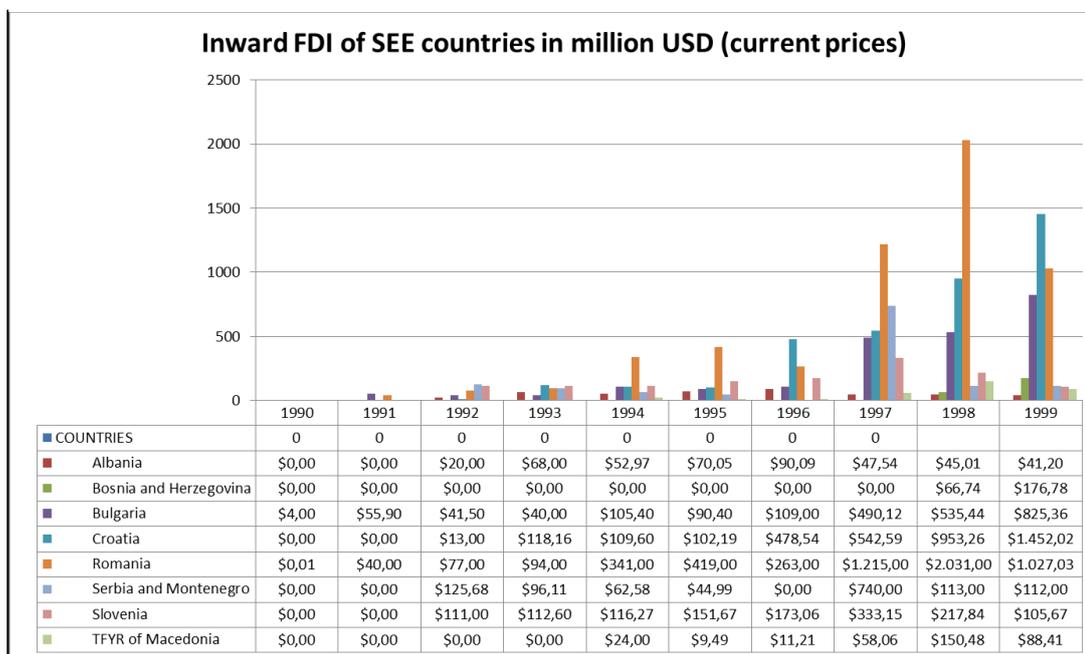
SECTION III - FDI Data

5. FDI in SEE – main characteristics

Southeast Europe is a region of transition countries (economies). The countries included are: Albania, all the new countries yield from the dissolution of Yugoslavia (FYROM, Serbia, Montenegro, Bosnia-Herzegovina, Croatia, Slovenia, Kosovo¹²), Bulgaria and Romania. In this paper we examine the FDI behaviour of the SE European countries: Albania; Bulgaria; Romania.

During the 90's the SEE region attracted minor foreign investments, most probably because of the political and economic instability during the transition process. Particularly low are the FDI figures in the first half of the 90's. In the second half of the decade (most conflicts in the region were resolved), the inflow of FDI started to demonstrate a significant levelling up. The following graph with the embedded table shows that clearly.

Figure 4: Inward FDI in SEE region (in million USD)



Source: Author's elaboration

¹² Kosovo is still not recognized as independent state from almost the half of the UNO members and from five (out of 28) EU members.

The lion's share goes to Romania, Serbia and Montenegro, Croatia and Bulgaria with a big distance to all other countries. Bosnia and Herzegovina was at war during 1992-95 and Albania was unstable too because of its close connection to the Kosovo war at 1998-99. As we see after 1995 the situation improved, which could be connected to the Dayton Agreement (Dec 1995).¹³ This is also the explanation of the rapid increase of the Croatian FDI after the end of the war of the Croatian independence (1991-95).

After 2000, all countries demonstrate improved figures with Romania, Croatia and Bulgaria receiving by far the most FDI in the region. But, according to Estrin and Uvalic, the FDI per capita in SE Europe is much less than the region's expected share. By 1996, the FDI stock of the region amounted for only 5.7% of the total inward FDI stock among all 27 transition economies. Over the whole 1989-2000 period it amounted only the 9.4% of the total inward FDI stock of the 27 transition economies, whereas Romania, Croatia and Bulgaria had a share of more than 80% of the total inward FDI stock in the SEE region.¹⁴

6. Albania, Bulgaria, Romania

FDI data can be presented and combined in many various ways. FDI outflows and stocks of the countries of research, are out of the scope of this paper and will not be presented, or analysed.

This paper presents inward FDI flows for each country, in the following aspects:

- Inward FDI flows of the last 20 years. Compared data to show similarities or divergence between the three countries.
- FDI inflows per sector, to find out if there is a sector of preference in each country.
- FDI inflows per country of origin, to investigate possible ties with other countries, which possibly influence the inflows, according to the economic state of the counties of origin.

¹³ The signing of the Dayton Agreement in Paris on 14 December 1995, gave an end to the Bosnian war. Source: http://en.wikipedia.org/wiki/Dayton_Agreement

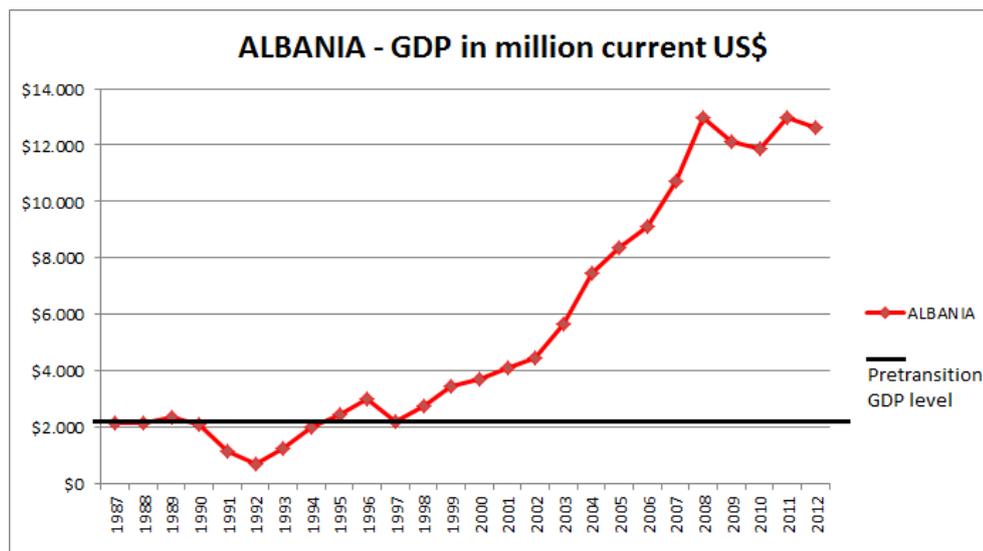
¹⁴ Saul Estrin & Milica Uvalic, "Foreign direct investment into transition economies: Are the Balkans different?", LSE 'Europe in Question' Discussion Paper Series, 2013.

All three countries of our research are ex-communist states, transiting from central planned to a market economy. None of the three countries is a Eurozone member, but Bulgaria and Romania are EU members since 2007. Right after the fall of communism, those countries faced challenges in various aspects, in order to fulfil successfully their transition to democratic regimes and free market economies. It took many years to recover their pre-transition GDP levels; it was achieved approximately 10 years after entering the transition phase (in the case of Bulgaria even later). This negative trend of GDP is indicative for the high political and economic environment, during the first transition years, which also caused the lack of interest of international investors and the late development of inward FDI flows for those countries. The table and the graphs below demonstrate this recovery process and the further development of their GDP.

Table 3: GDP figures for Albania, Bulgaria, Romania (in millions USD)

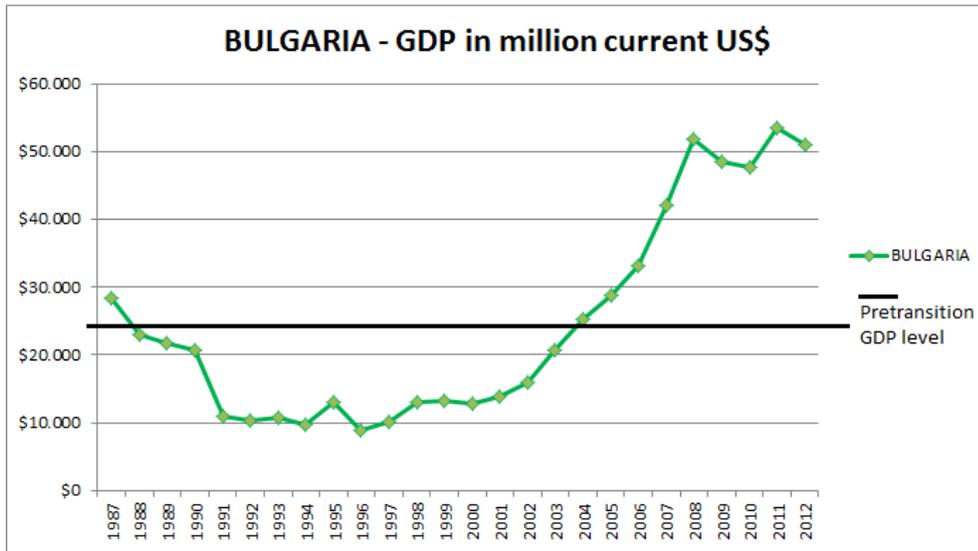
	GDP in current million US\$												
COUNTRIES	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
ALBANIA	\$2.157	\$2.126	\$2.335	\$2.102	\$1.139	\$709	\$1.228	\$1.986	\$2.424	\$3.013	\$2.196	\$2.728	\$3.434
BULGARIA	\$28.429	\$23.002	\$21.747	\$20.726	\$10.944	\$10.372	\$10.832	\$9.705	\$13.069	\$8.890	\$10.053	\$13.061	\$13.228
ROMANIA	\$38.068	\$40.425	\$41.451	\$38.299	\$28.847	\$25.090	\$26.361	\$30.073	\$35.477	\$35.334	\$35.286	\$42.115	\$35.592
COUNTRIES	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ALBANIA	\$3.687	\$4.091	\$4.449	\$5.652	\$7.464	\$8.376	\$9.133	\$10.705	\$12.969	\$12.119	\$11.858	\$12.960	\$12.648
BULGARIA	\$12.904	\$13.869	\$15.979	\$20.668	\$25.283	\$28.895	\$33.209	\$42.114	\$51.825	\$48.569	\$47.727	\$53.545	\$50.972
ROMANIA	\$37.305	\$40.586	\$45.989	\$59.466	\$75.795	\$99.173	\$122.696	\$170.617	\$204.339	\$164.344	\$164.792	\$182.611	\$169.396
Source: United Nations Statistics Division database (http://data.un.org/)													

Figure 5: Albania's GDP (in million USD)



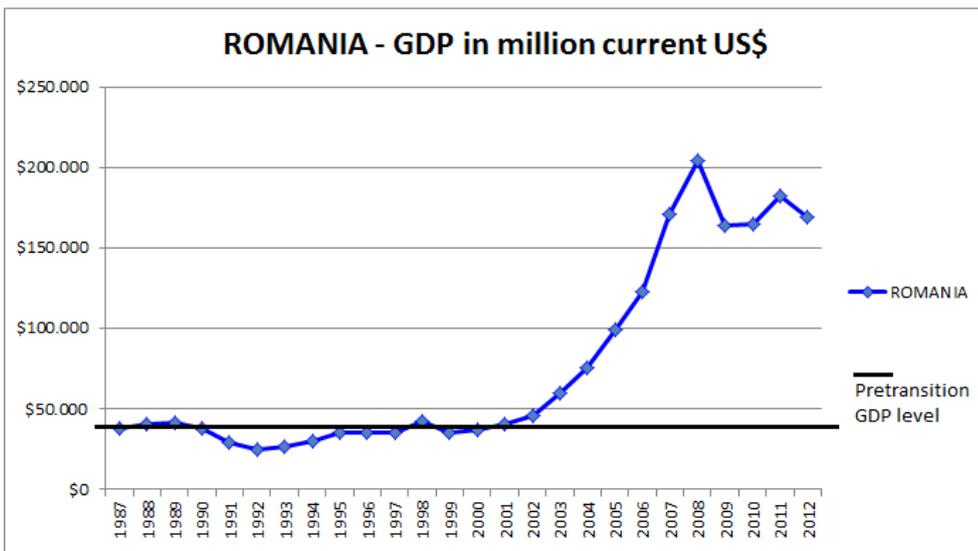
Source: United Nations Statistics Division database (<http://data.un.org/>)

Figure 6: Bulgaria's GDP (in million USD)



Source: United Nations Statistics Division database (<http://data.un.org/>)

Figure 7: Romania's GDP (in million USD)



Source: United Nations Statistics Division database (<http://data.un.org/>)

We can clearly see the similarity in the graphs, between the three countries. Albania seems to be the first that recovered its pre-transition GDP levels in 1997, whereby Bulgaria seems to be the last one, recovering in 2004. Albania of course is a smaller economy, which makes it more flexible in terms of recovering.

6.1.FDI inflows

The FDI inflow curves of the three countries have a very similar behaviour to the GDP curves. The table and the graphs below demonstrate the FDI net inflows in current million US\$.

Table 4 - FDI inflows for Albania, Bulgaria, Romania (in million USD)

	FDI net inflows in million current US\$										
COUNTRIES	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	
ALBANIA	\$20	\$58	\$53	\$70	\$90	\$48	\$45	\$41	\$143	\$207	
BULGARIA	\$42	\$40	\$105	\$90	\$109	\$505	\$537	\$819	\$1.002	\$813	
ROMANIA	\$77	\$94	\$341	\$419	\$263	\$1.215	\$2.031	\$1.041	\$1.037	\$1.157	
COUNTRIES	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
ALBANIA	\$135	\$178	\$341	\$262	\$325	\$652	\$1.241	\$1.343	\$1.089	\$1.368	\$1.265
BULGARIA	\$905	\$2.097	\$2.662	\$4.098	\$7.874	\$13.875	\$10.297	\$3.897	\$1.867	\$2.124	\$2.095
ROMANIA	\$1.144	\$1.844	\$6.443	\$6.866	\$11.451	\$10.290	\$13.849	\$4.926	\$3.204	\$2.557	\$2.024

Source: United Nations Statistics Division database (<http://data.un.org/>)

Figure 8: Albania's FDI inflows (in million USD)

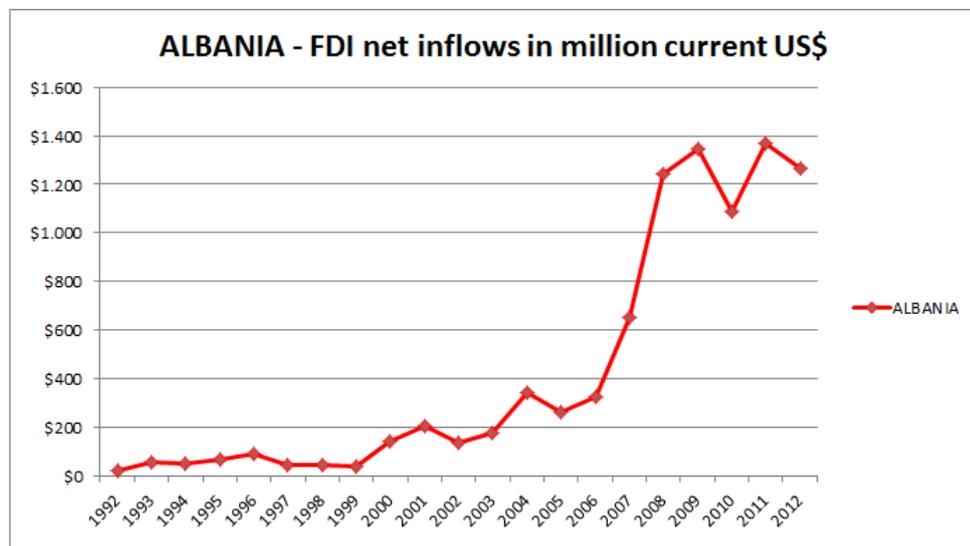
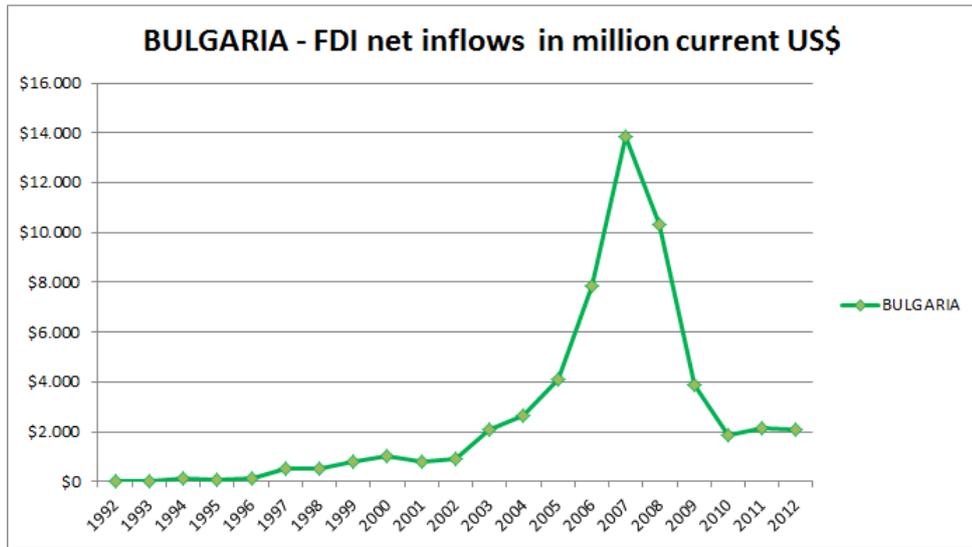
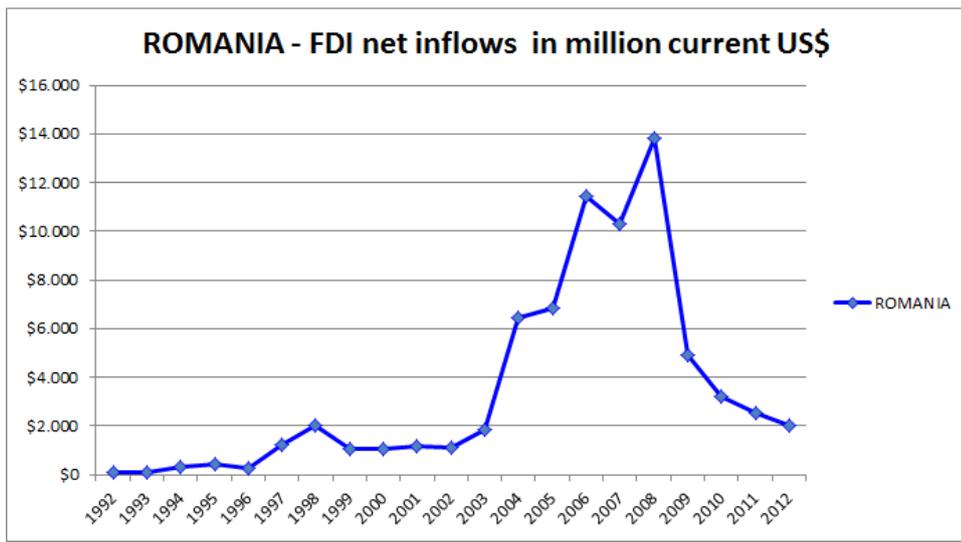


Figure 9: Bulgaria's FDI inflows (in million USD)



Source: United Nations Statistics Division database (<http://data.un.org/>)

Figure 10: Romania's FDI inflows (in million USD)

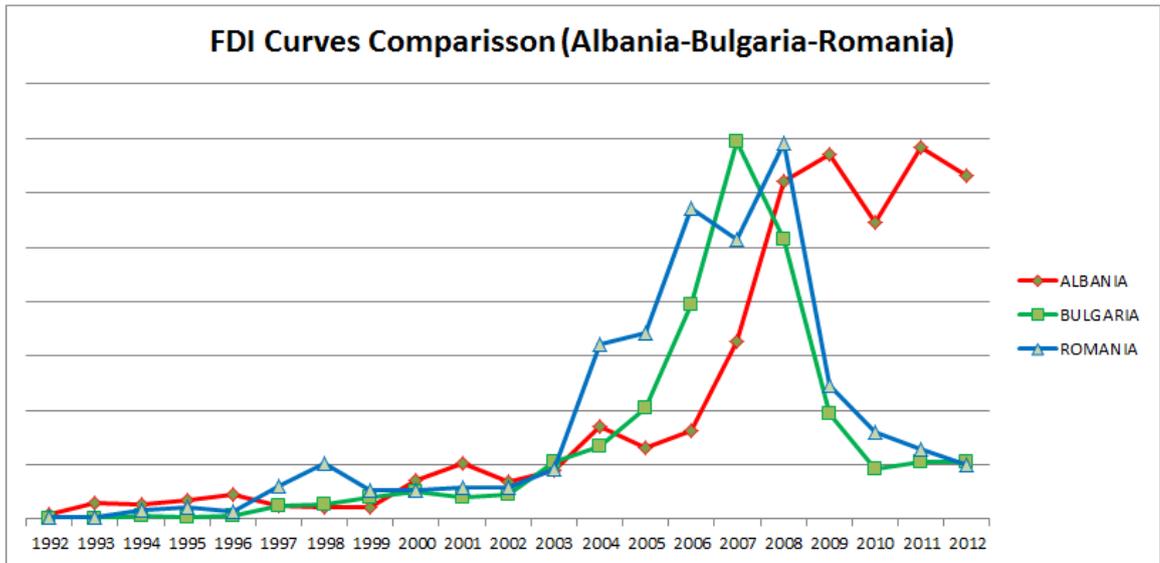


Source: United Nations Statistics Division database (<http://data.un.org/>)

Also very interesting is the comparison between the 3 countries. For that, we take the FDI curve from graphs of the same proportions and put the one over the other in layers. The result is the following image.

As we clearly see the FDI curve behaviour of the three countries has obvious similar trends, whereby Bulgaria and Romania are almost identical.

Figure 11: FDI curves comparison (Albania, Bulgaria, Romania)



Source: Author's elaboration based on data of U.N. Statistics Division database.

6.2. FDI by economic activity

The distribution of FDI by economic activity will help us find the existence of preferable investments in each country. For that we will use the FDI stock until 2010.

Albania

Table 5: Albania's FDI stock by activity in million USD (until 2010)

Economic Activity	In millions USD
Extracting industries	460
Processing industries	580
Construction	317
Transportation and Telecommunication	559
Financial Intermediation	905
Production and distribution of electrical energy	170
Other sectors	680

Source: Albanian Investment and Development Agency (www.aida.gov.al)

The three dominating economic activities in terms of receiving FDI in Albania are: Financial intermediation; Transportation and telecommunication; Processing industries.

Bulgaria

For Bulgaria, the three most preferable FDI economic activities are: Real estates, financial intermediation and manufacturing, according to the table below.

Table 6: Bulgaria's FDI stock by activity in million EURO (until 2010)

Economic Activity	In millions EUR
Real estate, renting and business activities	7,897.2
Financial intermediation	6,703.2
Manufacturing	6,493.0
Wholesale and retail trade of household goods	4,841.2
Transport, storage and communication	4,480.8
Construction	2,713.2
Electricity, gas and water supply	1,798.3
Hotels and restaurants	710.3
Not allocated	459.3
Mining and quarrying	307.3
Other community, social and personal service activities	205.0
Agriculture, hunting and forestry	153.0
Other	15.6

Source: National Bank of Bulgaria (<http://www.bnb.bg>)

Romania

Table 7: Romania's FDI stock by activity in million USD (until 2010)

Economic Activity	In millions USD
Finance	13,398.3
Wholesale and retail trade	8,685.2
Business activities	7,113.3
Electricity, gas and water	4,968.9
Transport, storage and communications	4,005.3
Metal and metal products	3,700.5
Other manufacturing	3,581.2
Motor vehicles and other transport equipment	3,450.0
Construction	3,448.6
Mining and quarrying	3,182.2
Food, beverages and tobacco	2,772.7
Coke, petroleum products and nuclear fuel	1,927.1
Chemicals and chemical products	1,573.2
Wood and wood products	1,528.2
Agriculture and hunting	1,423.5
Others	4,591.1

Source: UNCTAD database

For Romania the three most preferable economic activities for foreign investors are by far the financial services. The second best is the wholesale and retail trade. And the third most preferable is the business activities service sector.

As we easily assume, the most preferable economic activity for foreign investors in the three countries of research are the financial services (banks, insurances and other financial services).

6.3.FDI by country of origin

For Albania, the most FDI has its origin in Greece, Italy and Austria.

Table 8: Albania's FDI stock by country in million USD (until 2010)

Country	Stocks (millions USD)
Greece	1,006
Italy	557
Austria	503
Canada	389
Turkey	388
USA	38
Others	788

Source: State of Department database (www.state.gov)

For Bulgaria the top three countries of FDI origin are Netherlands, Austria and Greece.

Table 9: Romania's FDI stock by country in million EURO (until 2010)

Country	Stocks millions EUR
Netherlands	7,786.5
Austria	6,023.5
Greece	2,866.3
United Kingdom	2,446.5
Cyprus	2,100.6
Germany	1,878.1
Russia	1,357.9
Luxembourg	1,105.2
Hungary	1,031.1
United States	930.4
Spain	907.7
Switzerland	857.4

France	855.8
Ireland	735.5

Source: State of Department database (www.state.gov)

For Romania the respective top three countries of FDI origin are Netherlands, Austria and Germany.

Table 10: Romania's FDI stock by country in million USD (until 2010)

Country	Stocks (millions USD)
Netherlands	9,460
Austria	6,520
Germany	5,690
France	3,160
Cyprus	2,780
Greece	2,410
Italy	2,260
Spain	1,410
Panama	1,360
Switzerland	1,30
Luxemburg	1,250
United States	1,060
United Kingdom	1,030

Source: State of Department database (www.state.gov)

For all three countries it is obvious that the factor of proximity is very significant. This is explained in detail by the Gravity Model (Bergstrand, 1985).^{15 16} According to the theory, the FDI flows can be explained by the distance between home and host countries, by the market-size of the home-country and the market-size of the host-country. As we assume, the small distance, between home and host countries, plays a significant role in the FDI flows.

¹⁵ The gravity model has been widely used in trade-theory to predict the level of trade between different countries based on their economic size and distance from each other, and it has been recognized for its empirical success and consistently high statistical explanatory power.

¹⁶ Bergstrand, Jeffrey H., 1985. "The Gravity Equation in International Trade: some Microeconomic Foundations and Empirical Evidence," *Review of Economics and Statistics*, volume 67, number 3, pp. 474-481.

SECTION IV – Applying the PMA framework

7. Applying the PMA model

After looking into the FDI characteristics of the three countries, we are ready to apply the PMA model. Our target is to test if the model can give reasonable explanations of FDI's curve behaviour, as well as to help us track down the weaknesses of the countries, concerning FDI attraction.

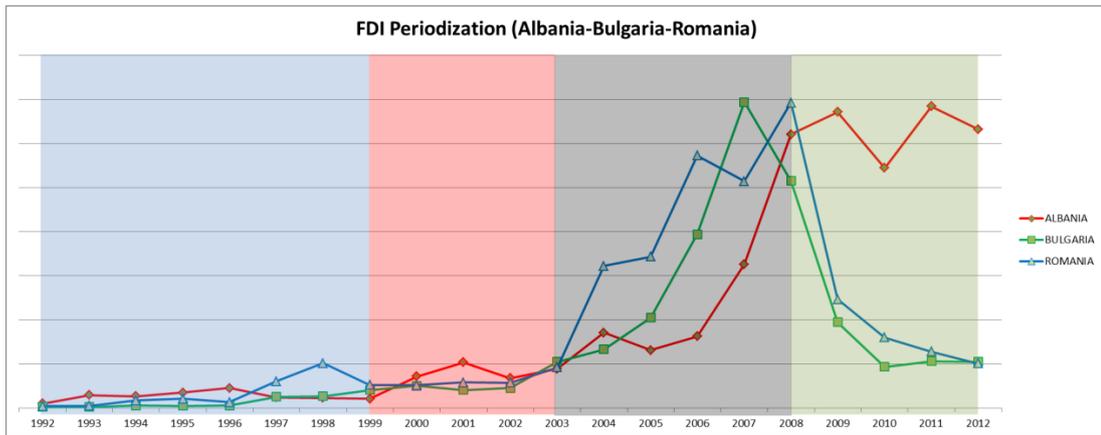
7.1. Periodization

In order to better analyse the various trends of the FDI curve, we divided the 20 years, in periods with similar FDI behaviour. We set out three distinguished patterns of FDI behaviour:

- Flat: more or less FDI remains at the same levels with very slight changes (positive or negative).
- Smooth changes: Small rising or declining for more than 3 years in a row to the same direction.
- Sharp changes: Strong rising or declining for more than 3 years in a row to the same direction.
- Fluctuated: Small or big ups and downs, similar in size.

After cutting the curve in periods, we filter each period through the interpretation matrix, in order to better investigate the reasons of the curve's behaviour. The proposed periodization for the FDI curves of the three countries depicts the following picture.

Figure 12: Periodization of FDI inflows curve



Source: Author's elaboration based on data of U.N. Statistics Division database.

Based on the picture above, we can simultaneously examine the FDI behaviour in the following four periods:

Period 1 (1992-1999) – flat trend. All three countries demonstrate more or less a very flat FDI curve. Even Romania that seems to have a rising trend after 1996 comes back on the same point in 1999.

Period 2 (1999-2003) – smooth rising trend. This is a period with a small growth in inward FDI. All three countries demonstrate a rising trend, with Romania reaching the 1998 peak again in 2003, but with more stable steps this time.

Period 3 (2003-2008) – sharp rising trend. This is the period that FDI flourishes in all three countries, with Bulgaria (2007) and Romania (2008) reaching their peak performance. Albania reaches its pick, one year later (2009).

Period 4 (2008 – 2012) – declining trend for Romania and Bulgaria. Fluctuating trend for Albania. Bulgaria and Romania are facing a sharp decline in FDI inflows, which brings them back on the 2003 levels. Albania is experiencing a fluctuating trend, which results in the fall on the 2008 levels.

According to those four periods, we will put the data of the various determinants into the filtering Matrix, to look after changes similar to the changes of the FDI curve.

7.2. Filtering Matrix & Assessment

The Matrix aims at shedding light to the most important dimensions that would concern a potential investor and would influence the decision to invest in one of the

three countries. We assume here that none of the three countries has a Unique Point (oil, gold, diamonds, or rare minerals etc.) and so, we leave the first category of Unique Points, out of the filtering Matrix.

All data provided for the category of Opportunities and Threats, are from Freedom-house yearly country reports.¹⁷

Proceeding to the other categories of the Matrix, we have the following evaluations for each country.

7.2.1. Period 1 – 1992-1999

The three countries just came out of their communist regimes. Political turmoil and unrests, as well as economic downturns are the main characteristics of this period. FDI incentives are rare, small and risky in a very uncertain environment.

Table 11: Filtering Matrix - Albania 1992-99 period

ALBANIA		O & T's			PREREQUISITES						USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE		
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
1992	PERIOD 1	0	2,5	1,25	No evaluation needed, due to existence of high threats.						No evaluation needed, due to existence of high threats.	No evaluation needed, due to existence of high threats.	1,25		
1993															
1994															
1995															
1996															
1997															
1998															
1999															

Albania: The Albanian parliament elected PD leader Sali Berisha as president, right after the party won the elections in 1992. The government-backed constitution defeated by referendum in 1994 and in 1995 Berisha passed the "genocide law" to bar former senior Communists from office, which led to opposition charges for authoritarian behaviour. In 1997 the pyramid schemes that promised interest rates of 50 per cent began to collapse, causing the loosing of savings. Months of violence and unrest followed, particularly in the south. The country was virtually ungovernable and led to the deployment of an Italian-led 6,500-member international peacekeeping force. Threat evaluation: 2.5 and Opportunities: 0.

¹⁷ All evaluations are based on facts from Freedom House, found in the country-reports under: www.freedomhouse.org.

Overall O & T's score: < 5,0.

Overall period's score for Albania: 1,25.

Table 12: Filtering Matrix - Romania 1992-99 period

BULGARIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
1992	PERIOD 1	0	2,5 - 5,0	3,75	No evaluation needed, due to existence of high threats.								No evaluation needed, due to existence of high threats.	No evaluation needed, due to existence of high threats.	3,75
1993															
1994															
1995															
1996															
1997															
1998															
1999															

Bulgaria: Until 1989, the country was ruled by the Communist Party leader Todor Zhivkov, who resigned after the fall of the Berlin Wall. Right after that, a short-lived democratic government elected in 1991. But this was exceptional and Bulgaria continued to be governed by former Communists until 1997. Key priorities for Prime Minister Ivan Kostov and the ruling Union of Democratic Forces (UDF) in 1998, were fighting corruption and stimulating private business and foreign investment were. At the end of this period, in September 1998, the International Monetary Fund approved an \$840 million loan to support reforms and economic growth. Threat evaluation: 2,5 – 5,0.

Overall O & T's score: < 5,0.

Overall period's score for Bulgaria: 3,75.

Table 13: Filtering Matrix - Romania 1992-99 period

ROMANIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
1992	PERIOD 1	0	2,5 - 5,0	3,75	No evaluation needed, due to existence of high threats.								No evaluation needed, due to existence of high threats.	No evaluation needed, due to existence of high threats.	3,75
1993															
1994															
1995															
1996															
1997															
1998															
1999															

Romania: Right after the fall of communism, Romania was plagued by slow economic reforms, debilitating strikes, endemic poverty, corruption, and political squabbling until 1999. Despite these negative trends, Romania demonstrated its

support to NATO and the European Union through the Kosovo conflict. This increased the country's chances of entry into both organizations. Threat evaluation: 2,5 – 5,0.

Overall O & T's score: < 5,0.

Overall period's score for Romania: 3,75.

All three countries are evaluated under the score of 5,0 in the 'threats' category. According to our assessment, the risk investing to those countries is too high and there is no need to evaluate the other categories. Investment possibilities are rejected.

7.2.2. Period 2 – 2000-2003

Although the economic and political situations in the three countries are yet very unstable, there are also considerable improvements. Smaller or larger privatizations attract some FDI and the political scene seems to be more stable during this period.

Table 14: Filtering Matrix - Albania 2000-03 period

ALBANIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.			
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.		SUM		
2000	PERIOD 2	0	5	2,5	n/a	n/a	53,6	5,4	n/a	n/a	n/a	n/a	5,4	n/a	3,9	3,6
2001					4,5	3,6	56,6	5,7	n/a	n/a	n/a	n/a	4,6		3,6	
2002					3,5	5,0	56,8	5,7	n/a	n/a	2,5	2,5	4,4		3,4	
2003					3	5,7	56,8	5,7	n/a	n/a	2,5	2,5	4,6		3,6	

Albania: There is an upward trend in the political scene of Albania. In 2000, Albania's attempt to build a stable democratic regime made some progress, as local elections in October took place without the widespread violence characteristic of earlier elections. Again, the results of the elections were questioned by the main opposition party, casting a shadow over the proceedings. Continued lack of 'rule of law' in many parts of the country, hampered improvements in the country's development. Threat evaluation: 5,0. Opportunitites: 0. **Overall O & T's score: < 5,0.**

There is an improvement for the Freedom house index from 3,6 to 5,7 during this period (converted rates). IEF index, also shows a small improvement from 5,4 to 5,7. EDB index has no sufficient data and Albania scores bad in CPI index (2,5). **Overall Prerequisites score: 4,8.**

There are no data for GCI efficient enhancers sub-index.

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, divided by two.

Overall period's score (average of years) for Albania: 3,6.

Table 15: Filtering Matrix - Bulgaria 2000-03 period

BULGARIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE		
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		SUM	G.C.I. effic.			
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.					
2000	PERIOD 2	7,5	5	6,25	n/a	n/a	47,3	4,7	n/a	n/a	3,5	3,5	4,1	n/a		5,2	5,7
2001					2,5	6,4	51,9	5,2	n/a	n/a	3,9	3,9	5,2			5,7	
2002					2	7,1	57,1	5,7	n/a	n/a	4	4	5,6			5,9	
2003					1,5	7,9	57	5,7	n/a	n/a	3,9	3,9	5,8			6,0	

Bulgaria: In the June 2002 elections, the National Movement for Simeon II (NDSV) won surprisingly half of the 240 seats in parliament, upsetting the two-party balance that had dominated Bulgarian politics since 1990. Another surprising victory was for the leader of the Socialist Party Georgi Purvanov (presidential candidate for the Coalition for Bulgaria alliance), who won the presidential elections against incumbent President Petar Stoyanov. In 2001 the World Bank approved a \$50 million loan to help Bulgaria meet environmental standards set by the EU as well as a \$63.3 million loan for a program to revamp the health sector. The sale of Bulbank, the largest state-owned bank, for 360 million euros, represents Bulgaria's largest privatization operation. Threat evaluation: 5,0. Opportunities: 7,5. **Overall O & T's score: > 5,0.**

There is an improvement for the Freedom house index from 6,4 to 7,9 (converted rates) during this period, which is a very good score. IEF index, also shows an improvement from 4,7 to 5,7. EDB index has no sufficient data and Bulgaria's scores in CPI index are not the best possible (between 3,5 and 4,0). **Overall Prerequisites score: 5,2.**

There are no data for GCI efficient enhancers sub-index.

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, divided by two.

Overall period's score (average of years) for Bulgaria: 5,7.

Table 16: Filtering Matrix - Romania 2000-03 period

ROMANIA		O & T's			PREREQUISITES							USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE		
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.			
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.				
2000	PERIOD 2	7,5	5	6,25	n/a	n/a	52,1	5,2	n/a	n/a	2,9	2,9	4,1	n/a	5,2	5,5
2001					2	7,1	50	5,0	n/a	n/a	2,8	2,8	5,0		5,6	
2002					2	7,1	48,7	4,9	n/a	n/a	2,6	2,6	4,9		5,6	
2003					2	7,1	50,6	5,1	n/a	n/a	2,8	2,8	5,0		5,6	

Romania: The new government in the start of 2000 formed under Isarescu, focused on implementing reforms and improving the economic and social situation in the country. Inflation increased at 40%, by the end of 2000. The World Bank issued a report which stated that 40% of Romanians live below the poverty line. In January 2001, the new government planned to resume talks with the International Monetary Fund (IMF). A third standby instalment of \$540 million was withheld by the IMF, as a result of Romania's failure to reduce the state budget deficits and privatize the banking sector, because of their slow and unsuccessful reform efforts. Threat evaluation: 5,0. Opportunities: 7,5. **Overall O & T's score: > 5,0.**

There is stable good score for the Freedom house index 7,1 (converted rate) during this period, which is a good score. IEF index, varies between 4,9 and 5,2. EDB index has no sufficient data and Romania scores bad in CPI index (between 2,8 and 2,9). **Overall Prerequisites score: 4,7.**

There are no data for GCI efficient enhancers sub-index.

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, divided by two.

Overall period's score (average of years) for Romania: 5,5.

7.2.3. Period 3 – 2004-2008

This is the best period, in terms of FDI attraction for all of the three countries. Their political scene seems to be stable, political rights of citizens are respected, the elections are more or less fair and the governments seem determined to fight corruption. Especially Bulgaria and Romania became EU members. The financials of all countries are bettering too (see GDP charts in chapter 5 of the paper). The markets growth in terms of consumer expenditure as the GDP per capita grows. Reforms facilitate the privatization of the most state-owned enterprises and a healthier economy. The absence of threats or the presence of minor threats concerning trade

barriers (Albania is still not an EU member), help also to the positive investing climate.

Table 17: Filtering Matrix - Albania 2004-08 period

ALBANIA		O & T's			PREREQUISITES							USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index				SUM
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
2004	PERIOD 3	7,5	7,5	7,5	3	5,7	58,5	5,9	n/a	n/a	2,5	2,5	4,7	n/a	6,1
2005					3	5,7	57,8	5,8	n/a	n/a	2,4	2,4	4,6	n/a	6,1
2006					3	5,7	60,3	6,0	115	3,5	2,6	2,6	4,5	2,3	4,8
2007					3	5,7	61,4	6,1	120	3,3	2,9	2,9	4,5	2,0	4,7
2008					3	5,7	62,4	6,2	135	2,4	3,4	3,4	4,4	2,6	4,9

Albania: The political scene is improved in terms of stability. Extensive privatizations and reforms helped economy to recover and grow. There are no real threats and the EU prospect gives Albania the motive to further improve. Joining EU would also help the free trade with two neighbouring countries, namely Greece and Italy, which have the biggest share in the country's inward FDI. Threat evaluation: 7,5. Opportunities: 7,5. **Overall O & T's score: 7,5.**

The Freedom house index is stable at 5,7 during this period (converted rates). IEF index, further improved with a pic of 6,2 points. EDB index has started to register Albania's data, but it is worsening, due to complicated procedures concerning business related processes and due to difficulties in registering property. The CPI index also improved with the highest score in Albanian's history until today (3,4).

Overall Prerequisites score: 4,5.¹⁸

The GCI efficient enhancers sub-index, starts giving data from 2006 and on, whereby Albania improves from 2,3 to 2,6 during this period. **Useful Resources score: 2,3.**

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, plus the GCI efficiency enhancers score (when given), divided by three (or by two when GCI doesn't exist).

Overall period's score (average of years) for Albania: 5,3.

¹⁸ This score is not comparable with previous periods, because of the addition of EDB index, which has very low scores and causes a drop of the average score of the category. It is only comparable among the three countries for the same period.

Table 18: Filtering Matrix - Bulgaria 2004-08 period

BULGARIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.			
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.				
2004	PERIOD 3	7,5	10	8,75	1,5	7,9	59,2	5,9	n/a	n/a	4,1	4,1	6,0	n/a	7,4	6,9
2005					1,5	7,9	62,3	6,2	n/a	n/a	4	4	6,0	n/a	7,4	
2006					1,5	7,9	64,1	6,4	59	6,7	4,0	4	6,2	4,4	6,5	
2007					1,5	7,9	62,7	6,3	54	7,0	4,1	4,1	6,3	4,5	6,5	
2008					1,5	7,9	63,7	6,4	44	7,5	3,6	3,6	6,3	5,1	6,7	

Bulgaria: The political scene is improved in terms of stability. Extensive privatizations and reforms help economy to recover and grow. There are no real threats and the EU accession in 2007, diminished trade costs with EU and further helped the overall stability of the country. Threat evaluation: 7,5. Opportunities: 10. **Overall O & T's score: 8,75.**

The Freedom house index is stable at 7,9 during this period (converted rates). IEF index, further improved with a pic of 6,4 points. EDB index has started to register Bulgaria's data and shows a spectacular improvement up to 7,5 points. The CPI index also improved with the highest score at 4,1, but sank dramatically in 2008. The main reason is the loss of EU accession leverage, which led to re-arise of the corruption phenomenon.

Overall Prerequisites score: 6,2.¹⁹

The GCI efficient enhancers sub-index, starts giving data from 2006 and on, whereby Albania improves from 4,4 to 5,1 during this period. **Useful Resources score: 4,7.**

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, plus the GCI efficiency enhancers score (when given), divided by three (or by two when GCI doesn't exist).

Overall period's score (average of years) for Bulgaria: 5,3.

¹⁹ This score is not comparable with previous periods, because of the addition of EDB index, which has very low scores and causes a drop of the average score of the category. It is only comparable among the three countries for the same period.

Table 19: Filtering Matrix - Romania 2004-08 period

ROMANIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
2004	PERIOD 3	7,5	10	8,75	2	7,1	50	5,0	n/a	n/a	2,9	2,9	5,0	n/a	6,9
2005					2,5	6,4	52,1	5,2	n/a	n/a	3	3	4,9	n/a	6,8
2006					2	7,1	58,2	5,8	71	6,0	3,1	3,1	5,5	5,6	6,6
2007					2	7,1	61,2	6,1	49	7,2	3,7	3,7	6,1	5,3	6,7
2008					2	7,1	61,7	6,2	47	7,4	3,8	3,8	6,1	6,0	6,9

Romania: Romania is the best performer among the three countries of research. Again the political scene is improved in terms of stability. Extensive privatizations and reforms help economy to grow faster. There are no real threats and the EU accession in 2007, diminished trade costs with EU and further helped the overall stability of the country. Romania has also a very strategic position and the best proximity to the developed European Countries of Central and West Europe. Threat evaluation: 7,5. Opportunities: 10. **Overall O & T's score: 8,75.**

The Freedom house index experienced a drop in 2005, most probably due to election disputes²⁰ and the adoption policy of Romania²¹, but remained stable at 7,1 for the next years (converted rates). IEF index, further improved with a pic of 6,4 points. EDB index has started to register Romania's data and shows a very good improvement up to 7,4 points. The CPI index also improved with the highest score at 3,8, but remains the worst pillar for Romania's evaluation. **Overall Prerequisites score: 5,5.**²²

The GCI efficient enhancers sub-index, starts giving data from 2006 and on, whereby Romania improves from 5,6 to 6,0 during this period. **Useful Resources score: 5,6.**

The score of each year is calculated by adding the periods O&T's summation plus the year's Prerequisites score, plus the GCI efficiency enhancers score (when given), divided by three (or by two when GCI doesn't exist).

²⁰ Romania held parliamentary elections in November 2004. Despite allegations of fraud, the results were accepted by the electoral bureau. Source: www.freedomhouse.org.

²¹ Romania had imposed a ban on international adoptions of Romanian children in 2001 after pressure from the EU, which was concerned about corruption and trafficking and has linked the issue to Romania's EU membership. At the beginning of 2004, Romania broke the moratorium and allowed 105 children to be adopted in Italy. Source: www.freedomhouse.org.

²² This score is not comparable with previous periods, because of the addition of EDB index, which has very low scores and causes a drop of the average score of the category. It is only comparable among the three countries for the same period.

Overall period's score (average of years) for Romania: 6,8.

7.2.4. Period 4 – 2009-2012

After the period with the good performances, a less successful period follows. The figures fall back, mainly because of the world crisis that occurred in 2008 in US and spread out through the whole world. Some economies had no direct link with the crisis, but investors that planned projects for those countries had direct connection to it and were forced to abort their plans. This affected also the potential host-countries, in terms that they received less FDI. This drawback is also depicted in the countries' GDP graphs (see chapter 5).

Table 20: Filtering Matrix - Albania 2009-12 period

ALBANIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
2009	PERIOD 4	5	5	5	3	5,7	63,7	6,4	86	5,2	3,2	3,2	5,1	3,0	4,4
2010					3	5,7	66	6,6	82	5,4	3,3	3,3	5,3	5,4	5,2
2011					3	5,7	64	6,4	77	5,7	3,1	3,1	5,2	4,2	4,8
2012					3	5,7	65,1	6,5	82	5,4	33,0	3,3	5,2	3,5	4,6

Albania: Albania experienced ups and downs during this period. Sali Berisha retained his post after his Democratic party won the elections of June 2009, but the opposition Socialist Party mounted protests to demand a recount and boycotted the new parliament through the end of the year.²³ This standoff threatened to stall Albania's progress toward EU accession, though a visa-liberalization agreement took effect in December 2010. However, in April 2010 Albania joined NATO and also applied to join EU. Another positive step was that the parliament passed an antidiscrimination law that included protections for sexual minorities in February 2011. The political instability, although not a severe one, caused also an economic downturn (also not a serious one). Threat evaluation: 5. Opportunities: 5. **Overall O & T's score: 5.**

The Freedom house index remains stable at 5,7 throughout this period (converted rates). IEF index remains also stable between 6,4 and 6,6. The EDB index shows a good improvement in 2011 (5,7 points), but fell back at 5,4 points in 2012. The CPI

²³ Source: Freedom house Organization at www.freedomhouse.org

index seems also to be stack at levels between 3,1 and 3,3. **Overall Prerequisites score: 5,2.**

The GCI efficient enhancers sub-index, has a similar behaviour by going up and down between 3,0 and 5,4 points. **Useful Resources score: 4,0.**²⁴

Overall period's score (average of years) for Albania: 4,7.

Table 21: Filtering Matrix - Bulgaria 2009-12 period

BULGARIA		O & T's			PREREQUISITES								USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		SUM	G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.				
2009	PERIOD 4	5	5	5	2	7,1	64,6	6,5	45	7,5	3,8	3,8	6,2	5,3	5,5	5,7
2010					2	7,1	62,3	6,2	44	7,5	3,6	3,6	6,1	6,6	5,9	
2011					2	7,1	64,9	6,5	57	6,8	3,3	3,3	5,9	5,8	5,6	
2012					2	7,1	64,7	6,5	59	6,7	41,0	4,1	6,1	5,8	5,6	

Bulgaria: The European Commission penalized Bulgaria in July 2008 for inadequate progress in combating organized crime and corruption, suspending a large portion of European Union aid payments and barring two Bulgarian agencies from processing such funds. In July 2009, a new right-wing government led by Prime Minister Boyko Borisov took office, following parliamentary elections. Borisov committed to combat organized crime and corruption. European Union warned in July 2010 that additional and sustained improvements - particularly in the judicial branch - would be needed. A series of small bombings targeted opposition-oriented media and political parties during 2011, and the killing of an ethnic Bulgarian youth in September triggered a series of street protests against organized crime and the Romany minority. The lack of fighting corruption and organized crime, in combination with political unrests and the suspending of EU aid payments, show also in the GDP their negative effects. Threat evaluation: 5. Opportunities: 5. **Overall O & T's score: 5.**

The Freedom house index is stable at 7,1 during this period (converted rates). IEF index is also very stable, with a score of 6,5 almost all years. EDB index is falling back from 7,5 to 6,7 points. The CPI index goes down to 3,3 and improves only the last year at 4,1. **Overall Prerequisites score: 6,1.**

²⁴ All indexes show a more or less fluctuating trend.

The GCI efficient enhancers sub-index, shows a strong improvement during the first 2 years scoring 6,6 points, but falls back after that at 5,8 points. **Useful Resources score: 5,9.**

Overall period's score (average of years) for Bulgaria: 5,3.

Table 22: Filtering Matrix - Romania 2009-12 period

ROMANIA		O & T's			PREREQUISITES							USEFUL RESOURCES	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
YEAR	PERIOD	Opport.	Threats	SUM	FH index		IEF index		EDB index		CPI index		G.C.I. effic.		
					Orig.	Conv.	Orig.	Conv.	Orig.	Conv.	Orig.	Conv.			
2009	PERIOD 4	5	5	5	2	7,1	63,2	6,3	47	7,4	3,8	3,8	6,2	6,3	5,8
2010					2	7,1	64,2	6,4	55	6,9	3,7	3,7	6,0	7,2	6,1
2011					2	7,1	64,7	6,5	65	6,3	3,6	3,6	5,9	5,6	5,5
2012					2	7,1	64,4	6,4	72	6,0	44,0	4,4	6,0	5,5	5,5

Romania: President Traian Basescu narrowly won a second term in a December 2009 runoff election against Mircea Geoana of the Social Democratic Party (PSD). This led the way for a new coalition government, under the leadership of Basescu-allied Democratic Liberal Party (PDL). This fragile governing coalition between the PSD and PDL had collapsed in October 2009, leading to months of political dead end. In July 2009, a European Union progress report found that Romania's efforts to reform its judicial system and combat corruption were being hindered by political infighting, causing failures and further delays. Prime Minister Emil Boc of the ruling Democratic Liberal Party implemented sharp spending cuts and tax increases in 2010, aiming at reducing the budget deficit and comply with a 2009 international loan agreement. The measures caused protests by public-sector workers, but the government survived a series of no-confidence motions brought by the opposition. The center-right ruling coalition led by Prime Minister Emil Boc continued to implement unpopular fiscal austerity measures in 2011. The government also attempted to crack down on widespread corruption during the year, but Romania failed to win entry to the European Union's passport-free travel zone.²⁵. Threat evaluation: 5. Opportunities: 5. **Overall O & T's score: 5.**

The Freedom house index remained stable during the whole period at 7,1 (converted rates). IEF index remained also relative stable between 6,3 and 6,5 points. EDB index has a sharp decrease from 7,4 to 6,0 points. The CPI index remains at levels of around

²⁵ Source: Freedom House Organization at www.freedomhouse.org

3,7 points, but the last year shows a sharp improvement to 4,4 points. **Overall Prerequisites score: 6.**

The GCI efficient enhancers sub-index shows a fluctuating behaviour between 7,2 points and 5,5 points. **Useful Resources score: 6,2.**

Overall period's score (average of years) for Romania: 5,7.

7.3.Summation - The final marks

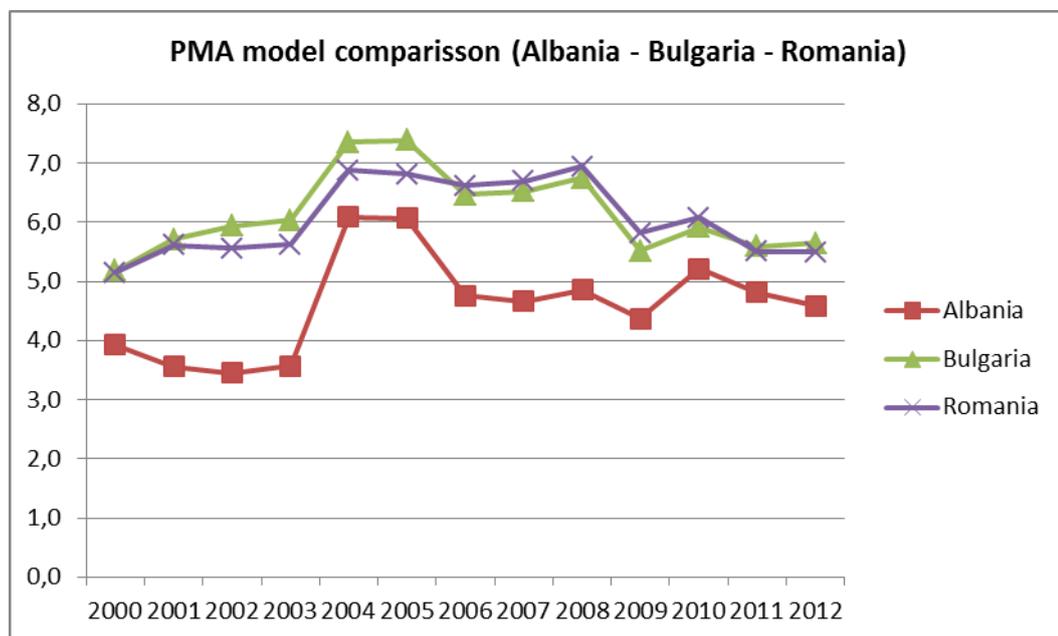
Due to lack of data, we sum up the results after 2000. The table and the graph below show the respective results for each country.

Table 23: Countries' filtering Matrix Results 2000-12

Countries' results													
Countries	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Albania	3,9	3,6	3,4	3,6	6,1	6,1	4,8	4,7	4,9	4,4	5,2	4,8	4,6
Bulgaria	5,2	5,7	5,9	6,0	7,4	7,4	6,5	6,5	6,7	5,5	5,9	5,6	5,6
Romania	5,2	5,6	5,6	5,6	6,9	6,8	6,6	6,7	6,9	5,8	6,1	5,5	5,5

Source: Author's elaboration.

Figure 13: PMA results comparison



It is remarkable how similar the results are, with the inward FDI results. Again, Romania and Bulgaria have almost identical trajectories and Albania is a late starter, but falls smoother at the end.

After that, we should track down the weak pillar(s) for each country. For that the assessment tables are used to show a category analysis of the results. The investigation commences from the second period, because during the first period most of the indexes did not exist.

7.4. Findings - Tracking weaknesses

In this paper the pillars with weak performance will be indicated. A more thorough analysis and recommendations could be the aim of a future research.

7.4.1. Period 2 – weaknesses of the countries

Albania: The weak points of Albania are tracked by the Freedom house index and the Corruption Perception index.

Bulgaria: Bulgaria started bad in the indexes of Freedom house and Economic freedom, but improved during the period.

Romania: Romania scores overall well, but has a very weak performance concerning corruption. A small improvement could also be done by the index of Economic Freedom.

7.4.2. Period 3 – weaknesses of the countries

Albania: Freedom house index, Ease of Doing business index and Corruption Perception index continue to perform badly in Albania. Additionally, the GCI effectiveness enhancers have also a very bad score.

Bulgaria: Bulgaria has an overall improved performance, but scores also poor in the GCI efficiency enhancers.

Romania: Romania continues to have a low performance concerning corruption, but it is improving during this period.

7.4.3. Period 4 – weaknesses of the countries

Albania: The weak performance in Freedom House index, compared to the other two counterparts continues. EDB index shows improvement, but is also low, exactly as the CPI index. GCI efficiency enhancers need some attention too.

Bulgaria: Although the performance is good compared to the other two countries, Bulgaria shows a sudden worsening in two indexes: EDB index and CPI index (which improves remarkable in the last year of this period). Some improvement should also be done in GCI efficiency enhancers.

Romania: Romania has the same weaknesses as Bulgaria: EDB index, CPI index and GCI efficiency enhancers.

The table below shows in red the weak points of each country for each period.

Table 24: Assessment results of the 3 countries

COUNTRY	YEAR	PERIOD	O & T's			PREREQUISITES					USEFUL RESOURCES G.C.I. effic.	FINAL MARK OF THE YEAR	PERIODS AVERAGE SCORE	
			Opport.	Threats	SUM	FH index Conv.	IEF index Conv.	EDB index Conv.	CPI index Conv.	SUM				
ALBANIA	2000	PERIOD 2	0	5	2,5		5,4			5,4		3,9	3,6	
	2001					3,6	5,7		4,6	3,6				
	2002					5,0	5,7		2,5	4,4		3,4		
	2003					5,7	5,7		2,5	4,6		3,6		
BULGARIA	2000	PERIOD 2	7,5	5	6,25		4,7		3,5	4,1		3,9	4,5	
	2001					6,4	5,2		3,9	5,2		4,5		
	2002					7,1	5,7		4	5,6		4,7		
	2003					7,9	5,7		3,9	5,8		4,8		
ROMANIA	2000	PERIOD 2	7,5	5	6,25		5,2		2,9	4,1		3,9	4,2	
	2001					7,1	5,0		2,8	5,0		4,4		
	2002					7,1	4,9		2,6	4,9		4,3		
	2003					7,1	5,1		2,8	5,0		4,4		
ALBANIA	2004	PERIOD 3	7,5	7,5	7,5	5,7	5,9		2,5	4,7		6,1	5,3	
	2005					5,7	5,8		2,4	4,6		6,1		
	2006					5,7	6,0	3,5	2,6	4,5		2,3		4,8
	2007					5,7	6,1	3,3	2,9	4,5		2,0		4,7
	2008					5,7	6,2	2,4	3,4	4,4		2,6		4,9
BULGARIA	2004	PERIOD 3	7,5	10	8,75	7,9	5,9		4,1	6,0		6,0	5,7	
	2005					7,9	6,2		4	6,0		6,0		
	2006					7,9	6,4	6,7	4	6,2		4,4		5,3
	2007					7,9	6,3	7,0	4,1	6,3		4,5		5,4
	2008					7,9	6,4	7,5	3,6	6,3		5,1		5,7
ROMANIA	2004	PERIOD 3	7,5	10	8,75	7,1	5,0		2,9	5,0		5,0	5,4	
	2005					6,4	5,2		3	4,9		4,9		
	2006					7,1	5,8	6,0	3,1	5,5		5,6		5,6
	2007					7,1	6,1	7,2	3,7	6,1		5,3		5,7
	2008					7,1	6,2	7,4	3,8	6,1		6,0		6,0
ALBANIA	2009	PERIOD 4	5	5	5	5,7	6,4	5,2	3,2	5,1	3,0	4,4	4,7	
	2010					5,7	6,6	5,4	3,3	5,3	5,4	5,2		
	2011					5,7	6,4	5,7	3,1	5,2	4,2	4,8		
	2012					5,7	6,5	5,4	3,3	5,2	3,5	4,6		
BULGARIA	2009	PERIOD 4	5	5	5	7,1	6,5	7,5	3,8	6,2	5,3	5,8	6,0	
	2010					7,1	6,2	7,5	3,6	6,1	6,6	6,4		
	2011					7,1	6,5	6,8	3,3	5,9	5,8	5,9		
	2012					7,1	6,5	6,7	4,1	6,1	5,8	6,0		
ROMANIA	2009	PERIOD 4	5	5	5	7,1	6,3	7,4	3,8	6,2	6,3	6,2	6,1	
	2010					7,1	6,4	6,9	3,7	6,0	7,2	6,6		
	2011					7,1	6,5	6,3	3,6	5,9	5,6	5,8		
	2012					7,1	6,4	6,0	4,4	6,0	5,5	5,7		

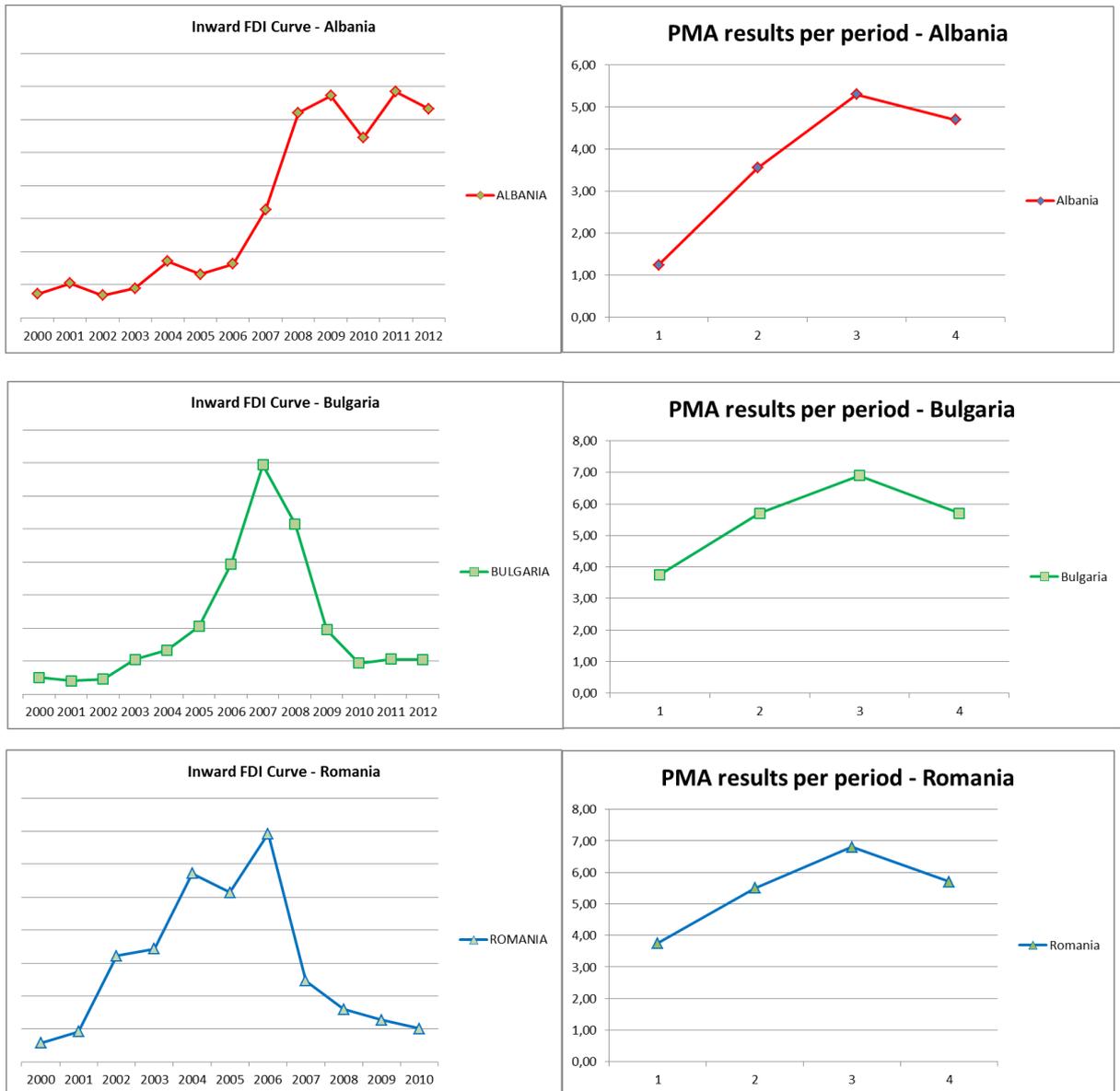
Source: Author's elaboration.

8. Conclusions

The main question of the paper, as defined in the introduction, should be concluded: Does the PMA model imprint the FDI behaviour? And if yes, can the model assess countries in a way, which would help potential investors to choose the most appropriate one?

Concerning the first question, the answer is a clear yes. The following graphs demonstrate a comparison, between the FDI curve behaviour and the PMA curve behaviour.

Figure 14: FDI-PMA results - curves comparison



Source: Author's elaboration

In the graphs above, we see the almost identical trajectory of the PMA curve for Bulgaria and Romania, as exactly the same similarity exists in their respective FDI curves. Additionally, the Albanian PMA curve goes smoother down in the last period, exactly as its respective FDI curve does.

A critique could be that the PMA curve does not exactly follow the FDI curve (mostly in its downturn). To answer that, one should take into consideration that the accumulative positive effects of the reform policies implemented by the countries cannot disappear. To be more specific, it was a positive finding that the PMA curve follows the FDI curve even by its downturns; exactly because the positive effects and improvements yielding from various reform policies are permanent. Therefore, the model is proved to have indexes included, which even track down very delicate changes in terms of politics, economics and institution-functioning. So, the PMA curve is able to capture negative trends, as well as positive ones, even in smaller and smoother changes.

This leads to the conclusion, that the PMA framework could be further developed and tested for its consistency - with various countries' data - to prove itself useful for countries' evaluation, in terms of FDI adequacy and attraction.

SECTION V - Resources

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