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HOW DOES ECONOMIC INTEGRATION AFFECT PROGRESS ALONG THE INVESTMENT DEVELOPMENT PATH? A CASE STUDY OF EU MEMBER VS. NON-MEMBER COUNTRIES FROM EASTERN EUROPE

Abstract

Objective:
A number of studies have dealt with the effects of economic integration on foreign direct investment, however without a comprehensive and simultaneous analysis of the overall positioning of these countries along the investment development path (IDP). In the current paper, a comparative analysis is conducted of IDPs of four Eastern European countries, both members and non-members of the European Union. The purpose of the paper is to determine the effect of economic integration on foreign direct investment (FDI) flows and on the movement of these Eastern European economies through their IDP stages.

Methods:
An attempt is made to identify the positioning of the sample countries on the IDP, using trend estimation depicting the relationship between net outward investment (NOI) position per capita and gross domestic product (GDP) per capita, as well as detailed descriptive data on inward and outward FDI stocks and flows, subsequently supported with econometric analyses.

Results:
While the findings point to a rather ambiguous effect of European Union (EU) membership on FDI growth and IDP trajectories, integration tends to exert a stronger effect on outward FDI than on inward FDI of member countries.

Contribution:
The study's findings reveal the need to add new theoretical considerations to the interface between economic integration and the IDP model as well as formulate certain policy implications resulting therefrom.

Keywords: *foreign direct investment, economic integration, economic transformation, Eastern Europe, econometric analysis*

Introduction

The main objective of this study is to determine whether integrating an economy in an organization of regional economic integration such as that of the European Union (EU) will upgrade the said economy's international competitiveness thus influencing the integrating countries' inward and outward foreign direct investment (FDI). The main drivers in this process have been identified and selected as outward and inward FDI which conceived as outward and inward FDI stocks are at the core of the concept of net outward investment (NOI), which in turn is the central category in the investment development path (IDP) model of John Dunning (Dunning, 1981, 1986;Dunning and Narula, 2002). In particular, the authors investigate the effects of economic integration on the IDPs of Eastern European countries by comparing EU-members with non-member countries of the region. Another intention of this study, in its theoretical dimension, is to seek at least indirect confirmation for the existence of the FDI creation effect in the countries that had joined the EU. The literature review which follows later attests to the relative paucity of research on those two significant issues in international business research, and thus this investigation is intended to fill the gap to some degree.

Four countries have been selected for investigation in this study. Two, i.e. Bulgaria and Romania, come from Eastern Europe and have been EU members since 2007. The remaining two, i.e. Albania and Georgia, lie in Southern and Eastern Europe but remain outside the EU. The selection criteria were in principle two: potential of the internal market proxied by the size of each country's gross domestic product (GDP) p.c. and availability of required data throughout the investigated period, i.e. from 1994 to 2019 (latest year on record with data for all countries). The data sets used in this study were compiled from the database of the United Nations Conference on Trade and Development (UNCTAD).

This research is positioned in the authors' ongoing investigation of the impact of EU membership of Eastern European countries on their FDI in general, and the investment development path in particular. As such, the study is expected to produce preliminary and exploratory findings and conclusions, which should be treated with utmost caution, requiring further scrutiny and verification. Also, the focus here is on EU as only one among the multitude of other forms of international economic integration currently in existence. Thus, the said findings tentatively apply only to a specific institutional and geographic framework, delineated on the one hand by EU, and Eastern European countries on the other.

As for the structure of this study, introduction is followed by the section containing extant research on the basic theoretical concepts coupled with their empirical evidence on the investigated and complementary subject areas. Then an outline ensues of research methods employed, revolving around the formulated four research hypotheses. This is followed by the key section containing relevant descriptive and econometric analyses, and incorporating also all findings. Thereafter, the last section concludes the paper with certain policy recommendations and a future research agenda.

Theoretical considerations and empirical evidence

The Impact of Economic Integration on FDI Flows

While interactions between economic integration and trade have received much attention in the theoretical and empirical literature (see e.g. Mays, 1978; Balassa, 2011; Kohl et al., 2016; Soete and Van Hove, 2017), interdependencies between economic integration and FDI flows still remain a relatively neglected research area (Medvedev, 2012; Marszk, 2014; Canh, Schinckus and Dinh Thanh, 2021). And yet, related research dates back to the sixties, when the pioneering study of Kindleberger (1966) appeared, introducing the concepts of investment creation and investment diversion in response to economic integration. The contributions of Dunning and Robson (1987) and Dunning (1997), appearing in the subsequent decades, are noteworthy as well. Despite the earlier and more recent efforts, research into the FDI effects of regional integration remains limited and often inconclusive. The problem, as pointed out by Blomström and Kokko (1997), may lie in the multidimensionality of the link between economic integration and FDI. It is therefore reasonable to expect different impacts of the formation of integrative groupings on FDI flows among the member countries, as well as between member and non-member countries. Moreover, the impact may vary depending on the type of FDI: horizontal vs. vertical or import substituting vs. export-oriented (ibidem). Another issue is the impact of economic integration on FDI inflows vs. FDI outflows from a given country. This issue is particularly important in the context of the investment development path (IDP). Table 1 summarizes the conceptualized or documented impacts on both FDI inflows and outflows, from the perspective of a host country, according to the impact area (aspect of integration). A more detailed description of these impacts follows the table.

The literature on the consequences of trade liberalization through regional integration agreements for trade flows is vast. Much less has been written on the impact of trade liberalization on investment. Earlier studies tended to regard trade and capital movements as substitutes (see the works cited in Blomström and Kokko, 1997). According to this view, creating an economic integrative bloc was expected to decrease the magnitude of FDI flows – horizontal FDI flows within the bloc should decrease due to lower costs of serving foreign markets through exports rather than via international production (reduction of "tariff-jumping" FDI). On the other hand, if regional integration leads to trade creation, it is likely to result in shifting of investment from one country to another in search of new investment opportunities (investment diversion in response to trade creation effects) and due to regional rationalization of international production.

Table 1. Hypothesized Impacts of Economic Integration on FDI Flows

Aspect of integration	Impact on FDI inflows to host country	Impact on FDI outflows from host country
Trade liberalization	Mostly positive; can be negative for horizontal FDI and for member countries with weak location advantages and/or excessive competition	Possibly positive: Increased competition stimulates improvement of firms' ownership advantages, thus increasing their international competitiveness
Investment liberalization and improvement of investment climate	Positive: lack of barriers, improved investment climate and reduced risk attract foreign investors	Possibly positive: local firms face no regulatory barriers to investing abroad and have better access to assets in the integrated area
Extended market size	Positive for FDI inflows from non-member countries	Possibly positive for intra-regional outflows, but negative for investing outside the integrated area

Source: Authors' conceptualization based on the literature review.

Hence, intra-regional FDI may increase in some member countries, while decreasing in other countries. At the same time, inflows of FDI from outside the integrative grouping may go up, if the average level of protection increases and trade diversion occurs. In more recent literature, however, a dominant view is that there is complementarity between trade and investment due to the growing importance of intra-industry and intra-firm trade, and multinational enterprises' (MNEs) production networks (Globerman, 2002; Markusen, 2002; Medvedev, 2012). This observation is supported by a number of empirical studies. For example, Brenton et al. (1999) found complementarity between FDI flows and both imports and exports in their study of CEE countries' prospects to join the EU, thus corroborating the work of Brenton and Di Mauro (1999).

Likewise, Chakrabarti (2001) discovered that after market size, openness to trade is the most important indicator of the attractiveness of an FDI location. And the empirical study by Martinez et al. (2012) shows that EU trade and FDI reinforce each other, thus being complements not substitutes. Clearly, both theoretical reasoning and empirical studies point to the overall positive impact of trade liberalization, as part of the integration processes, on FDI inflows. However, some member countries may experience a decrease in FDI inflows or even in FDI stock. A case in point of the latter is the divestment phenomenon observed in Greece following the country's accession to the EU in 1981 (Georgopoulos et al., 2018). Established during the protectionism era, the subsidiaries of MNEs had difficulty competing in an open Greek market and many of them were forced to divest.

In terms of the impact of trade liberalization on FDI outflows, not much theoretical reasoning and even less empirical evidence can be derived from extant literature. It is argued though that economic integration can have a significant impact on firms' ownership ("O") advantages (Witkowska, 1997; Marszk, 2014). For MNEs from member countries, integration provides better access to markets within the grouping, thus allowing them to capitalize on the economies of scale. This, in turn, may lead to increased R&D spending and improved innovativeness and competitiveness of the enterprises' products and services. Having improved their O-advantages, the local MNEs will be in a better position to compete and more inclined to exploit these advantages abroad. The Single European Market (SEM), for example, was expected to stimulate innovation inside the European Community through the ability to sustain larger R&D expenditures (Yannopoulos, 1990b). It is likely then that outflows of FDI from the integrating area increase as a result of an enhanced capacity and competitiveness of local firms (Blomström and Kokko, 1997). Some empirical evidence is provided by the study of Simonescu (2018) who found that Romania's accession to the EU brought about significantly more FDI inflows and more FDI outflows in the years 2007-2012 than in a comparable period prior to accession.

Liberalization of investment regimes and the introduction of transparency and policy credibility that go along with joining an economic bloc can be significant factors stimulating intra – and inter-regional FDI flows (Medvedev, 2012; Marszk, 2014). This is because membership, actual or expected, locks in reforms, improves the investment climate and thus lowers the political risk of investing in a member country. The surge in FDI inflows into Mexico at the time of the NAFTA formation provides evidence in support of the positive link between investment liberalization and improvement of investment climate, and FDI flows (Blomström and Kokko, 1997; Lederman et al., 2005). The study of Adams et al. (2003 – cited in Medvedev, 2012) demonstrates that particularly "deep integration" provisions – liberalization of investment and trade in services, harmonization of standards, common competition policy, customs cooperation, provision of a dispute settlement mechanism and IPR protection – can be important drivers of FDI. Complying with such "deep integration" provisions constitutes one of the requirements of the EU membership.

The impact of investment liberalization on outward FDI is less clear. Brenton (1996 – cited in Brenton et al., 1999) found that the EU Single Market Program led to a significant increase in investment by EU firms in other EU countries in the late 1980s. However, it is impossible to separate the impact of trade liberalization from investment liberalization in this case. It is likely that investment liberalization and reduced investment risk will have a positive effect on the propensity of local firms to invest abroad. For example, the removal of capital controls and mutual investment-protection provisions facilitate outward FDI. Within a "deep integration" area, such as the EU, foreign investors have greater opportunities to raise capital. MNEs from less advanced member countries, in addition to exploiting their advantages, are likely to engage in acquisition of new capabilities in more developed member states. The phenomenon of emerging-market multinationals seeking asset augmentation abroad has been extensively discussed in the IB literature (see e.g. Buckley et al., 2015; Dunning et al., 2008; Knoerich, 2017; Mathews, 2006). Growing firms from new, and less developed, member countries are thus likely to be active investors in more advanced countries of the EU, taking advantage of investment liberalization and seeking strategic assets within the Union.

A country joining an integrative grouping naturally becomes part of an extended market. The deeper the integration of the grouping, the more the extended market resembles a single market. Having access to an extended market, which can be very large, becomes a big location advantage for foreign

investors. In fact, research shows that market size is the most important factor attracting FDI inflows (see Lim et al., 2001 for a review of empirical studies confirming that). One can therefore expect a positive relationship between a country's participation in an integration agreement/grouping and FDI flows into that country.

In particular, inflows of FDI from outside the integrative grouping are likely to increase: a larger market makes the region a more attractive investment location (Blomström and Kokko, 1997). The inflows of FDI from non-member countries would be further stimulated if the average level of external protection increased as a result of integration. MNEs from outside of the integrated area would have incentives to undertake tariff-jumping and horizontal FDI (Marszk, 2014), establishing export platforms inside the area. As Brenton et al. (1999, p. 13) put it, referring to the EU situation: "When the investing country is not an EU member, firms investing overseas might prefer an EU country over other potential host countries because it offers free access to the whole EU and EFTA markets". The empirical study conducted by Im (2016) attests to the overall positive impact of extended market on extra-regional FDI inflows, particularly via an export-platform type of investment. However, the surge of FDI inflows in such cases would be concentrated in member countries with the strongest location advantages, e.g. lowest costs (Blomström and Kokko, 1997; Marszk, 2014).

The impact of extended market size on intra-regional FDI flows is difficult to assess. The impact is likely to vary from one member country to another, depending on the country's locational advantages and on the type of foreign investment. Since an investing firm can locate its operations in any member country to have access to the entire extended market, it is likely to locate its operations in a country with the greatest location advantages. Therefore, some re-orientation (investment diversion) of FDI across the integrated region should be expected. The nature of this re-orientation will depend on the type of FDI. The theoretical arguments found in the literature suggest that intra-regional horizontal FDI should diminish, while vertical and export-oriented FDI should increase as a result of integration (Im, 2016; Jang, 2011; Neary, 2009). The implications of the above reasoning for less-developed members of the EU are that these countries, having location advantages (notably lower production costs), should benefit from an increase in efficiency-seeking (vertical and export-oriented) FDI flows from more advanced EU states.

The impact of extended market size on outward FDI is hardly discussed in the literature. Nevertheless, it can be implied from the arguments raised by some authors (see e.g. Athukorala, 2014; Blomström and Kokko, 1997; Marszk, 2014; Witkowska, 1997) that operating in a larger market is conducive to building firms' capacity to expand, also internationally. The main underlying mechanism is the opportunity to exploit the economies of scale and engage in vertical specialization. Alongside trade and investment liberalization, discussed earlier in this section, the extended market size factor should have a largely positive effect on intra-regional outward FDI. At the same time, it can possibly have a negative impact on inter-regional FDI outflows, as investors within the region will have access to a large and lucrative "internal" market and therefore fewer incentives to invest elsewhere.

In conclusion, economic integration should have a positive or mostly positive impact on FDI inflows into the member countries of an integrative grouping. This positive impact occurs mainly through three aspects (results) of integration: trade liberalization, FDI liberalization, and extended market size. However, this overall positive impact could be nuanced, depending on the source of investment (intra-region vs. extra-region investment), type of investment (horizontal vs. vertical investment), and on location advantages of the individual member countries. In particular, horizontal intra-region FDI may be diminished as a result of the integration process.

Most empirical studies support the above ideas. The studies on FDI inflows into the European Community during its early years led to the general conclusion that the Common Market that was established had attracted a surge in US investment which might have been otherwise located in other countries (Yannopoulos, 1990a). Likewise, in another study by the same author (Yannapoulos, 1990b) a strong response of the Japanese investors to the Single Market Program (SMP) was found. The direct investment response was the strongest in the sectors where the Japanese firms could best exploit their technological advantages (ibidem). Statistical evidence provided by Dunning (1997) also points to the FDI flows into the then European Economic Community (EEC) as rising faster than elsewhere in response to the SMP. Even

stronger impact was observed by Dunning on intra EEC investment. However, this author was cautious about treating SMP as an independent variable of FDI flows. Positive impact on post-accession FDI was found, among other countries, for Spain and Portugal following their EU membership (Lederman et al., 2005; Lim et al. 2001), for Mexico after NAFTA (Blomström and Kokko, 1997; Lederman et al., 2005; Monge-Naranjo, 2002), for Brazil and Argentina after MERCOSUR (Chudnovsky and Lopéz, 2001 – cited in Medvedev, 2012), for Romania after EU accession (Simionescu, 2018). Likewise, the studies on the implementation of the EU Single Market Program in 1986 point to an increase in intra-EU FDI (see e.g., Pain and Landsbury, 1997). However, some of these studies find that FDI responded more to the policy changes imposed by the integration agreements rather than to the integration process per se (Blomström and Kokko, 1997; Graham and Wada, 2000). Also, cross-country studies support the positive association between economic integration and FDI (see e.g., Adams et al., 2003). However, there are also studies that do not support this conclusion. Research of Lederman et al. (2005) and Georgopoulos et al. (2018) for Greece, and the study of Klich (2014) for Visegrad countries did not find evidence of post-accession increase in FDI inflows.

Not least, in a recent study, Bruno, Campos and Estrin (2021) attempt to answer the question how much additional FDI a country receives because it chooses to engage in deeper forms of economic integration. They find out that EU membership increases FDI inflows by between 60 and 85 per cent (for inward FDI from outside EU) and around 50 per cent for intra-EU.

The relationship between economic integration and outward FDI is less clear due to the paucity of studies (particularly empirical) in this area. Therefore, propositions stemming from the literature review are highly tentative. It is likely that the impact of regional integration on FDI outflows from member countries will be generally positive. However, it can be negative for inter-regional FDI outflows due to the dampened propensity of local MNEs to invest outside the integration region in face of favorable regulatory conditions and greater investment opportunities within the region (investment diversion). Empirical evidence is insufficient to conclude about the net effect of stimulated intra-region outward FDI and dampened inter-region outward investment.

Finally, it is important to note that in the context of post-transition economies of Eastern Europe, which are still at a lower level of economic and institutional development than their Western counterparts, the argument of a seemingly symmetrical effect of the aforementioned dimensions of integration on inward and outward FDI does not hold. As has been argued by Gorynia et al. (2019b) earlier, the countries of the region may be in an asymmetric position towards more advanced economies with regard to outward FDI, which is a result of different resource endowments of MNEs originating from Eastern Europe and the resulting motivations for engaging in international business and choosing between different methods of foreign operations. This aspect will further be elaborated on in a more nuanced manner in the ensuing section which introduces and discusses the IDP concept.

Economic Integration and the IDP Concept

The IDP concept or model was introduced by Dunning (1981), and further refined by Dunning (1986) and his co-author (Dunning and Narula, 1994, 1996, 2002; Narula and Dunning 2010). The model provides a framework for analyzing the dynamic relationship between FDI and economic development leading to the upgrading of country international competitiveness. The two variables used in determining a country's position on the IDP are the NOI and GDP. NOI is calculated as the difference between outward FDI and inward FDI stock. Thus, the dynamic relationship between outward and inward FDI is at the heart of the IDP model. The changes in GDP are treated as proxy of economic development. As countries develop, they pass through 5 consecutive stages of the IDP. Each stage can be succinctly summarized as follows.

In stage 1 countries receive little inward FDI initially and make almost no outward FDI. The NOI is negative and decreasing, first slowly and then more rapidly. Stage 2 countries receive growing amounts of inward FDI but still invest relatively little abroad, thus becoming a large net FDI importer. At the end of this stage, however, outward FDI starts to grow faster than inward FDI and the negative NOI stops increasing. In stage 3 countries still record more inward than outward FDI stock but the latter is growing faster than the former. As a result, at the end of this stage, the NOI assumes values close to

zero. Countries classified as being in stage 4 record more outward than inward FDI stock, thus becoming net FDI exporters. The NOI assumes consistently positive and growing values. Finally, countries positioned in stage 5, experience balanced, albeit fluctuating from year to year, high levels of inward and outward FDI. The NOI first falls and then fluctuates, assuming temporarily positive and negative values.

The theoretical explanation of the underlying causes of the above-outlined stages is rather complex, but generally one can state that the IDP changes occur in response to the interplay between investment attractiveness of a country (location advantages) and the international competitiveness of its firms (ownership advantages), leading to a synergy effect of improving general international competitiveness of countries. Moreover, movement of net outward investment (NOI), being the dependent variable in Dunning's model, along the IDP generally follows countries' growing wealth, measured by GDP or GNP, which in the said model have always been the independent variable. Accordingly, developed countries are typically in Stages 4 and 5, least-developed countries are in Stage 1 and developing and transition economies are in Stage 2 or 3 (Gorynia et al., 2019a). The upgrading of country's competitiveness is conceived as the superior capacity of a national economy to compete with its foreign counterparts. The key driver in this context is of course outward FDI as it reveals the existence of domestic firms' competitive advantage which is verified and confirmed in practice on foreign markets. Thus, generally the primary impulse in this model is GDP growth which creates a milieu enabling and facilitating reaching higher IDP stages which in turn may also have a reciprocal effect on the said GDP, but usually with a time lag. There is thus interdependence to some degree between NOI and GNP or GDP with the original Dunning model unequivocally pointing, however, to the precedence of GDP growth.

The process of change in the NOI is relatively slow and often extended in time. However, it is also worth observing that the dynamics of such process can vary and be different for various countries or their groupings and can moreover depend on which stage the change is being investigated. Generally, the trajectory of the investment development path reflects, on one hand, the changing attractiveness of countries' location advantages in terms of costs,

market opportunities, resource endowments, etc. and, on the other hand, the changing competitive advantages of these countries' firms vis-à-vis their foreign competitors (Dunning et al., 2008). It is pertinent to note in this context that the era of globalization has ushered in emerging markets integration into the global economy and has led to the surge of outward FDI from some of these markets earlier than would have been predicted on the grounds of the IDP model (ibidem). Hence, the contemporary IDP trajectory, as drawn by Dunning et al. (2008), differs from the traditional one in that it is closer to the left side of the horizontal GNP or GDP as well as time axis, postulating faster progression of emerging countries through the IDP stages than was the case with their developed counterparts in the past. For example, in the case of the "Asian Tigers" the movement between stages has been relatively swift. In other cases, such as those of the Eastern European countries, the progress from IDP stage 2 to stage 3 can become extended timewise, and this has been confirmed by numerous successive analyses so far. On the other hand, the jump from stage 1 to stage 2 in this group usually occurred considerably faster. Lastly, extant research has shown that countries often revealed diverse dynamics of movement along stage 3. Additionally, what has been observed is the appearance of short-term reversibility in the whole process, i.e. there are on record sporadic cases of retreat from the once achieved stage to the previous one.

Theoretical literature is virtually silent on the relationship between the IDP and economic integration. Although Narula and Dunning (2000, 2010) recognize the importance of regional integration in the context of IDP, they do not systematically analyze the impact of integration on the consecutive IDP stages. Likewise, there are very few empirical studies investigating the issue or even incorporating conceptually the integration elements into IDP analyses. Buckley and Castro (1998) concluded in their study of Portuguese IDP that non-economic factors, among others membership in the European Economic Community (the predecessor of the EU), can be more important for the evolution of inward and outward FDI than the strictly economic factors. The studies of Klich (2014), and Kaliszuk and Wancio (2014) specifically analyzed the impact of EU accession on Eastern European countries' IDP trajectories. Klich concluded that the Visegrad countries' membership in the EU did not

result in the speeding up of these countries' movement along the IDP trajectory. On the other hand, Kaliszuk and Wancio (2014) found Poland's membership in the EU to be a catalyst in the country's transition to stage 3 of the IDP. A more recent study by Gorynia et al. (2020) provides further evidence of the general positive effect of EU membership on FDI growth and IDP trajectories of the investigated Eastern European EU-member countries, as compared to the non-member states included in the sample. However, the exploratory nature of this study and a relatively small sample of countries used in the analysis make the conclusions somewhat tentative. Clearly, further investigation is needed, using other member and non-member countries, at different level of development and different timing of EU actual and expected membership.

The present study compares IDPs of two groups of Eastern European countries: EU members and non-members, thus attempting to determine the impact of membership on the movement of countries along their investment development paths. Since NOI is the juxtaposition of inward and outward FDI, the analysis that follows measures and describes the impact separately for each type of foreign direct investment. The stated and tested hypotheses below are developed in accordance with the theoretical links and the empirical results reviewed in this section.

In line with the review and reasoning above we state that:

- **H1**: EU *economic integration affects inward FDI into Eastern European countries in the analyzed time period to a larger extent than outward FDI.*
- **H2**: EU *economic integration reduces the effect of GDP on inward FDI (substitution effect) to a larger extent than on outward FDI.*
- **H3**: EU *economic integration in Eastern European countries, in the analyzed time period, accelerates the movement of countries from stage 2 to stage 3 of their IDP.*
- **H4**: EU *economic integration in Eastern European countries, in the analyzed time period, reinforces the effect of GDP on changes in NOI.*

Research methods

in order to address the research hypotheses formulated above, firstly a descriptive analysis was undertaken of secondary data derived from the UNCTAD database. Specifically, we used data for the period 1994-2019 for outward and inward FDI stocks and flows, as well as for GDP per capita. We focused on two EU-member states, i.e. Bulgaria and Romania (that joined the European Union in 2007) and two non-EU countries, i.e. Albania and Georgia. Based on raw data we computed NOI p.c., as well as the outward foreign direct investment performance index (OFDIPI). Apart from analyzing changes of the IDP paths of these sample countries, we used the SPSS software package to estimate and visualize non-linear trend lines based on the actual data, which complement the descriptive analysis. Figure 1 shows the plot with country curves according to modelled data for the countries under study. These non-linear regression curves were drawn through points on the scatterplot to summarize the relationship between the variables under investigation.

Subsequently, going beyond the descriptive results based on available secondary data, we recurred to multiple non-linear regression analysis in order to verify the appropriateness of the IDP approach in Eastern European economies. While a number of scholars applied a quadratic function to estimate the non-linear IDP relationship (Barry, Goerg and McDowell, 2003; Boudier-Bensebaa, 2008; Dunning, 2002), others (see e.g. Buckley and Castro, 1998; and Bellak, 2001) found a cubic specification better fitting available empirical data. Yet, given the stage of development of Eastern European economies, which approach Stage 3 of the IDP at most, a quadratic function seems more accurate to capture the present positioning. Accordingly, non-linear, quadratic regression analysis using the SPSS software package was applied to the two key variables of the IDP model: NOI per capita, as the dependent variable, and GDP per capita and EU-membership (dummy variable for a given year) as the independent variables. Non-linear regression proved appropriate since the relationship between the dependent and independent variables is not intrinsically linear. Also, in line with the research hypotheses, EU-membership was included as a moderating variable on the effect of GDP per capita on NOI per capita.

Given the existence of potentially relevant factors affecting the investigated relationships documented in earlier studies, several control variables were introduced. We added the size of the economy proxied by its population, as well as the country currency exchange rate against the dollar. We do not report these variables in the final models, nor in the previous section, as (1) they did not turn out to be significant; (2) they do not affect the shape of the studied relationships; and (3) they reduce the statistical power of the models due to small sample size. For the panel data regression, the model also included years of observation as a control variable.

Two types of econometric modelling have been used in the ensuing analyses. In order to explore overall trends across the investigated sample of countries, a panel data non-linear regression has been used on 104 country-year-observations. Secondly, to analyze country-specific paths, cross-sectional regression analyses were conducted for each country for 24 years in each case.

In order to ascertain the appropriateness of all OLS multiple regression models, several assumptions had to be validated. Firstly, before running the regressions, several statistical checks (correlation analysis, independent sample tests) were conducted in order to detect multicollinearity between the explanatory variables, as well as to provide an initial understanding of the relationships between both independent and control variables. In order to alleviate the concern of multicollinearity, which was tangible because of the inclusion of interaction terms with quadratic terms of the same variable, all variables were mean-centered. The analysis of variance inflation factors (VIF) for all regression models revealed no major problems with regard to multicollinearity, as VIF values for all variables in all models were within an acceptable threshold of 10 (Chiao et al., 2008; Georgopoulos and Preusse, 2009). However, we acknowledge that while the selection of both EU and non-EU countries was aimed at generating variance for the integration variable for the total models, as well comparing the trajectories of both types of countries in the descriptive analysis, there may be a hidden issue of endogeneity which the above statistical tests do not capture. In fact, economic integration is related to economic performance due to the convergence criteria that need to be fulfilled by candidates. Thus, the small sample size does not allow to fully alleviate this concern.

As regards the panel data regression specifically, we used a fixed-effect model. From a conceptual point of view, since individual effects are linked to country-specific characteristics, they can be assumed to be deterministic and non-random. From a statistical perspective, a fixed effect model seems more appropriate since NOI is examined for countries which are not randomly drawn from a larger population but belong to a predetermined sample. Additionally, from an econometric perspective, the Hausman specification test led to the rejection of the use of a random effect model in favor of a fixed-effect model.

Data analysis and results

Descriptive analysis

The key reference point in the analysis of the NOI p.c. of all the countries in the two groups is the year of 2007 when Bulgaria and Romania became full members of the EU. According to table 2. out of the 13 years on record in only 5 of them did Bulgaria show a decrease in its negative NOI p.c. values, as expected according to the IDP model, most of them occurring towards the end of this period, thus indicating a relatively strong trend towards moving out of its IDP stage 2. This trend is clearly visible in Figure 1. Romania, according to its NOI p.c. figures, was less inclined to follow Bulgaria in moving towards IDP stage 3, as in only 3 years out of the 13 did it show a decrease in their negative values, all located closer towards the middle of the investigated period. On the other hand, in the non-EU countries group the NOI p.c. data showed a clear, sustainable trend of moving deeper into their IDP stage 2, as there was only 1 year on record with respect to Albania (in 2013) noting improved NOI p.c. values. Albania, as a representative of the non-EU group had a NOI p.c. value in 2019 roughly corresponding to that of Romania but in 2007, confirming thus the gap between the two groups in advancing toward higher stages in their IDPs. In a similar vein Romania recorded in 2019 a NOI p.c. value corresponding to that of Bulgaria in 2007, but the share of Romania's

NOI p.c. values in those of Bulgaria rose in the investigated period from 59% to 71%, indicating narrowing of the internationalization gap between them and thus indirectly pointing to a convergence process that one can in part attribute to the economic integration phenomenon. Thus the better performance in terms of country competitiveness attested by these NOI p.c. values in the case of the EU pair of countries compared to the pair not engaged in such integration scheme undeniably points to the advantages of international economic integration.

The extent of engagement in FDI, reflected by the NOI p.c. values, is also higher in the EU pair of countries than in the outsider group. Such engagement level at the beginning and at the end of the investigated period was highest for Bulgaria, followed by Romania and then in the non-EU pair came Georgia and finally Albania. This engagement ranking did not correspond to the country development level as reflected by GDP p.c. values, since Romania had markedly higher GDP p.c. than Bulgaria and Albania showed higher GDP p.c. than Georgia, although the said GDP values in absolute terms were much higher for the first pair than for the second one. This then tends to show that increased engagement in internationalization via FDI is not proportional to country GDP p.c. values reflecting country development levels. The share of the combined (negative) NOI p.c. values for Georgia and Albania in those reported for Bulgaria and Romania rose from 27% in 2007 to 58% in 2019, pointing to a significant narrowing of the gap separating the two groups and thus demonstrating that internationalizing country economies through FDI is not conditioned so much as expected and anticipated by international economic integration.

The next phase in analyzing the relationship between FDI and economic integration relates to the dynamics of outward and inward FDI stocks of the 2 investigated groups of countries. In the EU group, with respect to outward FDI stocks, the rising pattern of their absolute values in interspersed with 3 years of their decrease, positioned in the middle of the analyzed time period. A similar trend is observed in the data on inward FDI stocks, in this case also with 3 decreasing annual values, however slightly more spread out in the given time frame. What is somewhat disturbing in the context of the dynamics of the IDP model serving as a reference point, is the share of outward to inward

FDI stocks in this group which has risen from 0.021 in 2007 to only 0.028 in 2019. This shows that the group's competitiveness driven by competitive advantages of firms from this group which they exploited in foreign markets, practically did not change. Thus, in this configuration, economic integration had no significant effect on the outward internationalization process.

An almost completely different picture emerges from the analysis outward and inward FDI stocks of the non-EU group of countries. For both inward and outward FDI stocks every year an increase was recorded, there were no decreases as in the previous group. Also, the ratio of outward to inward FDI stocks was higher for every year compared with a similar ratio of the EU group. Finally. the said ratio in 2019 (0.127) was markedly higher than in 2007 (0.078). All of those facts point to the obvious conclusion that the performance of the non-integrated group was superior to the EU group. Thus, with respect to the FDI stocks criterion, international economic integration did not accelerate internationalization, on the contrary: it seemed to exert a visible slowing down tendency in that process.

Another factor affecting the relationship between economic integration and country group competitiveness focuses on comparing separately outward and inward FDI stocks of these groups. With respect to outward FDI stocks the ratio of Bulgaria and Romania to Albania plus Georgia which reached 406% in 2007 was dramatically reduced to 117% in 2019, unequivocally pointing to the reduction of the gap which was separating the two groups, and in this context supporting the argument that economic integration was not indispensable to drive outward FDI and advance country international competitiveness. This was also corroborated by the increase in the investigated time period of outward FDI stocks of the EU group by only 204% whereas the non-EU group recorded a sharp increase of 707%.

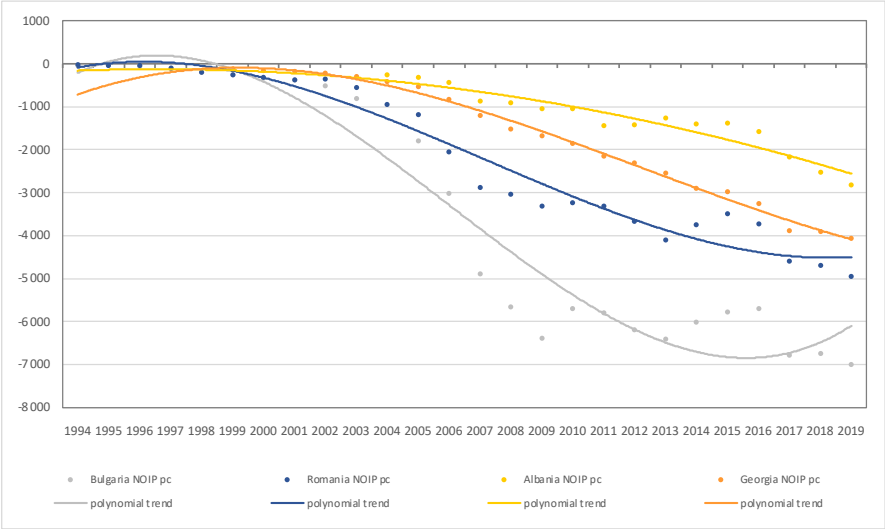
As far as inward FDI stocks are concerned the ratio for the EU group to the non-EU group fell likewise from 1224% in 2007, showing an overwhelming advantage due to country market attractiveness of the two countries even in the first year (2007) of integrating their economies with the EU, to a mere 533% in 2019. The magnitude of the observed advantage in 2007 could have been due to the possible harvesting of anticipated advantages of the Bulgaria and Romania EU accession, before and relatively soon after the accession

date. Foreign investors' choices still favored the EU countries compared with the non-EU economies but the second group, free of integration bonds and thus their consequences, was definitely closing the existing investment gap. This trend was further sustained by the observed 344% growth in inward FDI stocks in the investigated time frame for the non-EU group and only 150% for similar stocks of the EU countries.

Based on data derived from table 4. it is clearly visible that annual outward and inward FDI flows in both groups of countries were at the core of trends and proportions observed respectively in outward and inward FDI stocks. Inside each group outward flows were significantly lower that the inward ones, attesting to the conclusion that for all investigated countries coping with the arduous task building competitive advantage of their firms abroad constituted a continuous and formidable challenge. In the EU countries group annual outward FDI flows rose by 66% from 2007 to 2019, whereas in the non-EU states such flows went up by a staggering 413%. Moreover, in the last year on record (2019) the share of annual outward FDI flows of the EU group in the non-EU group was 91%. Lastly, in the EU group, the number of outward FDI flows for a given year which were higher than in the previous year, was smaller than in a similar configuration for the non-EU group. Thus, all those proportions and observations again indicate that the performance of countries benefitting from the fruits of economic integration was inferior to that of the countries following individual, non-integrated development trajectories. With respect to annual inward FDI flows their combined values for the EU group in 2019 were lower than in 2007 and their share for the later year was only 33% of the earlier one. On the other hand, for the non-EU group, the similarly conceived share was 106%, showing a rising attractiveness of this group for foreign investors compared to the EU countries. However, in absolute values, although the annual inward FDI flows for the integrated group of countries went down considerably, they still were markedly higher in 2019 when compared with the non-integrating states (7194 million USD versus 2549 million USD).

As for the outward foreign direct investment performance index (OFDIPI), in the analyzed time period, all countries except Romania recorded higher values. At the beginning, in 2007, Georgia from the non-EU group had the highest level of this index (0.185), followed by Bulgaria from the EU group with index value of 0.170. Then came Albania (0.060) and Romania (0.043). The last two countries had very low index levels indicating that only a small fraction of their outward investment potential was being exploited by investors, thus indirectly showing considerable space for improvement in this context and signaling to both private business and government authorities the available opportunity to seize. In the last investigated year (2019) Georgia again had the highest index level (1.078). Since its value was larger than 1 this indicated that Georgia was exploiting outward investment opportunities above the level commensurate with its economic potential. Thereafter came Albania with index value of 0.552, followed by Bulgaria with index value of 0.331 and ending once more with Romania, having an index of only 0. 011. Although the index values for the last investigated year were convincingly pointing to superior performance of the non-integrated economies compared with the EU ones a deeper explanation of this observation might lie in a process of confrontation of two trends.

Figure 1. Trends of NOI per capita in USD, 1994-2019



Source: Authors' calculations.

Table 2. NOI per capita, GDP per capita in USD and Outward Foreign Direct Investment Performance Index (OFDIPI), 1994-2019

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bulgaria																										
NOI pc	-29	-41	-58	-120	-187	-262	-330	-367	-518	-810		-1788	-3018	-4900	-5664	-6399	-5709	-5801	-6190	-6418	-6018	-5786	-5696	-6790	-6750	-7006
GDP pc	1262	2267	1483	1378	1847	1690	1656	1788	2085	2709	3378	3886	4505	5861	7235	6958	6783	7774	7365	7626	7851	7032	7520	8300	9388	9560
OFDIPI	0.002	-0.037	-0.188	-0.011	0.000	0.039	0.007	0.027	0.116	0.092	-0.381	0.593	0.196	0.170	0.523	-0.093	0.295	0.315	0.347	0.183	0.273	0.145	0.374	0.296	0.447	0.331
Romania																										
NOI pc	-13	-30	-43	-101	-195	-248	-308	-374	-352	-552	-937	-1175	-2055	-2871	-3039	-3307	-3242	-3319	-3678	-4112	-3741	-3492	-3728	-4590	-4692	-4944
GDP pc	1381	1640	1630	1583	1868	1623	1691	1852	2113	2756	3532	4597	5747	8300	10289	8436	8120	9020	8464	9484	9964	8928	9522	10771	12281	12436
OFDIPI	0.000	0.005	0.000	-0.017	-0.010	0.013	-0.010	0.018	0.031	0.144	0.098	-0.023	0.132	0.043	0.048	-0.028	-0.014	-0.007	-0.038	-0.080	-0.109	0.139	0.001	-0.023	0.137	0.011
Albania																										
NOI pc											-262	-324	-442	-863	-907	-1040	-1052	-1443	-1410	-1271	-1398	-1374	-1586	-2174	-2522	-2822
GDP pc	598	769	1033	718	821	1032	1115	1255	1393	1784	2312	2609	2904	3519	4290	4051	4046	4402	4228	4400	4567	3939	4109	4516	5224	5326
OFDIPI											0.092	0.029	0.045	0.060	0.235	0.167	0.025	0.105	0.108	0.170	0.146	0.145	0.267	0.101	0.476	0.552
Georgia																										
NOI pc						-116	-148	-176	-217	-298	-404	-534	-827	-1202	-1518	-1684	-1861	-2147	-2310	-2553	-2906	-2968	-3253	-3881	-3910	-4070
GDP pc	533	571	665	784	831	661	737	788	839	991	1276	1602	1945	2568	3249	2749	2987	3702	4057	4246	4368	3716	3771	4052	4397	4364
OFDIPI						0.010	0.028	0.059	0.080	0.066	0.086	-0.758	-0.063	0.185	0.406	-0.084	0.524	0.439	1.038	0.380	1.337	0.906	1.325	0.837	1.679	1.078

OFDIPI – outward FDI performance index reflects the ratio of the share of a country's outward FDI in a given year in world outward FDI to the share of the country's GDP in a given year in world GDP. GDP per capita is expressed in current prices.

Source: Authors' calculations based on UNCTAD stat.

Table 3. Shares of and country group values in million USD of outward and inward FDI stocks, 1994-2019

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bulgaria, Romania																										
Σ FDI Outward stocks	219	225	196	200	210	212	203	150	185	261	272	337	1333	2041	2899	3481	4910	4892	5158	4366	2180	2655	2988	3493	4147	4166
Σ FDI Inward stocks	757	1266	1652	3476	6124	7858	9657	11285	11964	18574	30594	39253	67999	99545	108818	119566	113669	115192	124944	133931	120735	113899	117531	141928	143270	148951
Σ FDI Outward/ Σ FDI Inward	0,290	0,178	0,119	0,058	0,034	0,027	0,021	0,013	0,015	0,014	0,009	0,009	0,020	0,021	0,027	0,029	0,043	0,042	0,041	0,033	0,018	0,023	0,025	0,025	0,029	0,028
Albania, Georgia																										
Σ FDI Outward stocks	-	-	-	-	-	115	118	122	126	134	232	169	174	503	758	805	1002	1130	1471	1634	1986	2185	2511	2869	3170	3558
Σ FDI Inward stocks	167	243	369	595	905	1066	1009	1206	1410	1878	2750	3416	4991	8128	9768	10835	11732	14121	14968	15663	17759	18099	20152	24697	26091	27956
Σ FDI Outward/ Σ FDI Inward	-	-	-	-	-	0,107	0,117	0,101	0,089	0,071	0,084	0,049	0,035	0,062	0,078	0,074	0,085	0,080	0,098	0,104	0,112	0,121	0,125	0,116	0,121	0,127
Σ FDI Outward $^{BULCRO\ RO}$/ Σ FDI Outward $^{ALB\ GEO\ MO}$	-	-	-	-	-	1,855	1,724	1,234	1,472	1,950	1,173	1,996	7,678	4,060	3,825	4,324	4,902	4,329	3,507	2,672	1,097	1,215	1,190	1,218	1,308	1,171
Σ FDI Inward $^{BUL\ CRO\ RO}$/ Σ FDI Inward $^{ALB\ GEO\ MO}$	4,533	5,210	4,478	5,842	6,764	7,372	9,571	9,359	8,487	9,889	11,125	11,490	13,624	12,247	11,140	11,035	9,689	8,158	8,347	8,551	6,798	6,293	5,832	5,747	5,491	5,328

Source: Authors' calculations based on UNCTAD stat.

Table 4. Annual outward and inward FDI flows in million USD, 1994-2019

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Bulgaria																										
FDI Outward	0	-8	-29	-2	0	17	3	8	27	26	-206	310	177	282	765	-95	313	399	325	187	268	167	408	345	341	332
FDI Inward	105	90	109	647	678	923	1016	808	922	2089	3397	3920	7805	12389	9855	3385	1549	2052	1697	1838	462	2220	1026	1829	1214	1223
Romania																										
FDI Outward	0	2	0	-9	-9	16	-13	15	21	117	154	-40	423	278	276	-96	-50	-26	-114	-281	-374	562	5	-97	379	38
FDI Inward	341	419	263	1215	2031	1027	1057	1158	1141	2196	6436	6152	10858	9733	13492	4665	2997	2363	3199	3602	3216	3840	5000	5419	6219	5971
Albania																										
FDI Outward	..	..	..	..	..	..	..	..	..	..	14	4	10	24	81	39	6	30	23	40	33	38	64	26	83	127
FDI Inward	53	70	90	48	45	41	144	206	133	177	346	264	324	659	974	996	1051	876	855	1266	1111	946	1101	1149	1290	1281
Georgia																										
FDI Outward	..	..	..	..	..	1	3	4	4	4	10	-89	-13	74	147	-19	135	147	297	120	407	309	407	269	340	282
FDI Inward	8	..	..	243	265	82	131	110	160	335	492	453	1171	1753	1570	664	845	1130	1023	1021	1837	1729	1650	1963	1265	1268

Source: Authors' calculations based on UNCTAD stat.

The first one could be conceived asbeing based on the effects of absorbing the advantages of integrating with the EU, as in the case of the EU group of countries, whereas the second one could very well be the result of a catching up process and closing of the development gap separating the non-EU group of countries from the wealthier/integrated one. Therefore, as a net result, at the end of the investigated time period the second trend seems to have been prevailing.

The summary balance of performance of the UE group countries compared with the non-EU group leads to the general conclusion that there were more identified areas of internationalization via FDI in which the non-integrating countries showed better results than the other way around. In the context of Dunning's IDP model the countries that were more advanced on their individual IDP trajectories were indeed those that were economically integrated, in this study passing from IDP stage 2 into stage 3. The non-integrated group, on the other hand, seemed be more embedded in the IDP stage 2, this being generally in line with the said IDP model, since the countries involved had lower GDP p.c. values than their EU counterparts. Paradoxically however such state and positioning in the IDP framework was being accomplished to a large degree by the above observed and analyzed superior internationalization performance factors, which according to received theory normally should have been prompting to move the respective economies to reach higher IDP stages.

Econometric Analysis

In addition to the analysis conducted above, as well as estimation of trends based thereon, we recurred to regression analyses to test the formulated hypotheses. Table 5 reports the findings for two models, with a dependent variable of OFDI and IFDI, respectively. For the OFDI model, the coefficient of EU-membership is statistically significant with a positive sign, while for IFDI it has a statistically non-significant coefficient. Thus, Hypothesis 1 cannot be supported. Further, the moderating effect of economic integration on the influence of GDP is negative and statistically significant (at $p<0.01$), suggesting that the effect of GDP on OFDI is reduced by EU-membership. The same cannot be claimed for the IFDI model. Therefore, Hypothesis 2 cannot be supported either.

With regard to the NOI p.c. models, shown in Table 6, the effect of the EU-membership on NOI p.c. cannot be supported, as its coefficient is only significant for Romania and for the full sample, yet with a negative sign. Thus, Hypothesis 3 is in essence rejected by econometric modelling. This ambiguous evidence resonates with earlier research showing that the interactions of economic integration with economic growth are not clear (Ehigiamusoe and Lean, 2019).

With regard to the substitution accelerating effect of economic integration on GDP, for the whole sample and for Romania a positive and statistically significant coefficient could be noted, thus Hypothesis 4 receives empirical support.

Table 5. Regression models for outward and inward FDI (standardized β)

	OFDI	IFDI
Year	**0.37***	**-0.66*****
	(3.84)	*(50.85)*
GDP_pc	**-0.56⇧**	**1.16*****
	(59.77)	*(790.44)*
EU-membership	**1.43****	**-0.13**
	(184.87)	*(2444.92)*
GDP x EU-membership	**-1.03****	**0.13**
	(171.66)	*(2270.19)*
R^2	**0.25**	**0.45**
Adj. R^2	**0.22**	**0.43**
F	**8.43*****	**20.29*****
Std. error	**152.06**	**2010.99**

*Standard errors in parentheses. ***p<0.001; **p<0.01; *p<0.05; ⇧p<=0.10*

Source: Authors' calculations based on SPSS 27 software package.

Table 6. Quadratic regression models for NOI p.c. (standardized β)

	Full sample	Bulgaria	Romania
Year	**-0.48**	**-0.09**	**-0.44*****
	(18.86)	*(27.56)*	*(18.74)*
GDP_pc	**0.38****	**-0.40*****	**0.01**
	(290.09)	*(417.10)*	*(353.61)*
GDP_pc2	**-0.10**	**-0.32⇧**	**-0.55*****
	(215.09)	*(578.47)*	*(378.18)*
EU-membership	**-1.57*****	**-0.712**	**-0.69***
	(862.80)	*(923.17)*	*(902.83)*
GDP x EU-membership	**0.82*****	**0.48**	**0.65⇧**
	(1002.09)	*(1587.49)*	*(1155.58)*
N	**104**	**24**	**24**
Adj. R2	**0.89**	**0.99**	**0.99**
Std. error	**682.47**	**283.64**	**191.77**
F	**169.71*****	**501.77*****	**421.92*****

*Standard errors in parentheses. ***p<0.001; **p<0.01; *p<0.05; ⇧p<=0.10*

Source: Authors' calculations based on SPSS 27 software package.

Conclusions

The present study compares IDPs of two different groups of countries: EU members from Eastern Europe that joined the EU later than the countries previously analyzed in earlier related studies (Gorynia et al. 2020) , and non-member countries from the same region further south and east of central Europe that have association agreements with the EU and are expected to become members in not-so-distant future. Thus, the present study attempts to determine the impact of actual and expected membership on the movement of countries along their investment development paths. Since NOI is the juxtaposition of inward and outward FDI, the present analysis measures and describes the impact separately for each type of foreign direct investment.

Because of the exploratory nature of this study, as stressed at the outset, the conclusions drawn are tentative and requiring further extensive research and verification. The analysis of NOI p.c., the key indicator and criterion at the same time, of determining whether the two Eastern European countries that decided to integrate within the EU were further up on their IDP model trajectories, compared with the two Eastern European countries that stayed outside the EU, yielded mixed and somewhat ambiguous results. Both descriptive and econometric analyses in principle validated the conclusion that there was no clear integration effect on the NOI p.c. (as predicted by H3), even in the EU accession year of 2007. This could partly be explained by the argument that investors and markets alike had been aware of that date and had anticipated the change long before, especially since it was publicly announced ahead of time. Thus, both those categories of players had probably discounted that information earlier and this in turn led to a spreading out effect of their reactions in an extended time period, avoiding, as a net result, a sudden jump in FDI flows in 2007. Moreover, this argument is corroborated by a similar observation concerning international trade flows.

Nevertheless, more conclusions based on more persuasive arguments point to the generally positive effect of EU integration on FDI movements and country IDP trajectories. Firstly, it was demonstrated that contrary to our initial expectations, EU integration exerted a stronger effect on outward FDI as compared to inward FDI of member countries.

At the same time the NOI p.c. trend projections did show that both of the two EU members were firmly on their way to stage 3 of their IDPs. Furthermore, all the other analyzed criteria, connected directly or indirectly with NOI p.c. formation, point to the fact that the two EU members from Eastern Europe did exhibit superior performance and were generally better off than the other two economies. This conclusion is sometimes challenged by the argument that countries that joined the EU were already (at the time of accession) relatively more advanced as far as their economies are concerned and that led to their faster economic upgrading stimulating such factors as increased FDI flows. Nevertheless, admission of partial relevance of this mitigating fact is deemed

not to be strong enough as to disprove the conclusion about the positive effect of EU integration. The analysis of outward FDI performance index also offers support for such positive effect differentiating very clearly, in its recorded levels, EU members from non-members.

Our descriptive analysis complemented with the estimation of trends also partly supported the notion that EU economic integration accelerates the movement of countries from stage 2 to stage 3 of their IDP. At the same time, econometric analysis partly supports our hypothesis that EU economic integration reduces the effect of GDP on changes in NOI, or – in other words – makes the effect of GDP posited in the original IDP model less relevant.

The key policy recommendation emerging from the present albeit exploratory study is that Albania and Georgia could consider joining the EU, based on the potential benefits from stimulating outward and inward FDI for their countries' international competitiveness and GDP growth. Such economic drivers face however one serious limitation in that they must, at least up till now, give priority to the implications stemming from the geopolitical context and environment, in which those two countries operate. The existence and activity of pro-Western and pro-EU forces, coupled with what many consider a democratic political system, offer some prospects for moving ahead on the path towards integration within the EU. At present however, in both countries, positive changes in this context cannot be expected in a short or medium time perspective.

On the other hand, the two analyzed Eastern European countries that joined the EU in 2007 should continue introducing measures designed to support, sustain and increase their outward FDI. This constitutes "at the end of the day" the long-term criterion of developing their firms' international competitiveness and thus, as the net result, advancing along their IDP paths. But this also necessitates pursuing supporting policies that strengthen the institutional framework of the EU and generally, inside each of those countries, the rule of law.

As this is an exploratory study covering a relatively small sample of two plus two countries all conclusions require further verification on a much larger data set. Thus, future research agenda should extend the scope of investigation to other Eastern European countries that had joined so far the EU, on the one hand, and, on the other, more Eastern European economies that have remained outside or have attempted to develop their own regional integration schemes. This would also address the statistical limitations of this initial study related to the divergent levels of GDP between the two categories of countries under study, as well as the potential issue of correlation of integration and economic performance.

Furthermore, the results of this study could be confronted with those based on the experience and performance of more developed states, and also in different time frames, thus allowing for a wider the reach and relevance of key findings and conclusions. Finally, other, more sophisticated methods of analysis could be used to obtain a more in-depth focus and perspective.

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