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DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN EASTERN EUROPE

FACTORII DETERMINANȚI AI INVESTIȚIILOR STRAINE DIRECTE IN EUROPA DE EST

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Abstract: *Această lucrare analizează determinanții investițiilor străine directe (ISD) în Europa de Est, cu un accent asupra Republicii Moldova. În contextul globalizării și al interdependențelor economice, atragerea ISD este esențială pentru dezvoltare sustenabilă și competitivitate. Scopul cercetării este identificarea factorilor care influențează fluxurile de capital și evidențierea diferențelor dintre economii. Metodologia este calitativă, bazată pe analiza literaturii și pe o abordare comparativă a datelor și rapoartelor internaționale. Rezultatele arată că ISD depind de stabilitatea politică, calitatea instituțiilor, infrastructură și integrarea în lanțurile valorice globale. România și statele baltice atrag investiții semnificative, în timp ce Moldova este limitată de vulnerabilități structurale și dependență de finanțare externă, ceea ce evidențiază necesitatea unor reforme pentru creșterea atractivității investiționale.*
Key words: *investiții străine directe, Europa de Est, avantaj comparativ, flux de capital, pieți emergente, globalizare, economie în tranziție*
JEL CLASSIFICATION: F2

Introduction

In the modern economic landscape, FDI (Foreign Direct Investment) has become a key driver of economic growth and development. To put it simply, FDI is a substantial, long-term investment made by a company or government into a foreign project or firm; thereby, FDI is an acceleration factor for technological progress and improved competitiveness (Sturzu, Gribincea, Gribincea, 2017, p.41).

In the context of globalization, attracting FDI is essential for sustainable economic development, especially in Eastern European economies undergoing structural transformation and integration into global markets. While some countries have successfully attracted foreign capital, others, including the Republic of Moldova, still face significant challenges. This research aims to identify the main factors influencing these differences and to analyze the determinants of capital flows in the region, highlighting measures to improve investment attractiveness.

Core content

Brief review of the relevant literature in the field of the research topic

The academic literature shows that Foreign Direct Investment is shaped by economic, institutional, and political factors. According to Dunning's Eclectic Paradigm (OLI), FDI depends on ownership, location, and internalization advantages, explaining why firms choose specific countries based on market potential, costs, and regulations (Dunning, 1988). In Eastern Europe, FDI inflows vary depending on EU integration, institutional quality, and macroeconomic stability (UNCTAD, 2022). Countries such as Romania, Hungary, and the Baltic states benefit from regulatory alignment and market access, while economies like the Republic of Moldova face challenges due to weaker governance and infrastructure (World Bank, 2020). Additionally, labor costs, workforce skills, and tax policies significantly influence investment decisions (Sturzu et al., 2017, p.41).

Detailed description of research methods used

The present study is based on a qualitative research methodology, combining literature review and comparative analysis. Academic articles, international reports, and empirical studies were examined to identify the main determinants influencing FDI in Eastern Europe.

The comparative method was used to analyze differences between countries with high FDI inflows (such as Romania, Hungary, and the Baltic states) and less attractive ones (such as Moldova and some Balkan countries), focusing on indicators like political stability, institutional quality, infrastructure, and market size. The study also integrates Dunning's OLI paradigm to provide a clearer understanding of investment behavior.

Obtained results:

The phenomenon of globalization has led to what Baldwin (2006) describes as the "great unbundling," where production processes are fragmented and relocated across countries depending on comparative advantages. This has significantly increased the importance of Eastern Europe as a destination for investment due to its relatively low labor costs and geographical proximity to markets.

Furthermore, studies on offshoring highlight that multinational corporations tend to relocate production Western activities to countries with lower costs and higher efficiency, thereby stimulating FDI inflows (Goerg, Greenaway & Kneller, 2008). This trend explains why countries such as Latvia (1,514.02 million US$ FDI net inflow in 2024) and Romania (7,159.11 million US$ in 2024) have become attractive investment hubs, according to World Bank data. In contrast, post-communist economies have faced structural challenges in attracting FDI due to institutional weaknesses and incomplete market reforms (Daianu, 2000).

To continue, Moldova, as a transition economy, reflects these limitations through governance issues and insufficient infrastructure (Doltu, 2008), with a significantly lower FDI net inflow of 458.37 million US$ in 2024. Additionally, national investment policies and legal frameworks play a crucial role; although the Law on Investments in Entrepreneurial Activity (2004) and subsequent strategies aimed to improve the investment climate, their effectiveness remains constrained by implementation challenges.

The research confirms that globalization and economic integration have intensified competition for FDI, favoring countries better integrated into global value chains. Romania, Hungary, and the Baltic states attract significant investment due to EU membership, stability, and developed infrastructure (Ciobanu & Ciulu, 2005). In contrast, Moldova faces structural constraints, including weak institutions, limited market size, and low integration into global markets (Gribincea, 2013).

Tabelul 1. Determinants of Foreign Direct Investment (FDI) attractiveness

Factor	Countries with high FDI	Countries with low FDI
Political Stability	High	Low
Infrastructure	Developed	Weak
Market	Large	Limited
Institutions	Strong	Weak

Source: Elaborated by the author based on World Bank (2022) & UNCTAD (2022)

This disparity is shown in Table 1, where countries with high FDI have strong institutions, developed infrastructure, and political stability, while those with low FDI, like Moldova, lack these conditions. This supports the hypothesis that FDI in Eastern Europe is driven mainly by institutional quality and economic stability, not just location or low labor costs.

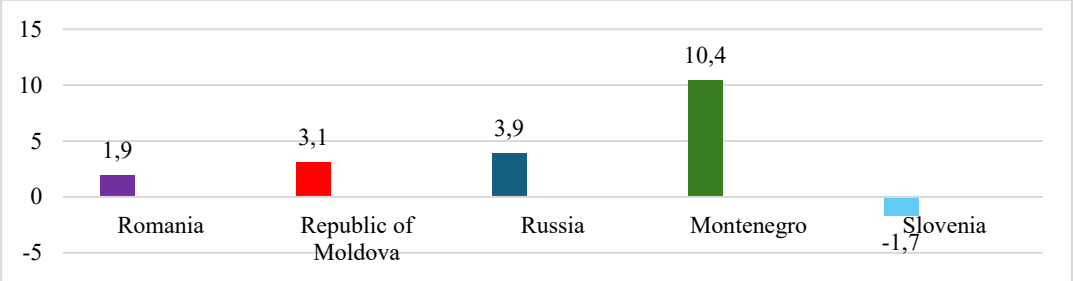


Figura 1. The share of FDI inflows to GDP in 2013 (%)
Sursa: UNCTAD

Consequently, a similar pattern is observed in Figure 1, which shows FDI inflows as a share of GDP. Montenegro records the highest level (10.4%), followed by Russia (3.9%) and Moldova (3.1%), while Romania (1.9%) and Slovenia (-1.7%) display lower values. However, these figures should be interpreted cautiously, as higher FDI shares do not necessarily indicate stronger economies. They may reflect temporary inflows, privatization processes, or sector-specific investments, such as tourism and real estate in Montenegro or Moldova's transitional economic structure.

Recent macroeconomic indicators provide additional insight into Moldova's position. In the fourth quarter of 2025, the country recorded a current account deficit of -944.8 million EUR, alongside financial inflows of 1,053.4 million EUR, highlighting a strong dependence on external financing. Furthermore, the international investment position (-6,873.6 million EUR) and the high level of external debt (10,110.6 million EUR) confirm Moldova's status as a net debtor economy (National Bank of Moldova, 2026).

Geopolitical factors also influence FDI, as investment flows are shaped by global power structures and strategic interests (Chomsky, 2003), with countries better integrated into international systems attracting more stable, long-term capital. Overall, the analysis of the table, figure, and macroeconomic data shows that attracting sustainable FDI depends not only on cost advantages, but on institutional strength, economic stability, and strategic positioning. These findings confirm the research objective and highlight the need for Moldova to implement structural reforms, improve governance, reduce corruption, develop infrastructure, and promote long-term investment policies.

Conclusion

Foreign Direct Investment remains a key driver of economic modernization and global integration. The analysis shows that FDI depends not only on economic factors, but also on institutional quality, globalization, and geopolitical influences. Countries that combine stability, strong institutions, and integration into global value chains attract more sustainable investments.

For Eastern European countries, especially Moldova, increasing competitiveness requires long-term structural reforms, stronger institutions, and deeper international integration. Policymakers should ensure transparent investment policies, reduce corruption, and improve infrastructure and diversification. At the same time, further research should focus on digital transformation, global value chains, and geopolitical shifts, as these will increasingly shape future FDI patterns.

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