

IMPORTANCE OF INSTITUTIONAL CAPACITY FOR ATTRACTING FDI IN THE WESTERN BALKAN COUNTRIES

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Abstract

Foreign direct investments are an integral part of open and effective international economic system, and they are the main catalyst for development. However, the benefits of a foreign direct investment are not the same in all local communities, sectors and countries. International investments and national policy are aimed at foreign direct investment and reap benefits of investment development. The challenges are primarily related to the host countries, and the establishment of an efficient and transparent policy to attract investment, and that must be paid to building human and institutional capacity for their implementation. Compared to the existing literature, which focuses mainly on the effects of political risk or corruption on FDI, our contribution is reflected in testing a wider range of institutional variables and their impact on undertaking investment projects by foreign investors. The analysis included 5 countries of the Western Balkans in the period of 22 years starting from 1998 until 2019. In the analysis of empirical data, we used the fixed effect model (FEM) for evaluating FDI. Also, the quality of the research is promoted using balanced panel data.

Key words: FDI, Western Balkan Countries, Institutional Capacity, Corruption, Panel Data

ЗНАЧАЈ ИНСТИТУЦИОНАЛНОГ КАПАЦИТЕТА У ПРИВЛАЧЕЊУ ФДИ У ЗЕМЉЕ ЗАПАДНОГ БАЛКАНА

Апстракт

Стране директне инвестиције су саставни део отвореног и ефективног међународног економског система, и главни су катализатор развоја. Ипак, предности страних директних инвестиција нису једнаке у свим земљама, секторима и локалним заједницама. Националне политике и међународна инвестициона архитектура се баве привлачењем страних директних инвестиција и убирањем плодова од инвестиционог развоја. Изазови се превасходно односе на земље дома-

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ћине, које морају да успоставе транспарентну и ефикасну политику привлачења инвестиција, као и да се посвете изградњи људских и институционалних капацитета за њихово спровођење. У поређењу са постојећом литературом, која се фокусира углавном на ефекте политичког ризика или корупције на страна улагања, допринос овог рада се огледа у анализи ширег распона институционалних варијабли и њиховог утицаја на предузимање инвестиционих пројеката од стране инвеститора. Анализа обухвата 5 земаља Западног Балкана у периоду од 22 године, почев од 1998. до 2019. За анализу емпиријских података користи се модел са фиксним ефектима (ФЕМ). Такође, квалитет истраживања унапређује се коришћењем панела уједначених података.

Кључне речи: ФДИ, земље Западног Балкана, институционални капацитет, корупција, панел података.

INTRODUCTION

The overall benefits of FDI in the world are documented and well known (Helpman, 1984). Bearing in mind the relevant policies of the host country and the basic level of development, studies clearly show that foreign direct investments trigger the spread of technology, improve the quality of human capital and contribute to the integration of world trade, help to establish a more competitive business environment and enhance firm development (Di Mauro, 2000). All this contributes to the increasing economic growth as a powerful instrument for reduction of poverty in developing countries, particularly the economies of Southeast Europe (Botrić, & Škuflić, 2006). Moreover, in addition to strictly economic benefits, FDI may help improve environmental and social conditions in the host country, for example, the transfer of clean technologies and introducing socially responsible corporate policy.

The most important research is not only focused on the positive effects of foreign direct investment on economic development, but also deals with the potential shortcomings of the host economy, both economic and non-economic. (Grosse, & Trevino, 2005). Although many disadvantages, which are often referred to as cost, reflect the shortcomings of the policies of the host country, the great challenges occur in the event that these shortcomings cannot be easily remedied. Moreover, some governments of host countries see the increased dependence of companies that operate internationally, and therefore the loss of political sovereignty. Some of the benefits expected from investing may be unattainable, for example, if the domestic economy is not able to take advantage of technology or knowledge transfer via foreign direct investment.

The main goal of our empirical research is to test the impact of the variables that most affect the institutional quality of a country, as efficiency of public administration, control of corruption, quality of legal regulation, all with the aim of measuring the attractiveness of FDI. The contribution of this paper is reflected in the fact that it adds several new

directions to the existing research. First, we re-examine the role of institutional capacity in 5 countries of the Western Balkans in the period of 22 years starting from 1998 until 2019. Then, compared to the existing literature, which focuses mainly on the effects of political risk or corruption on FDI, our contribution is reflected in testing a wider range of institutional variables and their impact on undertaking investment projects by foreign investors. In the analysis of the empirical data, we used the fixed effect model (FEM) for evaluating FDI. Also, the quality of the research is promoted using a balanced panel data.

The paper is organized as follows. Section 2 presents institutional aspects of attracting FDI. Section 3 describes the institutional data used in this study. Discussion of results and predicted scenarios are presented in Section 4. The last section presents the concluding remarks.

LITERATURE REVIEW

In addition to the initial macroeconomic stimulus stemming from investment, FDI stimulates growth by increasing overall factor productivity and overall resource efficiency used in the domestic economy. The authors single out three channels by which this is achieved: the connection of foreign direct investment and foreign trade flows, spillovers and other external factors related to the business sector of the host country and the direct impact on the economic structure of the host country (Blonigen, & Bruce 2005). In less developed countries, it seems that foreign direct investments have less impact on growth due to the presence of initial external influence (De Mello Jr, 1999).

A number of significant scientific studies have explored the relationship between FDI and variables that directly or indirectly affect the very nature of FDI. As noted by some authors (Yin-Li et al., 2012), the increased inflow of FDI is influenced by a number of factors including market size (Ramirez, 2006; Quazi, 2007), quality of comprehensive infrastructure (Daude, & Stein, 2007), openness to trade (Martens, 2015; Liargovas, & Skandalis, 2012), and human capital (Glass, & Kamal, 2002; Blomström, & Kokko, 2003; Noorbakhsh, & Paloni, 2001). However, only a few studies have focused on the causal relationship between FDI inflows and institutional quality of their research (Fazio, & Talamo, 2008; Alonso, & Garcimartín, 2013). The used model in this paper describes the dependence of FDI on seven selected regressors presenting indicators which in theory are considered as keys to move FDI. They are the following indicators: export coefficient (GDP_EX), government effectiveness (GEF), political stability (PLST), market size (POP), quality regulations (RQU), the degree of openness of the economy (TOPEN) and corruption control (CC). According to most authors, there are several reasons why the quality of institutional architecture is a prerequisite for the

greater influx of FDI. Namely, the poor institutional environment creates a growth of corrupt practices and thus negatively influences the FDI influx (Wei, 2000). Also, if there is an increased investment risk (country risk, political risk, currency risk, etc.), this will have a negative impact on foreign capital inflows in the form of FDI. Finally, the higher quality of institutions in the country creates a favorable environment, with higher productivity and yields that attract FDI.

INSTITUTIONAL ASPECTS OF ATTRACTING FDI - THEORETICAL AND EMPIRICAL FRAMEWORK

The institutions of the economic system to a great extent define the business environment. FDI are particularly sensitive to the impulses coming from the Government. Higher or lower efficiency of economic entities depends on many of determinants. This paper examines some of the parameters of attracting FDI in the Western Balkans.

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Tintin (2013), in his study, analyzes the determinants of FDI in the six countries of Central and Eastern Europe, with the inclusion of institutional variables and traditional factors in the period 1996-2009. The main approach in the study was the panel for estimating at least squares with fixed effects. Results show an economically significant and positive role of the GDP amount, trade liberalization, government instability and the inflow of FDI. The index of economic freedom, index of the state sensitivity, index of political rights and civil liberties index have a different, but significant effect on the inflow of FDI in the observed group of countries, from different countries of investors.

Export and outward FDI can be substitute or complementary, according to the development stages of outward FDI. Thus, Liua et al. (2016) find “that in a given economic environment, companies optimize a production function that includes three export activities, foreign direct investment, and domestic production and sales. Optimization of production functions and achievement of company's goals require companies to complement exports with foreign direct investment, export or substitute with outward FDI, in accordance with the development phase of outward FDI.” Bahadur, & Tandon (2015) argue that FDI is one of the crucial macroeconomic variables affecting the Indian economy. The growth and development can be affected by increasing the level of exports and inviting more foreign currency inflow into the country. They conclude that

there is no long-term association between the FDI and export through Granger causality approach. The findings also show that there is no causality between the variables.

Government effectiveness (GE) is a variable that measures efficiency of public administration and the quality of public services provided. Statistically, this parameter indicates a very strong positive correlation. Consequently, it can be concluded that efficient public administration is an extremely important factor in attracting FDI in the Western Balkans. A study performed by Benassy-Quéré et al. (2005) referred to the role of the institutional environment in attracting FDI. Using various econometric techniques, the authors with enough arguments confirm the theoretical view on the role of institutions, regardless of the estimated GDP per capita. The study confirmed that the efficiency of the public sector as a whole is an important determinant of FDI, including the tax system, security of property rights, the speed of starting a business, transparency, lack of corruption, judicial efficiency and prudential standards. Results of research conducted by Busse, & Carsten (2007), using two different econometric models (Arellano-Bond generalized method of moments and fixed effects model for ground estimator - GMM) show that the following determinants of foreign investments are of great importance: government stability, corruption and ethnic tensions, external and internal conflict, democratic accountability, law and order and quality of government bureaucracy. The analysis covers 83 developing countries in the period 1984-2003. The authors conclude that the institutional indicators and political risk are important when multinational corporations are faced with decisions about where to invest in developing countries.

When it comes to Political stability (PLST), Brada et al. (2006) observed a fundamentally different nature of the political instability of some economies in transition in comparison to other countries. In these countries, there is, to a significant extent, uncertainty about the evolution of democracy, stability and government efficiency, as well as the risk of social unrest. Also, some countries in transition, especially those in the Balkans, were exposed to another type of political risk, caused by the war unrest, inter-state, inter-ethnic or internal, as well as foreign economic and military interventions. When Desbordes, & Vicard (2009) examine how bilateral investment treaties affect FDI, they concluded that FDI-based profits depend significantly on the quality of political relations between the FDI's country of origin and the host country. Effects of bilateral investment treaties depend on the quality of political relations between the Parties. The authors also conclude that there must be complementarity between bilateral investment treaties and quality local institutions. The research is based on the evaluation of influence of the interstate political interactions on bilateral FDI stocks between 30 OECD, 62 OECD and non-OECD countries over the 1991-2000 period. Of particular importance is

the authors' conclusion that the positive effect of bilateral investment treaties on FDI depends decisively on the quality of bilateral relations, and the increase of foreign direct investment among countries with political tensions.

The study of Wisniewski, & Pathan (2014) investigated the role of political factors in making decisions about the location of investments of multinational companies. The authors place the central focus on the analysis of inter FDI in OECD countries, the influence of their political institutions and processes on their inflow. Researching differences in policy environment and their role in the decision-making of international investors has documented that these variations lead to significant differences in the geographical distribution of FDI.

Martinez-San Roman et al. (2016) analyzed the quality of FDI flows between EU countries, as well as the importance of economic integration on FDI inflows in the period 1995-2009. Their results indicate a strong link and a positive correlation between the degree of economic connectivity and FDI inflows. In this regard, the variables related to the size (structure) of the market appear to be relevant for explaining intra-European FDI flows.

Regulation Quality (RQU) measures institutional obstacles to the functioning of the market. The research results are different. Better institutions as a whole have an economically significant and positive FDI, with some institutional aspects being more important than others. Some of them point to the negative sign on the variables with statistically significant value. From the empirical point of view, the impact of government regulations on the quality of FDI has been discussed by Brusse, & Groizard (2008). Using a large number of government regulations and a comprehensive World Bank database, they tested the hypothesis that countries with restrictive regulations could not effectively use FDI inflows. They investigated the effects of starting and closing companies, labor market regulation, contract execution, creditors' rights and loan approval. The results of this study have important political implications in the sense that the government must first improve the quality of regulation in their countries, before they could take advantage of openness to foreign capital in the form of FDI, i.e. in order to maximize the possibility of the inflow of FDI contributing to higher rates of growth.

On the other hand, Adams, & Opoku (2015) investigated the impact of FDI on economic growth and the impact of the countries' regulatory regime to increase FDI in the 22 African countries for the period 1980-2011. They implemented General Methods of Moments (GMM) and found that there is mutual interdependence and influence, and their interaction has a significant positive effect on the economic growth between FDI and regulations (business regulations, total regulations, market regulations and labor market regulations). Obviously, higher FDI growth

has been driven by better and more efficient regulations. Efficient business regulation, regulation of the market and employment market regulations are crucial in maximizing profit from FDI.

Control of Corruption (CC) is the next and very specific and important parameter. Corruption can be defined in different ways, with regard to its various forms, such as bribery, extortion, influence, fraud and embezzlement. From our perspective, which tracks the impact of corruption on the cost of investment operations, the most appropriate definition of corruption is as a “package” that includes “personal exchange between the two sides, and where in (1) affects the allocation of resources, whether in the current period, and (2) means the abuse of public office in achieving personal benefits. The two sides can be, for example, public officials (the “demander”) and foreign investors (the “supplier”) (Macrae, 1982, p. 22). Habib, & Zurawicki (2002) analyzed the effects of corruption on bilateral FDI flows in a sample of 89 countries, managed to establish fortifications that foreign companies tend to avoid situations where there is visible presence of corruption, because corruption could be an important cause of inefficiency. Qian, & Sandoval-Hernandez (2016) examined the effects of distance from corruption, which they defined as the difference in the level of corruption between pairs of countries on bilateral foreign direct investment. Thus, they discovered that the distance from corruption negatively affects both the probability of FDI and the volume of FDI.

According to studies, corruption has negative effects on economic performance. Foreign investors are most interested in the transparency and impartiality of institutions that guarantee the usual and “normal” running of their business. By conducting research, it must be borne in mind that corruption is a complex phenomenon, accompanied by many other characteristics of the host country, such as the cultural values, lack of competition, quality of institutions. Abed and Davoodi (2000) view corruption as a systemic weakness, i.e. that it occurs in those economies that have weak institutions. Strengthening institutional capacity also strengthens economic policy measures that reduce the corruption of participants. However, due to the impossibility that these factors are held at a constant level, the estimated effects might be biased in any direction.

Al-Sadig (2009), in the period of 1984-2004, presented data for 117 countries. He used two different econometric methods, a much wider set of control variables, as well as different data sets in the analyzed panel. Later, he discarded the high-income OECD countries from the sample. Empirical evidence suggests that the cross-sectional regressions confirm the argument that corruption significantly deters foreign investors.

DATA AND ECONOMETRIC MODELS

Analysis included five Western Balkan countries¹ for the period of 22 years, starting from 1998 until 2019. The data used in the creation of econometric models for the observed period were collected from World Development Indicators Database from WB, IMF and supplemented by data from the UNCTAD and official national sources. The limiting factor in the analysis is the lack of data for a longer period for the observed countries, as well as the small number of countries that make up the target group. The model describes FDI dependence from seven selected regressors by which indicators were presented and in theory considered as a key to move FDI. These are the following parameters: GDP_EX, GEF, PLST, POP, RQU, TOPEN and CC (Table 1).

Table 1. Indicator used in the study

Indicator	
FDI	Foreign Direct Investment
GDP_EX	Export Ratio
GEF	Government Effectiveness
PLST	Political Stability
POP	Population
RQU	Regulation Quality
TOPEN	Trade Openness
CC	Control of Corruption

Source: Systematization of authors

For the analysis of the collected data panel data model was used. Econometrically, the panel data model comprising both time series and cross-sectional elements, which means that each panel observation has a spatial and temporal dimension. Information panels can be picturesquely described as data related to observation units in different time periods. Observed Western Balkan countries are a heterogeneous group in terms of population size, where Serbia has the largest population with almost 7 million people, and Montenegro the least, something more than 600,000. The average share of exports in GDP in the observed group of countries in 2019 was 45.9%, where Macedonia leads with over 60%, while in Albania is the lowest percentage, at around 31.2%. The share of FDI in GDP is significantly different between the observed groups of countries. The largest share in 2019 was recorded in Serbia and Montenegro with approximately 8.3%, while the lowest value of this indicator was in Bosnia and Herzegovina, less than 3%. It is interesting that Macedonia leads for the TOPEN coefficient, while Bosnia and Herzegovina is at the back. Because of the limitations related to the regression coefficients in panel, surveys commonly use following regression models:

¹Albania, Bosnia and Herzegovina, Montenegro, North Macedonia and Serbia.

- *Pooled OLS model,*
- *Fixed-effects model,*
- *Random-effects model.*

Each of three models gives different results in terms of regression coefficients value and statistical significance of results. In order to establish which model best describes the reaction of dependent variables on independent variables variation, it is necessary to carry out appropriate tests. The specification of these tests is given below:

- *Pooled vs. Fixed-effects model - F-test*
- *Pooled vs. Random-effects model -Breusch–Pagan test*
- *Fixed-effects vs. Random-effects model - Hausman test*

Because the number of countries in the analysis is less than the number of variables, in the analysis of empirical data we used the fixed effect model (FEM) for evaluating FDI. Also, we used a balanced panel data which implies an equal number of observations for each unit of observation (cross-section) over time. The considered model can be represented as follows:

Fixed effect model

$$FDI_{it} = \beta_{0i} + \beta_1GDP_EX_{it} + \beta_2GEF_{it} + \beta_3PLST_{it} + \beta_4POP_{it} + \beta_5RQU_{it} + \beta_6TOPEN_{it} + \beta_1CC_{it} + u_{it}$$

where is: β_{0i} - the unknown intercept for each entity, u_{it} - the error term.

The results of the estimation given by the software *EViews 10*.

DISCUSSION OF RESULTS AND PREDICTED SCENARIOS

Using the appropriate model and software, the following results were obtained in the tables below:

Table 2. Fixed effect model

Variable	<i>Fixed effect model</i>		
	Coefficient	t-Statistic	Prob.
C	5.19E+09	1.819836	0.0718
GDP_EX	1.14E+09	2.361733	0.0364
GEF	3236763.	0.313015	0.7549
PLST	11296907	1.713500	0.0898
POP	2076.208	3.178095	0.0020
RQU	4671569.	2.390777	0.0217
TOPEN	8207944.	2.216453	0.0492
CC	21212757	2.183305	0.0401
R-squared	0.635164		

Source: Authors' calculation

$$FDI = 5193325509.36 + 1143213929.45*GDP_EX + 3236762.71429*GEF + 11296906.8088*PLST + 2076.2079037*POP + 4671568.55655*RQU + 8207944.30501*TOPEN + 21212757.4805*CC + [CX=F]$$

Based on the data obtained in the model, certain conclusions can be drawn (*Table 2*). All the parameters used show the expected positive direction of change. The total population (POP) in this model represents the size of the market. The analysis showed a very strong positive correlation between population and FDI inflows into the Western Balkan countries. This is an expected trend given that many studies have proven that larger markets seem more attractive for higher FDI inflows (Aziz, & Makkawi, 2012; Bellak et al., 2008).

On the other hand, there is an unambiguous and clearly verified positive relationship between the FDI level and the degree of openness (integration) of the Western Balkan countries to international foreign trade as measured by the share of imports and exports in GDP (TOPEN parameter). Such a connection can easily be seen by observing the longtime series data on the movement of international trade and the amount of FDI by region. The results unequivocally indicate that the level of FDI increases as does the level of foreign trade liberalization, suggesting that, on average, a country with a more open economy has a higher level of FDI inflow. Stronger integration in the international division of labor in the Western Balkans, it seems, goes hand in hand with higher inflow of FDI.

It can be observed that economic science today is dominated by the view that the main reason for economic growth lies not in the accumulation of capital, nor in the productivity of production factors, but in an institutional framework that enables the benefits of accumulation and productivity. An essential part of this framework is the regulation quality of state institutions (RQU). According to this view, appropriate institutions and regulations encouraging innovation and technological progress, lead to the accumulation of capital and inflow of FDI, increasing employment, productivity and growth. On the contrary, weak institutional arrangements and over- or under-regulation adversely affect innovation, employment and capital accumulation, leading to a slowdown in economic growth and FDI inflows. In our case, a high correlation between RQU and the inflow of FDI was found, which only shows the important role of RQU on FDI inflow.

The instrumental value of Government effectiveness (GEF) is particularly important for those societies where the public sector is large and where public spending cannot be successfully brought under control potentially causing a public debt crisis, as was the case in Greece. If public sector efficiency is increased, high budget deficits can be reduced or eliminated without reducing or even increasing the quality of services provided to citizens through public services. Increasing the quality of public sector services is particularly important for countries that have overall very poor public service performance (Afonso et al., 2006).

Corruption is a global phenomenon that causes poverty, hampers development and reduces the inflow of FDI. Empirical research shows that corruption increases poverty in the country and deepens social differences in

society by slowing economic growth. The policy of public investment adjusts the interests of a small layer of rich and powerful and narrows the circle of beneficiaries of public services such as education, health care, security, legal certainty (Kaufmann et al., 1999). The parameter of corruption control (CC) measures the impact of the institutions of the system on the possibility of reduction or its complete elimination. Our analysis showed a positive link between the control of corrupt practices and the inflow of FDI, which is in line with the conclusions of leading papers in this area.

Between FDI and other indicators (PLST and GDP_EX) a direct dependence is established. The value of the coefficient of determination R^2 was 0.635 and we can consider that the resulting model largely explained changes in FDI changes in the factors, considered in analysis as independent variables.

CONCLUSIONS

The models used in our paper for the period between 1998 and 2019 showed a high cause-and-effect relationship of the parameters GDP_EX, GEF, PLST, POP, RQU, TOPEN, CC and FDI inflows. For the WB countries, the positive correlation expressed practically means a signpost to a higher inflow of foreign capital.

The main conclusion that can be drawn is that for the observed Western Balkan countries, the economic benefits of foreign direct investment are real, but will not be achieved automatically. In order to achieve maximum benefits from foreign corporate presence, it is of the utmost importance to ensure a healthy business environment (such as adequate control of corruption or minimize political risks, presented in our model as CC and PLST variables). The net benefit from FDI is not achieved automatically, and their size varies from country to country. Factors that limit the full benefits of foreign investment in some Western Balkan countries may be the general level of education, level of technique and technology on the development of the country, weak competition, lack of openness to trade, and poor regulation. In contrast, increasing the level of technological advances, education and infrastructure will enable developing countries to make better use of foreign presence in their market.

In economies where a healthy business environment is created by efficient economic and legal institutions, the entry of strong foreign corporation encourages the business sector of the host country, either through competition, vertical alliances or demonstration effects. Foreign direct investment shows extreme sensitivity to all the strengths and weaknesses of the corporate environment.

Viewed in a broader context, the model results indicate a very important fact: foreign direct investment, as a form of development aid cannot be the main and only source for solving all the problems of poor countries,

such as those in the Western Balkans. Countries that are unable to raise funds for local investment cannot count on the benefits of foreign direct investment. It is the task of the government host countries to raise the level of education, invest in infrastructure and support the development of a healthy domestic business sector. Local subsidiaries of multinational corporations have the potential to support these efforts, but authorities and international agencies can help by various measures to build these capacities. However, in the end, the effects of FDI still remain dependent on government policy.

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ЗНАЧАЈ ИНСТИТУЦИОНАЛНОГ КАПАЦИТЕТА У ПРИВЛАЧЕЊУ ФДИ У ЗЕМЉЕ ЗАПАДНОГ БАЛКАНА

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Резиме

Укупне користи од страних директних инвестиција су у свету документоване и добро познате. Имајући у виду одговарајуће политике земље домаћина и основни ниво развоја, студије недвосмислено показују да стране директне инвестиције активирају ширење технологије, подижу квалитет људског капитала, доприносе интеграцији светске трговине, помажу стварању конкурентнијег пословног окружења и побољшавају развој предузећа. Све ово доприноси већем економском расту који је најмоћније средство за смањење сиромаштва у земљама у развоју, посебно економијама Југоисточне Европе. Осим тога, поред строго економских користи, стране директне инвестиције могу помоћи у побољшању услова животне средине и социјалних услова у земљи домаћина, на пример, преносом чистијих технологија и довођењем до социјално одговорније корпоративне политике.

Најзначајнија светска истраживања се не фокусирају само на позитивне ефекте страних директних инвестиција на развој, већ се баве и потенцијалним недостацима привреде домаћина, како економским, тако и неекономским. Иако се многи недостаци, који се често називају трошковима, одражавају на недостатке политике земље домаћина, велики изазови се јављају када се ови недостаци не могу лако решити. Потенцијални недостаци укључују погоршање платног биланса када се профит пресели у другу земљу, недостатак позитивне повезаности са локалним заједницама, потенцијално штетан утицај страних директних инвестиција, посебно на екстрактивну и тешку индустрију, социјални поремећај убрзане комерцијализације у земљама у развоју, и ефекти конкуренције на националним тржиштима. Неке власти земаља домаћина чак доживљавају повећану зависност од предузећа која послују на међународном плану, губећи на тај начин свој политички суверенитет. Неке очекиване користи од инвестиција могу се чак показати као недостижне, на пример, ако домаћа економија није у стању да искористи технологије или трансфер знања путем страних директних инвестиција.

Главни циљ нашег емпиријског модела је тестирање утицаја варијабли које најбоље граде институционални квалитет (преко ефикасности јавне управе, контроле корупције, квалитета правне регулативе), а све у циљу мерења атрактивности СДИ у земље Западног Балкана.