Magdalena RADULESCU
University of Pitesti, Romania
Logica BANICA
University of Pitesti, Romania
Tatiana ZAMFIROIU (PAUN)
University of Craiova, Romania

FOREIGN DIRECT INVESTMENTS AND THEIR NON-TRADITIONAL QUALITY FACTORS. A VAR ANALYSIS IN ROMANIA AND BULGARIA

Methodological article

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Abstract

The aim of this paper is to present an econometric analysis using VAR techniques for emphasizing the political institutional factors, economic freedom factors and the quality of labor force factors impacting on FDIs attracted in Bulgaria and Romania. We used yearly data series between 2000 and 2014, provided by the World Bank. These two countries display a very friendly climate (law income corporate tax), but they attracted large amounts of FDIs only for a short period of time at mid-2000s'. The foreign investments sharply dropped during the crisis, and the perspectives are not so good. The foreign investors claim that high corruption and bureaucracy greatly diminish the advantages of an attractive fiscal environment in these two specific countries.

1. Introduction

Most of the research on FDI in developing countries has concentrated on the first category of factors [Tsai, 1994]. These factors are quantitative in nature and, therefore, relatively easy to measure. But increasingly, researchers are coming to the conclusion that FDI is strongly influenced by determinants that are more qualitative in nature and, consequently, are not always susceptible to direct measurement. These factors contribute to what might be called a country's business environment [Kahai, 2004].

Considering the importance of macroeconomic factors in attracting FDI inflows, recent studies have highlighted the essential role played by institutional factors in creating a more attractive investment climate [Nasir and Hassan, 2011]. These factors are characterized by property rights protection, rule of law, the effective use of resources, the absence of violence, barriers and restrictive policies. These factors are what foreign investors are looking for when entering a host country [Chaib and Siham, 2014].

The aim of this paper is to stress mainly the influence and impact of the political institutional quality determinants on FDI, but also the influence of infrastructure index, property rights index, share of educated work force of total population and the share of the research and developments expenditure of GDP on FDI. Property rights and infrastructure quality index are economic institutional quality determinants of FDI and property rights index expresses the economic freedom. Li and Resnick [2003] considered it the most important factor of the economic freedom. The study was elaborated for Bulgaria and Romania with a dataset of 2000-2014 values. We used regression and VAR techniques to underline the impact and the influence of each factor mentioned above on FDI inflows in Bulgaria and Romania.

The political institutional factors used in our analysis are [Chaib and Siham, 2014]:

1. Political Stability and Absence of Violence: This variable measures perceptions of the likelihood that the government will not be destabilized by unconstitutional or violent means. Most multinational companies avoid FDI in cases of high political risk [Meier, 2006].

2. Government Effectiveness: This variable measures the quality of public services and of the government's commitment to implementing policies. Foreign companies would prefer an effective host country government [OECD, 2002].

3. Regulatory Quality*:* encourages the entry of foreign investors by eliminating market unfriendly policies such as price controls, government intervention, and restrictions on capital movement [Fazio and Talamo, 2008]. It is a very important indicator for attracting FDI.

4. Rule of Law: This variable measures the extent to which agents have confidence in and abide by the rules of society. It stimulated FDI, because future returns will be protected in the presence of the rule of law [Hoff and Stiglitz, 2005].

5. Control of Corruption: This variable measures the extent to which public power is not exercised for private gain. Corruption leads to inefficient long term plans due to uncertainty, and causes an ambiguity about return predictability (Boubaker and Nguye, *2014*). On the other hand, corruption can attract more foreign investors by reducing heavy bureaucracy and providing fast and efficient government services [Méon and Sekkat, 2005; Swaleheen and Stansel, 2007].

We have also used some factors regarding the quality of the labor force, the innovation of the economic process, the quality of the infrastructure and the property rights index as the best proxy for economic freedom:

1. The share of the population with tertiary education in the total population;
2. The share of expenses for research and development of GDP;
3. The overall infrastructure quality index;
4. The property rights index.

A country may have a low labor cost and an educated labor force, but if it doesn't have a good and developed infrastructure, the transnational companies will not locate there.

Property rights should be well protected by the host country's constitution [Economic and Social Commission for Asia and the Pacific, 2003]. Most of the studies elaborated with a panel data of 153 countries (1998-2004) found a positive and significant relationship between FDI and property rights index [Kenisarin and Speed, 2008] or for 55 developing countries [Kahai, 2011]. In addition, weak protection of property rights leads inward FDI towards distribution rather than production [Dunning, 1993]. Some authors have also found that the economic freedom discourages FDI inflows to the selected African countries [Saadatmand and Choquette, 2012]. Javorcik [2004] analyzed the relation between FDI and intellectual property rights and concluded that it is a strong positive relation between those two variables, no matter of the economic sector.

Section 2 presents some recent developments in the political and economic institutional area in Romania and Bulgaria, section 3 presents the results of the VAR techniques elaborated for measuring the impact and impulse of these factors on FDI in Bulgaria and Romania and section 4 concludes the paper.

2. Recent developments in Bulgaria and Romania for political institutional factors, economic freedem and the quality of the labor force

Following the crisis, starting with 2011 and at the beginning of 2012 the foreign investors' interest for Romania began to increase. Unfortunately, primarily due to the political instability, not all the projects started were completed and the FDI inflows continued to decline. The areas which seemed to be of interest to foreign investors were the manufacturing industry, an industrial park ("greenfield" investment delayed because of the political instability and bureaucracy), infrastructure and IT.

FDIs were mainly directed to the manufacturing industry, financial intermediations and insurances, trade, constructions and real estate transactions, information technology and communications. The main investors came from the Netherlands, Austria, Germany and France.

Romania's advantages are the ones already known: a favourable geographic location, large outlet, the relatively cheap labour force (this "advantage" tends not to be decisive because of the high costs represented by social and health insurance contributions), the relative political stability (except for the election and pre-election periods), the flat tax rate and the convergence and European Union membership. If we were admitted into the Schengen area, then the attractiveness of Romania as destination for the foreign investments would be even greater. The banking system is well capitalized, and the level of the non-performing loans decreased due to the changes in legislation which allows the banks to clear their balance sheets.

Among the disadvantages we enumerate: the corruption, the political and social instability, the instability of the tax legislation and the multitude of duties and taxes, sometimes unfriendly towards the investors, the excessive bureaucracy, the "unfriendly" attitude that sometimes the state authorities have towards the investors, the undeveloped infrastructure compared to other countries, the delays in terms of efficiency and restructuring of the public sector, and also the amplification of aversion to risk at international level due to the crisis.

Any initiative related to combating corruption here in Romania is essential for the foreign companies, as they orient towards countries where they can get the highest profit, where the process is transparent, where the economic decisions are predictable and where there is no corruption. Corruption is one of the most serious diseases affecting the Romanian society, especially the economy. Because of corruption, the fair economic competition is seriously vitiated. Companies are subjected to all sorts of pressures when entering business relationships with the state institutions as a result of the public system which is largely corrupt. A SAR Report of 2013 reveals that countries with a significant corruption level, like Italy, Greece or Romania spend the public money on a pattern completely different from the Scandinavian countries, the best governed countries on the continent. The money is spent on discretionary projects, sometimes unnecessary such as: stadiums, cathedrals or parks, whereas key development areas like health and education remain underfunded (SAR Report). Instead, at national level, only 51.4% of the Romanians benefit from sewerage services, and most roads are in poor condition, not to mention the modernization of nursery schools, schools and hospitals. Romania and Bulgaria are ranked at the same level regarding the control of corruption and the Government investments in the GDP in both countries were at a level of about 5% in 2012 (slightly higher in Romania).

The statistics show that the corrupt countries (Romania occupying the worst position in the EU in terms of corruption control) have the highest government investments (Poland and the Czech Republic, respectively Bulgaria have levels similar to Romania, but the corruption control is better in these countries, as it is in Hungary, where the government investments were lower, of about 3.5% of GDP in 2012), the lowest budget for health (in Romania approximately 4% of GDP, around 5% in Bulgaria, in Poland and Hungary slightly higher than 5%, while in the Czech Republic of approximately 8%) and are more likely to have a negative balance of payments, given the fact that tax collection is significantly lower than in countries with low levels of corruption.

Romania ranked the 66th in the corruption rankings worldwide in 2012, a higher position compared to previous years, out of a total of 176 countries, according to Transparency International. Our country received a score of 44 points, occupying the same position as countries such as Kuwait and Saudi Arabia, behind states like Rwanda, Georgia, Namibia or Ghana, but ahead of Italy, Bulgaria, Brazil or China. Corruption represented one of the reasons for which neither Romania nor Bulgaria was admitted in the Schengen area.

The corruption distorts the market and may generate increased costs because of inefficient or unnecessary investments. In Romania it is favoured by a confusing legislation, incompetent or corrupt justice which does not impose operative sanctions for the deviations identified.

In order to reduce the corruption level we need simplified, clear laws with few application norms, de-bureaucratisation of the activity of the state institutions, transparency of business, real competence and stability, but also economic accountability of the local administration. Maintaining the flat tax rate, reducing quasi-taxation, lower social security contributions, taxable base capped for CAS (Health Insurance Fund), reduced VAT rate, modernization of ANAF (The National Agency of Fiscal Administration), increasing the absorption level of European funds and development of the infrastructure and capital markets are few elements of this viable medium-term strategy for attracting foreign investments. Fiscal measures to promote medium and long-term investments for the individual investors in the Romanian companies should be supported and thus stimulate the growth of the Romanian economy.

Countries such as Romania, Bulgaria and Italy which have the lowest level of corruption control also have higher fiscal deficits compared to countries like Denmark, Sweden or Finland. States such as Romania, Bulgaria, Latvia, Lithuania and Slovakia which have the lowest level of corruption control also have the lowest rates of tax collection [SAR Report, 2013]. In the CEE region, the best positioned in terms of corruption level are the Czech Republic and Hungary, while Poland, Bulgaria and Romania have a higher level of corruption.

In the future, in the long term, the fight against corruption will bring enormous benefits to Romania. For the moment, however, the actions of justice in Romania lead to a slowdown in private investments and delays in signing contracts with companies which execute government projects. The officials are more cautious when it comes to signing investment projects from public money, to avoid becoming a target of the justice. Public investment expenditures as a proportion of GDP have decreased.

After 2008, when the foreign investments reached a peak, followed several years of continuous falls, approaching the level of 2000. In Bulgaria it was even worse. Although in Romania the economic growth resumed in 2011-2012, FDIs continued the downward trend. Many foreign investors left to the neighbouring countries (Nokia and Tnuva, the transfer of the ING service centre in Hungary, the relocation of Coca-Cola factories in Moldova and Bulgaria, Nestlé and Kraft in Bulgaria). Romania has the second largest black economy in Europe, after Bulgaria. Corruption represented a loss of over 1 billion Euros in 2014 for the state and private companies, an amount which would have been enough for the construction of several hundreds of kilometres of highway.

Romania ranks the 8th in Eastern Europe and Central Asia in a Bloomberg top of the most attractive countries for business, overtaken by Hungary, Cyprus, Turkey, Bulgaria or Russia, and mainly pulled down by the investors' perception on corruption. Although it records the highest score in the region in terms of the level of integration into the global economy, Romania is pulled down by the other factors considered in the Bloomberg study, from the perception on corruption, taxation, protection of property rights and the accounting system to infrastructure or the costs and procedures for setting up a business.

Romania outruns Slovenia and Slovakia, countries belonging to the euro area, in terms of the attractiveness of the business environment, mainly due to lower labour cost, according to the Bloomberg report. The most attractive country for business in Eastern Europe and Central Asia is Poland, due to the accelerated expansion of the domestic consumption and the improvement of the infrastructure. Poland has recorded the highest economic growth rate in the EU in recent years, after the outbreak of the crisis, and it is the only Member State that has not undergone any recession during this period. Despite the significant progresses, Poland has one of the lowest scores in terms of costs - money and time - of setting up a business, the main problems in this respect being the bureaucracy and the complicated legal procedures.

In the middle of 2015 the Bulgarian officials claimed that their country outran Romania both in terms of the fight against corruption, as well as in terms of the absorption of European funds, considering that many of the central and local administration officials in Romania were being prosecuted.

We have to support the private management of state companies based on fair foundations, free from political influences. Finally, it is important that Romania takes actions against the image deficit it suffers from at international level because the reality is often much better than the perception on Romania externally. If we consider only the gap that Romania still has to recover compared to the countries in Western Europe, we realize the growth potential that exists here. There are also considerable disparities between different regions of the country. In many areas we have a significant supply of skilled workers who are not integrated into the labour market because of the lack of investments and the investments lack most often because there is no infrastructure. This vicious circle could become virtuous if investments in infrastructure become a top priority for the Government.

In Doing Business World Bank Report for Romania, Poland ranked on 25^{th} position on the ease of doing business (meaning starting a business, registering property, getting credit, trading across borders, labor market regulations, resolving insolvency, paying taxes, getting construction permission), Slovak Republic ranked on 29^{th} position, Czech Republic on 36^{th} position, Romania on 37^{th} position, Bulgaria on 38^{th} position and Hungary on 42^{nd} position.

In Bulgaria there are some big problems, particularly in the rule of law and regulatory bodies. In Bulgaria, the foreign investors often encounter the following problems: government bureaucracy, poor infrastructure, corruption, frequent changes in the legal framework, lack of transparency, and pre-determined public tenders. In addition, a weak judicial system limits investor confidence in the courts' ability to serve as an enforcement mechanism [US Bureau of Economic and Business Affairs, 2014]. A survey conducted by the World Bank in Bulgaria in 2012 shows that practices of the informal sector are most blamed (30%) by the firms operating on the Bulgarian market, political instability is blamed by 14,6% of the respondent firms, corruption by the 13.3% of respondents, labor regulations are blamed by 5,6% of the respondents, access to finance is criticized by 5,2% of respondents, inadequately educated workforce was blamed by 5% of respondents, crime and disorder by 4,3% of respondents. In 2007, the main issue claimed by the respondents was corruption (40%) followed by political instability.

Bulgaria has a favorable foreign investment regime, including government incentives for new investment and low and flat corporate and income taxes. Major investors also benefit from additional incentives. The IT and business process outsourcing sector has attracted many U.S. and foreign companies to Bulgaria and many have set up global and regional service centers here. Promising sectors for foreign investors include: information technology, telecommunications, environmental technology (including water and waste water infrastructure), healthcare, biomass, and agriculture (including the beverage/processed foods industry). In Bulgaria, the FDI inflows come mostly from Nederland, Austria, Greece, Cyprus, UK and Germany, the main investors being the same as in

Romania [US Bureau of Economic and Business Affairs, 2014].

Bulgaria still offers the cheapest labor in the European Union. Although Bulgaria worries about the low productivity of its workforce (and there are serious issues over education levels for many new entrants to the labor market), foreign investors are able to pick from the Bulgarian employees. Many have post-graduate qualifications and speak two languages or more. Employers find their Bulgarian staff to be hard-working.

But, there are three major problems, with the rule of law issue: it takes too long for a contract to be enforced; there seems to be a tradition in Bulgaria of repudiating all that has been done by the precedent authorities and the energy industry and the problems faced by various foreign firms put off investment. Although experience of corruption is much lower than its perception, those perceptions are in part driven by a lack of concrete action. In Romania, many big political actors are in prison or under juridical control, while in Bulgaria many insignificant political actors seem to escape and eluded the law. The corruption is present in public procurements, into an ineffective competition commission, or in the actions of incompetence or corruption of the National Bank of Bulgaria. The IPR regime is challenged by widespread online piracy and inadequate enforcement of laws on copyrights, patents, and trademarks. Bulgaria has neither legal requirements nor voluntary agreements holding advertisers, Internet service providers, and payment service providers accountable for supporting or doing business with pirate sites [US Bureau of Economic and Business Affairs, 2014].

The government has demonstrated the political will to crack down on organized crime, more than any other government in the last 20 years. However, organized crime is still considered a fundamental challenge for the state and society [Bertelsmann Stiftung, 2014].

In general, the regulatory environment in Bulgaria is characterized by complex regulations, lack of transparency, and arbitrary or weak enforcement. These factors create incentives for public corruption. Although the government has stated a desire to root out corruption and organized crime, in fact Bulgaria's corruption record remains problematic according to Transparency International. Corruption Perception Index for 2013 ranked Bulgaria 77th out of 177 countries surveyed, down two places compared to 2012, but still putting Bulgaria only ahead of Greece among EU members for perceived corruption [US Bureau of Economic and Business Affairs, 2014]. Corruption Perception Index ranked Bulgaria together with Greece, Italy and Romania, lowest among EU members, with weak institutions and high corruption. The European Commission considers that the progress in the judicial reform area, fighting against organized crime and anti-corruption work in insufficient in Bulgaria, when compared with above mentioned countries, including Romania. The burden of the energy sector is increasing and threatening the public finances situation. Bulgaria should take more strong actions against corruption and to enhance the rule of law. Further improvements in education and training are needed. Political turbulence and effectiveness governance issues have risen in the late 2014 and at the beginning of 2015 [IMF, 2015].

Bulgaria's democratic institutions, including the judiciary and state administration, perform their functions with moderate effectiveness. Democracy is undisputed among the Bulgarian population, and political protests do not call the constitutional framework into question. Bulgarian citizens' trust in their national democratic institutions, however, continues to decline and this deficit should be taken seriously. The Bulgarian party system is fairly stable and the political interests are fairly represented in the Bulgarian Parliament [Bertelsmann Stiftung, 2014].

Property rights are regulated by law. The protection of property rights improved after Bulgaria's accession to the European Union. In 2007, Bulgaria was removed from the United States Trade Representative's watch list. However, enforcement of contracts by the courts remains slow, while corruption still is a major issue. The government has also been criticized by human rights activists for proposed legislation regulating the confiscation of property acquired through criminal activity. Privatizations of some previous monopolies have not gone well, and in 2012 and early 2013, growing discontent with the performance of electricity companies escalated into protests in some cities [Bertelsmann Stiftung, 2014].

Analyzing the trend of the quality political institutional factors that determine FDI, we can state that in Bulgaria, control of corruption improved until 2004-2005, but then it decreased until 2014 down to the level of 1998. In Romania, the control of corruption improved during 2000-2008, but then decreased slowly during 2009-2012 and improved again during 2013-2014. Bulgaria reached better levels of the control of corruption during 2004-2005, but in the last years of the analyzed period, the control of corruption is worse than in Romania. As we can see from the econometric analysis presented below, the control of corruption is much more important for FDI flows in Bulgaria, than in Romania.

The governance effectiveness in Bulgaria ranged between 52-64% in the entire analyzed period 2000-2014, with a maximum in 2004. During 2006-2008 it displayed a sharp drop, and then it increased again. In Romania, this ratio also increased until 2004, then it dropped and only in the last two years 2013-2014 it started to rise again and reached a maximum in 2014 of 55%. The values of this ratio in Romania are lowers than in Bulgaria.

In Bulgaria, political stability ratio decreased during 2003-2004 and the lowest values were reached during 2013-2014. In Romania, this ratio almost doubled after 2000, but it decreased in the elections years 2004 and 2012. Rest of the time it fluctuated, just like in Bulgaria. The values of this ratio are quite similar in Romania and Bulgaria, except in 2012, when in Romania we faced a low ratio, while in Bulgaria it was high. The results of the econometric analysis presented below show that in Romania, this factor impacted more in Romania on FDI than in Bulgaria.

In Bulgaria, regulatory quality ratio improved after 2001, but it slowly fluctuated during the entire period. The maximum was reached in 2010. In Romania, this ratio increased during 2003-2011, with a maximum value reached in 2011. After 2011, it slowly decreased. During 2003-2011, in Bulgaria this ratio displayed higher numbers than in Romania, but during 2012-2014 the values became more similar in those two countries.

The rule of law in Bulgaria fluctuated during 2000-2014, with maximum values in 2009 and 2014. In Romania, this ratio improved after 2004 until 2014, when it reached its maximum. After 2006, Romania has reached better performance for this ratio than its neighbor Bulgaria. The results of the econometric analysis have shown that this quality factor in important for FDI inflows in Romania.

The share of the population with tertiary education of total population ranged between 20-27% in Bulgaria during 2000-2014. It increased the entire period. In Romania it ranged between 8,6-18% during 2000-2014. It also increased the entire period in Romania, it doubled, but with lower values than in Bulgaria. The results of the econometric analysis presented below have shown that in Romania this ratio is more important for FDI than in Bulgaria.

The share of the research and development expenditure of GDP in Bulgaria ranged between 0,5-0,64% and fluctuated during the entire period, with higher numbers reached after 2009. In Romania in 1996 it was 0,7% and it dropped to half (0,36%) in 2000. It increased up to 0,57% until 2008 and then decreased down to 0,34% again in 2014, when it reached the lowest value of the entire period. The trend of this ratio in Bulgaria was more stable than in Romania, where it fluctuated greatly and reached lower numbers. The results of the econometric analysis showed that this ratio impacted more on FDI in Romania than in Bulgaria.

In Bulgaria, the quality of overall infrastructure index fluctuated during 2000-2008 and then it constantly increased until 2014 from 2,5 up to 3,6. After 2011 in Romania this ratio increased from 2,34 up to 3,8. During 2000-2010 it fluctuated at lower values than in Bulgaria. Infrastructure index and corruption are the most important quality factors that impacted on FDI inflows in Bulgaria, as we can see from the econometric analysis presented below.

Property rights in Bulgaria improved during 2004-2007 and then it decreased again down to the value of the beginning of 2000s'. In Romania, this ratio improved until 2010, then decreased significantly in 2011-2012 and started to increase again during 2013-2014 but it reached lower values, similar to the mid-2000s'. The values reached in Romania are higher than in Bulgaria. Property rights index is more important in Bulgaria than in Romania as we can see from the econometric analysis presented below.

The FDI in Bulgaria increased significantly during 2005-2008, but then decreased and fluctuated at some levels similar to the ones reached during 2003-2004. In Romania FDI significantly increased during 2004-2008 and then fluctuated at some levels less than half of the value registered in 2008, but higher than the ones reached in Bulgaria or registered in Romania before 2004.

The corruption and the deficiencies displayed by the rule of law criteria affected Bulgarian FDI inflows more than the Romanian ones, although Bulgaria has a much lower corporate tax of 10% against the one of 16% in Romania.

Analyzing the trends of this quality factors comparing to the FDI trend in Bulgaria and in Romania, we can underline that the trend on corruption control is similar to the FDI trend in Romania. Political stability and Property rights indexes display the same trend as FDI trend both in Bulgaria and Romania. The trends of the regulatory quality, the rule of law ratio and the research and development expenditure of GDP are similar to the one of FDI in Romania during the entire period.

3. Empiric analysis and results

We used VAR techniques for studying the impact of the quality factors on FDI attracted in Bulgaria and in Romania. The determinants of FDI were chosen using Granger-Causality test. We used the first difference of all the series we used in the regression, for stationarity reasons.

The impact of the control of corruption in Bulgaria can be seen at a larger scale on a short-run, but also on the long-run. This impact is completely absorbed after 10 years. In Romania, this impact can be seen only on a short and medium run. After 5 years, this impact is not visible anymore in Romania (Fig. 1 and 2).

The impact of the governance effectiveness on FDI is much smaller in Bulgaria than in Romania. In Bulgaria a shock of this ratio is absorbed after 5 years, but in Romania is very important for the first 2-3 years and it is absorbed after 7 years. Regression also finds this factor relevant for FDI attracted in Romania (Fig.3 and 4).

The impact of the overall quality of infrastructure index on FDI in Bulgaria is more important than in Romania. It can be seen both on the short and long run for 10 years. In Romania, this impact is important for the first 2-3 years, and it can't be seen after 4-5 years (Fig.5 and 6).

The impact of the regulatory quality on FDI is quite similar in Bulgaria and Romania and lasts almost 8 years (Fig.7 and 8). The impact of the political stability is greater in Romania than in Bulgaria and it can be seen both in the short-run and in the long-run in those two countries (Fig.9 and 10).

The impact of the rule of law on FDI is much more important in Romania and it can be noticed both in the short-run and in the long-run. In Bulgaria this impact is quite small, visible only in the short-run (Fig.11 and 12).

The share of the population with tertiary education of the total population displays a greater impact in

Romania than in Bulgaria, but in both countries it can be noticed only for 2-3 years (Fig.13 and 14). The share of research and development expenditure of GDP has also a greater impact in Romania than in Bulgaria, but this is absorbed after 6 years (Fig. 15 and 16).
The impact of the property rights in Bulgaria is less important than in Romania, but it lasts longer in Bulgaria (Fig. 17 and 18).
From the VAR results, we can underline that the most important quality political and economical institutional factors impacting on FDI attracted in Bulgaria are: the control of corruption index, the overall quality of infrastructure index and the property rights index. The most important quality political and economical institutional factors impacting on FDI attracted in Romania are: the governance effectiveness index, the political stability index, the regulatory quality index, the rule of law index, the share of the population with tertiary education of the total population and the share of research and development expenditure of GDP.

4. Conclusions

We can conclude our study saying that in Bulgaria, FDI seek cheap labor force and use lax laws and weak public institutions in their favor, in the context of the lowest corporate income tax in the entire European Union. In Romania, for the analyzed period 2000-2014, we can conclude that the foreign investors looked more for high skilled labor force, not necessarily the cheapest wages in the region. They started to invest here more in intensive growth sectors with well-trained work force and high technologies in the last decade. They look for innovative production sectors. Moreover, the Romanian market is the second largest one after the Polish market in the CEE region. Still, even in Romania, weak public governance and lax regulations or the absence of the rule of law seems to attract foreign investors that obtain gains more easily than in a mature and developed economy. In Romania, frequent changes of regulatory regimes and the political regimes in the pre-elections or elections years also attracted foreign investors. The frequent fiscal changes stimulated FDI in Romania, but in Bulgaria this macroeconomic environment was more stable.
A future research should present the impact of the quality institutional or political factors on the composition of FDI (Greenfield, mergers and acquisitions or reinvested profit). We also consider that this research should present a correlation between the composition of FDI and the level of education of population.

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Fig.1. The impact of the control of corruption on FDI in Bulgaria

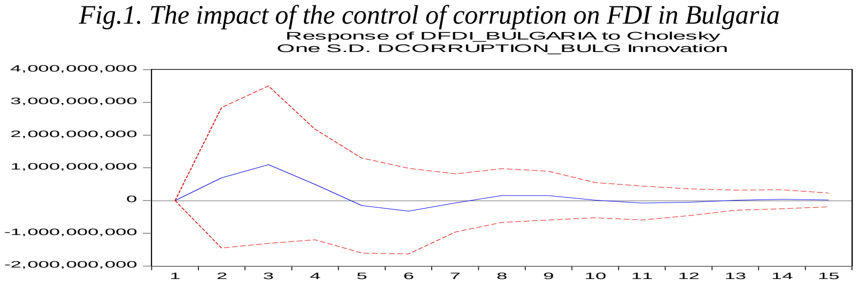

Fig.2. The impact of the control of corruption on FDI in Romania

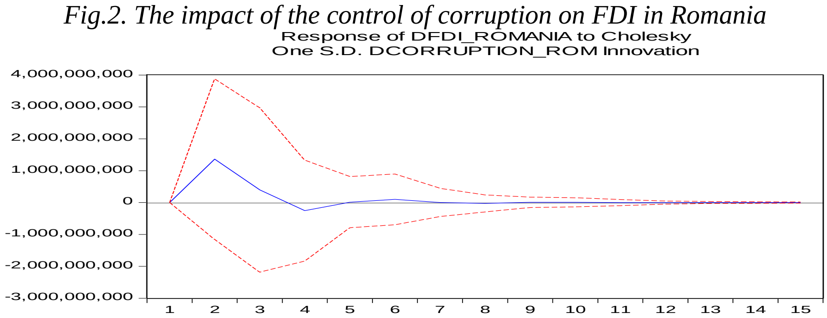

Fig.3. The impact of the governance effectiveness on FDI in Bulgaria

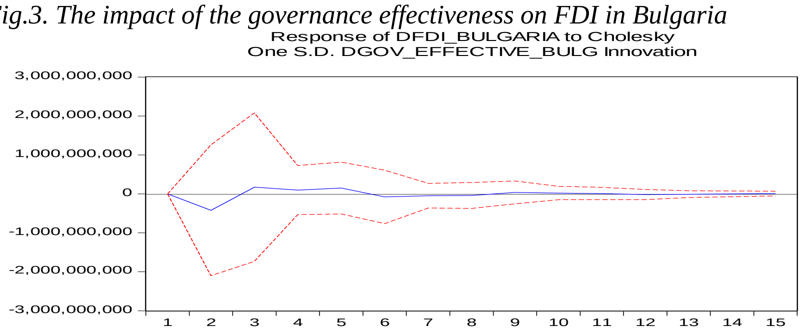

Fig.4. The impact of the governance effectiveness on FDI in Romania

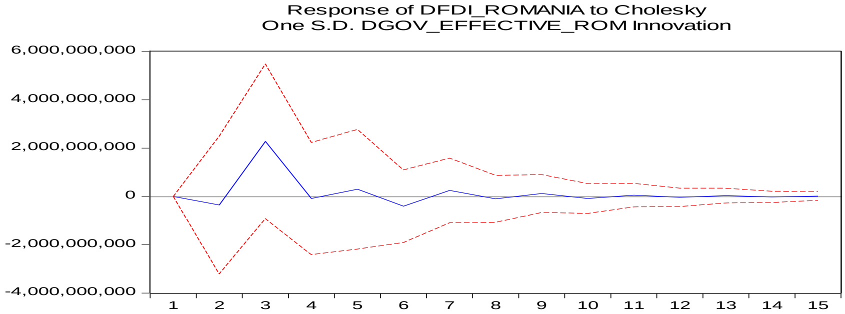

Fig.5. The impact of the overall quality of infrastructure index on FDI in Bulgaria

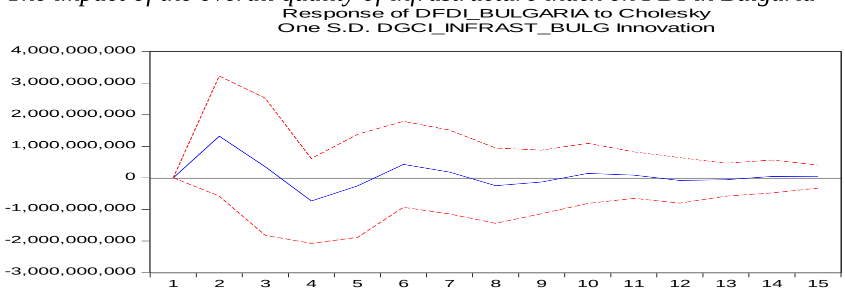

Fig.6. The impact of the overall quality of infrastructure index on FDI in Romania

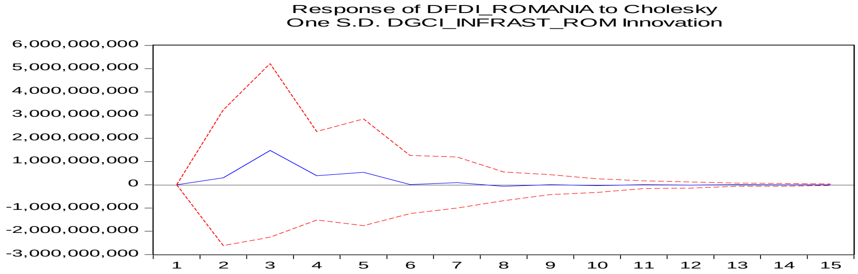

Fig.7. The impact of the regulatory quality on FDI in Bulgaria

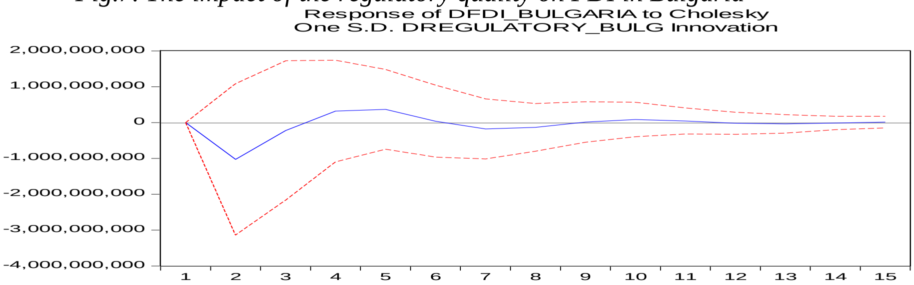

Fig.8. The impact of the regulatory quality on FDI in Romania

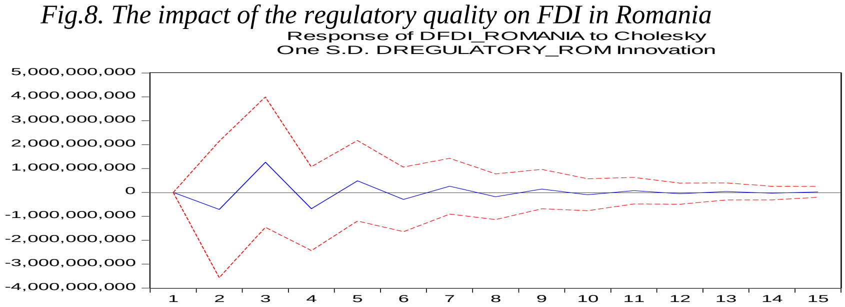

Fig.9. The impact of the political stability on FDI in Bulgaria

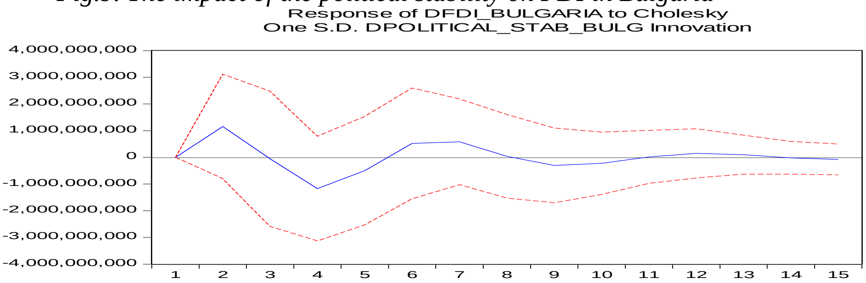

Fig.10. The impact of the political stability on FDI in Romania

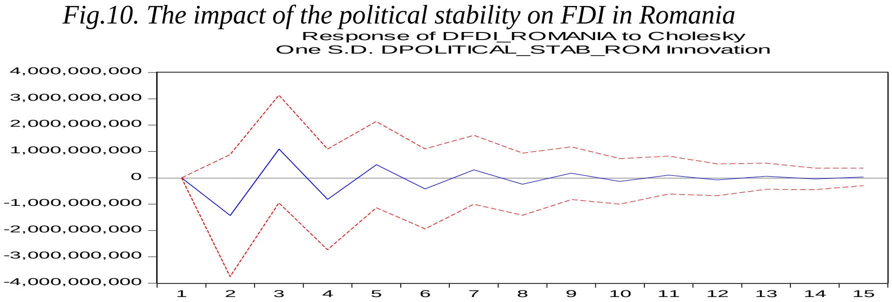

Fig.11. The impact of the rule of law on FDI in Bulgaria

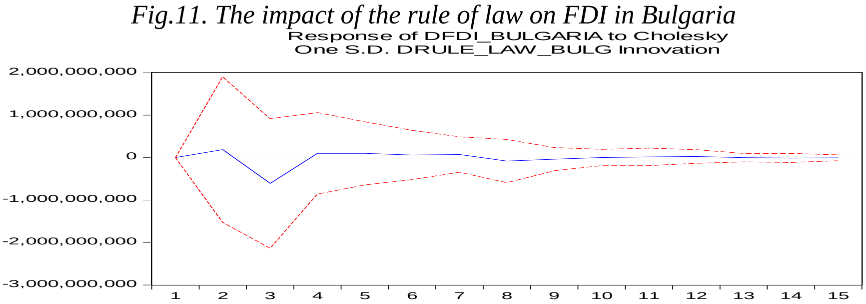

Fig.12. The impact of the rule of law on FDI in Romania

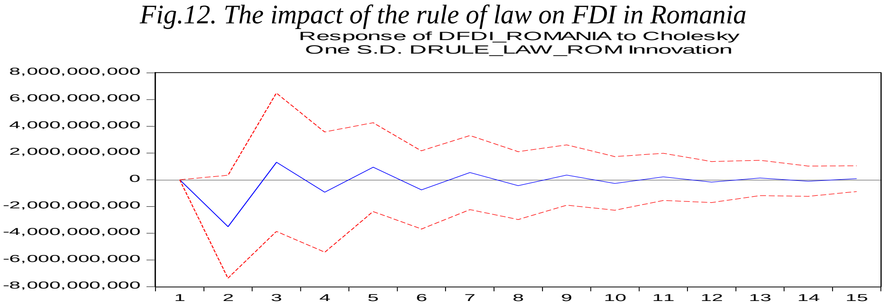

Fig.13. The impact of the share of population with tertiary education of the total population on FDI in Bulgaria

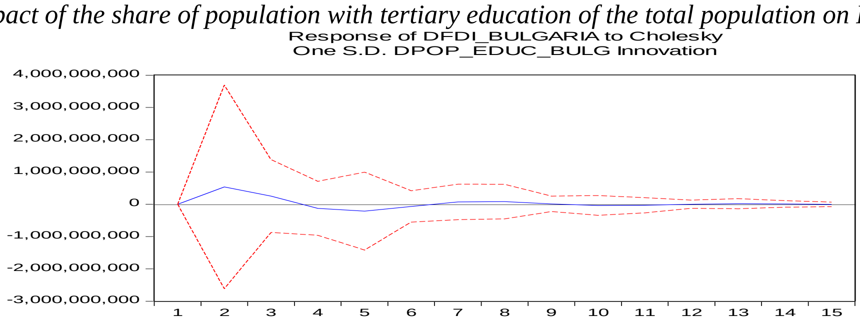

Fig.14. The impact of the share of population with tertiary education of the total population on FDI in Romania

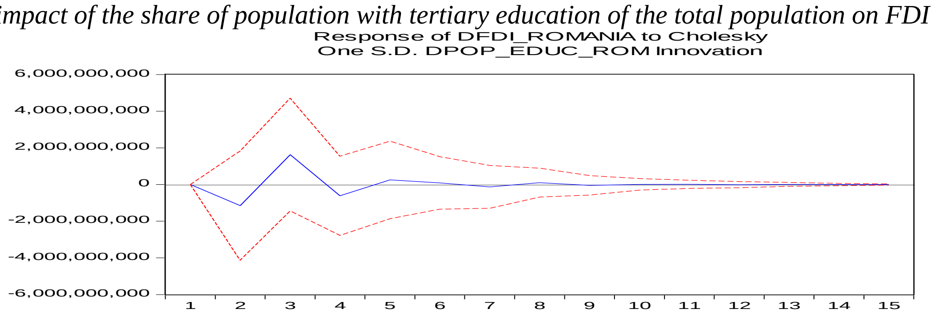

Fig.15. The impact of the share of research and development expenditure of GDP on FDI in Bulgaria

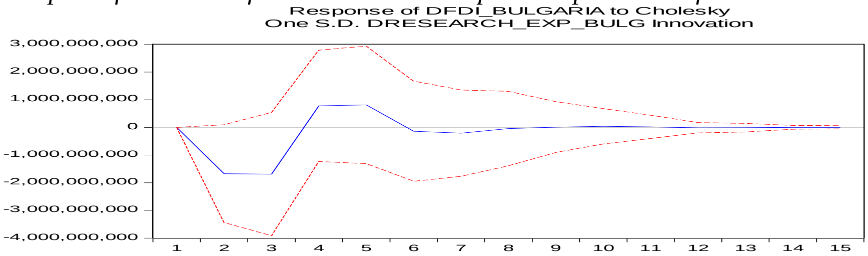

Fig.16. The impact of the share of research and development expenditure of GDP on FDI in Romania

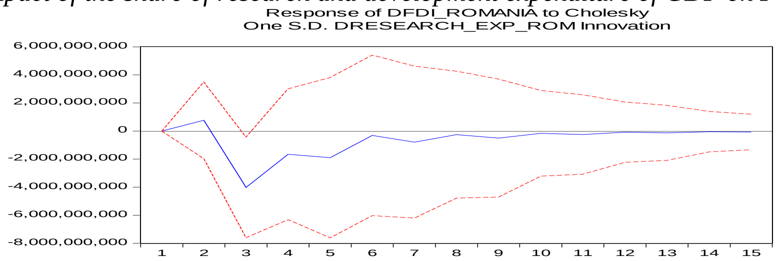

Fig.17. The impact of the property rights index on FDI in Bulgaria

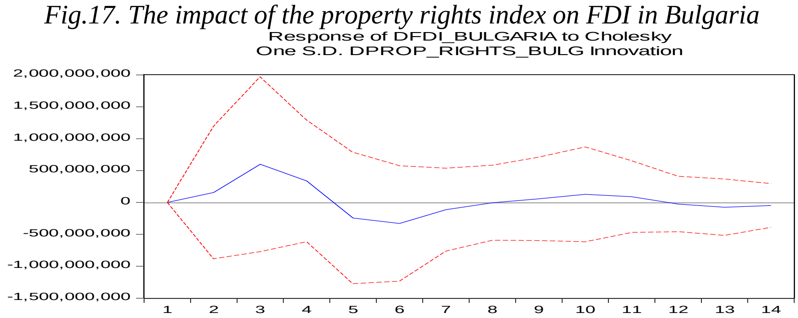

Fig.18. The impact of the property rights index on FDI in Romania